

# I want it all and I want it now

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This is the next article in a short series on how behavioural economics and 'being human' affects your business.

You've probably heard the sayings "live for the moment," "you only live once," and "seize the day" many times. These old-fashioned conventional suggestions may sound fantastic for bringing more spontaneity into your life, but for most of us grabbing immediate rewards right now may tempt us to relinquish a bigger benefit in the future – in favour of the smaller instant prize.

Let's replicate an experiment done many times all over the world: Would you prefer R100 today or R110 in a week? Most people would say "Give me R100 now!" We usually desire quick, if not instant, gratification rather than delaying the better – but more gradual – payoff. And the further away into the future we promise this reward, even if it is a much larger reward, the more likely it is that people will choose less today. That's why people who win the lottery give up regular payments over the next 25 years, and prefer to receive a much smaller amount right now.



Present bias affects our ability to succeed, because it is so alluring to accept an immediate benefit. It can have detrimental and disadvantageous effects on our future self. For example, you might put in a lot of effort to get accepted to a desirable training programme, but then give in to the cultural bias and prioritise hanging out with your new friends above studying for tests.

Psychologists use the term 'present bias' to describe this inclination, and it's an inclination that

exists in just about all of us. It is the practice of favouring lesser immediate rewards over waiting for greater ones in the future.

One side effect of this present bias is procrastination: we can give in to a more immediate reward, like watching your favourite TV series, rather than working to finish a project well before the deadline. When you later have to rush to do the work, even though it feels nice at the time, it causes more stress, and sits at the back of your mind as guilt.

“ People's desire for a lesser immediate benefit rather than waiting for greater ones in the long term often leads to procrastination – rather than working to finish a project well before the deadline, they later do a rush job, often leading to feelings of guilt. ”





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The present bias is not a brand-new occurrence. Ancient Greeks were aware of the desire for instant pleasure, and modern studies of this cognitive bias started in the 1930s. (The phrase 'present bias' wasn't actually created until 1968 by Edmund Phelps and Robert Pollak.) Their hyperbolic discounting model described "the inclination of many people who feel forced to forego bigger rewards in the future in favour of shorter-term ones," as they put it.



Robert Pollak

Edmund Phelps

Interestingly, when Dr. Konstanze Albrecht asked participants to make decisions for other people which would result in an instant reward for them, and then examined the neurological reactions within their brains, she discovered that there was a far higher activation in reward-related areas of the brain. Not many charitable organisations use this technique to get donations as they usually prefer to tap into the sympathy that people feel, but there are a few which turn it into a dopamine-related kick.

Image courtesy of Pavel Danilyuk, Pexels



The reward centres of the brain were significantly less active if the reward would not be realised right away and instead reflected delayed gratification. Similar patterns were also seen in the brain's emotional centres. Once again, it confirms what we've been saying throughout this series of articles: if you think your customers are logical, rational and unemotional machines, you are probably wrong. However, I digress.

The present bias is closely related to impulse buying which, at this time of the year with Christmas and back-to-school, is very common. The need for immediate gratification can result in careless expenditure by your customers, who may decide to spend their money on 'feel-good' things rather than saving it up for a long-term investment. Their desire to break free from the monotony of everyday life can lead to luxury purchases they may ignore at other times.

Although it may feel delightful for customers at the time, the present bias can also lead to some buyer's remorse for your customers later. And they won't blame themselves – they will blame you for tempting them!

Nevertheless, handled properly, it can also have a very positive effect on your profitability. Fortunately, there are useful strategies for controlling present bias and preventing its detrimental effects on productivity, long-term planning, and decision-making.

Some techniques for succeeding with present bias include:

- Make them feel good about their purchase by sharing the generosity. A simple sign saying something like, "for every item sold we will donate to people in need." This helps to nullify their guilt at spoiling themselves and replaces it with feeling virtuous about doing good.
- You can also spark off good feelings by associating what they bought with positive feelings that come with happiness – celebration



or recognition, gratitude, laughter, and anything else that makes them feel good.

- If you can, help them to see their future more clearly. Insurance and investment companies are pretty good at this by painting a picture about what could be.

So if you can get them to think about their long-term dreams and desires, whether they want to accomplish them this year or over the course of the following few years, they will appreciate that.

- Another technique would be to clarify the 'lifetime cost of ownership' by making them aware that if they really need to spend right

now, perhaps they should invest in an item that will 'last longer' or make them be better off in the medium- to long-term future, for example.

- And, since they are buying something which they don't really need, there's nothing wrong with acknowledging that and thanking them for it. The reward to them may be the product itself, but can also be the emotional element that goes beyond the dopamine kick to the release of oxytocin (the 'love' hormone that makes us feel good about being human with other humans) and endorphins (the 'pain killer' hormone that comes from laughter and other positive activities).

At the end of the day, you obviously don't want to discourage customers from making these instant reward impulse purchases to your detriment.

What you do want is for your customers to feel good about them. That's how you get them on your side and retain their loyalty. We sometimes forget that it's not only what we buy that is so important, but that the purchasing experience itself is equally important. **SR**



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