LESSON 8: THE SCIENCE OF FRAMING *(PROSPECT THEORY)*

In the box, and in life, we sometimes frame things in a way that keeps us, or our customer, from really understanding a problem. Could the way that we present a product influence how much risk a person will choose to take?

Yes, it can and if you have been in F&I for more than a month, you've experienced it. One small phrase, framed negatively, in your presentation can quickly translate into a customer saying *"No"* reflexively.

Nobel prize winning economists Daniel Kahneman and Amos Tversky developed a theory about this called Prospect Theory. It describes how people make decisions (like financial decisions) based on how the information *felt*, rather than the actual information itself.

For instance, if we use "risk" as a closing tool, (i.e.mechanical breakdown), we are more likely to see the customer adopt a "risk seeking" mindset.

Instead, if we use "benefit" as a closing tool, the customer is more likely to adopt a "benefit seeking" mindset.

Ultimately, a blended approach is often necessary, but I always recommend beginning with the benefits.

According to Kahneman & Tversky, presenting a problem as a potential loss actually adds momentum to "risk seeking behavior" and framing a situation as a gain adds momentum to "risk-aversion behavior"

Test it below

Imagine for a moment that you work in a large dealership with a few hundred other employees. Financially, the store is experiencing some losses and their General Manager has decided that 60 layoffs are necessary.To assist the General Manager, the Dealer Principal has brought in two outside consulting firms to see if there's any way to save the 60 jobs.

(On the next page, imagine your GM asked for your opinion. Please make note of your choices)

Make note of your choices:

<u>ABC Consulting proposals:</u>

Solution A:
20 jobs will be ***saved***.

Solution B:
1/3 probability that all the jobs will be ***saved***
and
a 2/3 probability that none of jobs will be ***saved***.

Which solution do you favor?
A or B

<u>XYZ Consulting proposals:</u>

Solution C:
40 people will ***lose*** their jobs.

Solution D:
1/3 probability that nobody will ***lose*** their jobs
and
a 2/3 probability that everyone will ***lose*** their jobs.

Which solution do you favor?
C or D

Now that we have your responses, let's examine the typical responses:

We have found on average that people answer the first and second question differently. The first question is predominantly answered by being risk-averse (solution "A") and the second question is predominantly answered by exhibiting risk-seeking tendencies (solution "D").

So, what's going on? The two situations are basically identical, and the questions are statistically the same, but they consistently elicit different answers. The only difference is that the first question focuses on the amount of jobs that might be "saved" and the second question focuses on the amount of jobs that might be "lost".

When we frame a situation as a potential gain by using the word "saved", as in solutions A&B, we see people behaving much more risk averse. When we frame the situation as a potential loss, as in solutions C&D, we see people behaving with more risk-seeking behavior.

The point is that we can see the same person fluctuate from risk-seeking behavior to risk aversion behavior just because we asked the question differently.

We find that the way we frame the situation, by small changes in wording or language, directly influences our propensity to take or reject risks. In other words, the way we define the problem dictates the way our customer responds to it.

So, how does this work in The BOX? Ask yourself how often does the "ALL CARS BREAK" close work on a person buying their 4th Honda because they've never had a problem? Not very well, but why?

F&I Managers are traditionally taught to close based on loss or risk, (i.e. mechanical breakdown or economic hardship). According to Prospect Theory, framing the purchase as a potential problem encourages the customer to become more of a risk-taker. So, instead of a sale, you get to hear, *"I'll take my chances"*. To avoid encouraging "risk-seeking" behavior, we must talk about benefits and solutions first. Then, only if necessary, discuss the possible loss or risk, you're trying to protect them from experiencing.

Be well,

Lloyd Trushel
Let's talk F&I…
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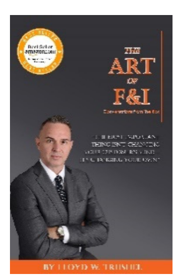

For more information like this, please check out my book, The Art of F&I available everywhere.