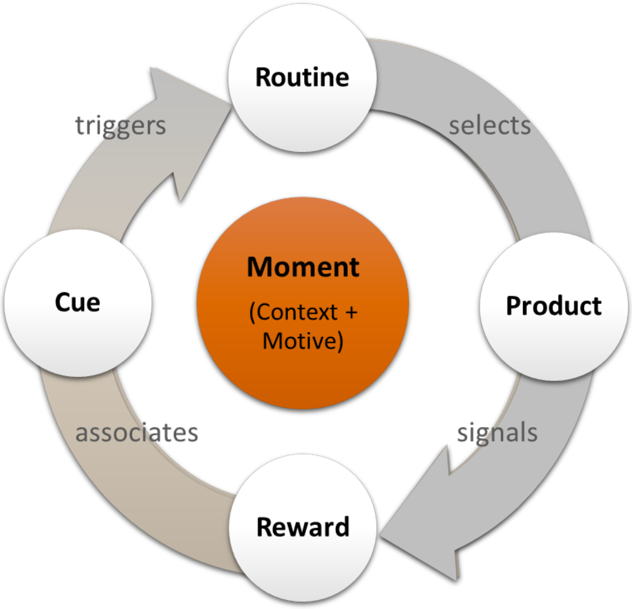
New Insights for Market Disruption

Introduction to the Habit Flywheel™



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Introduction

Much has been written about market disruption from business leaders such as Clayton Christensen who define market disruption broadly as a business strategy. *However, irrespective of the business strategy, no business strategy* can be successful without disrupting consumer behavior habits.

The verb "disrupt" is defined as "To cause something (consumer behavior habits) to be unable to continue in the normal way. To interrupt the normal progress or activity of something (consumer behavior habits)." Most consumer behavior is in the form of habits – things that people do routinely, often with little conscious thought. The same goes for most use behaviors of consumer products. You might be able to recall brushing your teeth this morning, but likely cannot recall doing so a week ago unless something unusual disrupted you and your habit.

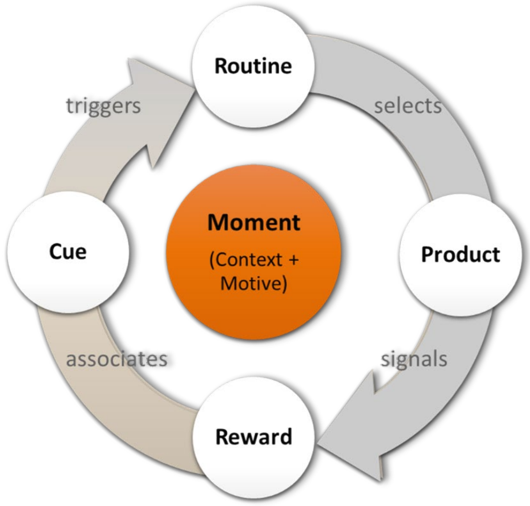
We have found that marketers and innovators can influence or change consumer habits in three ways:

1. Targeting moments and routines, not people, to create upstream value
2. Translating ideas into products that offer better rewards to the consumer through effective design
3. Reinforcing new habits through a more holistic approach to your marketing mix

In order to know how to take action in any of these three ways marketers or innovators must have a solid framework for understanding how consumer habits are formed, triggered, and broken/changed. Further, consumer insights must be generated to inform the building of your action plan. This white paper will delve into a framework for how to impact consumer behavior by influencing or changing consumer habits such that your business strategy will be successful to disrupt markets. It will provide some case studies into how consumer insights are derived from this framework to guide marketing and innovation decisions that influence and change habits.

The Habit Flywheel

Disruption requires a deeper understanding of consumer behavior than simply knowing what consumers are doing. How consumers behave depends on how they think, and consumers tend to think either fast or slow. For example, the average grocery store shopper takes 4.6 seconds to select a product and place it into their shopping basket. That's very fast thinking. In fact, the 2003 Nobel Prize winner for economics Daniel Kahneman mentions that fast thinking is the primary mode that people and consumers use – especially when doing things habitually.



Influencing or changing consumer habits requires knowing how in a specific moment, a cue triggers a routine in which the consumer selects products which signal a reward that can be associated with the cue. This "flywheel" includes a moment as the intersection between a person with a motive to act and the context of a situation where a cue triggers the habit. A cue is the perception which triggers the consumer to begin a routine. Routines are sequences of events that consumers do. They are the tasks or activities completed in the moment. Routines determine what products are in or out of the consideration set to use. For example, we have found that breakfast bars are selected for their flavor preferences when used outside the home. When selected inside the home, the consideration set is based on health and wellness benefits. Products include the many product specific qualities consumers experience which signal these benefit rewards. Rewards are the primary drivers for consumers to repeat or change their behavior. Rewards are the perceptual feedback received from the actions taken and can be either the experiencing of a positive benefit or the avoidance of a negative consequence.

The more times a consumer cycles around the flywheel, the more set is the habitual behavior. Consumer habit disruption occurs when marketers or product innovators break or stop the Habit Flywheel™. This leads to opportunities for a new habit to be formed and/or new products to be considered and ultimately used.

The Four Points of Habit Disruption

Disruption of habits is essential for most new product and/or marketing campaign success. Disruption tactics slow down or stop the Habit Flywheel™ moving consumers from fast to slow modes of thinking. Fast thinking is prevalent within well-established habits where all five elements of the flywheel continuously reinforce existing habits. Once disrupted, a consumer moves to slow thinking which is more rational – considering new routines, product selections, and experiential outcomes.

Four Points of Disruption

Change the Context & Cue	Change the Routine	Improve Product Signals	Associate the Reward & Cue
Forces you to become conscious of your behavior and choices Builds new cues which trigger routines	Changes the actions you take in order to accomplish your goal	Leverages sensory memories to build into products sensory signals of the reward Avoid building unintended negative signals into products distracting/reducing reward expectations	Reinforce the association between reward and cue through repeat use. Associate the reward to the cue through personal involvement

Change the Context & Cue

The first point of disruption impacts the onset of routines. This includes disrupting by changing or taking away cues sensed externally (e.g. an appetizing smell in the environment or an advertisement) or generated internally (e.g. this lunchtime!) that trigger routines. If lunch is triggered by an alarm on one's smart phone, then changing the alarm or ring tone pattern can impact the routine. Advertisers that build moments of use into their advertising message can help establish new cues that trigger routines.

In shopping moments, if one changes the shelf set or the signage at shelf, or the look of a package, this can disrupt the mode of thinking by the consumer to significantly impact point of purchase behavior.

Change the Routine

This type of disruption is often bad for established product incumbents and can be good for new product entrants into a category. When the moment or the cues of the routines are changed, consumers shift thinking from fast to slow thinking where rationale is used in place of cues to consider what new sequence of events to take to achieve an outcome. This opens the door for new products to be considered, setting up opportunities for trial and ultimately the establishment of a new habit. When new habits are formed, consumers shift back to fast thinking motivated by cues that trigger routines.

Routine disruption impacts the consideration set of products. Routines are closely linked to the series of actions that have been established through repeated use of products. The consideration set for some routines can be very broad. The most successful products, however, are used uniquely within frequently triggered routines. For example, Keurig introduced a new platform to consumers that disrupted the frequent coffee making routine. The Gatorade G series product line was disruptive by introducing a new product and respective routine that fit into the “prepare to take the field” moment. The new routines established by these products disrupted the marketplace. They changed habits by disrupting consumer routines and the respective consideration set. Through repeat use of these products, new habits were eventually established leading to new product success.

Improve Product Signals

The third type of disruption is by building new sensory qualities and design elements into products that uniquely signal new or improved rewards. Fast thinking during habitual product use builds associations between product qualities and signals before and during use. These signals establish future expectations for the delivery of a reward. Rewards often are the benefits experienced as outcomes from use. Change the product design and the expectations for the reward will likely be changed.

Product design changes can be good when then they become uniquely associated with an important benefit, especially those that are motives for the consumer to take action in given moments. Consider the case of Chobani® Greek Yogurt. The thick and creamy texture of the product became quickly associated with high protein signaling “sustainable energy” as a meal replacement until your next meal. This signal was so successful it became the number one selling yogurt in three years on the market.

Design changes can also be bad when they are associated with unintended consequences. An example of this is the Sunchips® compostable package design change in 2011. This design formed loud “metallic” sounds that were not liked by consumers. It sounded unnatural and signaled in social contexts that someone was having a snacking indulgence moment. The unintended consequence of this acoustic signal when handling or opening the package lead to the breaking of the Habit Flywheel among current users resulting a rapid loss in market share.

Associate the Reward & Cue

The fourth type of disruption is by building stronger associations between rewards and the cues that trigger routines. One of the strongest ways to associate rewards with cues is to create opportunities for consumers to invest themselves by taking actions such as sharing their rewarding experiences with others. When people share the rewarding experiences with others, they build stronger associations between rewards and cues that trigger routines. For example, Bush Brothers was very effective several years ago when they introduced their "game day" advertising campaign. This campaign built associations between the reward (social pleasing) and the cue (preparing for game day grilling parties). Consumers that invested themselves by bringing personalized foods with beans to parties reinforced their Habit Flywheel for using Bush's Beans as part of their game day party preparation.

The 2011 Jell-O Faces campaign included launching a commercial that did a great job of introducing a new reward – enhancing the user experience by having fun creating a face in the Jello. Noelle O'Mara, the Jell-O Brand Director said,

> *"Jell-O is a catalyst for these incredible bonding moments between parents and their kids and the experience in making the product is really where all the emotion exists."*

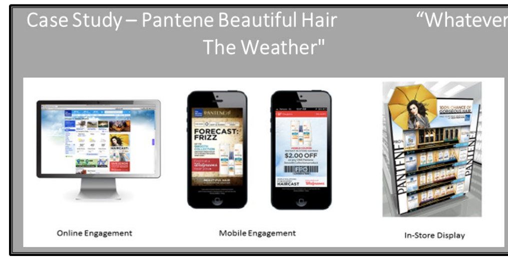
However, the campaign was not successful in establishing new habits. The campaign did little to strengthen associating the reward, emotional bonding between parents and kids, with a cue to trigger habitual routines. The average posts by Jell-O to their Facebook page were only 6 per month. Number of visitor posts only 15 and number of pictures of "faces" posted – zero!

Holistic Campaigns

The most effective marketing campaigns are those that impact multiple points of disruption at the same time.
For example, Pantene collaborated with agencies Leo Burnett /Arc Worldwide to disrupt the hair care market through their "Whatever the Weather" campaign. It completed the habit loop by connecting with all five components of the Habit Flywheel The brand focused on moments that matter to their consumers: looking her best whatever the weather conditions, looking fashionable and professional. Pantene partnered with the Weather Channel and Walgreens to create new cues that triggered routines using products that help people manage their mane, no matter the weather.

This campaign expanded the reward for use, positioning its products as providing more than just clean hair. The idea was to provide people with hair care solutions based on real-time weather triggers such as humidity and dryness, all courtesy of The Weather Channel. Tips were available on the Weather Channel mobile app or at www.weatherchannel.com and inside 5,500 Walgreens stores across the country.

The reward (i.e. manage your mane, no matter the weather) was connected to a number of different cues across various channels (i.e. real-time hair care tips based upon the weather). The campaign resulted in 2X more media engagement, 4% sales growth across the category, 24% sales increase in July/Aug vs. PY, and 32% sales increase for Pantene in Walgreens.



Conclusion

The Habit Flywheel is proving itself to be an extremely effective framework to build a disruptive strategy. By understanding the five elements of habits (moments, cues, routines, products and rewards) there emerges four points of disruption to build effective marketing campaigns and/or innovation decisions. This habit framework and its respective points of disruption provides marketers and innovation teams with a new lens into how to make these decisions to achieve business goals.

This framework challenges marketing and innovation teams to become more behavioral. Innovators and marketers now have a tool to know how to influence or change consumer habits by targeting moments and routines, not people - creating opportunities for new upstream value. By understanding the cues within moments that trigger routines, existing habit flywheels of consumers can be slowed or stopped, creating new opportunities for consumer consideration of new products. By understanding what signals exist in the sensory design of products, it is easier to translating new ideas into products that offer better rewards. By understanding the rewards and respective cues that trigger routines, it opens the door for more creative, holistic advertising campaigns that motivate personal investment and other ways to close the loop, driving the Habit Flywheel around.

As the Habit Flywheel is disrupted and started anew, new cues, routines, product signals and rewards are reinforced, establishing new habits from marketing and new product introductions. The consumer understanding generated from the Habit Flywheel framework goes beyond insights into what consumers are doing. By providing insights into why, more clarity comes to the decision maker into how to disrupt consumer habits to achieve business goals.

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