



Stanford eCorner

Categories Reduce Cognitive Load

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AI Ramadan, co-founding partner at Play Bigger Advisors, talks about how categories are conceptual containers that help the human brain organize all the information we are deluged with daily. Categories reduce cognitive load in decision-making and foster a common understanding, according to Ramadan. He also discusses the dynamics of group think and brand loyalty.



Transcript

- You might think this is not true, but it is which is, companies don't live in space. They don't live over there or down the road they actually live here, in between your ears, they live in your mind. And we've only got certain capacity inside of this CPU up here and so we need ways to organize all of these companies. And it's called a container. And that container is actually a category. And so, you know, my friend rang me the other day and said hey listen, I know there's some snow coming to Tahoe. I'm flying in from Australia, I need to get from San Francisco to Tahoe. What should I do? My answer was go rent an SUV. What's an SUV? It's a category, right? I didn't tell him which particularly type of car I just gave him a bucket and said go get one of those. Go ask for one of those.

And categories work because it's kind of the way our brain works. We like to have a filing system. We wanna put all the different brands and products and companies into that filing system. And ultimately it's the way people discover products and services is via this concept of a category. And categories actually manifest everywhere. You just may not have thought of it like this when you walk into a supermarket that's what you see. What is the sign above the aisle? They're category definitions. It's all the soaps, detergents. Right? So it's a way of organizing, and if you think for one second that this is a random assortment of products on shelves and that the store's not organized in a particular way you're crazy. The milk is always at the back of these places, right? Why? You've got to move past all the other categories to get there.

Because they know that's one of the things you're coming in. So categories have been an organizing principle time immemorial. And they're also true in a tech space. This is a famous LUMA chart for big data landscaping 2015. It makes my head hurt just looking at it. But what are those boxes? Those boxes are categories. Someone has gone through all the companies in the big data space and said hey, that's one of these companies, that's one of those companies. And when people start to think, well what do I need for my business? They start to think about okay, I need one of those boxes and then they'll start to choose underneath that bigger company. And so, let's talk about what happens in our natural world today. We get more than 10,000 marketing messages every single day.

We are swamped with stuff coming at us. And we are very much in an overstimulated society right now. And so you can't make a decision about any one of those boxes quickly. You just can't. And so what happens is our brain uses a shortcut system. It starts narrowing down and speeding up the way in which we make these decisions. And the researcher, he calls them cognitive biases. Many of you have probably already heard of them. But it's not about logic it's actually about instincts. And I want to talk to you about three really important biases that you should know as a category design.

And the first one is the anchoring effect. If I said to you, hey listen, do you wanna buy my car? And you said, sure. And I said, well it's 5,000 dollars. That's an anchoring statement. It's not 50 it's not two it's five, and now we're negotiating on the

margin. That's what great category designers do. They get out into the market. They anchor the conversation around what we call their point of view. Right? The world now comes to you. It's a 5,000 dollar thing.

It's not a 50 or a million dollar thing. The second thing is groupthink. You folks live in this world every day. When you turn on your social machines what's happening? You're getting groupthink back to you. If Dave likes a certain beer or a certain type of snowboard, it's more than likely I'm going to like that snowboard or that beer too, just because he's a buddy of mine and I respect him. And that's why Facebook and advertising on Facebook is going off the charts, right? It's because groupthink and the ability to influence those people in your circle is actually more powerful than anything else other than word of mouth in person. And the final thing is once you make a decision to purchase something, it's called choice supportive bias, once I buy a particular brand I end up kind of loving that brand forever. And even though it might not be better and someone markets me a better feature, I don't care. I'm in love with this thing. And so these things play a very important role as you go to into market.

And category designers actually use these brain shortcuts as part of the category design process to lead people to purchase decisions or usage.