

It's insane ... but we love it!

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

Chances are that if you are reading this you probably have one of those automated coffee pod machines at home or possibly at work. Chances are that you also know how insanely expensive these cups of coffee are. Since each pod contains around 5.5 grams of coffee, one kilogram of this same coffee would need around 182 pods and cost you R2730! By comparison, the most expensive ground coffee that you can brew at home in your plunger would cost you around R400 per kilo. If you drink instant coffee, it's closer to R200 per kilo.

Logically, it just doesn't make any sense to buy coffee pods. But logic has nothing to do with it – and customers are not stupid. So the question is, "How do these companies get away with it?" The leading company alone sold more than 14 billion pods last year and, if you add all the challengers and clones, you can probably double that number.

Does it have something to do with the special taste of a real cappuccino or espresso at home? That may be part of it, although I suspect that



the cappuccino and espresso at my local garage shop, or even at my local McDonald's, tastes better.

There's something much deeper here and, as I delve into the psychology behind it, you may also find some ways to make your business more successful.

First, **make it easy and effortless**. A pod is easy and fast – press one button and it's done. The pod companies emphasise this by showing that a typical (cheap) cup of coffee needs you to boil a kettle, add your powders and milk, mix it all up, and so on.

I've already written about how Amazon allows you to buy using one click and complete your purchase in a few seconds. (Some retailer websites and apps in our country are almost as easy, although some are awful.) But the same is true in a physical store. Cast a critical eye on the way you do business and you will probably identify dozens of possibilities.

Second, **customers hate complicated, hard and ambiguous stuff**, and prefer the safety and certainty of predictable outcomes. A great

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example is that Olympic champion Usain Bolt insists that before any major competitions he eats only Chicken McNuggets. Why would someone with a perfect physique abuse his body like this? His argument is that he needs two things ... a protein boost and he definitely doesn't need to get sick, so McDonald's hygiene is what makes it attractive.

Related to this is the third lesson, the '**Framing Effect**'. I already mentioned garage shops and fast-food coffee, but coffee shop coffees are far more expensive than a pod coffee. If your pod cappuccino costs you around R17 at home, then it will probably cost more than double that at your local coffee shop. As Rory Sutherland puts it, "This machine is practically making me money!"

Fourth, **luxury and fantasy**. Which woman in the world wouldn't want George Clooney to wake up next to her in his pyjamas? Which man in the world wouldn't want Penelope Cruz to walk into your kitchen in her nightie? Psychologists call this 'the halo effect' and it's defined as a cognitive bias that distorts our perception of others based on concrete information presented.

A specific example is what's known as the 'attractiveness stereotype', which suggests that we have a tendency to assign positive qualities and traits – intelligence, better health, more mentally stable, even higher moral values – to physically attractive people. So associating your brands and business with celebrities and admired people can make a huge difference.



And then there's the '**foot-in-the-door**' effect, where we get customers to make a commitment that it is much harder to get out of if they make up their minds. Razor blade companies have been doing this for years, as have mobile phone manufacturers. If I have your app on my phone, it just makes it that much harder to install and use your rival's app. Although not yet available in South Africa, imagine if a company that produces electric cars also subsidised the installation of the car-charging kit in your home? You'd definitely look a bit stupid if your next car was a petrol engine.

And it's the same with coffee pods. It seems impossible to find out whether they make any money on the machine that they originally sold

you, but I'm willing to put down real money that they don't make any money on those. They just have to make sure they get the darn thing into your home, no matter what.

Finally, the '**IKEA Effect**'. IKEA almost discovered by accident that customers loved putting their own products together once they arrived home with their flat-packed furniture. The implication of being involved made them feel a sense of accomplishment that also translated into commitment and loyalty. Does this in some way also apply to pods? Perhaps being able to produce a high quality luxurious coffee at home, something that would not have been possible just a few years ago, allows customers to feel the same way.



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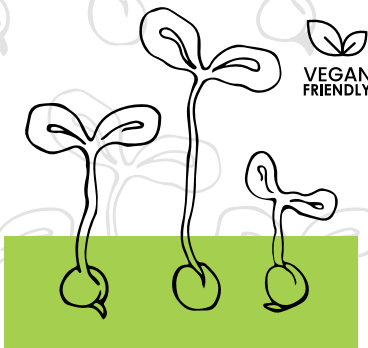


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Once again, you may be able to explore how your customers can become 'part of the show' in your business – and you may discover that their commitment to you shoots upwards.

Of course, these examples are not limited to coffee pods. I know that when we want to bake a birthday cake at home, we inevitably buy the ready-mixed boxes. I've also seen cheese-making kits and home-brewing packages so you can make your own beer. DIY and hobby stores are also full of examples. These tick most of the boxes described in this article. After all, sushi is just some sticky rice with a microscopic sliver of seafood and avocado wrapped inside, isn't it? **SR**



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South Bakels have completed the acquisition of the Cape Town based sweet ingredient solutions supplier **Orley Foods** from Kerry Ingredients South Africa Proprietary Limited.

South Bakels, who are celebrating their 75th year of doing business in South Africa, hold the position of market leader in providing bakery ingredient solutions and supplies to the South African bakery industry. The addition of Orley Foods is adding new capabilities to South Bakels to allow continued growth in existing and new customer segments.

