"The Samsung Instinct was designed to be habit forming. Inspired by pioneering work by Dr. Neale Martin, Sprint and Samsung created the Instinct interface from the bottom up to work the way your brain works."

*Doug Rossier, Sprint Instinct Marketing Lead*

## The 95% of Behavior Marketers Ignore

# habit

neale martin

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Publishing as FT Press
Upper Saddle River, New Jersey 07458

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Printed in the United States of America

First Printing June 2008

ISBN-10: 0-13-135795-6

ISBN-13: 978-0-13-135795-2

Pearson Education LTD.
Pearson Education Australia PTY, Limited.
Pearson Education Singapore, Pte. Ltd.
Pearson Education North Asia, Ltd.
Pearson Education Canada, Ltd.
Pearson Educatión de Mexico, S.A. de C.V.
Pearson Education—Japan
Pearson Education Malaysia, Pte. Ltd.

Library of Congress Cataloging-in-Publication Data

Martin, Neale, 1957-
Habit : the 95% of behavior marketers ignore / Neale Martin.
p. cm.
ISBN 0-13-135795-6 (hardback : alk. paper) 1. Consumer behavior. 2. Habit. 3. Change (Psychology) 4. Marketing—Psychological aspects. 5. Marketing—Management. I. Title. II. Title: Behavior marketers ignore.
HF5415.32.M375 2008
658.8'342—dc22

2008006576

# Introduction

This book reveals how two fundamental assumptions have led marketing onto a dead-end path: that customers are aware of what they are doing, and that they know why they do what they do. Using advanced technologies, neuroscientists and cognitive psychologists have recently discovered the counterintuitive fact that the unconscious mind controls up to 95% of behavior, so it is not surprising that the marketing theory taught for the past 50 years requires some serious updating. Managers and executives willing to revise their most cherished beliefs in light of this new understanding can gain the rarest kind of success, a sustainable competitive advantage.

*Habit* assists in this process by exploring the implications of the powerful but invisible habitual mind. By recognizing the influences of both executive and habitual mental processes, companies can develop products and services that are better for customers while simultaneously increasing customer retention and profitability. To accomplish this, companies must reassess not only their basic operating assumptions, but also their organizational structure.

Ultimately, *Habit* is about the limitations of marketing to perform its basic function: to help companies establish and maintain profitable relationships with customers. This failure does not occur because companies fail to follow the basic tenets of marketing—it occurs because they do follow them!

As a marketing professional, I must confess to having counseled my clients and taught my students the same rules of marketing that lead to such bleak results as an 80% new product failure rate and customers that defect even as they report being highly satisfied. Although I knew about these persistent failures, my sense was that companies were simply not doing a good job in execution, not that there was a problem with basic marketing principles. Because I passionately believed in a customer-centric focus, I accepted the articles of marketing on faith.

And as a true believer, I was unable to separate these dreadful results from the marketing models that created them. My faith in the underlying goals kept me from questioning marketing's most sacred cows even when evidence of their failures was pervasive.

# 1

# How Habits Undermine Marketing

While driving to a meeting on the outskirts of Atlanta on a beautiful spring afternoon, I had the disconcerting experience of being unable to recall the last 10 miles of highway. Apparently, I had successfully navigated a 4,000-pound car at speeds in excess of 70 mph, responding to hundreds of cars around me, without any conscious control of my actions for at least ten minutes. This experience, familiar to most of us, illustrates the power and scope of the unconscious mind.

I was particularly aware of this phenomenon on a bright April day because I was on my way to a meeting with a client to discuss the pervasive role of habits in influencing customer behavior. This common example of driving on autopilot makes it easier to understand that we do the same thing in almost every phase of our waking life.

When we think of what it means to be human, we typically think of the attributes of our conscious mind—our ability to remember facts and faces, to solve complex problems, to create art and science. Indeed, our memories of the events of our lives create the sense of our personal identity. Yet for all the conscious mind's remarkable abilities, neurobiologists and cognitive psychologists contend that the unconscious mind controls as much as 95% of human behavior.[1] The conscious mind decides to go to a meeting—the unconscious mind drives the car.

1 *Philosophy in the Flesh: The Embodied Mind and Its Challenge to Western Thought*, George Lakoff and Mark Johnson, Basic Books, 1999.

It seems counterintuitive that the massive amount of conscious processing power sitting atop our bodies should just be along for the ride. However, from an evolutionary perspective, significant benefits exist from just such an arrangement. This twin mechanism enabled our Serengeti ancestors to hunt for food without becoming food. Today these dual processors make it possible to talk on a cell phone while we drive.

Although multiple names have been given to the two distinct types of mental processing, in this book, we refer to the part of the brain where conscious cognitive processing occurs as the **executive mind**. We call the region of the brain responsible for unconscious processing the **habitual mind**.[2] The executive mind is where we consciously store and retrieve memories, create intentional thought, and logically solve problems. The executive mind can think about both the past and the future.

The habitual mind handles a vast array of functions, from regulating your heartbeat and body temperature, to storing thousands of responses to previously learned behaviors. The habitual mind is guided by the past but lives in the present.

Our understanding of the brain has been revolutionized in the past two decades. Through both clever laboratory experiments with animals and new technologies that enable us to look inside a working human brain, what we have learned during the last 20 years challenge much of what we thought we knew. Although these insights contradict basic assumptions in disciplines as divergent as psychiatry and economics, nowhere are the implications more profound than in marketing.

A quick review illustrates the point.

[2] Giving names to structures and processes within the brain is somewhat arbitrary and risks giving the false impression that we really understand what we are naming. The executive and habitual minds are used largely as a convenience that reflects conventional understanding of these terms.

## New Product Failure

Roughly 80% of all new products fail or dramatically underperform expectations. Although this metric varies between industries and services, the cumulative performance across all products and services represents a staggering indictment of marketing.

The plight of the Contour provides a good example of new product failure. In an effort to create a "world car," Ford Motor Company spent $6 billion to create a line that featured a compact model called the Contour, which debuted in 1995. The automotive press immediately validated the vehicle. *Car and Driver* put the Contour on its Top 10 list from 1995 to 1997. Edmund's named the Contour's SVT sporty edition its most-wanted sedan under $25,000 in 1999. Yet a scant five years after introduction, Ford killed the Contour due to a plunge in what had already been lackluster sales.

In another questionable move, Ford introduced two cars to take the place of the highly successful Taurus, which annually vied with the Honda Accord and Toyota Camry for the number one position in U.S. sales. The company replaced its perennial best-selling car with the Fusion, which is slightly smaller than the Taurus, and the 500, which is slightly larger. Combined sales for the two vehicles were a fraction of those for the Taurus at the height of its market domination. But rest assured that Ford went to exhaustive lengths in marketing research, focus group testing, and development of a multimillion-dollar ad campaign before it decided to replace its top-selling car. (By the end of 2007, the Ford 500 was transformed back into the Ford Taurus—only the nameplate was changed.)

One of the easiest jobs in the world is to criticize decisions that have yielded bad outcomes, and Ford certainly received its share of critical press. But the Detroit automaker is hardly unique. Thousands of new products and services are launched each year, yet only a handful will have any meaningful impact on a company's long-term profitability and survival. A prevailing attitude considers it impossible to predict with any accuracy which products will catch on with customers and which will be greeted with a shrug of indifference. Whenever people say "Let's throw a bunch of stuff on the wall and see what sticks," they are getting ready to waste a lot of money. It's hard to imagine any other area of business that would tolerate such dismal results.

Chapter 5, "Marketing from a Habitual Perspective," explains the source of customer apathy to most new product introductions, from television shows and movies to snack food and consumer electronics. At this point, it is important to understand that, for a product to succeed, it must first make a connection with existing concepts stored in the unconscious. The habitual minds of customers and potential customers must go through a physiological change to accommodate a new concept and a new brand. This is a process, not an event, and it cannot be successfully circumvented simply by spending money on advertising or getting good placements in stores.

## Loss of Customers

Similar to the high cost of new product failure, losing existing customers is a chronic problem for most companies. Retention is critical for corporate profitability, but many companies routinely lose 20% of their customers a year, and better-performing organizations report losing 50% every five years. The cost of defections is harmful to both a company's top and bottom lines. The wireless industry provides an excellent example.

The cost of acquiring a wireless user in the United States averages between $300 and $450. That cost includes subsidizing handsets, paying distribution channel partners, running company-owned retail stores, and marketing. In the United States, the three leading wireless service providers have more than 175 million customers combined. Churn (industry-speak for the pace of customer defection) typically runs from 1% to 2% a month. If we take a middle figure of 1.5%, that represents a loss of more than 2.6 million customers a month, at a minimum replacement cost of $787 million monthly, or more than $9 billion annually.

The wireless industry also provides an excellent example of the profitability of keeping customers as long as possible. When those acquisition costs have been offset, wireless customers represent substantial margins because the incremental costs of voice and data services are very low.

But the wireless industry, similar to many others, has a long track record of treating noncustomers better than existing customers. In an effort to woo new customers, wireless providers traditionally give far better deals on phones and contracts to noncustomers than to those who have been with the company the longest. Only after an established customer defects do providers launch a "win back" campaign, in which they spend far more than what it would have cost them to keep the customer in the first place.

To hold on to customers, many companies have instituted expensive customer satisfaction and loyalty programs. Although these programs originally created a strategic advantage for pioneers—notably American Airlines and Marriott hotels—their very success has forced competitors to copy them. Now every major airline and most hotel chains offer significant rewards for frequent use. The same is true for grocery and other retail stores. What was once a major differentiator is now a costly requirement for doing business. These programs create spurious loyalty, at best.

## Dissatisfaction with Customer Satisfaction

Billions of dollars are spent every year measuring and managing customer satisfaction. What could be more obvious than the need to create products and services that satisfy our customers? Many companies have customer satisfaction as a goal in their mission statements, and icon Philip Kotler puts the concept in his definition of marketing. The only problem is that customer satisfaction tells us almost nothing about what our customers will do in the future.

We return to this topic in Chapter 5, but at this point, suffice it to say that 85% of customers who defect report being satisfied or highly satisfied with the company they are leaving. In large-scale meta-analyses, satisfaction explains only 8% of repurchase. Having written my doctoral dissertation on the subject, this information was as dismaying to me as any marketing manager trying to figure out why satisfying customers isn't enough to keep them.

To illustrate this point, let's look at a company that is routinely criticized for making defective and frustrating products but that nonetheless dominates the world.

## Why We're Addicted to Bill Gates

Each day, nearly one billion computers boot up with the familiar Windows or Vista icon. Even if we don't have the Microsoft operating system, most of us write with Microsoft Word, do math with Microsoft Excel, and could not imagine presenting without Microsoft PowerPoint. No matter how much it might dismay us, we are all addicted to the software that Bill Gates foisted on the world 25 years ago.

Similar to most addicts, we no longer get a high from our addiction. But we can't seem to break the Microsoft habit. How did Gates get such a stranglehold on our lives?

He did not invent the original operating system for the PC or any of the productivity applications that made the desktop machine a staple for businesses around the world. And many of his customers complain openly and loudly about his products. The thousands of options that come bundled on every Microsoft application spawned the term *feature bloat.* And system administrators have their hands full trying to plug the seemingly endless flow of new security holes in Microsoft products.[3] So why is Bill Gates the richest man in the world?

The answer to this question is the reason for this book. Success does not come from getting to the marketplace first or from creating the best or cheapest product. Success comes from becoming the unconscious, habitual choice of your customers. Bill Gates is the richest man in the world because learning to use his company's software habitually became necessary to participate in the modern world.

Jonathan Lazarus, Vice President of Strategic Relations for Microsoft during the mid-1990s, sees the habit formation of early consumers being largely responsible for initial penetration of PCs into business markets. "IT managers couldn't keep PCs out," Lazarus says. "The corporate knee-jerk reaction was to reject the idea of allowing PCs in, but people had PCs at home that outperformed what they used at work." These early adopters bypassed IT by buying personal computers for their departments. "People built up habits at home," Lazarus points out, "and then asked, 'Why should my work life be any different?'"

In the early days of the PC revolution, most application developers were one-trick ponies, focusing their efforts on a specific product. VisiCalc and WordStar were pioneering products, but the companies developing them were narrowly focused. Gates understood the need to establish standard applications that end users would eventually use as habitually as they did a typewriter or calculator. His relentless quest to make sure that Microsoft was the standard resulted in a generation that thought Word, Excel, PowerPoint, and Outlook came with every PC.

[3] Gary Kildall is credited with writing the first PC operating system, CP/M. Seymour Rubenstein and Roby Barnaby are credited with writing WordStar, the first word-processing program. Dan Bricklin and Bob Frankston invented the first spreadsheet, VisiCalc. And Bob Gaskins and Dennis Austin created the first presentation software, Presenter, which became PowerPoint.

Lazarus sees Microsoft's entry into applications as key to the success of Windows. "There's no question whatsoever that having Windows applications was critical to our success," he says. "The user revolution becomes critical, and Microsoft changed the user expectation. By Windows 95, we totally captured user's habits, and by Windows 98, there was an absolute expectation of information at your fingertips."

For years, the technology community has debated the relative merits of Microsoft's products, often attributing the company's success to brutal business tactics. The truth is that a plethora of competitors existed at every stage of the PC revolution. IBM introduced OS/2 and bought Lotus in an attempt to wrest control of the software marketplace away from Microsoft. Apple's missteps during the 1990s are fodder for business cases. And a legion of software companies vied endlessly with the Redmond-based monolith.

The reality is that Bill Gates crafted his company's success by capturing the most important piece of real estate in the world: the part of our brain that controls our habits. And by doing so, he rapidly accelerated the information revolution.

## Evolution and Revolution

The human mind evolved two types of mental processes to help our ancestors survive in a harsh and threatening environment: one unconscious, the other conscious. The unconscious, habitual mind is a cognitive strategy hardwired into humans as an evolutionary survival mechanism. Habit is the mind's way of handling routine decisions to free the newer, revolutionary, conscious mind for other tasks.

The habitual mind makes us cognitively efficient. It is meant to work *with* the executive mind, not in opposition to it. However, it is worth noting that habit literally has a mind of its own—habits are processed and stored in the brain separately from explicitly processed information. The executive mind cannot access the workings of the habitual mind. And this is why many marketing principles don't work.

Because we think the executive mind is in control, as if the habitual mind handles only mundane tasks, we grossly underestimate how much of our behavior is under the sway of our unconscious mind. Most of us find it hard to accept that the habitual mind controls 95% of our behavior. Yet think about almost any routine activity, such as walking on a crowded city street. We effortlessly process and react to hundreds of pieces of information—data that would overwhelm the limits of the executive mind. This is the norm, not the exception.

A useful metaphor is to think of these twin systems like the software that runs a computer. The unconscious mind is similar to an operating system, invisibly controlling the internal functions of the PC while simultaneously interacting with the surrounding environment (networks, printers, the Internet, and peripherals). The executive mind works similar to the applications, the programs that users interact with to accomplish their goals. Although we think of the application as the primary reason we use the computer, it relies on all the work the operating system is doing in the background. In addition, the application layer has a severe limitation—only one application can be active at a time.

This is the drawback of the executive mind, as well—it can think about only one thing at a time. The strength of the habitual mind is that it can process and react to hundreds of sensory inputs simultaneously without bothering the executive mind.

It's easy to think of the applications as creating the value of the PC, just as we think that all the important thinking takes place in the executive mind. But what good is that email you just wrote if you can't send it to someone? Similarly, to turn thought into action, the executive mind must hand off tasks to the habitual mind.

Marketers are similar to most PC users—great with executive applications, but at a loss when it comes to working with the unseen code controlling the machine.

The next chapter pulls back the curtain that veils the workings of the mind. Marketers and managers will be able to see how their current efforts work with or against the two minds of the customer.

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