

Chapter 18

Warranty of Misinforming as an Option in Product Utilization Process

ABSTRACT

The option is a term used in finance to mark a buyer's right, but not obligation, to acquire a product or service in preliminary agreed conditions. The chapter views the warranty of misinforming as an option, by offering the client rights to return the product after given period for utilization. The warranty of misinforming provides rights but not obligations of the client to use the service. As in the options of finance, the client needs to pay for the right to use the service in the future.

“Trial and error is freedom.” -N. Taleb, Antifragile, p.246

INTRODUCTION

The following definition of “option” is given in Wikipedia - “In finance, an option is a contract, which gives the buyer (the owner or holder) the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price on or before a specified date, depending on the form of the option.” Option as a risk management (mitigation) tool is broadly used in finance and trades. At the same time, it introduces asymmetry in the sense that, probabilistically, it limits the level

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of losses (e.g., the price of the option) and allows for unlimited gains. In the market for sophisticated devices (as smart phones, tablets, etc.), where technologies are rapidly advancing, customers usually do not have the experience to use all features of the device at the time of the purchase. Due to the lack of appropriate expertise, the risk of misinforming leading to not purchasing the “right” device is high but given enough time to learn the capabilities of the device and map these to the needs and works that device will be used for, could provide the client with substantial long-term benefits. Warranty of misinforming is a mechanism that provides the client with the opportunity to explore the device and master its features under limited risk of financial losses. Thus, the warranty of misinforming could be considered as an option - the customers buy it (at a fixed cost) and may gain (theoretically) unlimited benefit by realizing (within the terms of warranty) that the device can be used to solve variety of problems not envisaged at the purchase time. This chapter is dedicated to discussion on the idea of treating the warranty of misinforming as an option in a similar manner as in finances. The chapter presents ideas, developed in Christozov D., Chukova S., Mateev P. (2016).

The market for complex, technologically advanced, devices is growing quickly offering many challenges to all involved parties. The major challenge is that many new features are included in the next generation devices and these new devices show up on the market almost on a daily basis. This quick turnaround does not allow the customers to learn how to fully utilize the device’s built-in features. Additionally, smart devices allow an easy extension of their capabilities by adding a variety of on-line applications.

The circumstances in the nowadays market of technological products, but not only, as described above significantly affect the risk of misinforming by increasing the likelihood of becoming disappointed by a purchasing in long or even short-term. Usually, at the time of purchase the seller is not familiar with the problems, works, or activities the customers aim to solve or accomplish with the device and therefore is not able to provide comprehensive advice. Also, the advertising message cannot cover the variety of cases of how to use the device and what is possible to accomplish by adding additional applications. The customer must gain experience of using the device on his or her own and by mapping its features to the problems s/he faces. Also, often it is difficult to realize that a newly encountered problems can be addressed with the same device and the customer has not been aware of this possibility at the time of the purchase, and, of course, s/he doesn’t include those problem in her/his purchasing motivation and selection criteria regarding the product’s property.

This shows that there might also be some positive outcomes of misinforming. Smart phones can be used as a GPS navigator, which represents such an option adding positive effect to original motivation to purchase it. When it comes to such positive outcomes, the information asymmetry between the seller and buyer is not critical

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