

31 May 2007

Consumer Policy Inquiry
Productivity Commission
PO Box 80
Belconnen ACT 2616

Dear Commissioners

Chris Field, in his submission to the inquiry, quotes sections from an article that I wrote for The Age newspaper, and published on 9 February, 2007. I wish to address these selective quotes, and comment on the intent of the article and issues related to consumer decision making from a psychological perspective.

Specifically, in his submission, Mr Field did not convey correctly the intent of The Age article, which was predominantly focused on the role that bounded rationality plays in the decision making of consumers, rather than suggesting that regulation might be needed when it comes to making healthy choices about food.

My article in The Age newspaper, which Mr Field quotes, suggested that the decision by the Heart Foundation to form an alliance with McDonalds might have the effect of eroding the trust contained within the Heart Foundation brand, while providing substantial benefits to the McDonalds brand. In addition, my use of bounded rationality theory was to argue that consumers would make links between McDonalds' provision of healthy choices (and their use of the Heart Foundation brand identity, i.e., the tick) and other products offered by the company, such as Big Macs, fries and shakes. In other words, I did not imply, as Mr Field suggests that "a decision to eat a healthy or healthier fast food item is one of those times when we're not making the best choices". What I was arguing was that bounded rationality can provide us with some understanding as to why we might be assured that all of McDonalds food items are healthy, purely by the attachment of the McDonalds brand to the Heart Foundation tick.

As I stated in my article, psychological research has shown us that humans are notoriously trusting of large institutions, and generally positive and apathetic when it comes to thinking too much about habitual behaviours. So it takes only a little effort on the part of a trusted brand, such as McDonald's, to convince us that their food is healthy. By getting the Heart Foundation tick, by publishing the ingredients in its food, by using point of purchase displays highlighting its "healthier options", by using bright lighting, open fridges, open kitchens, and by presenting an argument against the claims made by films and books, McDonald's was utilising bounded rationality to simplify consumer decision making.

The important message here is that a particular intervention (such as the Heart Foundation Tick) may not provide the outcome intended by the organisation or institution (which I assume was the consumption of healthier food by consumers purchasing "fast food"). The relevance of my article to Government, regulators, and organisations such as the Heart Foundation, is that in order to make any intervention (including regulation) effective, it is

important to take into account the complexity of consumer decision-making and behaviour when designing that intervention.

I would be happy to provide any further information about this issue to the Commission on request.

Yours faithfully

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Attached: A Tick Goes Far in Consumers' Minds, The Age, 9 February, 2007.



A tick goes far in consumers' minds

PAUL HARRISON

McDonald's has again shown it is a master of marketing.

McDONALD'S Australia has recently incorporated healthier meal choices into its product offerings, adapting and modifying them to the point where nine of its "meals" have, for the first time, been given the tick of approval by the National Heart Foundation (*The Age*, February 6, 2006).

Clearly, the McDonald's brand has taken a battering in recent times, with movies such as *Supersize Me*, books such as *Fast Food Nation*, and the McLibel case in Britain creating a siege mentality under the golden arches. By responding to mainstream health concerns about the quality of fast food, and by seeking to earn the Heart Foundation tick of approval, the impression that McDonald's is making an effort to improve our diet is important to its brand equity.

What Macca's is doing makes sense: psychological research has shown us that humans are notoriously trusting, positive, and generally apathetic when it comes to thinking too much about habitual behaviours. So it takes only a little effort on the part of a big brand, such as McDonald's, to convince us that everything is OK. By getting the Heart Foundation tick, by publishing the ingredients in its food, by using point of purchase displays highlighting its "healthier options", by using bright lighting, open fridges, and by presenting an argument against the claims made by the films and books (www.makeupyourmind.com.au), McDonald's is using a

tried and tested psychological theory — often used by large brands in an abundant marketplace — called bounded rationality.

Simply put, bounded rationality is a theory that suggests most of our decisions are not fully thought through and, as such, we can be rational only within limits such as time, desire to expend effort, and cognitive capability. Generally speaking, there are two major causes of bounded rationality: (1) the limitations of the human mind and (2) the structure within which the mind operates.

You would be surprised how often, when calculating expected utility, we do not make the best choices. Rather we make the choices that challenge us the least. In this situation, put in a position of choosing between something new, and something we always eat, we are more than likely to choose the latter. McDonald's has exploited our desire to simplify our busy, demanding lives and thought processes, particularly when it comes to the surfeit of choices that the marketplace offers us. Generally, we are creatures of habit in our purchase decisions, and rely on simple messages, and tap into stereotypes, values and emotions, to help us make sense of a complicated world.

In some irrational, illogical way, our mind interprets that having the healthier choices at McDonald's, and having the Heart Foundation tick of approval, means that McDonald's has nothing to hide. We

feel reassured, and better about our choices, whether it is a salad, or a Big Mac and fries.

McDonald's freely admits that the healthier choices make up less than 10 per cent of its sales. Its main argument is that choice is the key issue in providing new menu items, and that it is its responsibility to provide as many options as its infrastructure will allow.

What McDonald's has done is very smart marketing. The McDonald's brand has much to gain from being associated with the Heart Foundation. A major concern, however, is that the Heart Foundation brand, and in particular, the tick, may suffer from the association with McDonald's if consumers believe that the Heart Foundation has "sold out" to a big corporation. While McDonald's has a range of products that are identified with its brand, for most people, the tick is the Heart Foundation.

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