

# The first chunk is the hardest



**S**ometimes, when tackling a daunting task, it's the first step that is the most difficult. Money troubles are a good example. While some have benefited from the lockdowns of the pandemic by clearing debt and amassing savings, simply because there's less to spend their money on, for others – particularly those on low incomes already – it has been a very difficult year of managing on reduced or even zero income. Those in the latter group have ended up running down savings and building up debt instead.

A 2020 survey found that one in five respondents had no emergency savings at all before the pandemic and almost 40% had experienced a drop in income.

On top of this, it has become even easier to spend these days; contactless payment methods, either by card or phone, pass under our radar, and the contactless limit increased from £45 to £100 this year in the UK.

The ubiquity of 'one click' purchases in a society where we are doing more and more of our shopping online adds to the atmosphere of frictionless spending. Buying has become psychologically painless, whereas, before, we had to physically part with cash, temporarily hand over a card and sign a receipt, or enter a PIN.

Of course, some often assume that people just don't want to tackle money issues, or that they don't even realise they need attention. However, research shows this is not the case. Financial stress is one of the most debilitating situations to experience and people usually really want to reduce that worry. For instance, most people know it's a good idea to have some emergency savings set aside for unexpected spending.

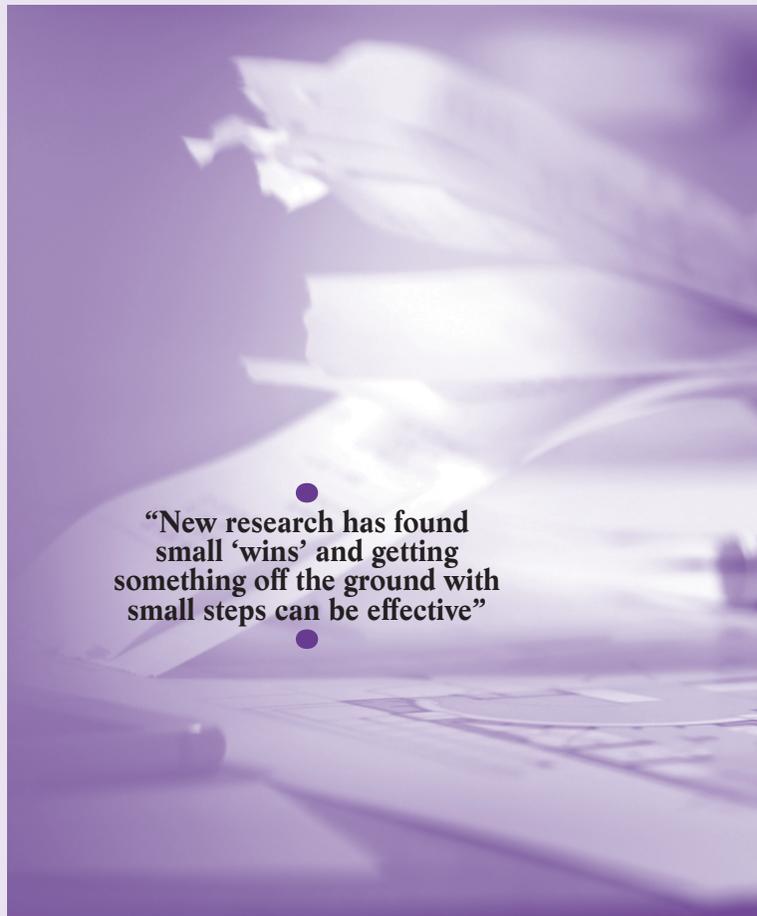
A survey by the AARP Public Policy Institute in the US found that 71% of employees would probably contribute to an emergency-savings fund if their employer offered one, and 87% would do so if their employer made matching contributions.

So, the real problem is that the first chunk is the hardest. Getting people to take that first step towards improving their situation is tricky. They're well aware of what they should be doing, but struggle to make it happen. Behavioural scientists call this the intention-behaviour, or intention-action, gap. This gap exists when we have every intention of doing something, with the knowledge and understanding of why we should do it, yet somehow it fails to happen.

Encouragingly, new research from behavioural scientists builds

on previous research that has found small 'wins' and getting something off the ground with small steps can be effective. For example, paying off small debts or bills, or starting to make small, but recurring payments into a savings account, show good take-up and effectiveness. Framing actions so they feel manageable can help to get the ball rolling, giving us more nuanced ways of building momentum and energy to get on top of finances.

Research by David Gal and Blakeley McShane, at the Kellogg School of Management, looked at a strategy they dubbed the 'snowball effect'. Using a dataset of more than 4,000 debtors signed up to a debt-management firm, they found convincing evidence that debtors should pay off the smallest debts first (whatever the interest rate). This approach made people more likely to complete all their repayments over the course of a few years. Gal and McShane suggest



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that success in those small, early repayments created a sense of progress and motivation that then led people to feel able to tackle and complete their entire debt repayment successfully.

Research in 2020 by Hal Hershfield, Stephen Shu and Shlomo Benartzi explored whether encouraging people to save daily, rather than weekly or monthly, had positive outcomes on savings rates. They tested whether parting with larger monthly lump sums might be psychologically harder than giving up an equivalent amount of money spread out equally over time.

Just as a large purchase, such as an appliance or piece of furniture, is made more attractive and feels more manageable when framed as ‘only £50 per month’, making small but frequent savings payments can feel more manageable, too. One explanation for this might be that people feel they can forgo small expenditures, such as treats and takeaways, whereas the ‘loss’ of larger, lump sums feels more daunting. Plus, small payments today might help to dial down what’s known as present bias – when we prefer to enjoy today and put off more painful, harder things for the future.

Partnering with fintech app Acorns, Hershfield *et al* asked nearly 9,000 new users if they would like to make an initial deposit into a savings account – and 45% of participants agreed to save something there and then. If they opted in, they were asked if they would like to make a recurring deposit of varying amounts and frequencies, and then randomly placed in one of five groups – \$5 per day, \$35 per week or \$150 per month, or \$7 per week or \$30 per month. Therefore, the sample captured

people who were already receptive in some way to saving. The researchers found that 30% of users opted in to making daily savings deposits, compared with 10% for weekly deposits and just 7% for monthly deposits.

Although there was some drop-out across all groups during the three-month trial, the proportion of people making daily savings remained more than three times higher than those making monthly deposits; after three months, 19% were still signed up to making daily deposits compared with 7% and 5% for weekly or monthly deposits respectively. Unlike the weekly and monthly frames, which only appealed to users with high incomes, the daily frame was effective for those with lower incomes; sign-up rates for the daily savings were equal across income groups.

### Implications

- Many behavioural goals are likely to be more attainable if broken down into smaller steps or chunks, in order to build momentum – from eating less meat, to saving money, to reducing your carbon footprint. Making it easy to take the first step towards a goal can pay off in the long term.
- Focusing on that first chunk, or first step, is a good strategy to combat the intention-behaviour gap, helping to shift people from merely having good intentions to acting on them.
- That first step doesn’t need to be the one that makes most logical, rational sense. The key is to create a buzz, a feeling of achievement, so people are motivated to keep going and tackle other problems.

