Why Customers Don’t Buy: Psychology of New Product Adoption

John Gourville, HBS 9-504-056, April 2004

TakeAway Points
1. “Customers have a systematic tendency to irrationally overvalue the benefits of an entrenched alternative and undervalue the benefits of a new alternative”

2. The “tendency” is rooted in “prospect theory” – notably aversion to losses

3. Higher likelihood of success if required behavioral change is minimal.

4. Keys to success logically follow ….
“Customers have a systematic tendency to irrationally overvalue the benefits of an entrenched alternative and undervalue the benefits of a new alternative”

• More than straight economic “switching costs”
• **Perceived** “net benefits” (aka relative advantage)
• Four underlying causes (“aspects”)
  – Gain & loss trade-offs
  – Reference points (current alternative = status quo)
  – Decreasing marginal sensitivities
  – Aversion to losses (valued 2X-3X vs. gains)
• Compounded by timing (e.g. deferred benefits), uncertainty, and difficulty quantifying

Therefore, to succeed, new products must be perceived to be significantly better than existing alternatives.
Developer’s Curse: they are ill-suited to judge the potential of their innovations

- Self-selection bias: developers tend to be zealous believers in the innovations

- Skewed perspectives: developers tend to “delta” off a high base, i.e. they expect more from their products

- “Curse of Knowledge”: developers are more likely to recognize needs and assume viability
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Technology Adoption: Increasing the Odds

- Brace for the long-haul … slower than expected adoption
- Deliver a 10X improvement … make the relative advantage enormous
- Minimize disruption to current practices … “behavioral compatibility”
- “Seek the unendowed” … no “give up” from existing alternatives
- Find believers … even if a small segment … gain traction
- Eliminate the old … obsolete the “status quo”