

Incentives matter

Some economists claim that most of economics boils down to the statement: “Incentives Matter.” What is often shocking is how small an incentive needs to be in order for it to change people’s behavior. I was reminded of this point by some of my recent trips to grocery stores. On my first trip, I went to Kroger on a Sunday, which may be the grocery store’s busiest day. When I go to this store, I always park far from the store, close to the gas pumps. As I walked to the store, I saw grocery carts all over the place. People left carts in parking spaces and on the sidewalk. When I got inside the store, there weren’t any carts left in the area where customers are supposed to pick them up. I had to go back outside to retrieve a cart.

Why did people leave carts all over the place? And why didn’t they bring the carts back inside? The answer to both of these questions is the same. It is because they have no incentive to do so.

Some days later, I went to Aldi. At this grocery store, all of the empty carts were in the carousel near the door – right where they are supposed to be. There wasn’t even one cart left in the parking lot. Why were the shoppers at Aldi so conscientious? It is because of the tiny incentive Aldi gives them to return their carts to

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of carts. When the customer is done with the cart, she can return it to the line of carts near the door, reattach the lock, and then she can get her quarter back. The small incentive of only 25 cents got the customers at Aldi to return their carts to the carousel near the store’s front door.

In some ways it is shocking that Aldi’s system works so well. Let’s say it takes the typical customer two minutes to bring her cart back to the proper place near the front door, rather than just leaving it somewhere in the parking lot. Let’s calculate the payoff a customer receives from spending an hour returning carts. In an hour, the customer can take 30 trips to return carts. By avoiding the loss of 25 cents per trip, the customer will avoid losing \$7.50. This same customer probably would not work for \$7.50 an hour. Yet, this customer will unflinchingly work to avoid losing \$7.50 an hour by returning carts.

the proper place. At Aldi, a person can only get a shopping cart by putting a quarter into a coin collector attached to the cart. When the customer puts in the coin, she is able to unlock her cart from the line

I hope to be able to use this lesson, that people respond to shockingly small incentives, in my new role as department chair. My faculty do an excellent job in the classroom, but they have a natural inclination to spend a lot of time working on their own research projects. I would like to have them redirect some of this time by engaging with students outside of the classroom (perhaps by running reading groups, working on research with students, or managing a student club). I would also like to have my faculty engage with the business community in a way that creates opportunities for our students (opportunities like internships). Recently, I have been giving thought to how to create incentives to get my faculty to participate more in the engagement activities I just mentioned. Aldi gives me the hope that I can accomplish this goal at a low cost. I do realize that I will need more than a quarter to accomplish this task, but it will probably cost less than many would suppose.

The Aldi lesson is one that we can all use. We can harness the power of incentives to get ourselves, our kids and our employees to accomplish worthwhile goals.

Joe McGarrity is a Professor of Economics at UCA. He can be reached at joem@uca.edu.