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Immediate Past-President, IPA
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Accountability is not enough…

British Brands Group

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Rory Sutherland was born in Usk, Monmouthshire, in 1965 and educated at the local Haberdashers' school and at Christ's College, Cambridge. At this point, promising early parallels with the life of Sir Martin Sorrell begin to break down.

He joined OgilvyOne as a graduate trainee and, after time as the world's worst account man, moved to the Planning Department. Soon afterwards he confessed an interest in copywriting to his line manager, who, glad to see the back of him, thought this a very good idea.

Rory was promoted to Head of Copy in 1995 and Creative Director in 1997. He first used the internet in 1986 and was an early advocate of new media. While most people would have used this knowledge of new media and marketing to make a fortune, Rory managed to lose £29.50 by being the first person in the UK to have their credit card details stolen online.

He remains an advocate of advertising which does different things, rather than just saying things differently. In 2005 he became Vice Chairman of the Ogilvy Group in the UK.

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What we are trying to do is demonstrate to a cynic that brands work, even though we do not know how.

The great behavioural economist Dan Ariely advised that before accepting any speaking engagement to which you are invited six months in advance, you should pretend the event is tomorrow and ask yourself whether you still want to speak. The night before quite a few speaking engagements, I have regretted not heeding his advice. In the case of the Brands Lecture however I am just as delighted now as I was when invited many moons ago.

Rather than a lecture, this is more of a plea – to change the vocabulary of marketing in order to bridge the gulf between us and those people – the people who set our budgets – who do not speak our language at all. People who in fact regard any vocabulary – aside from the vocabulary of finance, balance sheets and ROI – as incomprehensible or even deeply suspect.

Yet that is not to say that we have no choice but to adopt the vocabulary of a ruling class (which is why I am not delivering this lecture in Norman French). Unlike many in marketing, I am rather ill-disposed towards words like 'accountability'. It seems to me that this notion imposes on brands a demand for numerical quantification which may simply be neither possible nor desirable – and may risk underestimating significantly a brand's true value.

If you believe it possible to place a precise numerical value on a brand where the future is unknown and where, in ways not yet clear, that brand will provide a bulwark against uncertainty, then I am impressed but not altogether convinced.

'Accountable' is what you seek to be if you want to spend your life talking to accountants. To me it is apologetic and hopelessly defensive language. It is like saying sorry before you have even started, 'Sorry this marketing all costs so much; sorry we have to do it at all; sorry we can't do something really quantifiable like off-shoring or procurement'. All you gain when you are 'accountable' is a short reprieve, living to spend some money another day. It is a bit like the famous 'Stockholm Syndrome', where captives come to adopt the language and mindset of their abductors.

And, as we should know more than anyone, it doesn't really work: you cannot win an argument through pure, rational argument. I know this all too well: I was a direct marketing copywriter for many years and our work was much more measurable than more expensive activities such as advertising or sports sponsorship. Quantifying the impact of your work is wonderful but it does not make people say, 'You're absolutely right. We'll cancel the TV commercial and do some mail packs'. Ask Johnny Cochrane, the lawyer in the OJ Simpson case. The prosecution had all the logical arguments but OJ was acquitted.

Fundamentally you cannot argue people into doing what they emotionally do not want to do. Persuasion and seduction are not the same thing, they are opposites. If you ever hear anybody say, 'I persuaded him or her to sleep with me', it will not be a lasting relationship.

What we are trying to do is demonstrate to a cynic that brands work, even though we do not know how. That's not good enough. Doctors know the placebo effect works, but it does not make them like it – or deploy it – any more. For people of a rational accounting mindset (and around 50% of UK CEOs have a background in the finance department), this sort of mysterious, near-magical power does not inspire enthusiasm but terror. Almost the most frightening thing in the world is something that works for no readily apparent reason.

So, arguing that brand-building is great and the company should do more of it without explaining why is probably not a good approach. My contention is we need a new vocabulary. The vocabulary of accountancy is too defensive and inappropriate to what we do. Equally the brand vocabulary does us few favours. To people trained in hard science, the language is indistinguishable from that of flower arranging or astrology.

So where can we find a new marketing phrasebook? First of all, I am reminded of two quotes. One is from Jeremy Bullmore who said, 'The best books about advertising aren't about advertising'. The other is from the eccentric San Francisco copywriter Howard Luck Gossage who spent much of his time seeking inspiration for marketing outside marketing. He said, 'Whoever discovered water, it sure as hell wasn't a fish', the argument being that when you swim in an environment, you do not actually notice it.

Signalling

We need to find inspiration and a phrasebook from somewhere else. Those of you who know me will expect me to draw on behavioural economics – but equally evolutionary biology also has something to offer, not least the concept of 'signalling', a concept that is also now used widely in economics. It is a vastly more useful phrase than 'messaging', 'proposition' or suchlike as it carries with it the understanding that businesses communicate a great deal about themselves even when they are not intentionally communicating. It encompasses the idea that actions and behaviours usually convey more information than words.

Peacocks are beautiful examples of signalling. To breed, the peacock needs the acquiescence of a peahen who must decide which peacock to breed with, a question that involves genetic fitness. The peacock addresses this in three extraordinary ways.

The first is the size of the tail, which is an interesting biological phenomenon called self-handicapping. The peacock is stating that it is so genetically fit that it can still function as a bird even with this absurd, purely decorative appendage on its back. That is conspicuous waste as a form of meaningful advertising.

Sometimes signalling needs to be wasteful to be meaningful. Men do it. Were we in a world where women were attracted to men with expensive vehicles, they would all chase truck or coach drivers, but this doesn't happen as these vehicles have some practical purpose. They don't convey proper wealth in the way that gratuitous waste does, like a totally impractical and entirely useless two-seater sports car driven only in London.

Robin Wight has spoken about a deep-set human instinct he calls 'the reputation reflex'. There are strong, ingrained biological reasons why we are drawn to mate (or conduct business with) people with resources to spare. In game theory terms such people can play the long game, building long-term relationships which are mutually profitable over time. The desperate and the hungry play a short game, their need for their next meal trumping any desire to build a reputation for probity in the long term. We have evolved to be good at spotting people with a short versus a long time horizon and prefer to do business with the latter. A business largely preoccupied with the City's reaction to its next quarter's results can all too easily look like a business playing the short game, and will, rightly I think, be met with suspicion.

The peacock's tail signals in two other ways. The evenness and symmetry of the eyes on the tail are also indicators of genetic fitness as is the degree of translucence of the feathers. The tail operates at the macro, the median and the micro level, providing inarguable proof that its carrier is investing in its future. A valuable brand does the same.

Architecture is used by businesses as a form of signalling. That a building is not entirely utilitarian has meaning, demonstrating the business can afford to invest in things that are aesthetic, not merely functional. Banks have buildings with marble and pillars to signal permanence. There is an interesting question whether the shareholder value movement, by creating a culture of mean-spirited Presbyterian austerity, is operating contrary to human nature. Would we, I wonder, prefer it if our employers were to demonstrate the occasional extravagance or unconditional act of generosity, in place of the calculating way they behave at present?

When, in the aftermath of 9/11, a number of WPP staff, many with young children, found themselves grounded in the United States thousands of miles from home, Sir Martin Sorrell offered to send a couple of private jets to fly people home. In the event it was not necessary, but I have always felt that this offer spoke more eloquently of WPP's care for its employees than any number of 'meet target X and you'll be paid bonus Y' forms of reward.

Brand expenditure is a demonstration of signalling. The fact that you are prepared to put money behind your product up front suggests you have faith in it, that you believe it can be widely popular and, by investing in a reputation, you have something valuable to lose if you don't deal squarely with your customers.

That is an important question – what has a provider got to lose by selling me something that may be rubbish? A bank, by investing in architecture, suggests it will be around to recoup the money it spent on the marble. It is the same with a brand. There is a reputation to lose.

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Information asymmetry

Information asymmetry plays a huge role in biological signalling. The bowerbird demonstrates to the female that it is likely to hang around after the chicks are hatched by taking the trouble to build an elaborate nest. And women look for some mark of commitment from men who do not have a biological need to stick around and look after their children, which is where the engagement ring comes in. It is something expensive up front which suggests you intend to be around for more than one pregnancy. If you are only planning on a one-night stand, an engagement ring is an expensive way of getting one. To a female bowerbird or human, the mantra is *credo quia carum est* – I believe what you say because saying it is expensive.

There is a huge element of trust and a leap of faith in virtually every purchase we make, which is why we are so desperate to find, and pay a premium for, any signals of reassurance.

That is why I find it so ludicrous when economists object to brands because they are 'barriers to entry'. They are indeed barriers to entry, which is precisely why consumers value them so highly. A medical qualification – with six ruinously expensive years at university – is a barrier to entry in medicine – but I would not want to be treated by anyone who could not be bothered to overcome it. A costly engagement ring is a barrier to entry in marriage, but you should be wary of someone who tries to avoid buying one. And a brand reputation is a difficult and expensive thing for a soup manufacturer to acquire, which is why I prefer to buy my soup from someone who has passed the test of acquiring one. If these things were cheap and easy, they would be worthless. You don't know for sure that your doctor isn't a charlatan, your fiancé isn't a rogue and your soup manufacturer isn't an amateur poisoner, but the fact that they have all made a hefty advance down payment to get to their present position is a fairly reliable indicator that they are committed to what they are doing over the long term.

Information asymmetry (See George Akerlof's Nobel-Prize-winning paper for more) is often underestimated. Marketers, like economists, tend to think of purchases as being straightforward exchanges. You pay £3, you get a burger – end of story. However very few of the purchases we make are this simple. When you pay £800 up front for a new television, you do not know until maybe six years later – if it is still working well – whether or not the money was well spent. When choosing a pension, you only know how good your decision was about forty years after you have made it. Even when you have paid for that burger, you have yet to taste it – and it's another three hours or so before you know whether you have been poisoned. There is a huge element of trust and a leap of faith in virtually every purchase we make, which is why we are so desperate to find, and pay a premium for, any signals of reassurance.

Yet this is hugely underestimated, by both marketers and economists. Indeed research by behavioural economists indicates that, when we hand over the cash, fear is twice as powerful an emotion as hope.

We think far less about how to buy the very best television and far more about how to be sure it isn't rubbish. Most discussion and research focuses on whether the thing is the best I can buy but human decisions are not made that way. They are made on avoiding disappointment. Once you know that, brands make a lot more sense than if you assume people are seeking perfection. A brand is not a guarantee of perfection. The very best thing you might buy in many markets may be relatively unbranded and require six months work to find it. However, as a guarantee of something not being bad, a brand is spectacularly powerful.

The saying that 'nobody ever got fired for buying IBM' is probably the most famous example of an advertiser understanding loss aversion. Indeed, it is worth remembering that in business-to-business markets, loss aversion is at its most powerful. People tend to be more loss averse in business than they are as consumers. And for good reason: if you make a good decision nobody will reward you much; make a bad one and you lose your job.

Gabriel Garcia Marquez said, 'Always remember the most important thing in a good marriage is not happiness but stability'. Ray Kroc said something similar, although more prosaic, when discussing McDonalds: 'People don't want the best burger in the world. They want a burger that's just like the one they had last time'. In other words, the avoidance of disappointment, 'knowing what to expect and knowing you are going to get it' is a more powerful human driver in making purchase decisions than chasing often elusive improvements.

Maximising and satisficing

This leads to something very interesting, first identified by Herbert Simon of Carnegie Mellon University in the 1950s. It is the difference between decisions made by 'satisficing', where risk aversion is prominent in the mind, and those made through 'maximising', which is getting the very best possible thing for a specific amount of money.

I had an interesting discussion with someone in Cannes when I said that French food went wrong by being all about maximising. McDonald's is so loved in France (it has a higher bonding score there than in the US) because, to be frank, it is the only place a satisficer can eat. Now Italian food is beautifully scalable, with a snack culture, pizza, pasta, all the way up to fantastically elaborate meals. The French, partly distorted by the Michelin star system, drove their food to ever higher symbolic heights of sophistication, forgetting that 90% of the time that is not what we want to eat.

If you want to know the difference between satisficing and maximising, ask yourself this question, 'What is the best meal you have ever had in your life?' You may recall 'a charming little back street in Rome' or 'this place in Paris'. And how many times have you eaten there? Once?

The French became obsessed with food, partly because they had invested so much in it and partly because, in the early days of the century, a restaurant meal was a massive event. Therefore you maximised, had fine food and the meal took three hours. Now people eat out much more, the need to maximise has diminished and the need to satisfice has increased. It is only when you understand satisficing that you understand the success of McDonald's. There probably is nowhere in the world where McDonald's is the best restaurant in town but there certainly is not a town in the world where it is the worst. In terms of loss avoidance and satisficing, when you go to McDonald's you will never get ill, never be disappointed, never be ripped off and never be treated uncivilly. Nor will you be socially embarrassed. All of these are pitfalls you must face when trying to find somewhere 'better'.

Once you realise that most people in most categories most of the time are satisficing not maximising, then brands start to really make sense. There will always be categories and moments in your life when you maximise, such as weddings, but most of the time people are happy with the pretty good at a reasonable price. This explains why most people have a repertoire of acceptable brands. They tend not to develop a passionate enthusiasm for Starbucks and a correspondingly deep loathing for Costa Coffee.

Satisfice as a word combines satisfy and suffice but it is also apparently a Northumbrian word meaning satisfy. It helps us understand most consumer behaviour. One of the most important elements of a brand is saleability, providing the quality that allows it to become an acceptable part of someone's repertoire. That is satisficing.

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This presents some problems. When you put people in a market-research context, they are not in the subconscious realm of satisficing where most decisions are taken but in the realm of rational, conscious thought and attention. People feel, particularly in the presence of others, that they must portray their purchase decisions as optimal and highly rational. They portray themselves as maximisers – an act which, although well-intentioned, is highly misleading. It is how they think they should decide; it may even be how they think they do decide, but it is not how they really decide.

Another problem is that when people explain their behaviour they believe, as we all do, that attitudinal change precedes and is a necessary precursor to behavioural change. However nearly all neuroscience and behavioural economics research suggests it happens the other way around. As one neuroscientist beautifully observes, the brain is not the Oval Office of the body issuing directives and being obeyed, but more like the press office. Decisions are actually taken down in the basement and the brain issues hasty post-rationalisations to explain why you adopted the course you did.

Bob Dylan in *Brownsville Girl* says this beautifully:

> '... people don't do what they believe in, they just do what's most convenient, then they repent'.

Professor Paul Dolan of the London School of Economics and I once observed that when a man says 'my wife doesn't understand me', it doesn't mean he's planning an affair. He has already had one. To explain further, Our understanding of human behaviour has lacked predictive value because it deals with one physical force, let's say brand preference, but ignores another, the heuristic people deploy.

what people don't do is think, 'I've noticed declining comprehension levels in my wife and so I think I might outsource a range of sexual services through a low-cost off-shore provider'. It does not happen that way round. What happens is people get pissed and for no readily apparent reason, unaccountably, they end up sleeping with someone else. In a desperate attempt to make sense of their actions, they concoct a completely bogus case against their wife.

If we understood – and it is deeply counter-intuitive – that people do things and then make sense of them subsequently, the world might be a happier place. For example it is believed by environmentalists that in order for people to adopt good environmental behaviour it is first necessary to convert them into committed environmentalists who share exactly the same motivations as their own. This is very painful and involves a huge amount of very annoying preaching which generally makes people resentful. The trick is to change behaviour first then the attitudes will follow. Make it easy for people to recycle and they will then become better disposed to the concept of recycling.

Heuristics

Heuristics is a very useful word which I hope will become adopted by marketers. They are the rules of thumb that people deploy when making decisions. You may recall the *Viz* character Mr Logic who is so obsessed with rationality that when he is thrown a ball he doesn't catch it instinctively as most of us would but works out the ball's trajectory using quadratic equations in his head. The problem is that the ball has landed ten minutes before he has completed the calculation. The rest of us use a heuristic which is that, when a ball comes in high, you fixate the ball, start running and adjust the running speed so our angle of gaze remains constant. The player can ignore all the information needed to compute the trajectory, such as the ball's initial velocity, distance and angle, and just focus on one piece of information – the angle of gaze.

Action and solution in parallel is a much better way to catch a ball than using the physics. It is faster, simpler and instinctive.

We know it is instinctive because it is possible to see the heuristics dogs use, and they can vary between breeds. If a pheasant lands in a fast-moving stream, a retriever will follow the correct angle while a spaniel plays it safe, aiming slightly downstream and waiting. (That is the most useful thing I have read in *The Field*!) There is also a whole chapter in Gerd Gigerenzer's book about the heuristics used by dogs to catch Frisbees.

Consumers use heuristics – for instance fame and social proof – all the time. When choosing between two restaurants and little is known about either, you will probably go to the one with most people in it. What is interesting is that all this is instinctive: we deploy such techniques without being aware of them.

With our emphasis on market research we have been blind to heuristics. We have developed excellent ways to detect gravity but the gravity detectors can't detect electro-magnetism. Our understanding of human behaviour has lacked predictive value because it deals with one physical force, let's say brand preference, but ignores another, the heuristics people deploy.

Different people may use different heuristics. One heuristic may be scarcity value. If it is rare, it is valuable, I will want it more and will pay more for it, even if it is frankly a bit rubbish. I come from Monmouthshire where a few hundred years ago agricultural workers went on strike, demanding amongst other things not to eat salmon more than three times a week. In Monmouthshire at the time, salmon was cheap and considered an inferior good. Now it is rare, expensive and hence prized.

When faced with a choice, one default may be to buy what I bought last time. If that is not available I'll buy the one there is most of on the shelf or possibly the one I have heard of. Gigerenzer believes heuristics are an excellent way to make decisions in a world of uncertainty. If you ask people at the University of Chicago which is the bigger city, San Antonio or San Diego, about 67% get it right (San Diego). If you ask Germans, 98% get it right. So, weirdly, the less you know about America the more you know about the population of its cities. How does that make sense? It is for the very good reason that Germans have heard of San Diego but not San Antonio.

Gigerenzer's point is that, by using heuristics, ignorance can lead to better decisions than knowledge!

Choice architecture can be developed exploiting the heuristic of 'doing whatever seems normal'. This is demonstrated in the difference in organ donations by country, based purely on whether the donor card is opt-in or opt-out. If it is opt-in, where it seems normal not to donate your organs, around 12% of people will donate. If opt out, where the assumption is you are happy to donate unless you specify otherwise, 98% donate. If you make it a managed choice, with both yes and no boxes, about 66% donate. So, to an important question to which we probably do not know the answer, the instinct is to 'do what most people do'.

Retail must have been boosted by an insight, whether accidental or deliberate, into the heuristic that, when presented with three choices, we tend to choose the middle one. When I was a child, supermarkets offered the choice of a basket or a trolley the size of Mack truck. The trolley was ridiculous so you chose the basket but, by the time you were halfway round the store it weighed a ton so you stopped shopping and went home. Then, brilliantly, supermarkets offered a third choice, the Japanese or shallow trolley. Because it is in the middle, people choose that. This heuristic applies strongly to price and it is not a bad one – as the expensive one is probably a rip-off and the cheap one a bit rubbish.

When BP asked how to improve the sales of BP Ultimate, I suggested it launched BP Superblingtastic Ultimate at £5 a litre. Everybody would go for BP Ultimate as a good compromise. A restaurant can increase the profit from its wine list by putting a couple of £100 bottles at the top. It drags people upmarket as it sets a new reference frame, with people tending to buy from somewhere between the middle and the bottom of the price range.

A company can be seriously threatened if the heuristics in a market change. In the 1980s people were hi-fi nutters, spending thousands of pounds on separates and speaker cables at £100 a foot, hand-woven by elves in Bavaria. The heuristic was sound quality. Then, within a couple of years, everything flipped with the advent of the iPod. Convenience, design and portability became all-important, changing the basis on which everyone had to compete.

It will happen with digital cameras. Currently it is all about megapixels but there must come a point of diminishing returns, when having more than 14 megapixels is frankly pointless unless you work for Athena Posters or produce stadium images of Kim Jong Il in North Korea. When the heuristic becomes stupid as a rule of thumb it will be replaced with something better.

Relativity

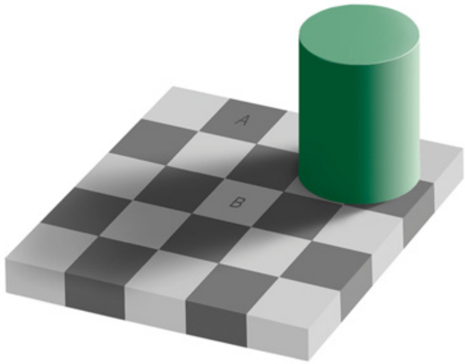
Another aspect of choice architecture is the fact we choose something relative to what is around it. We do not have an absolute measure of value, a sort of Hedonic unit which is, 'I'll pay £5 for that much enjoyment'. What we do is look at what is around something. We look at alternatives. Estate agents work this way. They will take you to a house very similar to the one they think you will buy but slightly more expensive and a bit less good. It will then be much easier to flog you the house they think you will buy. It will be £3 cheaper and have a greenhouse. Bang, sold! Our brains work relatively rather than absolutely.

The case of *The Economist* subscription choices – web only, print only or print & web – is interesting. No one would choose the middle option unless they were a Luddite. What *The Economist* found though was if it only offered two choices, web only and print & web, most chose the cheaper option of web only. When it inserted a dummy choice of print only, suddenly people's frame of reference shifted, and they thought, 'if I buy the last option I will get the web version free'. This drives classical economists insane. Nonetheless, it demonstrates that our decisions are highly comparative.

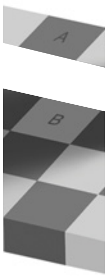
A German car maker had a stock of new cars it needed to sell and it was about to knock €3,000 off the purchase price in order to do so. Then someone who knew what they were doing asked, 'Are you sure that is the best option?' 'Well, €4,000 would be better but we can't afford that'. 'No', he said, 'make it €3,000 on the trade-in price of the old car.' A classical economist would say it is the same thing. They tested it and the difference was pronounced, accounting for the sale of 20,000 extra cars. The reason is that €3,000 on top of the €8,000 you might expect for your old car seems a lot of money, while €3,000 off the €22,000 price of a new car seems less of a deal. That shows our brains work at a comparative level.

So, to an important question to which we probably do not know the answer, the instinct is to 'do what most people do'.

To demonstrate the relativism with which we view the world, with our brains evolving to make comparative, not absolute, judgements, here is a test board where you may agree that square A is darker than square B.



On the other hand, if I cover up parts of the board you will see that A and B are exactly the same intensity of grey. We are incapable of seeing that because our eyesight works on a relative basis.



This is not some optical illusion where you say, 'Oh, now I see it'. If you go back to the original image it is nigh impossible for you to see those squares as anything other than different colours.

That perceptions are relative is true of virtually every human perception – temperature, volume, pain, pleasure. The one exception is perfect pitch where 2-3% of the population have an absolute measure of musical pitch.

What we pay for things and how we value them are equally contextual. When at home you will pay about 2p for a cup of tea but when you take it away from Starbucks you will pay about £2. It is reasonable to say it is not a hundred times more enjoyable but our valuation system is relativistic.

To talk about a brand in isolation without talking about comparator brands is dangerous. Coke needs Pepsi. You can't be the real thing if it is just you. So understanding the context and understanding the difference between maximising and satisficing is vital in research.

Path dependency

We tend to have a model of behaviour where people go from brand preference to purchase behaviour as though it is an unmediated, absolutely direct process. In reality, many decisions involve multi-stage, path-dependent actions.

The man behind 1-800-Mattress in Manhattan was a marketing genius who commanded some 90% of the New York mattress business. He realised that people were not that excited by brand decisions, whether to buy a Silent Night or Sleepeezee, but were deeply exercised about how to get rid of their old mattress. In New York, if you are rich the butler takes it away and if you are poor you lob it out the window, but for most people it is a real problem, especially as they probably don't have a car. Understanding path dependency, 1-800-Mattress offered to take away the old mattress for free. Fantastic!

I like the cocktail culture in the US with all that mixology stuff. One reason for the lack of cocktail culture in the UK is that by the time you get to the spirits section in a supermarket and consider buying Campari, Pimm's or rum for Mojitos the fruit you need is 500ft away against the flow of shoppers and ice is nowhere to be found. Sainsbury's with Diageo, through brilliant use of path dependency, has created a cocktail pod in the spirits section where there are mixers, ice, lemons and, for the connoisseurs of gin and tonic, limes, all together. The net effect is a rise in sales of spirits of between 8 and 9%, due to an understanding of path dependency.

One flaw in the belief that brand strength translates into purchase is that people may have made a category decision long before and eradicated your category without even being aware of your product. You may be the strongest rum brand in the world but if Brits holding a party head for the wine, you won't feature.

Path dependency is vitally important in the context of channels to market. People thought that Barnes & Noble's brand strength would carry through to the online space and defeat Amazon but it didn't. Once a consumer is within a channel, their brand map changes. If you are

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online you will probably go to Amazon. If you do not have a presence on mobile, then people using their mobile phones will automatically go to your competitor. Channel choice is a prior choice to brand selection and if you lose within a channel, you lose overall.

It is fascinating to note the extent to which people are loyal to an interface. It was widely assumed in the early days of the internet that there would be no loyalty online because everybody would be one click away from a lower price. In fact loyalty online is extraordinarily strong because once you have mastered one interface (in the shape of a familiar website) you are disproportionately reluctant to experiment with another one.

Complementarity

One of the most important ideas economics has given advertising comes from a paper by Gary Becker, a Nobel Prize-winning economist, and Kevin Murphy on whether advertising and marketing change preference. They argue that it is not necessary for advertising to change preference in order for it to work. It may work through complementarity. Very strange!

There are some things the value of which vastly depends on what you consume them with. Possibly the most extreme is popcorn. If you left here this evening and there was a popcorn seller on the street outside, you would be unlikely to be tempted. However, were you to go to a cinema, there is virtually no limit to what you would pay for a bucket of popcorn. It makes no sense but the two, film consumption and popcorn consumption, are complementary goods, as economists call them.

Murphy and Becker argue that advertising is a complementary good and consumption of this complementary good adds value to, and increases consumption of, the primary good. Driving a BMW in the presence of BMW advertising is more enjoyable and rewarding than without it.

A perfect example of complementarity, although I criticised it earlier, is the *Guide Michelin*. It was started in 1900 when Michelin had about 95% of the French tyre market. It realised that the only way to make more money was to get French people to drive further and burn more rubber. Now the thing about French people is they won't go anywhere unless there is a restaurant at the end of it (this explains their relative failure at empire building). What Michelin created was a guide to restaurants and interesting things to see, the consumption of which was complementary to the burning of tyre rubber in 1900 France.

Marketers tend to overlook this. Were I Coca-Cola's marketing director, I would spend more time getting ice widely adopted in British homes than I would promoting the virtues of Coke. If you look at the complementarity, there is evidence that if you serve Coke with ice and lemon, sales will be 70% higher than if served without ice. So the best way to increase consumption of cola if you are brand leader is to create complementarity and bribe fridge makers in the UK to add a proper ice-making machine like they do in civilised parts of the world.

I am only half joking. What is your biggest obstacle to more sales? Is it a brand issue or the absence of some complementary good? It is a question worth asking.

We need to convey to people in the rest of business that branding is a fundamental creator of value, not some bogus add-on that doesn't really count. There is a Soviet attitude in British business that the real value lies in making things. Deploying and creating the context in which such things are then used is secondary and needless. In the Soviet Union production targets were set to manufacture a certain number of locomotives, not caring whether five years later any of them were actually pulling trains.

Ludwig von Mises, an Austrian economist, challenged the 18th-century French physiocrats for making a similarly silly distinction between 'real' and 'other' value. The phisiocrats believed that real value derived from the land, that it was farmers who generated real value, while those who took the wool and made woolly hats simply exploited them. He made the point that everyone now knows such views to be bonkers but many make the same error with advertising and marketing. They believe real value is made in the factory, not by determining the context or the frame of mind in which a product is to be consumed.

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Von Mises insisted that value is subjective and can only be understood in subjective terms – what someone in a certain situation and given circumstance is prepared to pay in exchange for something. If you run a restaurant, conventional economists will say that real value is created in the kitchen. However the value of the experience is a combination of the quality of the food and the context within which it is consumed. If you imagine a restaurant where the food is magnificent but the floor is covered with detritus, then the greatest value you could create is to change the context in which the food is consumed. As von Mises observed, you cannot draw a sensible line between the value a restaurateur creates by preparing the food and the value he creates by sweeping the floor. To distinguish between the value created by influencing the context and the value created by making the thing in the first place is a false dichotomy and a false distinction.

It is a fascinating thought that you can make something seem better or worse according to the comparative frame applied to it.

Some time ago the Royal Mail made such a mistake. At the time about 98% of first-class mail arrived the next day. They decided for reasons lost in the mists of time that they would improve that to 99.5%. It involved a gargantuan effort that almost broke the Royal Mail. At the time though, consumers perceived that 70-75% of first-class mail arrived the next day. If perception is much worse than reality, why improve reality? It is like operating a restaurant with detritus all over the floor and saying, 'We have to make the food better'. The value of anything is a product of what it is and the mental context within which it is consumed.

There are three principles from von Mises:

- value is subjective;
- value is contextual, varying by moment, place, time, mood and other factors;
- value is often subconscious, operating as a kind of gut instinct.

A perfect example of the creation of subjective value is the launch of diamond-shaped Shreddies in Canada. This changed the frame of reference. There was market research in which people compared square and diamond-shaped Shreddies, finding the diamond shape tasted more interesting. It proved something of a 'New Coke' moment, with a lot of Canadians wanting their old square Shreddies back as they regarded the diamond shape deviant and an anomaly. So, in a Canadian way, they arrived at a compromise:

Framing

It is a fascinating thought that you can make something seem better or worse according to the comparative frame applied to it. If you can change the frame, you can change the game.

The idea of high-speed rail makes me angry because it is all about engineers applying their metric for quality rail travel – high speed, low duration. The entire mathematical case for high-speed rail in the UK is based on the assumption that everyone on a train is economically unproductive. I personally find trains to be the only place I can do useful work nowadays.

High speed, low duration is a ludicrous metric for this small country, though it would make more sense in China. We should flip the metric and change the frame to something like comfort, convenience, style and elegance. Take Eurostar. Why spend £6 billion reducing the journey time between London and Paris by 40 minutes? It assumes that the only metric of any importance is speed. Give a creative team that brief and they would say speed is boring. Put in Wi-Fi at a cost of £5 million and make the journey useful and productive, a different frame of reference. They may go further and suggest employing the world's top male and female supermodels to walk up and down the train serving free Château Pétrus to everyone.

You would still have £5 billion in change and people would ask for the train to be slowed down.

Advertising and marketing can be used to change the frame of the game, to change the frame of reference. Why are engineers given sole charge of solving such problems, which unsurprisingly they try to solve using a disproportionate amount of engineering? Marketers, on the other hand, will tell you that value is subjective, value is contextual, value is often subconscious.

The artist Edward Hopper fascinates me because he re-frames experiences. Unless you know Nighthawks, being alone in an empty diner at 2 o'clock in the morning would be a depressing experience. However if you are a Hopper fan such experiences are re-branded to become numinous, evocative, emotive and atmospheric.

Gas, Edward Hopper, 1940

That human perception is malleable and susceptible to suggestion and comparison is demonstrated by Ferrari which offers you the choice of having your new car delivered to your home free or you collecting it from Maranello, Italy, at a cost of £300. I am sure you will get a tour of the plant too but the point is that the latter option is positioned as the more desirable. That it is also the cheaper option for Ferrari doesn't seem to be a factor.

Many human experiences are subject to comparative framing. In the case of hotels, most people's impression is massively determined by their reception at check-in. If you have had a good or bad experience, you then go round looking for corroborative evidence. A survey in a Nashville hotel showed that people who had waited twenty minutes at check-in rated everything much worse than those who had waited five minutes. Charlie Munger, Warren Buffett's business partner, put it beautifully when he said, 'The human brain is like the human egg. Once one thing gets into it, it closes down and won't let anything else in'. Neuroscience shows that the onset of information which contradicts our prior assumptions triggers activity in the very same part of the brain which is activated by the experience of physical pain.

That our perception and memories may be affected by remarkably arbitrary influences makes marketing more rather than less important. Take an espresso machine. If you think how much the cost of running a Nespresso machine would be if it were filled up with coffee sold in a jar like Nescafé, it would be a fortune – on a like-for-like caffeine shot basis, you would be paying £80 a jar, something most of us would find unconscionable. However, the coffee comes in little individual metal pods and hence the frame of reference isn't Nescafé but Starbucks. Every time I use the machine I think how I am saving money, paying 26p for something that would cost a couple of quid at Starbucks. The frame of reference means I think it a bargain.

That our perception and memories may be affected by remarkably arbitrary influences makes marketing more rather than less important.

Video conferencing has failed to take off because it is what economists call an inferior good. It is framed as a cheap alternative to something else – air travel. It is like margarine to British Airways' butter. It is what someone gives you when they don't trust you with the real thing. If your frame of reference is negative you will lose, something from which coach travel suffers appallingly. The video conference needs re-framing as the rich man's phone call, not the poor man's air trip. It should be installed in the CEO's office and nowhere else, and certainly not in a basement room.

How can Red Bull charge £1.50 a can when Coke only charge 50p? Weirdly you make the can smaller. Suddenly people think this is a different category of drink for which different price points apply. If the can had been the same size, I am not sure they could have charged £1.50. Logic won't tell you that and research won't tell you, because in research we all pretend we are maximisers and hyper-rational.

Mountainview, a company that studies behavioural economics, has researched relative price effects. The example below shows the impact on sales of Carling and Budweiser at a specific price point, depending on three scenarios – whether they are sold together, with a 30p Tesco value lager or with a £4 bottle of Kronenbourg. The differences in the number of people buying either Carling or Budweiser depending on what they are sold with demonstrate comparative effects. Also demonstrated is the draw towards the one in the middle.

Loss aversion is a significant motivator, with people willing to pay a premium for reassurance.

	Percentage of people choosing			
	C	A	B	D
A and B	–	33%	67%	–
A, B and C	0%	47%	53%	–
A, B and D	–	0%	90%	10%

Comparative framing is relevant to selling cars. You don't sell Rolls Royces at car shows, you sell them at yacht and plane shows because when you have been looking at several million pounds worth of yachts and Learjets all day a £350,000 car seems good value. The best way to sell TVs online is to sell them via high-end holiday sites because compared to a £4,000 holiday, a £900 flat-screen TV seems cheap.

To a classical economist there is no difference between BMW dropping its prices by 10% and a mate in a BMW dealership getting you 10% off. However the human brain, which is biased by scarcity value and the belief that things that are more difficult to get hold of and more exclusive are intrinsically more valuable, will perceive one as being several times more valuable a saving than the other.

Trade-offs don't have the same psychological effect on people as price promotions. Cheap strawberries may lead you to believe they are not very good, but pick-your-own is a trade-off. You will get cheap strawberries but in return you contribute some of the labour. It would be extremely useful to study which promotions build brands and which damage them. There is a difference, as Jeremy Bullmore once put it, between a bonus and a bribe[1] and I suspect there are small factors which make a big difference.

So, we need a new vocabulary and I have given you some suggestions, embracing heuristics, path dependency, complementarity, loss aversion, maximisers versus satisficers and some other concepts. Here are some of the areas we have covered:

- in the context of branding, fame really matters. As a heuristic there is no substitute, but the media you use affects perceptions of fame. There is evidence that using broadcast or digital media will have different effects for the same level of reach;
- maximisation is a dangerous assumption of behaviour because most decisions in most categories most of the time are not made that way;
- loss aversion is a significant motivator, with people willing to pay a premium for reassurance. IPA suggests this price premium is the greatest contributor of brand value but it is the one least measured;
- frames of reference provide the context for decisions. If you change the frame you can change the game;
- we need to reconsider our marketing models in light of the fact that behavioural change may well precede attitudinal change, not the other way around.

I would like to finish by paying tribute to two of my heroes: Daniel Kahneman was a Nobel Prize Winner of Economics in 2002 even though he is a psychologist, not an economist; and Ludwig von Mises, who unfortunately wrote his works in Austrian (and the English translations will make your eyes bleed). However there is great stuff there to help you appreciate radical subjectivity. There are some five books on behavioural economics which will teach you 70% of all you need to know. The vocabulary these will give you, and the opportunities they will present for really useful discussions, are priceless.

[1] J Bullmore, Posh Spice and Persil, (Brands Lecture 2001), p7

This is the eleventh in the Brands Lecture series.
Previous lectures include:

Are Brands Good for Britain?
Tim Ambler, London Business School

Posh Spice and Persil
Jeremy Bullmore, WPP Group

100% Marketing
Rob Malcolm, Diageo

Hybrids, the Heavenly Bed
and Purple Ketchup
David Aaker, Prophet

Brands Beyond Business
Simon Anholt, Earthspeak

The Lovemarks Effect
Kevin Roberts, Saatchi & Saatchi

They think it's all over…
Martin Glenn, Birds Eye Iglo Group Limited

Can brands save the world? Let's hope so
Richard Reed, Innocent Drinks

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Lord Bilimoria CBE DL, Cobra Beer

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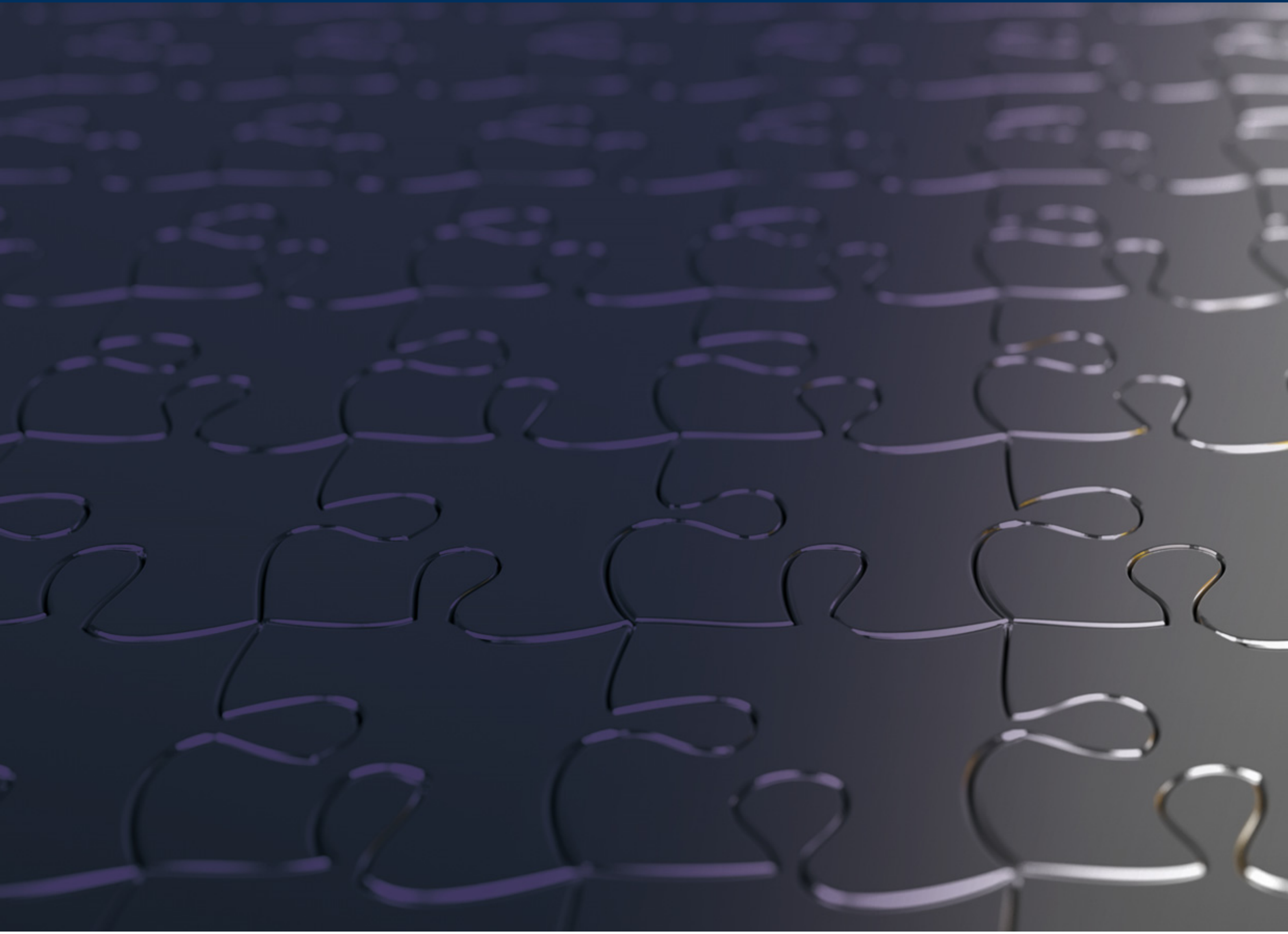

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