



ARE YOU OVERPRICING YOUR PRODUCTS AND SERVICES?



THE ENDOWMENT EFFECT AND LOSS AVERSION IN ACTION WITH YOUR CX

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There is a lovely mirror leaning against the wall in my garage in England. My wife thinks we should sell it. I think we should give it away, to which my wife tut-tuts. She argues it is a beautiful mirror and believes it will fetch a handsome sum on the Internet. I disagree. So, the mirror sits there, ignored for the time being, and not selling, and I hold the Endowment Effect fully responsible.

The Endowment Effect explains how we value our possessions more highly than others do because they are ours. It is one of the reasons some prices for products and services end up too high. It is also the subject of this episode of the [Intuitive Customer podcast](#).

KEY TAKEAWAYS

There are a few things you should know about The Endowment Effect, which include:

1. The Endowment Effect is common in human behavior and has many effects on what we do as customers. From garage sale haggling to astonished disappointment at trade-in offers to emotionally-charged real estate battles, the Endowment Effect affects both sides of economic exchange. People who have the item for sale think it is worth more than the buyer, and the buyer begs to differ.

2. The Endowment Effect conflicts with a long-held economic theory that the market will always work itself out. People who have items they do not value and will sell them; people who want the thing will pay a satisfactory price and buy it. Known as the Coase Theorem, attributed to Nobel Prize-winning economist Ronald Coase, the market determines the price, and the desired items will find their way to the new owners.

3. The Endowment Effect is associated with the broader Behavioral Economics concept of Loss Aversion. Loss Aversion refers to the idea that we feel the pain of losses much more profoundly than we feel the happiness about gains. In the case of the mirror, Lorraine would feel a sense of loss if she gave the mirror away because she believes it is worth more than a donation write-off for our taxes. (It isn't!)

4. The Endowment Effect works for and against ownership, depending on the circumstances. The concept plays into the happy feelings of ownership we all have about specific items. However, it can also work by taking advantage of the bad feelings of ownership. Sometimes owning something has a significant pain point, which lends itself well to a business opportunity that sacrifices ownership for the decreased hassle. When I am in Florida, I use a subscription service for boats where I pay a monthly fee for access to their fleet of vessels. Even though I don't own one, I get to go out on a boat whenever I want, but I don't have to deal with maintaining a boat.

5. The Endowment Effect requires you to know what customers really want, not just what they say they want. People can't always tell you what they want, and sometimes it is because they might not be aware of it themselves. However, if you take a deeper dive into how your experience makes people feel, you will see by their actions how your experience is giving customers something they want. We call this exercise Emotional Signature® research because it gets down to the core of what customers really want.

RECOMMENDED ACTIONS

The Endowment Effect can work in your favor to provide the environment for customer-driven growth. Here are our recommended actions for your experience:

- **You should encourage the Endowment Effect.** We see a benefit to making customers feel like they already own your product or service through a free trial. It provides the opportunity for them to try out your product or service and have it become a part of their lives, aka feelings of ownership. Then, when the free trial ends, customers feel like they can't live without it, aka feelings of loss. So, they want to buy it.
- **You should discourage the Endowment Effect.** We also see opportunities for making people feel relieved that they don't own your product or service. When ownership has a significant pain point, playing up how your offer gives customers the benefits of ownership without the problems can lead to good outcomes for customer-driven growth. This strategy appeals to the rational side of a customer while placating their emotional side at the same time.
- **You should recognize that you are subject to the Endowment Effect, also.** Sometimes we are too close to the products or services we provide. We see the outstanding benefits of all the features we have painstakingly developed. So, we overvalue them for the marketplace. Recognize this tendency in yourself and adjust accordingly.

To discuss this further contact us at www.BeyondPhilosophy.com

Beyond Philosophy helps organizations unlock growth by discovering customers' hidden, unmet needs that drive value (\$). We then capitalize on this by improving your customer experience to meet these needs thereby retaining and acquiring new customers across the market.

