



# King • Casey REPORT

Insights and Trends in Retail Branding, Merchandising and Design



## Heuristics Based Merchandising

Using the Science Behind Decision Heuristics to Develop Breakthrough Merchandising Strategies

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Using the Science Behind Decision Heuristics to Develop Breakthrough Merchandising Strategies

A KING-CASEY REPORT by Gaurav Kapoor and Howland Blackiston, King-Casey

## What Are Heuristics?

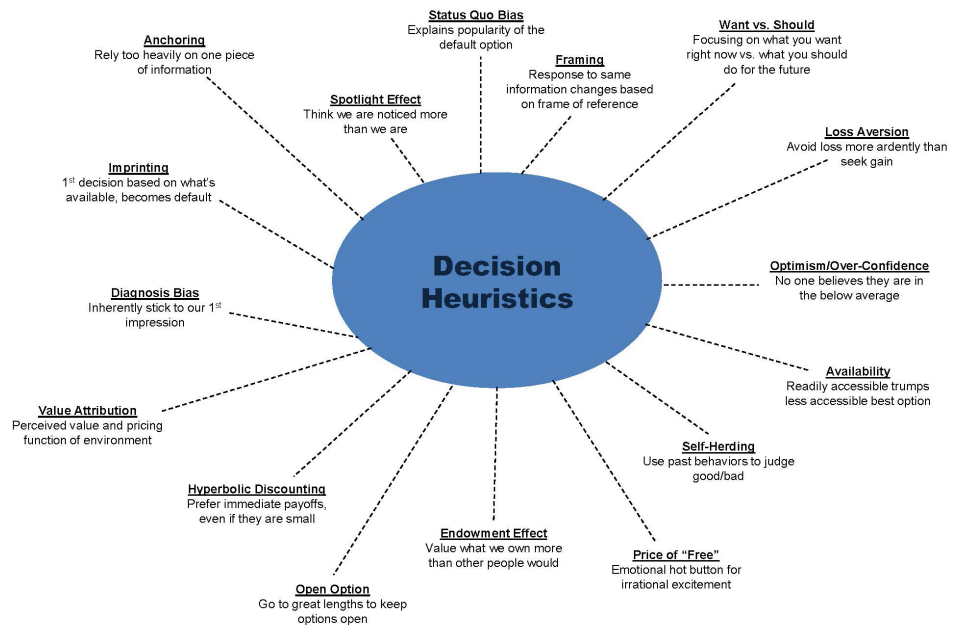
Human beings use heuristics, or mental shortcuts in making daily decisions. Hundreds of heuristics have been mapped in academic research so far. Scientific research has shown that more than 95% of decisions we make every day are guided by “decision heuristics”. Decision heuristics evolve from evolutionary programming, parental imprinting, social conditioning, professional training and personal experiences.

Less than 0.001% of all human thought is conscious; the rest is sub-conscious. Most decisions are made without conscious thinking. The sub-conscious mind makes decisions quickly using decision heuristics whereas the conscious mind mostly analyzes and rationalizes the decisions already made.

Heuristics play a very important role in getting humans through life. Research shows that the human brain is actually “lazy” and wants to do everything with as little work as possible. Heuristics are used by the lazy brain to make effortless or automatic decisions.

## Heuristics and Visual Merchandising

Heuristics play a very important role in visual merchandising.



*There are hundreds of heuristics that have been identified so far. Here are some examples of decision heuristics that people use daily.*

Customers are constantly using heuristics to make purchase decisions, whether it be in a supermarket, hardware store, or a fast-food chain. While customer heuristics are very hard to change, there are ways to overcome heuristical patterns and sway people’s decisions in a particular direction by presenting them with information, products, price offers, messages, etc. in a specific way.

By determining which decision heuristics your customers use the most, you can develop a personal-

ized strategy that caters to your customers specific wants and needs, grows sales and improves customer satisfaction.

## An Innovative Approach to Heuristics-Based Merchandising

Any retail store or restaurant is actually a collection of different “customer operating zones” or “customer touch points”. COZI® (Customer Operating Zone Improvement) was pioneered by King-Casey decades ago to identify these key operating zones within

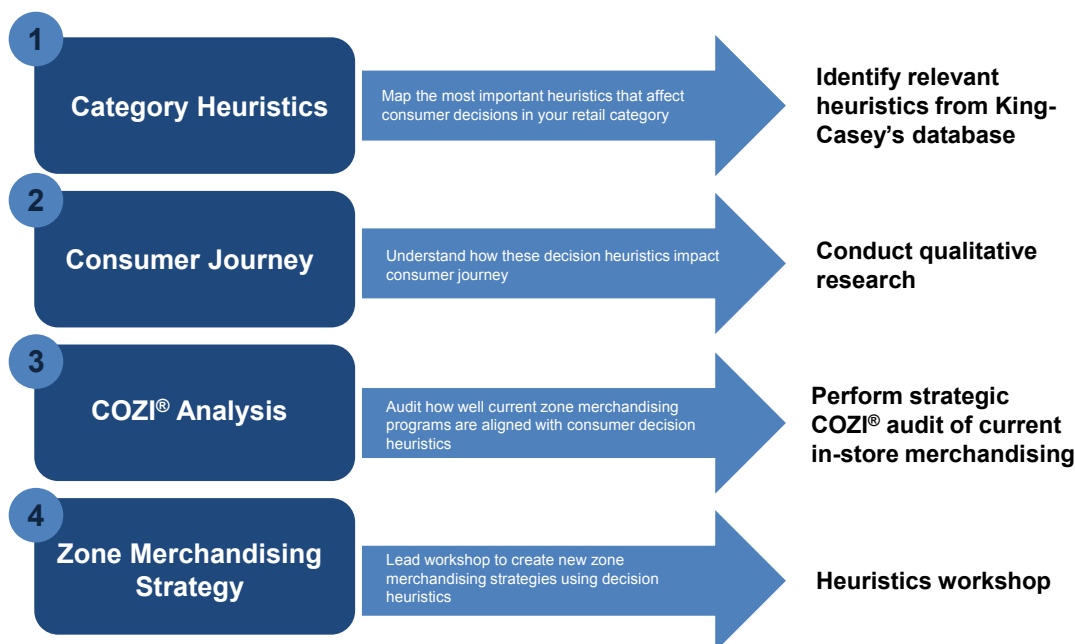
a specific store environment. King-Casey research has shown that customers act differently in each of these zones. They think differently in different zones and their needs are different. And the heuristics used to make purchase decisions are different in various zones. By analyzing these different zones and how customers behave in each one, we can better identify how to customize and apply the principles of heuristics to each individual zone to maximize results.

## Merchandising Optimizer™

Merchandising Optimizer™ is a new consultation offering to demystify the subject of decision heuristics and to create a disciplined approach for applying the principles of heuristics to visual merchandising strategies. By combining our knowledge of decision heuristics with our research of customer operating zones, Merchandising Optimizer™ provides insight as to how customers behave in each zone, which heuristics they use and how to change current merchandising to better enhance the overall customer shopping experience.

Our proprietary Merchandising Optimizer™ methodology helps our clients understand how heuristics and decision-making shortcuts affect buying behavior in a given category and within your retail customer zones. You can use this knowledge to develop highly targeted visual merchandising strategies that coax customers into desired behavior.

## Merchandising Optimizer™ Process



## COZI® (Customer Operating Zone Improvement)

is King-Casey's proprietary methodology that focuses on understanding your customer's behavior to develop zone specific solutions that make the customer experience easier and more pleasant, while increasing sales.

## Design Strategies Based on Customer Zones

The most successful brands have recognized that their stores are not just big branded boxes. Each is actually a collection of many individual "customer operating zones". Customers behave differently in each zone. Their needs and expectations are different. Each of these unique zones is right for one merchandising strategy, and dead wrong for another. By identifying these zones and understanding how customers behave in each zone and which heuristics are used to drive decision making, you can craft zone-specific communications and merchandising strategies that are sharply responsive to how customers behave in these zones.

This chart identifies Merchandising Optimizer™'s four phased approach, moving from a broad category view to a micro view of specific visual merchandising strategies. This process analyzes each customer zone individually to create zone specific visual merchandising based on how customers use decision heuristics in each zone. This individualized process results in increased sales and increased customer satisfaction.

## Case Study Example

When a major retail chain pharmacy with a 65 million member database started offering direct mail pharmacy services, only about 9 million of their members converted to mail order.

In order to improve that number, the pharmacy needed to identify which decision heuristics customers were using to decide whether to use the new mail order service. From these learnings, heuristics-based merchandising strategies were established to attract more customers.

### Decision heuristics used by current customers:

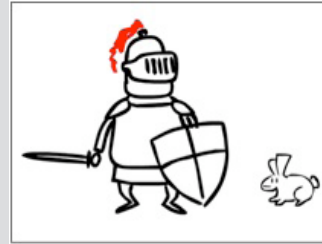
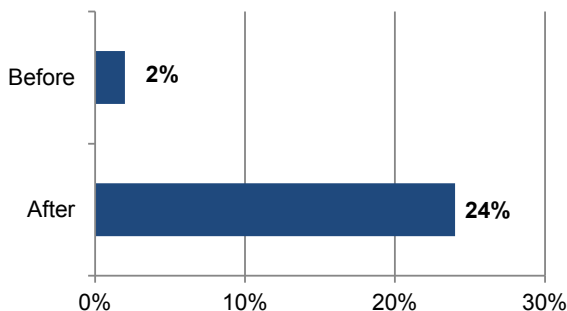
1. Loss Aversion. Perceived loss of leaving “brick and mortar” retail pharmacy required a strong incentive beyond savings.
2. Hyperbolic Discounting. It’s important for customers to see upfront savings.

### Merchandising strategies used to improve sales:

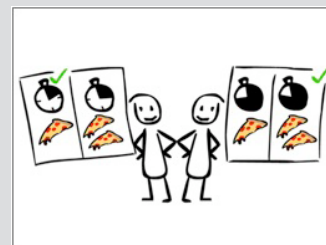
The goal was to “address perceived losses associated with switching”

1. Saving is a benefit. But additional incentives are needed
2. Upfront incentive and ongoing incentives create magic together

The chart below shows the increase in customers that decided to switch to mail order after the new merchandising strategies that were utilized by the pharmacy.



**Loss Aversion:** People prefer to avoid losses as compared to acquiring gains. In other words, people tend to be risk averse when evaluating a possible gain and conversely, prefer risks that might mitigate a loss (called risk seeking behavior). In sporting terms, people would rather play defense. This has implications in different areas: one example being subscription-based services. People who sign up for a service at a heavily discounted rate show a higher propensity to opt-out if there is a steep increase in the rates at the end of the period, which is an example of risk seeking behavior.



**Hyperbolic Discounting:** Humans have always shown a bias for instant gratification – i.e. given two similar rewards, people almost always show a preference for one that would materialize sooner than later. For instance, given a choice between \$50 now or \$100 a year from now, most people would prefer the \$50 option. However, when asked for a choice between \$50 in 10 years and \$100 in 11 years, most people would switch to the \$100 option, even though the choice is essentially the same.

King-Casey: A Scientific Approach to Retail Design. For sixty years, King-Casey has used scientific insights to help companies build competitive brands and dramatically improve the customer experience. Scores of leading world-brands have adopted King-Casey’s proven “COZI®” methodology for optimizing sales and increasing customer satisfaction and loyalty. Our new work in Heuristics and Behavioral Economics builds upon COZI® (Customer Operating Zone Improvement) by identifying the mental heuristics customers use within your category. King-Casey provides a complete range of services including assessment, research, branding, visual merchandising, retail prototype design, and rollout. We will help you develop creative, innovative solutions that result in increased customer loyalty, higher sales and greater return on investment. For more information, please contact Howland Blackiston, Principal, King-Casey. Email: [hblackiston@king-casey.com](mailto:hblackiston@king-casey.com) or phone: +1 203 571 1776

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