Prospect Theory - complement

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Prospect versus Utility Theory

- Marketers are implicitly interested in how and why people make decision
- Having in mind the fact, that we are rational beings :
 - we have to weigh up the odds
 - apply laws of probability
 - make decision
- That is a easy world and marketing would be a simple science

BUT

• We have to know how and why our behaviour deviates from rational decision models

Prospect versus Utility Theory

• Utility Theory :

 Two prospects with the same expected utility will be given the same preference by rational decision makers

• Prospect Theory :

- Outcome of decision-making under condition of gains and loses is not symmetrical
- Decision appears to be irrational
- When we are in positive domain risk averse
- When we are in negative domain risk seekers

Prospect theory and marketing implication

- How and advertising message is framed
- How a new product is positioned
- How a new product is priced relative to the competitors and consumers expectations
- How a product is priced and the premium a consumer is willing to pay
- What markets will respond to what types of offer

Reference point (area of acceptance)

Gains and losses are valued from subjective reference point

Value Displeasure associated with loss is greater than the pleasure associated with the same amount of gains +\$20 Pleasure = value (in our case) Gains Losses **Reference Point** \$20 Say story about missing ticket 40 and buying another one and lost of two 20 USD bills... area of acceptance

Literatura

 Alex Cochran; October 2001 : Prospect Theory & Customer Choice
Internetový zdroj :

http://alexcochran.com.au/wp-content/uploads/2008/04/propect-theorycustomer-choice.pdf