Two Nobel Prize Winning Ideas that Will Increase Your Sales

What factors influence a prospect's decision to purchase a product or service? Answering this question rightly is not only fundamental to selling, but also to the field of economics. In the past, standard economic theory asserted that when consumers make buying decisions they do so in a rational, logical manner. Yet, today economists no longer believe this to be true. The reason for this change in philosophy is due to the thousands of scientific studies in the discipline of behavioral science. The conclusions of this mountain of research have revolutionized the understanding of what enables and creates influence. As a result, economists now look to the findings of behavioral science in an effort to obtain a more accurate and in-depth awareness of how human beings arrive at buying decisions.[1]

This science is not merely relevant to economic theory, it is also essential for successful selling. Though there are many scientific principles that sales people could employ to enhance their sales effectiveness the following are two significant contributions that have such profound implications that they both were awarded the Nobel Prize in Economic Sciences. Through understanding and applying these award-winning ideas sales people will be further equipped to increase their sales production.

Asymmetrical Information

In 2001 the Nobel Prize in Economic Sciences was awarded to researcher George Akerlof. It was Akerlof's article in *The Quarterly Journal of Economics* that inspired the Nobel Foundation to bestow upon him the prestigious prize.[2] In fact, the Nobel Foundation proclaimed that Akerlof's paper was "the single most important study in the literature on economics of information."[3] In his article, Akerlof famously asserted that there is "an asymmetry in available information" between buyers and sellers.[4] By this Akerlof is referring to the reality that sellers have more information about their products or services than buyers. This produces the perception of risk for buyers because they do not know the true nature of a product or service. In addition, the buyer's risk is further amplified by the fact that some sellers mislead buyers regarding the quality and capability of their products or services. Akerlof affirms that these, "dishonest dealings tend to drive honest dealings out of the market. The cost of dishonesty, therefore, lies not only in the amount by which the purchaser is cheated; the cost also must include the loss incurred from driving legitimate business out of existence."[5] The essay concludes by stating that the most effective way to reduce a buyer's feelings of risk is for sellers to establish trust with buyers.[6]

Though Akerlof's conclusions may seem straightforward, its applications within the context of selling are substantial. One of the primary insights that a sales person can glean from Akerlof's research is that the asymmetry of information in favor of the seller causes prospects to link risk with purchasing a product or service. This matters a great deal because the higher the perceived risk associated with purchasing a product or service, the less likely it is that the prospect will make a positive buying decision. In short, risk is the disease that kills sales.

Furthermore, Akerlof's paper also illustrates why inspiring trust is a sales person's imperative. Trust

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fuels sales because it reduces the perception of risk and amplifies influence. Consequently, the more a prospect trusts a sales person, the more receptive he or she will be to the sales person's message and the less risk he or she will connect with buying the sales person's product or service.

Akerlof's research is meaningful. However, merely being familiar with his ideas is not sufficient, you must also put them into practice. The following are two recommended questions that will guide you in harnessing the persuasive power of Akerlof's findings. The first question is, "From your prospect's perspective, in your sales process how do you currently reduce the risk surrounding purchasing your product or service?" A second pertinent question to contemplate is, "How could you further reduce the risk your prospect feels?" Take some time and think through your answers to these questions because they have the ability to significantly increase your sales.

Loss Aversion

In 2002 the Nobel Prize in Economic Sciences was bestowed upon Daniel Kahneman, a professor of psychology from Princeton University. Kahneman was awarded the prize "for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty."[7] Kahneman's research challenged conventional wisdom and proved that people regularly make conscious decisions that are irrational. The value inherent within Kahneman's research was the conclusive evidence that human decisions are not ruled by logic, but by "psychological principles that govern the perception of decision problems and the evaluation of options."[8]

Kahneman identified that one of the "psychological principles" that heavily impacted decisions was risk aversion. Kahneman's research verified that people are far more motivated to avoid losses then to acquire equal gains.[9] [10] For example, in one of his experiments Kahneman presented the following scenario to participants: Imagine that the US was going to experience an outbreak of a deadly disease that would kill 600 people and there were only two options for combatting it.[11]

Option 1: This option guarantees that 200 of the 600 people will live.

Option 2: This option provides a 1/3 probability that all 600 people will live, but it also comes with a 2/3 probability that no one will live.

Kahneman found that the majority of the participants choose Option 1.

However, Kahneman also presented the same situation to other participants, but this time he reworded the options. This minor change in wording considerably changed the decisions that were made.

The new participants, after learning about the same deadly disease that would kill 600 people were given the following two options and asked to choose:

Option 1: This option would guarantee that 400 people would die.

Option 2: This option would provide a 1/3 probability that no one would die and a 2/3 probability that 600 people would die.

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The outcome was that this time the majority of people choose Option 2. Yet, what is blatantly obvious is that in both situations the options are identical. Though the probabilities did not change, what was modified was how the options were framed. In both cases, the options that are worded in a way that emphasized loss were rejected.

The conclusions of Kahneman's research are no longer unique. There are now hundreds of research studies that have confirmed that when making a decision, logical thought is often overridden by the emotions that risk stimulates. Furthermore, additional research which analyzed Kahneman's discovery identified that "typically, losses have at least twice the impact of equivalent gains so that people would require a 50% chance of gaining at least $200 to make up for a 50% of losing $100."[12]

The fact that loss aversion is a dominant human motivator is an essential insight that every sales professional must grasp. Although, within the field of sales there is a general consensus that prospects are motivated by fear of loss. Yet, what is alarming is that though many sales people know about fear of loss, few actually leverage it when selling. The costly reality is that within the context of selling, loss aversion is a truth that is commonly acknowledged, but rarely applied. For example, consider the question, "when you are selling to a prospect, how do you arouse your prospect's fear of loss?" After pondering their answer to this question, most sales people quickly recognize that the ways that they create fear of loss are excessively generic and unpersuasive. This realization highlights the problematic fact that they are not effectively employing one of the most powerful human motivators.

One key to adequately utilizing fear of loss is to be aware of what your prospect stands to lose if he or she does not purchase your product or service. It is only through acquiring this knowledge that you can successfully guide your prospect in obtaining an understanding of how your product or service will alleviate the potential loss. Make no mistake, prospects will line up to purchase your product or service when you convincingly demonstrate that by purchasing, the prospects are moving further away from what they fear losing.

Summary

It is clear that the Nobel Prizing winning research of George Akerlof and Daniel Kahneman offer valuable insights that can significantly amplify a sales person's effectiveness. Their scientific findings disclose the reliable, measurable and repeatable principles that influence human decisions. Though human beings are dynamic, they are also predictable. In fact, it is rare that behavioral scientists cannot explain the causality behind a human behavior. Yet, in the field of sales, the potency and potential of science has largely been ignored. At the Hoffeld Group, we specialize in taking the proven science out of the laboratory and academic journals and applying it to the context of selling. Because the reality is that the more sales people leverage the truth of science, the more they will influence their prospects and the more their sales will increase.

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About the Author

David Hoffeld is CEO of the Hoffeld Group, a research based sales training, coaching and consulting firm that is the leader in the integration of proven science and sales. The Hoffeld Group takes the repeatable and predictable principles, which science has proven to create and enable influence, out of the laboratory and academic journals and apply them to selling. For a deeper look at the Hoffeld Group's groundbreaking research and innovative sales strategies visit HoffeldGroup.com.

Notes

1. Mathew Rabin. "Psychology and Economics." *Journal of Economic Literature* 36, March 1998. p. 11 – 46.

2. George A. Akerlof. "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *The Quarterly Journal of Economics*, vol. 84, no. 3 (August, 1970). p. 488 - 500.

3. "The 2001 Prize in Economic Sciences - Popular Information". Nobelprize.org. 14 Feb 2013. http://www.nobelprize.org/nobel_prizes/economics/laureates/2001/popular.html

4. George A. Akerlof. "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *The Quarterly Journal of Economics*, vol. 84, no. 3 (August, 1970). p. 489.

5. Ibid. p. 495.

6. Ibid. p. 500.

7. "The Prize in Economics 2002 - Press Release". Nobelprize.org. 14 Feb 2013. http://www.nobelprize.org/nobel_prizes/economics/laureates/2002/press.html

8. Daniel Kahneman and Amos Tversky. "The framing of decisions and the psychology of choice." *Science*, 211, 1981. p. 453 – 458.

9. Daniel Kahneman and Amos Tversky. "Prospect theory: an analysis of decision under risk." *Econometrical*, 47, 1979. p. 263 – 291.

10. Daniel Kahneman and Amos Tversky. "Advances in prospect theory: Cumulative representation of uncertainty." *Journal of Risk and Uncertainty*, 5, 1992. p. 297–323.

11. Daniel Kahneman and Amos Tversky. "The framing of decisions and the psychology of choice." *Science*, 211, 1981. p. 453.

12. Christopher Trepel, Craig R. Fox and Russell A. Poldrack. "Prospect theory on the brain? Toward a cognitive neuroscience of decision under risk." *Cognitive Brain Research*, 23, 2005. p. 39.

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