

THE PSYCHOLOGY OF
PRICING



NICK KOLENDA

THE PSYCHOLOGY OF PRICING

Nick Kolenda

Grab free marketing articles at
www.nickkolenda.com

Step 1: Influence Their Perception.....6

Prime a Small Magnitude8

- TACTIC 1: Reduce the Left Digit By One8
- TACTIC 2: Choose Prices With Fewer Syllables10
- TACTIC 3: Display Prices in a Small Font Size..... 11
- TACTIC 4: Remove the Comma11
- TACTIC 5: Use Words That Are Related to a Small Magnitude.....12
- TACTIC 6: Separate the Shipping and Handling13
- TACTIC 7: Offer Payments in Installments14
- TACTIC 8: Mention the Daily Equivalence14
- TACTIC 9: Be Precise With Large Prices.....15

Increase the Fluency of Your Price.....17

- TACTIC 10: Position Low Prices Toward the Left.....17
- TACTIC 11: Expose Customers to Two Multiples of Your Price.....19
- TACTIC 12: Use the Right Amount of “Roundedness”21
- TACTIC 13: Tailor Prices Toward Names and Birthdays23
- TACTIC 14: Show Prices at the Optimal Time.....24
- TACTIC 15: Display Red Prices to Men.....26

Maximize Their Reference Price.....28

- TACTIC 16: Start Negotiations With a High Precise Number28
- TACTIC 17: Expose People to Higher “Incidental” Prices.....29
- TACTIC 18: Expose People to Any High Number30
- TACTIC 19: Raise the Price of Your Previous Product.....32
- TACTIC 20: Sort Prices From High to Low33
- TACTIC 21: Position Prices to the Right of Large Quantities36

Emphasize the Gap Between Reference Prices39

- TACTIC 22: Add Visual Contrast to Sale Prices39
- TACTIC 23: Offer a Decoy Option.....40

STEP 2: Motivate Them to Buy42

Reduce the “Pain of Paying”44

- TACTIC 24: Remove the Currency Symbol.....44
- TACTIC 25: Charge Customers Before They Consume45
- TACTIC 26: Attribute Bundled Discounts to Hedonic Products46
- TACTIC 27: Don’t Bundle Expensive and Inexpensive Products.....47

| | |
|---|---------------|
| TACTIC 28: Shift the Focus Toward Time-Related Aspects | 48 |
| TACTIC 29: Create a Payment Medium | 49 |
| TACTIC 30: Avoid Language Related to Money..... | 49 |
| TACTIC 31: Emphasize the Inherent Costs of Your Product | 50 |
| TACTIC 32: Add Slight Price Differences to Similar Products | 51 |
| TACTIC 33: Use More Frequent (Yet Smaller) Price Increases | 53 |
| TACTIC 34: Downsize a Feature Besides Price | 55 |
| Use Discounts Properly | 56 |
| TACTIC 35: Follow the “Rule of 100” | 56 |
| TACTIC 36: Provide a Reason for the Discount..... | 57 |
| TACTIC 37: Offer Discounts That Are Easy to Compute..... | 58 |
| TACTIC 38: Offer Discounts Toward the End of the Month | 59 |
| TACTIC 39: Position Sale Prices to the Right of Original Prices | 61 |
| TACTIC 40: Only Give Discounts on Low-Priced Products | 62 |
| TACTIC 41: End Discounts By Phasing Them Out Gradually | 64 |
| TACTIC 42: Offer Discounts With Low Right Digits..... | 66 |
| CONCLUSION | 69 |

Hey Reader,

Welcome to my article on pricing.

All of these techniques are based on academic research in psychology and economics. For each pricing tactic, I describe *what* it entails, *why* it works, and *how* to apply it.

By the end, you'll learn how to (a) influence people's perception of your price, and (b) motivate them to buy.

I tried to make the article as straight-to-the-point as possible. Enjoy.

Cheers,

Nick

STEP 1

INFLUENCE
THEIR
PERCEPTION

STEP 1: INFLUENCE THEIR PERCEPTION

"All our knowledge has its origin in our perceptions."

-Leonardo da Vinci

Nothing in this world has concrete meaning. At the end of the day, price is merely a perception. Nothing more. Nothing less.

And that's great news for you.

While large companies can afford cream-of-the-crop marketing research (e.g., conjoint analysis), you can use psychology to optimize your price.

Even if you don't find the *exact* sweet spot, you can make small — yet powerful — adjustments to maximize the appeal of your price. All for free.

In this section, you'll learn pricing techniques that will subconsciously influence people to perceive your price to be lower — all without changing the inherent magnitude.

But first...you need to understand how people evaluate prices. Click to [watch my quick video](#) to learn that process.

PRIME A SMALL MAGNITUDE

You can influence people's memory for your price. When people compare your price to a reference price, you can influence them to pull a lower price into that comparison.

Why would people do that? Because our brain is lazy. [Adaval and Monroe \(2002\)](#) explain that:

"...price information about a product is unlikely to be coded into memory in terms of exact numerical digits but, rather, is coded spontaneously in more general magnitude terms (e.g., "low," "high"). Thus the numerical price is susceptible to the influence of its original context when people attempt to reconstruct it later." (pp. 585)

With such a hazy memory, you can influence people to recall a smaller magnitude. How? Here are a some useful tactics.

TACTIC 1: REDUCE THE LEFT DIGIT BY ONE

For the past few decades, the marketing world has been inundated with charm pricing — prices that end in 9, 99, or 95.

| price | conversion rate | price | conversion rate |
|-------|-----------------|-------|-----------------|
| .99 | 3.06% | 1.99 | 5.2% |
| 1 | 1.88% | 2 | 2.39% |
| 2.99 | 3.44% | 3.99 | 3.21% |
| 3 | 2.11% | 4 | 2.39% |
| 4.99 | 4.67% | 5.99 | 1.56% |
| 5 | 3.84% | 6 | 1.42% |

And the results speak for themselves. Check out [Gumroad's sales](#):

When people see those positive results, they often credit the 9's in the price. However, there's another culprit responsible: *the left digit*.

Charm pricing is most effective when the left digit changes. A one-cent difference between \$3.80 and \$3.79 won't matter. However, a one-cent difference between \$3.00 and \$2.99 will make a huge difference.

Why is the left digit so important? Because it anchors the perceived magnitude.

Our brains encode numbers so quickly (and beyond consciousness) that we encode the size of a number before we finish reading it.

[Thomas and Morwitz \(2005\)](#) explain that:

“...while evaluating “2.99,” the magnitude encoding process starts as soon as our eyes encounter the digit “2.” Consequently, the encoded magnitude of \$2.99 gets anchored on the leftmost digit (i.e., \$2) and becomes significantly lower than the encoded magnitude of \$3.00” (pp. 55).

Bonus Tip: You could emphasize the new base digit by visually minimizing the digits after the decimal.



TACTIC 2: CHOOSE PRICES WITH FEWER SYLLABLES

Don't overlook the auditory version of your price. It may seem irrelevant, but syllabic length influences price perception ([Coulter, Choi, and Monroe, 2012](#)).

When we encounter stimuli with many syllables, we need more mental resources to process that stimuli. And that principle applies to numbers. If we expend a LARGER amount of mental resources to process a number, we falsely infer that the magnitude must be LARGER.

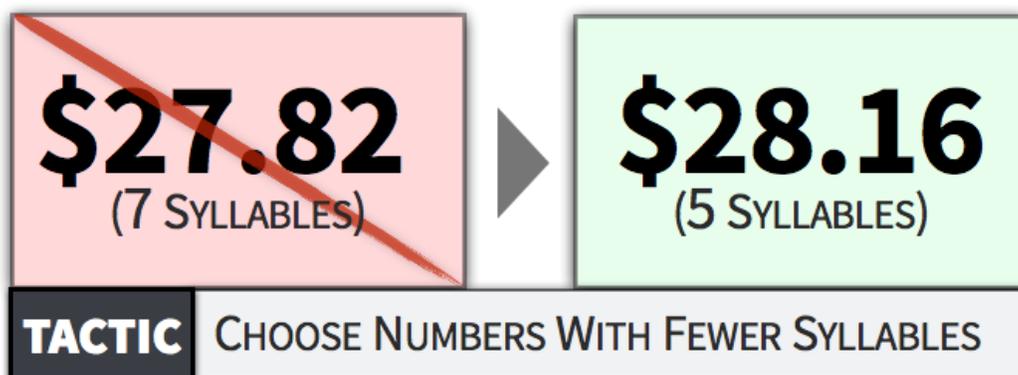
The flipside is more important: **people perceive prices to be smaller when they contain fewer syllables.**

But Nick! When I see a price, I don't say it out loud. I just read it.

Same here. But according to research...that doesn't matter. When you read a price in written form, your brain nonconsciously encodes the auditory version ([Dehaene, 1992](#)). You don't even need to verbalize the price in your mind — your brain encodes it either way.

Still skeptical?

[Coulter et al. \(2012\)](#) found a positive relationship between syllabic length and perceived magnitude. Even if two prices have the same written length (e.g., \$27.82 vs. \$28.16), people perceive the phonetically longer price to be higher in magnitude.



TACTIC 3: DISPLAY PRICES IN A SMALL FONT SIZE

Your brain has a universal conceptualization of size. Thus, there's a blurred overlap between VISUAL size and NUMERICAL size.

That's why customers perceive your price to be smaller if you display your price in a smaller font size ([Coulter & Coulter, 2005](#)).

In a layout, position larger elements around your price. Those elements will reinforce a smaller *visual* magnitude, which will reinforce a smaller *numerical* magnitude.



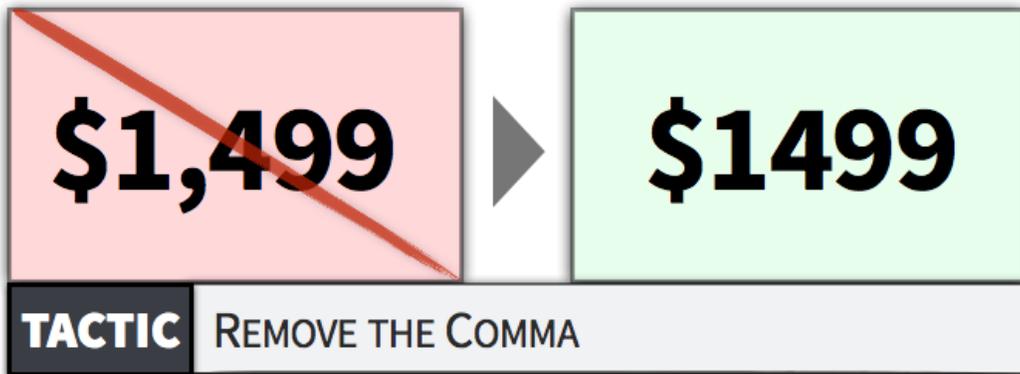
The reverse works for discounts. Since you want to *maximize* the size of discounts, you should display those numerals in a large font size.

TACTIC 4: REMOVE THE COMMA

Researchers found that removing commas (e.g., \$1,499 vs. \$1499) can influence make your price seem lower ([Coulter, Choi, and Monroe, 2012](#)).

Why does that happen?

Although physical length plays a role, there's another principle involved. We already discussed it. Can you think of it?



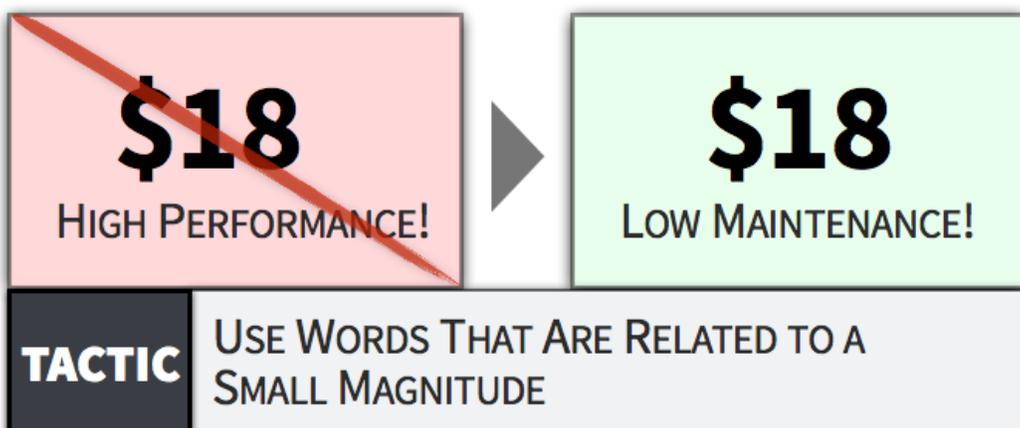
When you remove the comma, you reduce the phonetic length of your price:

- ▶ **\$1,499**: One-thousand four hundred and ninety-nine (10 syllables)
- ▶ **\$1499**: Fourteen ninety-nine (5 syllables)

TACTIC 5: USE WORDS THAT ARE RELATED TO A SMALL MAGNITUDE

Be careful when choosing the language near your price. Certain words can taint people's perception.

For example, [Coulter and Coulter \(2005\)](#) presented participants with various descriptions for an inline skate. Some descriptions emphasized a "Low Friction" benefit. Other descriptions emphasized a "High Performance" benefit.



Even though participants rated those benefits as equally important, participants were more favorable toward the price when the description contained “Low Friction.”

When you choose the language near your price, choose words that are congruent with a small magnitude (e.g., “low,” “small,” “tiny”).

TACTIC 6: SEPARATE THE SHIPPING AND HANDLING

If you sell products online, you should *usually* separate shipping and handling fees.

With “partitioned pricing” (i.e., separating a price into multiple components), you anchor people on the base price, rather than the total cost ([Morwitz, Greenleaf, & Johnson, 1998](#)). When people compare your price to a reference price, they’ll be more likely to pull your base price into the comparison.

[Hossain and Morgan \(2006\)](#) tested that possibility with eBay auctions. They set up auctions for music CDs, and they analyzed different bidding structures.

- ▶ Some auctions offered a low opening bid **WITH** a shipping cost (e.g., \$0.01 with \$3.99 shipping).
- ▶ Some auctions offered a higher opening bid **WITHOUT** a shipping cost (e.g., \$4 with free shipping).

In the end, auctions with low opening bids (*plus* shipping charges) attracted more bidders and generated more revenue. Oh...and [Clark and Ward \(2002\)](#) found similar results with auctions for the “Charizard” Pokemon card.



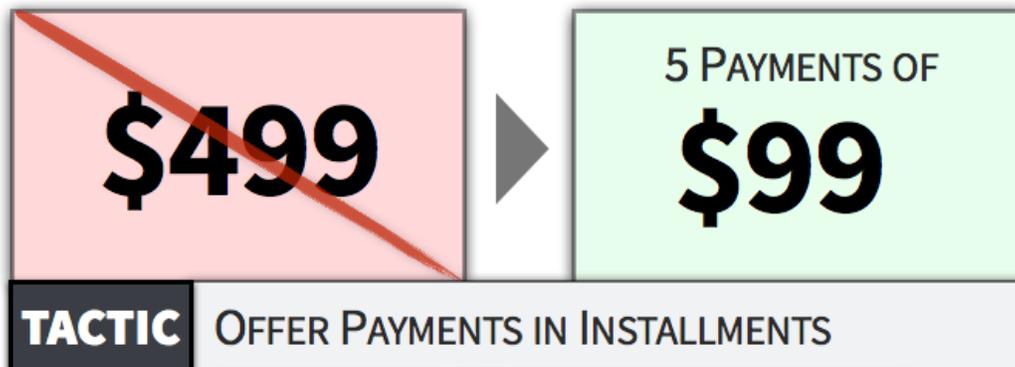
TACTIC 7: OFFER PAYMENTS IN INSTALLMENTS

Likewise, when you give people the option to pay for your product in smaller increments (rather than one lump sum), you anchor people on the smaller price.

Suppose that you're selling an online course for \$499. By offering payment installments (e.g., 5 payments of \$99), you taint people's comparison process. They'll be more likely to compare your installment price (\$99) to a competitor's lump sum (e.g., \$500) — a huge difference that makes your offering more appealing.

But don't get the wrong idea. People aren't stupid. They know that comparing \$99 and \$500 isn't accurate.

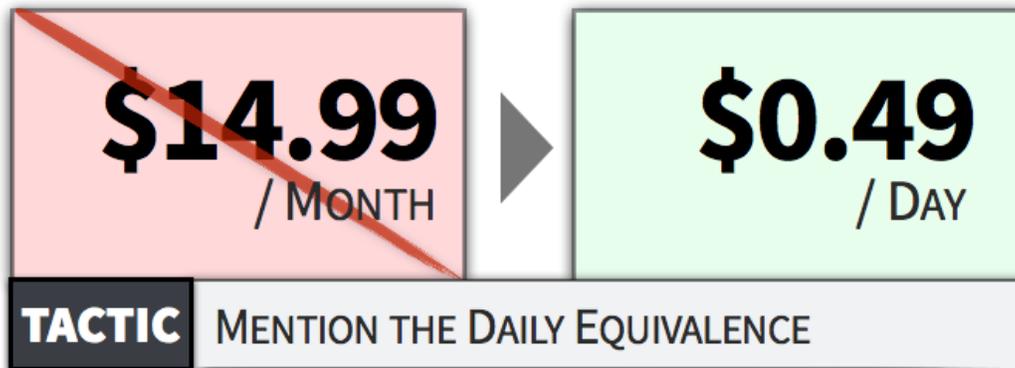
Luckily, it doesn't matter. People often compare reference prices subconsciously ([Muzumdar & Sinha, 2005](#)). So your installment price has a good chance of sneaking into their comparison.



TACTIC 8: MENTION THE DAILY EQUIVALENCE

Similarly, you can reframe your price into its daily equivalence (e.g., \$0.87/day). That framing influences people to perceive a lower overall price ([Gourville, 1998](#)).

You should still make your regular price the primary focus. Simply



mention the daily equivalence. That low number will anchor people toward the lower end of the price spectrum.

Having trouble reframing your price into a daily cost?

No worries. You can achieve the same effect by comparing your price to a petty cash expense, such as a cup of coffee ([Gourville, 1999](#)).

TACTIC 9: BE PRECISE WITH LARGE PRICES

[Thomas, Simon, and Kadiyali \(2007\)](#) analyzed 27,000 real estate transactions.

What did they find?

Buyers pay more money when prices are specific (e.g., \$362,978 vs. \$350,000).

Is it because of the negotiation aspect? If someone asks for a very specific price, wouldn't buyers perceive less room to negotiate?

That's what I thought. But nope. Researchers ruled out that possibility. Surprisingly, the real culprit involved priming a small magnitude.

Think about it. When are you more likely to use precise values?
Answer: when you're dealing with small numbers (e.g., 1, 2, 3).

Due to the association, precise numbers trigger an association with small values, thus influencing people's perception.



INCREASE THE FLUENCY OF YOUR PRICE

When determining the numbers in your price, you should consider processing fluency.

PROCESSING FLUENCY – The ease and speed in which we process information.

When we can quickly process information, it feels good. And our brain misattributes that pleasantness to the context.

This section explains a few techniques to increase the fluency of your price.

TACTIC 10: POSITION LOW PRICES TOWARD THE LEFT

When designing a layout, you should position your price toward the left ([Coulter, 2002](#)).

It sounds odd, but hear me out.

Research shows that directional cues are associated with certain concepts. For example, your spatial concept for “up” is metaphorically associated with good qualities:

“...the righteous go ‘up’ to Heaven, whereas sinners go ‘down’ to Hell. In the media, movie critics give good movies ‘thumbs up’ and bad movies ‘thumbs down.’ ... people who smoke marijuana ‘get high,’ but when the euphoria diminishes, they ‘come down’...” ([Meier & Robinson, 2004](#), pp. 243)

Due to our association between “up” and “good,” priming the spatial cue of “up” can trigger associations with “good.”

[Meier and Robinson \(2004\)](#) found that people recognized positive words faster when those words were positioned toward the top of a

screen (and they recognized negative words faster when they were positioned toward the bottom).

The same applies to numbers. [Dehaene, Bossini and Giraux \(1991\)](#) found that people conceptualize numbers on an imaginary horizontal line, with numbers growing larger from left to right.

In their study, they presented participants with digits ranging from 0 and 9, and they asked participants to indicate its parity (i.e., whether it was odd or even). As expected, people responded faster to smaller numbers when using their left hand (and vice versa). In other words, people responded faster with the hand that matched the same side of their mental ruler.

How does that finding relate to pricing?

Since we conceptualize smaller numbers as belonging on the left, positioning prices toward the left can trigger people's conceptualization for a smaller magnitude ([Coulter, 2002](#)).

However, don't jump the gun.

You shouldn't position ALL prices on the left...only prices that people associate with the left (i.e., low prices).



Conversely, you should position high prices toward the right — a position that's congruent with a high numerical magnitude. That congruence will increase processing fluency.



Lastly, we focused on horizontal direction. But we also associate numbers with vertical direction — with smaller numbers positioned toward the bottom. You could probably achieve the same effect by positioning low prices toward the bottom (or bottom-left).

TACTIC 11: EXPOSE CUSTOMERS TO TWO MULTIPLES OF YOUR PRICE

This tactic is pretty neat. [King and Janiszewski \(2011\)](#) showed participants the following pizza advertisements:



The first two ads offered unlimited toppings — an economically better deal. However, people evaluated the other two ads more favorably.

Why? Because those ads incorporated multiples of the price:



It seems absurd. But rest assured, psychology can explain it.

In our brain's associative network, we store common arithmetic:

“Over time, children are drilled on simple problems so that an association develops between operands (e.g., 2 x 6) and results (e.g., 12). These stored associations are called “number facts” (Baroody 1985). Stored number facts enable a child, and later an adult, to respond effortlessly to simple arithmetic problems.” (King & Janiszewski 2011, pp. 328)

Because of those associations, exposure to two numbers (e.g., 2 and 6) increases processing fluency for the sum (e.g., 8) and product (e.g., 12).

When the ads contained multiples of \$24 (e.g., 3 and 8), participants could process the price of \$24 more easily. *The price simply felt right.*

They misattributed that ease and pleasantness with the attractiveness of the offer.

Use that insight for your own product. Wherever you display your price, incorporate multiples of that price:

- ▶ **\$15:** 3-Day Sale for \$5 Off
- ▶ **\$120:** Get 4 Weekly 30-Minute Coaching Calls
- ▶ **\$500:** Get 5 Bonus PDFs for Free (\$100 Value)

One caveat: include two — and *only* two — multiples. If your price is \$12, a wide assortment of multiples (e.g., 2, 3, 4, and 6) will reduce fluency. To increase fluency of \$12, use two multiples that result in the sum (e.g., 6 + 6) or product (e.g., 4 x 3).



TACTIC 12: USE THE RIGHT AMOUNT OF “ROUNDEDNESS”

One aspect to consider is the “roundedness” of your price. Round prices (e.g., \$100) are processed fluently, whereas non-rounded prices (e.g., \$98.76) are processed disfluently.

Could one choice generate more sales? Researchers think so.

[Wadhwa and Zhang \(2015\)](#) found that round prices — because they are fluently processed — work better for emotional purchases. **When**

consumers can process the price quickly, the price “just feels right.”

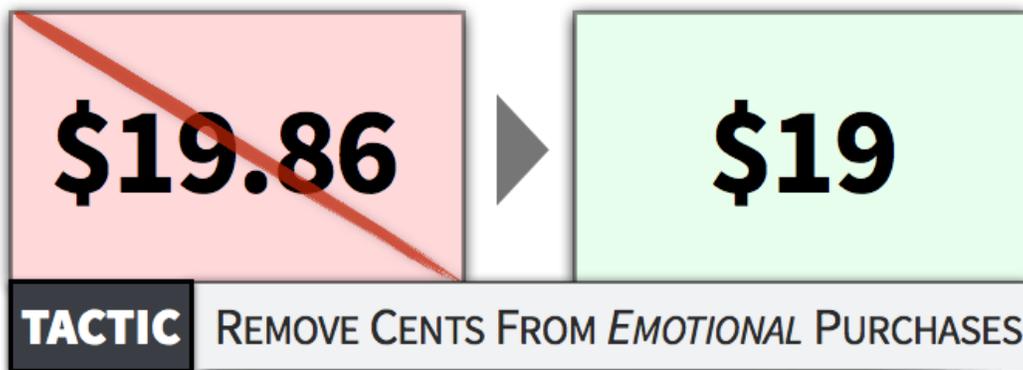
The researchers also found the opposite to be true. Consumers need to use more mental resources to process non-rounded prices. So those prices seem more fitting with rational purchases.

Despite the direct evidence, I’ll propose a caveat.

Even if your purchase context is emotion-based, you should still avoid rounded *intervals* (e.g., \$100, \$5,000). People assume that those prices are artificially higher, as if they were plucked from thin air ([Janiszewski & Uy, 2008](#)).

So where can roundedness help? That principle can help you determine whether to add cents to your price.

If your purchase is based on **EMOTION**, then leave out the cents.



If your purchase is based on **RATIONALITY**, then add some cents.



TACTIC 13: TAILOR PRICES TOWARD NAMES AND BIRTHDAYS

This tactic is bizarre. But a surprising amount of research supports it.

[Coulter and Grewal \(2014\)](#) found that customers prefer prices that contain the same letters in their name or birthday:

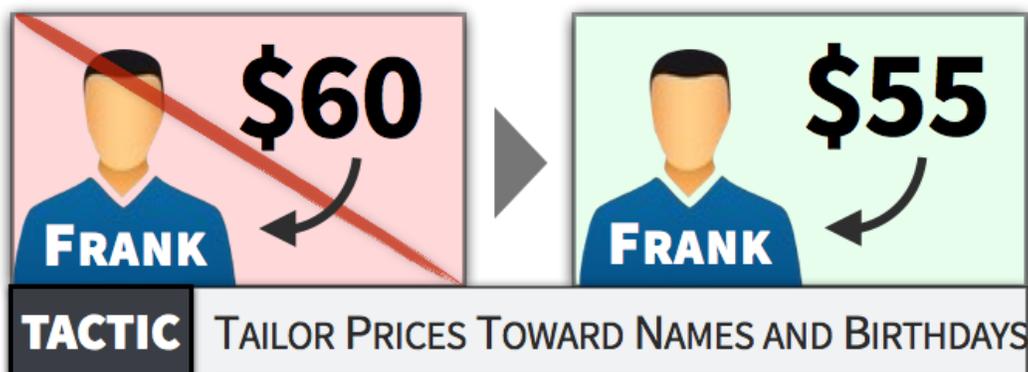
“...consumers like prices (e.g., “fifty-five dollars”) that contain digits beginning with the same first letter (e.g., “F”) as their own name (e.g., “Fred,” “Mr. Frank”) more than prices that do not. Similarly, prices that contain cents digits (e.g., \$49.15) that correspond to a consumer’s date of birth (e.g., April 15) also enhance pricing liking and purchase intentions.” (pp. 102)

The principle is *implicit egotism* ([Pelham, Carvallo, & Jones, 2005](#)).

We all possess an innate self-centeredness. We subconsciously gravitate toward things that resemble ourselves — including the letters in our name or the numbers in our birthday.

In fact, we make important life decisions based on that principle. People named Dennis are more likely to become dentists, and people named Louis are more likely to live in St. Louis ([Pelham, Mirenberg, & Jones, 2002](#)).

If you need to give someone a custom price quote, it might not hurt to slightly adjust the price to match that customer’s name or birthday (perhaps after a quick glance at their Facebook page).



TACTIC 14: SHOW PRICES AT THE OPTIMAL TIME

What should you display first: your product or your price?

To answer that question, [Karmarkar, Shiv, and Knutson \(2015\)](#) gave participants \$40 in shopping money. The researchers used fMRI to analyze their brains while they shopped for online products.

Turns out, the first exposure — price vs. product — influenced the criteria that people used when deciding whether to buy.

When **products were displayed first**, participants based their purchase decision on the product qualities.



When **prices were displayed first**, participants based their purchase decision on the economic value.



If you sell luxury products, you WANT people to base their decision on your product qualities. You DON'T want them to consider the economic value. Thus, for luxury items, show the product, and THEN show the price.

TACTIC SHOW PRODUCT, THEN PRICE (FOR LUXURY ITEMS)

Roger Dooley gave the example of Tiffany's jewelry. On their website, they emphasize the jewelry before revealing the price.

CATALOG PAGE

Even when they reveal the price, they visually deemphasize it — as if it's unimportant and negligible.

PRODUCT PAGE

The opposite is true for utilitarian products (e.g., a pack of AA batteries, USB drive, flashlight). Participants were more likely to buy those products if they encountered the price first. With that exposure, people were more likely to appreciate the economic value of the purchase.



TACTIC 15: DISPLAY RED PRICES TO MEN

[Puccinelli et al. \(2013\)](#) found that men are more likely to buy products when prices are displayed in red.

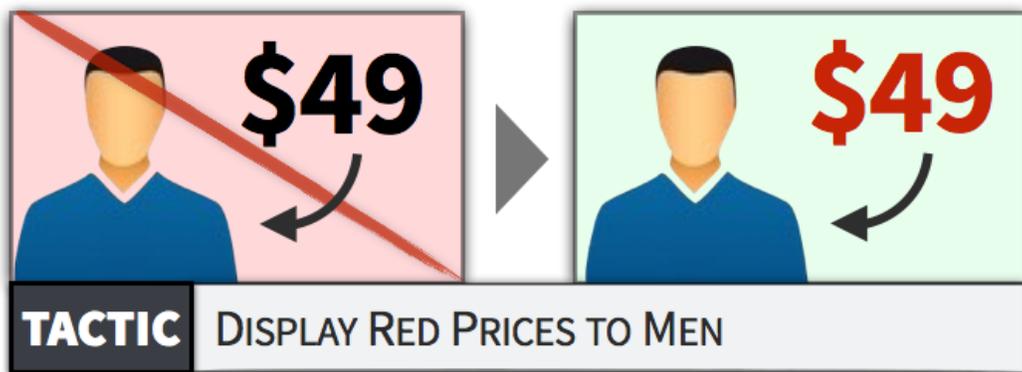
“Men seem to process the ads less in-depth and use price color as a visual heuristic to judge perceived savings offered by the store.” (pp. 121)

Because men use heuristic processing to evaluate ads, when they encounter a red price, they’re more likely to base their decision around the red price — and the red price alone:

“...when price information in retail ads is emphasized (e.g., by making it red), compared to other product attributes, the ability for people to process the other attributes of the ad (e.g., photo quality of products) is diminished.” (pp. 121)

That red price became a focal point of attention – and thus the only information that men used to evaluate their purchase. More

importantly, because men associate red prices with savings, they relied more heavily on that belief.



Those findings also align with my research on color. In my [color article](#), I explain why red increases arousal (which triggers heuristic processing).

MAXIMIZE THEIR REFERENCE PRICE

The past two strategies helped you lower the perceived magnitude of your price. However, you can achieve the same effect by *maximizing* the perceived magnitude of reference prices.

This section offers a few tactics.

TACTIC 16: START NEGOTIATIONS WITH A HIGH PRECISE NUMBER

Due to anchoring, it's no shocker that sellers get more money by starting negotiations with a high initial offer ([Galinsky & Mussweiler, 2001](#)). That number establishes an anchor point, pulling the final settlement closer.

Not only should you start with a high initial price, but you should also use a precise value. In one study, [Janiszewski and Uy \(2008\)](#) asked participants to estimate the actual price of a plasma TV based on the suggested retail price — either \$4,998, \$5,000, or \$5,012.

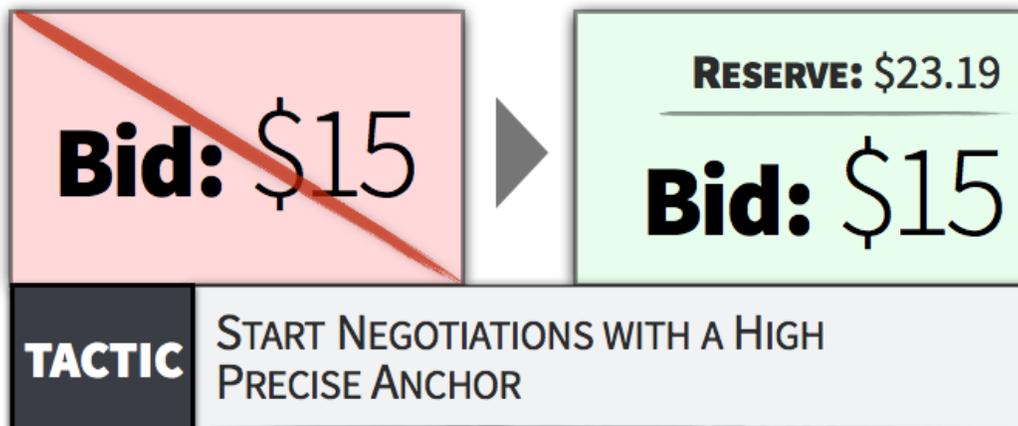
When participants were given precise values (\$4,998 and \$5,012), they estimated the TV's actual price to be closer to that range. When the suggested price was rounded (\$5,000), participants believed the actual price to be much lower.

| ANCHOR PRICE | ESTIMATED PRICE |
|--------------|-----------------|
| \$4,998 | \$4,569 |
| \$5,000 | \$4,158 |
| \$5,012 | \$4,578 |

When an anchor is precise, we adjust our estimate past fewer units. Why? You can thank your mental ruler. As [Thomas and Morwitz \(2002\)](#) explain:

“If adjustment is viewed as movement along a subjective representational scale, then the resolution of this scale might also influence the amount of adjustment. X units of adjustment along a fine-resolution scale will cover less objective distance than the same number of units of adjustment along a coarse-resolution scale.” (pp. 121)

That insight works particularly well in eBay auctions. When creating your auction, you can generate more revenue by establishing a high reserve price — a price that needs to be met in order for the item to be sold. Higher reserve prices anchor people toward the higher end of the price spectrum, resulting in more revenue ([Kamins, Dreze, & Folkes, 2004](#)).



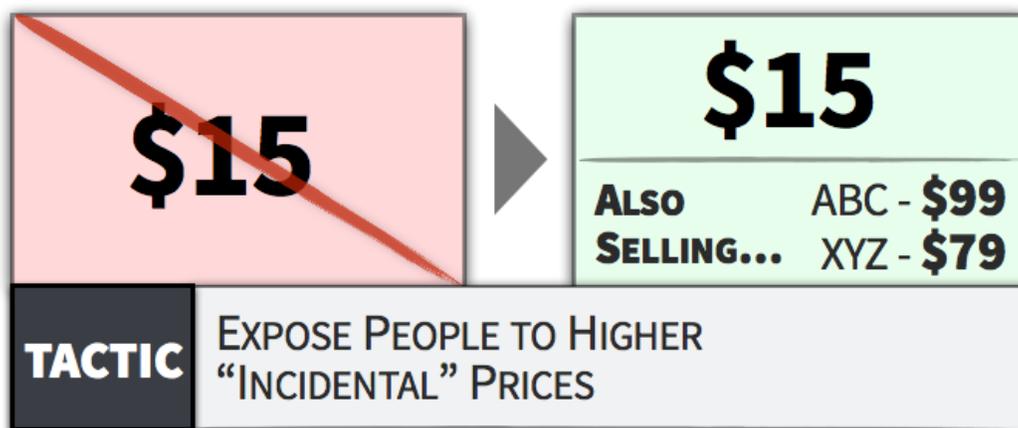
TACTIC 17: EXPOSE PEOPLE TO HIGHER “INCIDENTAL” PRICES

Given our tendency to assimilate toward an anchor point, could exposure to high prices — even for unrelated products — anchor people toward the higher end of the price spectrum? Would those people pay a higher price for your product?

[Nunes and Boatwright \(2004\)](#) tested that possibility. On a boardwalk in West Palm Beach, they sold music CDs. Every 30 minutes, the adjacent vendor alternated the price of a sweatshirt on display — either \$10 or \$80.

What happened? You guessed it. The sweater’s price anchored people toward the respective ends of the price spectrum. When the price of the sweatshirt was \$80, shoppers paid higher prices for the CDs.

If you’re selling items on eBay, you might want to mention some of the other items you have for sale (the more expensive items, of course).



TACTIC 18: EXPOSE PEOPLE TO ANY HIGH NUMBER

Anchoring not only works for prices, but it also works for any number, regardless whether that number is a price.

Here’s a striking example. [Ariely, Loewenstein, and Prelec \(2003\)](#) showed participants various products (e.g., cordless keyboard, rare wine, Belgian chocolates). They asked participants whether they would purchase each product at the dollar amount equal to the last two digits in their social security number.

After receiving a YES/NO answer, researchers then asked participants to state the exact dollar amount they would be willing to pay.

Remarkably, the researchers found a direct correlation between the social security number and the price that people were willing to pay.

Here's the data for one product, a cordless keyboard:

| SS NUMBER | WILLING TO PAY |
|------------------|-----------------------|
| 00 - 19 | \$16.09 |
| 20 - 39 | \$26.82 |
| 40 - 59 | \$29.27 |
| 60 - 79 | \$34.55 |
| 80 - 99 | \$55.64 |

How can you apply that finding? Should you simply ask customers to contemplate a high number?

Not quite. Luckily, your job is easier.

Anchoring effects occur subconsciously, so consumers don't need to contemplate a numerical anchor.

In fact, [Adaval and Monroe \(2002\)](#) subliminally exposed people to a high number before displaying a price. That exposure caused people to perceive the subsequent price to be lower.

The takeaway? Even if customers don't consciously notice your numerical anchor, they just need to be exposed to it.

If you run an online store, you could simply mention your total number of customers near your price. When people generate their reference price, that high number will trigger an anchoring effect (and their reference price will be higher).



TACTIC 19: RAISE THE PRICE OF YOUR PREVIOUS PRODUCT

If you're launching a new (more expensive) version of your product, how should you price the old product?

Some businesses lower the price to gradually phase it out of the market. Surprisingly, though, that strategy is often the wrong approach.

[Baker, Marn, and Zawada \(2010\)](#) suggest *raising* the price of your old product. By raising the price, you raise people's reference price (thereby enhancing the perceived value of your new product). You'll be releasing the new product into more favorable conditions.

If you lower the price of your old product, you set yourself up for failure. You reinforce a lower reference price, which makes your new product seem more expensive.



TACTIC 20: SORT PRICES FROM HIGH TO LOW

You can influence customers to choose a more expensive option if you sort products by descending price (i.e., from high to low).

[Suk, Lee, and Lichtenstein \(2012\)](#) tested that claim in a bar. Over an 8-week span (and 1,195 beers), the researchers alternated the sequence of beer prices. They maximized revenue when they sorted prices from high to low.

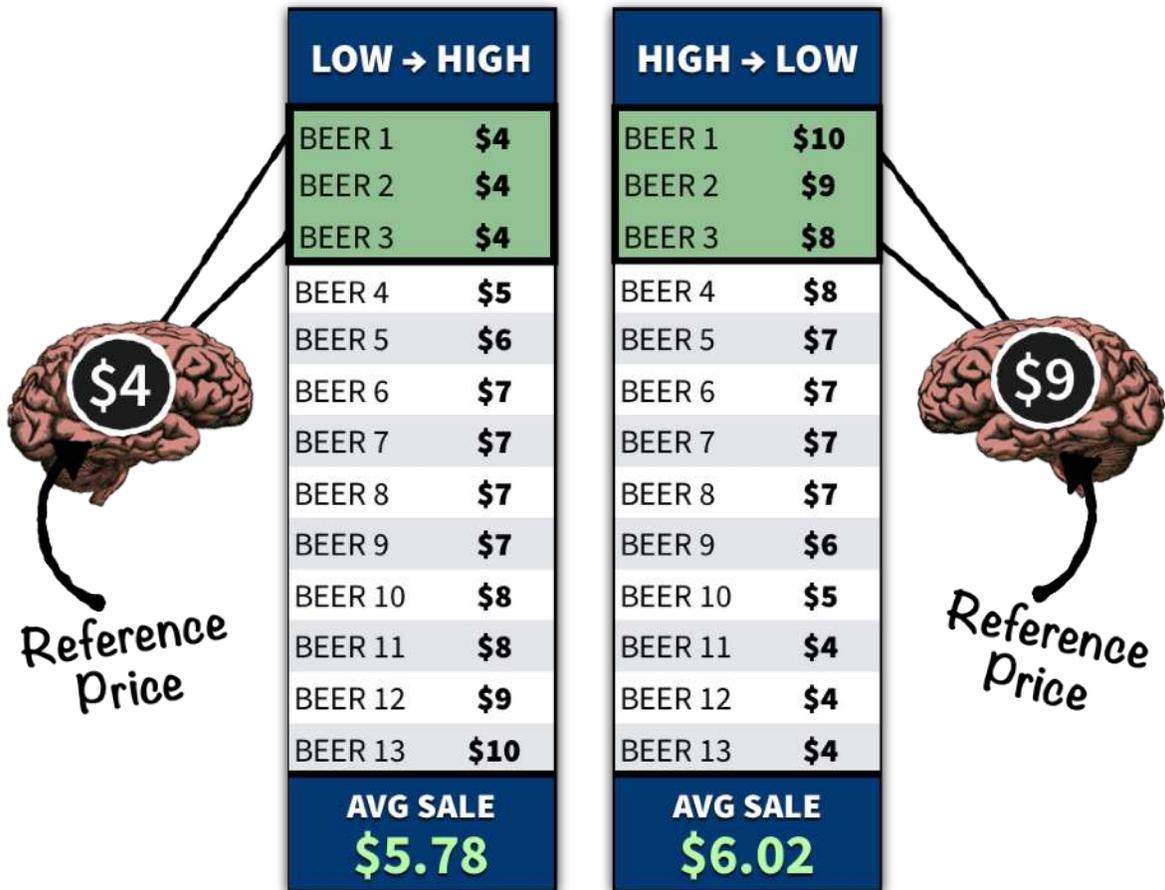
| LOW → HIGH | | HIGH → LOW | |
|---------------------------|------|---------------------------|------|
| BEER 1 | \$4 | BEER 1 | \$10 |
| BEER 2 | \$4 | BEER 2 | \$9 |
| BEER 3 | \$4 | BEER 3 | \$8 |
| BEER 4 | \$5 | BEER 4 | \$8 |
| BEER 5 | \$6 | BEER 5 | \$7 |
| BEER 6 | \$7 | BEER 6 | \$7 |
| BEER 7 | \$7 | BEER 7 | \$7 |
| BEER 8 | \$7 | BEER 8 | \$7 |
| BEER 9 | \$7 | BEER 9 | \$6 |
| BEER 10 | \$8 | BEER 10 | \$5 |
| BEER 11 | \$8 | BEER 11 | \$4 |
| BEER 12 | \$9 | BEER 12 | \$4 |
| BEER 13 | \$10 | BEER 13 | \$4 |
| AVG SALE \$5.78 | | AVG SALE \$6.02 | |

Thanks to a simple change in sequencing, the bar owners now make an extra \$0.24 (on average) for every beer sold.

But *why* does that happen? The researchers proposed two reasons.

Reason 1: Anchoring / Reference Prices

When consumers evaluate a list of products, they use the initial prices to generate their reference price.



If the initial prices are high, customers generate a higher reference price. When customers use that reference price to evaluate the options, all of the options seem like a better deal.

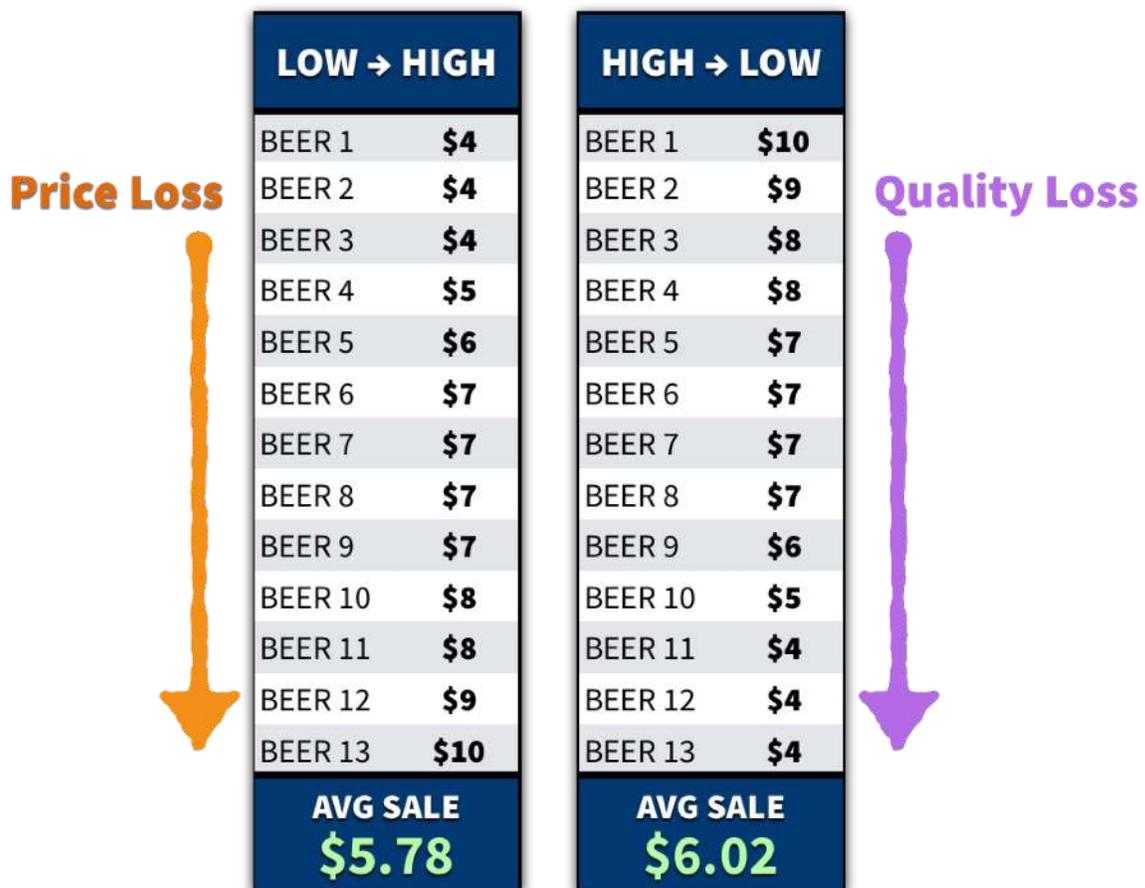
Reason 2: Loss Aversion

As humans, we focus on losses. Whenever we choose an option, we lose benefits from the options that we didn't choose. And that hurts.

Depending on your pricing sequence (i.e., low to high vs. high to low), customers perceive different losses when they scan down the list of products.

When you sort products by ascending price (i.e., low to high), customers view each new product as a loss in price. With each new option, they're gradually losing the ability to pay a lower price. Thus, they feel motivated to minimize that loss by choosing a lower priced product.

But here's the flipside. When you sort products by descending price (i.e., high to low), customers view each new product as a loss in quality. Thus, they feel motivated to retain a higher quality (and more expensive) product.



But here's a caveat: those customers need to associate price with quality. Without that association, the effect diminishes.

[Suk, Lee, and Lichtenstein \(2012\)](#) conducted some follow up studies (including a lab study with pens), and they found similar results. So the findings should generalize to other contexts (e.g., eCommerce products).

For example, based on [results from numerous A/B tests](#), you might be able to increase revenue by arranging pricing plans from most expensive to least expensive.



TACTIC 21: POSITION PRICES TO THE RIGHT OF LARGE QUANTITIES

Suppose that you're selling a product bundle. Which order is better:

- ▶ \$29 for 70 items
- ▶ 70 items for \$29

Give up?

Research shows that the second presentation is more effective ([Bagchi & Davis, 2012](#)).

However, there are **two conditions**.

1. The unit price calculation must be difficult

~~**EASY:**~~

~~10 items for \$10~~

DIFFICULT:

70 items for \$29

With a difficult calculation, customers use heuristics to make their purchase decision. Specifically, they use the first piece of information to guide their purchase decision:

- ▶ If the first item is **PRICE**, customers focus on **COST**.
- ▶ If the first item is **QUANTITY**, customers focus on **BENEFITS**.

2. The item quantity must be larger than price

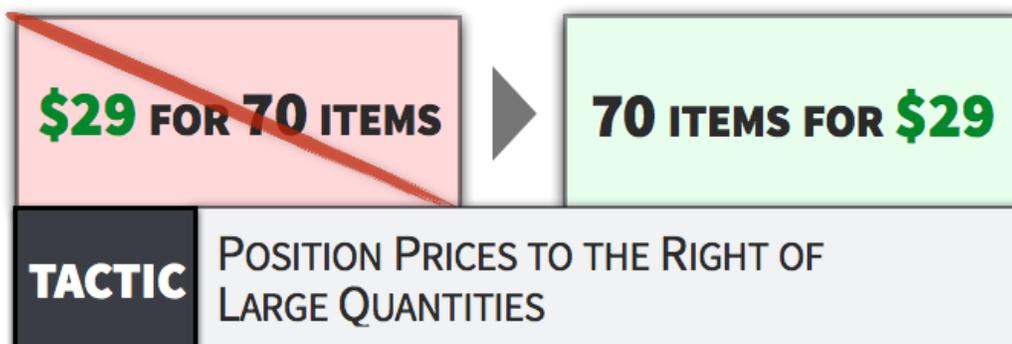
~~**SMALLER:**~~

~~3 items for \$29~~

LARGER:

70 items for \$29

When the quantity is larger, an anchoring effect occurs. Customers anchor on the high quantity (e.g., 70), and they falsely infer that the price is an attractive deal.



Obviously you should only use this pricing tactic if it makes sense for your product. As the researchers warn:

“...offering larger packages without understanding consumers’ perceptions can be a dangerous proposition, and bigger isn’t always better.” (Bagchi & Davis, 2012, pp. 71)

EMPHASIZE THE GAP BETWEEN REFERENCE PRICES

The previous strategies either (a) minimized the perceived size of your price or (b) maximized the perceived size of reference prices. This next strategy will help you maximize the perceived *distance* between your price and a reference price.

TACTIC 22: ADD VISUAL CONTRAST TO SALE PRICES

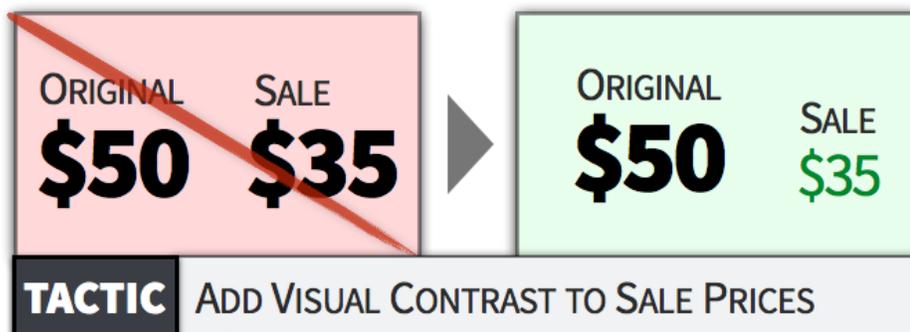
When you compare your price to a higher price, people are more likely to buy your product because they feel less motivated to research the decision (Urbany, Bearden, & Weilbaker, 1988). They've done their homework.

But here's a neat trick to optimize that comparison.

If you visually distinguish your price from a reference price (e.g., using a different font color), you trigger a fluency effect. Consumers will misattribute that *visual* distinction to a greater *numerical* distinction (Coulter and Coulter, 2005).

That fluency effect also works with physical distance. When your price is horizontally farther away from a reference price, people perceive a greater numerical distance (Coulter & Norberg, 2009).

And don't forget about font size. Smaller font sizes are especially effective when they're positioned next to a larger reference price (Coulter & Coulter, 2005).



TACTIC 23: OFFER A DECOY OPTION

Oftentimes, people use your own products for reference prices.

To ensure that their comparisons are conducive, you should consider adding a “decoy option.”

You might be familiar with the infamous study. In *Predictably Irrational*, Ariely (2008) describes a strange offering from *Economist* magazine.

One day, he noticed three subscription options:

- ▶ **Web Only:** \$59
- ▶ **Print Only:** \$125
- ▶ **Web and Print:** \$125

At first glance, it seemed like the “print only” option was a mistake. Who would choose that option when you could choose a web *and* print subscription for the same price?

But Ariely noticed an underlying motive. He conducted a study to test his hunch. And he was right. The “print only” option made a huge difference.

Without the “print only” option, people couldn’t accurately compare the options. How much should you pay for a web and print subscription? Who knows. Most people chose the web option because it was cheaper.

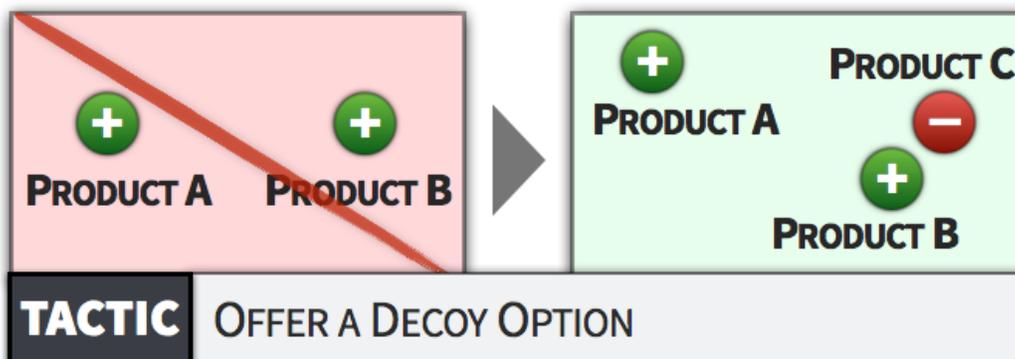
| SUBSCRIPTION | % WHO CHOSE IT | REVENUE |
|----------------------|----------------|----------------|
| Web Only | 68% | \$4,012 |
| Web and Print | 32% | \$4,000 |
| TOTAL REVENUE | | \$8,012 |

However, the “print only” option helped people compare those two options. Because it was a similar, yet worse, version of the “web and print” option, people could easily recognize the value of the web and print subscription. With more people choosing “web and print” (a more expensive alternative), the *Economist* generated 43% more revenue.

| SUBSCRIPTION | % WHO CHOSE IT | REVENUE |
|----------------------|----------------|-----------------|
| Web Only | 16% | \$944 |
| Print Only | 0% | \$0 |
| Web and Print | 84% | \$10,500 |
| TOTAL REVENUE | | \$11,444 |

When you offer different versions of your product, people will naturally compare those options. To guide people toward the more expensive version, you can take the same approach.

By adding a similar, yet worse, version of your expensive product, you influence the comparison process. Suddenly your expensive product becomes more appealing.



STEP 2

**MOTIVATE
THEM TO BUY**

STEP 2: MOTIVATE THEM TO BUY

Even if you reduce the perceived magnitude of your price, customers might be stagnant. You should give them a nudge.

This section will teach you some pricing tactics that can motivate people to buy. You'll learn how to (a) reduce the "pain" that customers associate with paying and (b) use discounts *properly*.

REDUCE THE “PAIN OF PAYING”

Each time we purchase something, we feel a sense of pain — often referred to as the “pain of paying” ([Prelec & Loewenstein, 1998](#)).

More specifically, the pain emerges from two factors:

- ▶ The **SALIENCY** of the payment (e.g., we feel more pain if we see money leaving our hands)
- ▶ The **TIMING** of the payment (e.g., we feel more pain if we pay *after* we consume)

Considering those two factors, you can see why Uber — a ride-sharing service — revolutionized the taxi industry.

In traditional taxi rides, the saliency of payment is very high. You see a meter constantly rising. Each minute evokes an increasingly painful sensation. Plus, at the end of the ride, the taxi driver makes you pay by cash or credit card. So. Much. Pain.

Uber is different. No visual meter. No physical payments. Everything is automatically charged to your card. Much less pain.

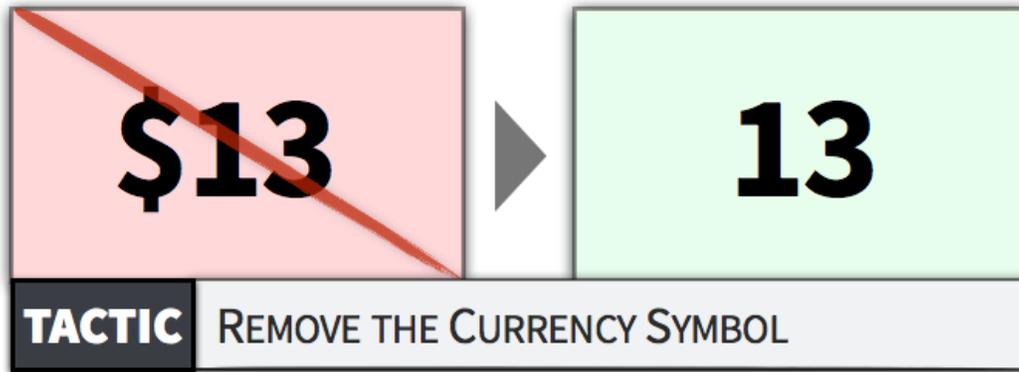
Credit card processing is one tactic to reduce the pain of paying, but you can reduce that pain in other ways too. This section will give you a few ideas.

TACTIC 24: REMOVE THE CURRENCY SYMBOL

The pain of paying can be triggered pretty easily. In fact, the dollar sign in your price can remind people of that pain, and it can cause people to spend less ([Yang, Kimes, & Sessarego, 2009](#)).

But don't get too trigger-happy. Before you start removing dollar signs, you should consider the overall clarity of your price.

Oftentimes, you need a dollar sign to indicate that your number is, indeed, a price. In those cases, don't risk clarity by removing the dollar sign. Only use this tactic in formats where customers will expect a price to appear (e.g., restaurant menus).



TACTIC 25: CHARGE CUSTOMERS BEFORE THEY CONSUME

When possible, your customers should pay *before* they use your product or service. Prepayments benefit all parties involved.

For one, you won't be delivering your product or service without being compensated. You'll be more likely to get paid. Pretty helpful.

Second, people will be happier with your product. When people prepay, they focus on the benefits they'll be receiving, which numbs the pain of paying. If they've already experienced the benefits of your product, their payment becomes significantly more painful ([Prelec & Lowenstein, 1998](#)).

That insight can be helpful with monthly subscriptions. If you charge customers monthly payments, you should charge them at the beginning of the month (and frame your message in a forward-looking manner).

Avoid sending receipts at the end of a month (or summarizing the previous month's payment). You'll just be rubbing salt in the wound.



TACTIC 26: ATTRIBUTE BUNDLED DISCOUNTS TO HEDONIC PRODUCTS

To reduce the pain of paying, consider bundling your product.

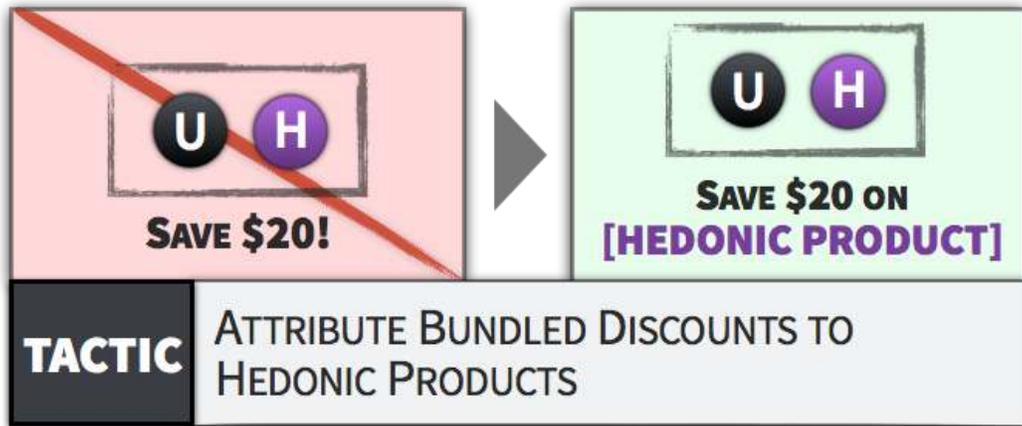
When you offer a packaged product, people can't attribute a specific dollar value to the items within your bundle.

Ideally, the added product should be hedonic, rather than utilitarian. Since hedonic purchases trigger more guilt ([Khan & Dhar, 2006](#)), a bundle reduces that guilt, especially when you attribute the discount to the hedonic product.

As [Khan and Dhar \(2010\)](#) explain:

"...framing the discount on the hedonic item provides a justification required to reduce the guilt associated with the purchase of such items. However, since no such guilt is associated with the purchase of utilitarian items, framing the discount on utilitarian component of the bundle has little additional impact." (pg. 18)

If you can only add a utilitarian product, then describe a hedonic use for that product. [Khan and Dhar \(2010\)](#) found that people were more likely to purchase a bundled lamp and blender when the description emphasized a hedonic use for the blender (e.g., making exotic cocktails) compared to a utilitarian use (e.g., making healthy shakes).



TACTIC 27: DON'T BUNDLE EXPENSIVE AND INEXPENSIVE PRODUCTS

You should also avoid bundling expensive and inexpensive products. Inexpensive products reduce the perceived value of expensive products.

[Brough and Chernev \(2012\)](#) asked people to choose between a home gym and a 1-year gym membership. Roughly 51 percent of people chose the home gym — a pretty even split.

However, when the researchers bundled the home gym with a free fitness DVD, only 35% of people chose it. The fitness DVD reduced the perceived value of the home gym.



TACTIC 28: SHIFT THE FOCUS TOWARD TIME-RELATED ASPECTS

When describing your product, avoid references to money. Instead, mention a concept that has a much greater benefit: *time*.

[Mogilner and Aaker \(2009\)](#) conducted an experiment with a lemonade stand. They alternated three signs advertising the stand, each emphasizing a particular quality:

- ▶ **TIME:** “Spend a little time and enjoy C & D’s lemonade”
- ▶ **MONEY:** “Spend a little money and enjoy C & D’s lemonade”
- ▶ **NEUTRAL:** “Enjoy C & D’s lemonade”

Participants were told that they could choose how much they wanted to pay — anywhere between \$1 to \$3. The results were clear: the “time” sign outperformed the others. Those people paid twice as much (and the sign attracted twice as many people).

The researchers attributed those results to a personal connection with the product:

“Because time increases focus on product experience, activating time (vs. money) augments one’s personal connection with the product, thereby boosting attitudes and decisions.” [[Mogilner & Aaker, 2009](#)]

When writing copy, emphasize the enjoyable time that people will spend with your product. Not only will that message make your offer more appealing, but it’ll also distract people from the pain of paying.



TACTIC 29: CREATE A PAYMENT MEDIUM

What do casino chips and gift cards have in common? They both reduce the pain of paying.

By creating a separate medium between your customers' money and their payment, you distort the perception of paying. They'll know that they're paying. But it won't feel like it.

Why? Researchers find that, with the presence of a medium, people are too lazy to calculate the conversion between the two currencies ([Nunes & Park, 2003](#)).

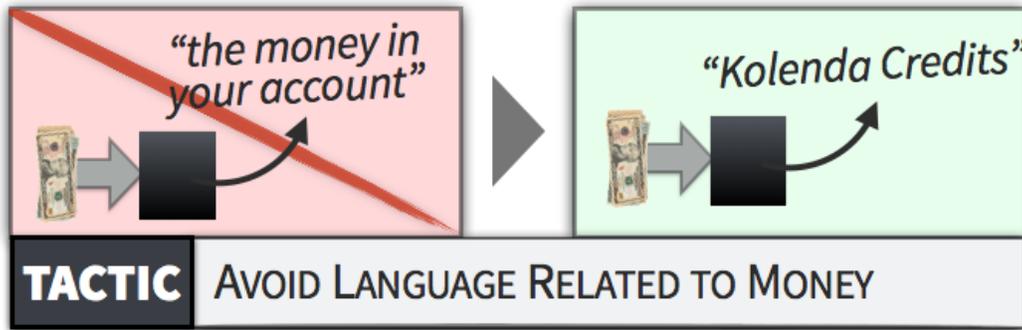
So here's a cool idea. When new customers open an account with your business, you could require them to deposit a refundable \$10 into their account (to be used for your services).

Since the money is refundable, customers might not give too much additional resistance. More importantly, that payment medium will distort the essence of that money. Once it enters a separate medium, it won't feel like money (and people will be more willing to spend it).



TACTIC 30: AVOID LANGUAGE RELATED TO MONEY

You could also strengthen that perception by referring to that money as “[Your Company] Balance” (or any name that avoids connotation with real currency).



If you implement that strategy, you might also want to match customer deposits by a certain percentage. For example, if a customer deposits \$10 into their account, you could match it by 10% (which would bring their account value to \$11).

By matching their deposits, you trigger two benefits.

First, and most obvious, you incentive customers to deposit more money.

Second, you create an off-balance conversion between their money and account value. [Dreze and Nunes \(2004\)](#) explain that payment mediums become more effective when consumers have trouble converting the values:

“With increased exposure and experience, the conversion between two or more particular currencies can, in theory, become second nature. If this were the case, we would expect that combined-currency prices across the currencies lose their efficacy.” (pp. 72)

TACTIC 31: EMPHASIZE THE INHERENT COSTS OF YOUR PRODUCT

Customers care about the perceived magnitude of your price (i.e., whether it’s high or low). But they also care about the perceived fairness of your price.

Even if your price is low, customers could still perceive it to be unfair. Likewise, customers could still perceive high prices to be fair — depending on a few factors.

One factor is your pricing method. Consider two types of pricing:

- ▶ **COST-BASED PRICING:** Prices based on cost factors (e.g., costs of materials)
- ▶ **MARKET-BASED PRICING:** Prices based on supply and demand (e.g., competition)

Customers perceive cost-based pricing to be fairer than market-based pricing (Xia, Monroe, & Cox, 2004). That’s why you can increase the perceived fairness of your price by emphasizing the inherent costs of your product:

“...consumers have little knowledge of a seller’s actual costs and profit margins...Therefore, sellers’ making the relevant cost and quality information transparent helps.” (Xia, Monroe, & Cox, 2004, pp. 9)

Emphasize your product’s “top-of-the-line” raw material or any other cost-based input. That information will trigger a more empathetic perception of your price.



TACTIC 32: ADD SLIGHT PRICE DIFFERENCES TO SIMILAR PRODUCTS

You might be familiar with the *paradox of choice*. When more options are present, people feel *less likely* to choose an option.

Once people choose an option, they lose the benefits offered in the other options. Because of loss aversion, they postpone their decision — especially when more options are present (because they'd be losing more benefits).

That insight led to a similar finding: people are more likely to choose an option if the potential options are similar (Sagi & Friedland, 2007). If options are similar, then people will receive similar benefits with any option. So loss aversion is lower.

But let's question that insight.

In one study, Kim, Novemsky, and Dhar (2012) asked two groups of participants if they wanted to purchase a pack of gum. Each group had two options:

- ▶ **GROUP 1:** Exposed to the same price (e.g., 63 cents)
- ▶ **GROUP 2:** Exposed to a price difference (62 cents vs. 64 cents)

Despite a trivial difference, people were much more likely to choose a pack of gum when a price difference existed.



So why did that happen? Shouldn't the first group be more likely to choose an option — since the gum was priced similarly?

Surprisingly, no.

When the gum shared the same price, customers perceived the packs as to be less similar. Paradoxically, **adding a small price difference INCREASED the perceived similarity.**

Weird, right? I'll explain.

When two products share the same price, people can't immediately distinguish those products. As a result, they seek out differentiating characteristics. Thus, the *product differences* become more salient.

However, when you add a slight price difference, **you reduce the need to search for differences.** Customers can differentiate the products based on price. Because customers focus less attention on product differences, the two products maintain a higher degree of similarity. And that similarity makes people more likely to choose a product.



TACTIC 33: USE MORE FREQUENT (YET SMALLER) PRICE INCREASES

The easiest way to control price perception is through the *just noticeable difference* (JND).

JUST NOTICEABLE DIFFERENCE – The minimum amount of change that triggers detection (i.e., the difference that's just noticeable)

If your price is \$11.99, an increase to \$12.99 will be less noticeable than an increase to \$19.99.

Duh.

In theory, that concept is intuitive. Obviously people notice larger price increases.

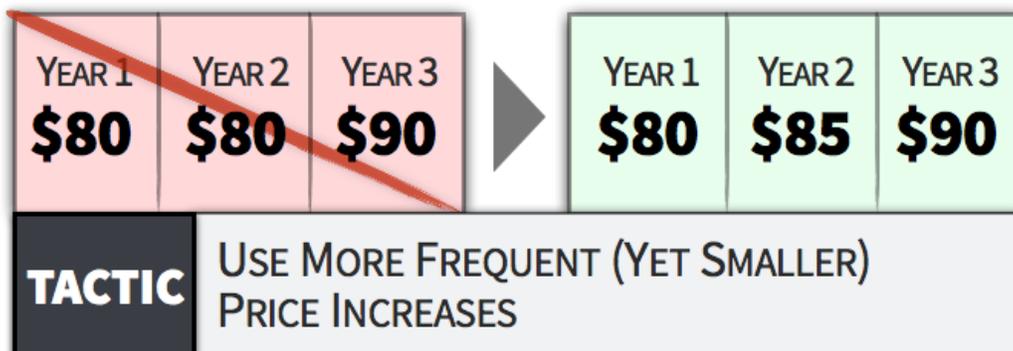
In practice, however, that principle is very counterintuitive. Since businesses avoid price increases, they save that tactic as a last resort. They wait until it's absolutely necessary to raise their price.

However, if you reach that point, then you'll usually be desperate for revenue. You won't be able to increase your price by a tiny amount. You'll need to increase it by a noticeable amount.

So...what should you do?

If you know that you'll need to increase your price eventually, you should use more frequent (yet smaller) changes. **Avoid waiting until the moment of desperation.**

With more frequent price increases, you also avoid reinforcing a concrete reference price. If your price stays the same for years, then people will become accustomed to your price at that specific level. Once you change your price, people will be more likely to notice.



TACTIC 34: DOWNSIZE A FEATURE BESIDES PRICE

You can use the *just noticeable difference* in other ways.

Food marketers know that customers are pretty familiar with prices. So they often avoid price increases by reducing the physical size of their products (e.g., potato chip bags, candy bars, etc.).

By reducing physical size, food marketers lower their costs and increase their margin. More importantly, they increase their revenue without raising their price (or alerting people to negative changes).

If you downsize your product, reduce the size of all three dimensions — height, width, and length — by an equal amount. Consumers are less likely to notice a change in all three dimensions ([Chandon & Ordabayeva, 2009](#)).



USE DISCOUNTS PROPERLY

If not used properly, discounts can actually harm your business. In fact, [some people suggest that you should never use discounts](#).

That advice is pretty extreme. You CAN use discounts...you just need to use them properly.

Where can you go wrong? If used too frequently (or too deeply), discounts can make customers more price conscious moving forward. They'll keep waiting for the next discount.

Discounts can also lower the reference price for your product, causing people to buy less in the future (because your price will seem high).

Reducing the frequency and depth of discounts can help. However, this section will give you a few other pricing tactics.

TACTIC 35: FOLLOW THE “RULE OF 100”

Earlier, you learned that people can perceive different magnitudes for the same price, depending on the context.

Discounts are no different.

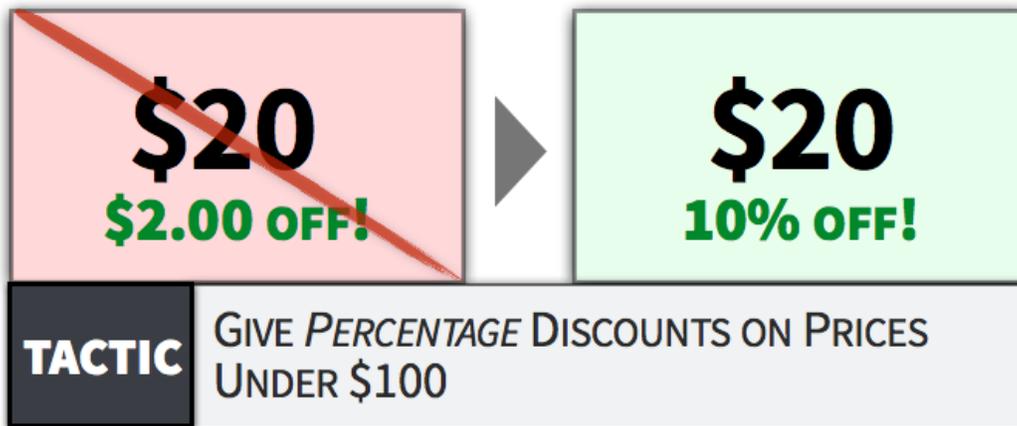
When you offer discounts, you want to maximize their perceived size. That way, people feel like they're getting a better deal.

Consider a \$50 blender. Which discount seems like a better deal: 20% off vs. \$10 off?

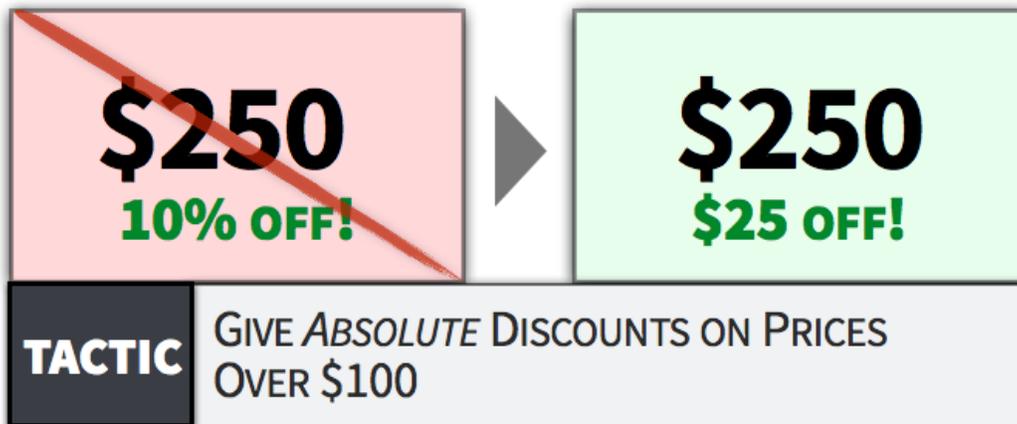
Do the math. Both discounts are the same monetary value. However, one discount has an advantage.

So how do you pick? [Jonah Berger \(2013\)](#) suggests following the “Rule of 100.”

Give **PERCENTAGE** discounts when your price is under \$100:



...and give **ABSOLUTE** discounts when your price is over \$100:



In both cases, you'll be choosing the discount with the higher numeral (which inflates the perceived magnitude of your discount).

TACTIC 36: PROVIDE A REASON FOR THE DISCOUNT

To maximize the effectiveness of a discount, explain *why* you're offering it.

For example, every-day-low-pricing stores refer to supplier price cuts:

"In advertising rollback prices, EDLP stores (e.g., Wal-Mart) often convey the message that additional cost savings they are able to obtain from suppliers are

being passed on to customers... presumably to minimize the negative effects of promotions..." (Mazumdar, Raj, & Sinha, 2005, pp. 88)

By providing a reason behind your discount, you reinforce the temporary and provisional nature of it. Since the price is abnormal, people will be less likely to incorporate it into their internal reference price.



TACTIC 37: OFFER DISCOUNTS THAT ARE EASY TO COMPUTE

Earlier, I explained how people associate precise numbers with small values. Thus, you can influence people to perceive large prices to be smaller when you use precise numerals (Thomas, Simon, and Kadiyali, 2007).

With discounts, however, you want to *maximize* the perceived magnitude. That's why choosing discounts with precise numbers can hurt you. Those precise numbers will make your discount seem smaller.

Indeed, Thomas and Morwitz (2006) found that people perceived the difference between 4.97 – 3.96 to be smaller than the difference between 5.00 – 4.00 (even though the difference is roughly the same).

To maximize the perceived size of your discount, use rounded values. Customers should be able to compute the discount more easily.

The diagram shows two boxes. The left box is pink and contains the text "\$37.89" in large black font, with "23% OFF!" in green below it. A red diagonal line is drawn across the box from the top-left to the bottom-right. A grey arrow points from this box to the right box. The right box is light green and contains the text "\$40" in large black font, with "25% OFF!" in green below it.

TACTIC OFFER DISCOUNTS THAT ARE EASY TO COMPUTE

TACTIC 38: OFFER DISCOUNTS TOWARD THE END OF THE MONTH

Soster, Gershoff, and Bearden (2014) found evidence for a *bottom dollar effect*.

BOTTOM DOLLAR EFFECT – We feel the pain of paying in accordance with the depletion of our budget. We feel more pain when we have fewer funds in our budget.

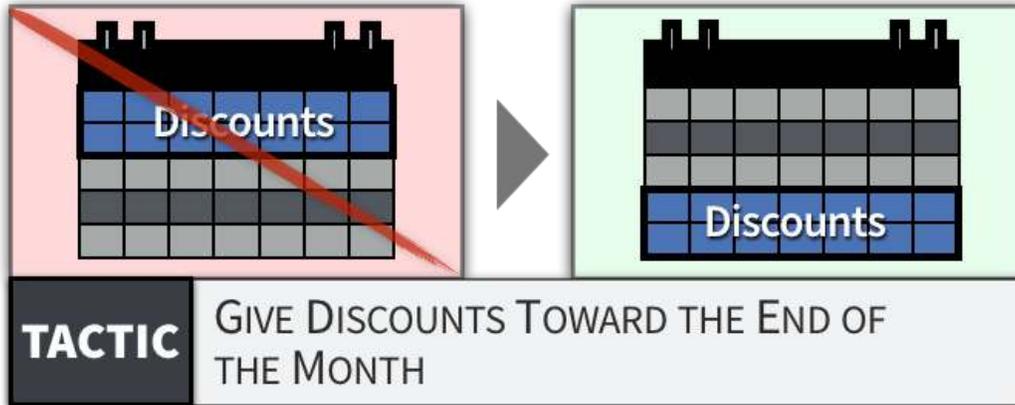
Suppose that you have a monthly budget of \$300. If you spend \$10 on a movie ticket, you will feel more pain toward the end of the month — when your budget is nearing depletion.

| | START OF MONTH | END OF MONTH |
|------------------------|----------------|--------------|
| MONEY IN BUDGET | \$300 | \$10 |
| MOVIE TICKET | -\$10 | -\$10 |
| MONEY LEFTOVER | \$290 | \$0 |

More Pain

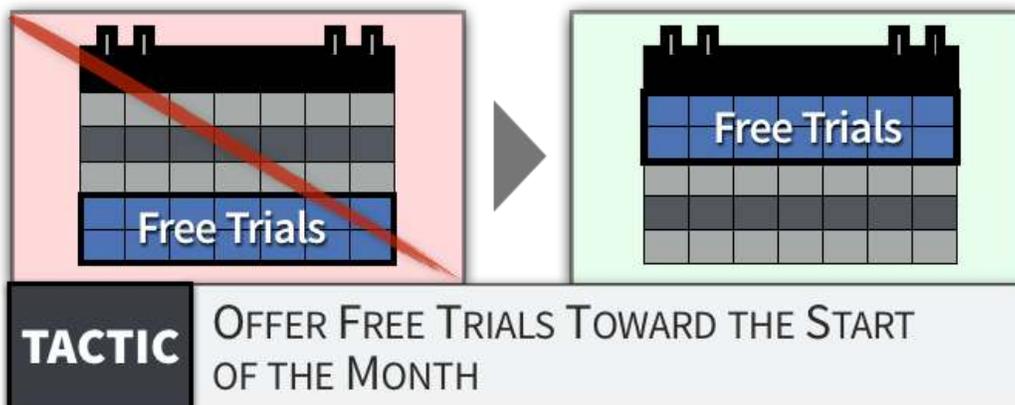
This effect influences *willingness to pay* and *purchase satisfaction* (Soster, Gershoff, & Bearden, 2014). You're more likely to buy a product (and be satisfied) when you have more money left in your budget.

Use that insight to plan the timing of promotions. For example, discounts (or price-related promotions) will be more effective toward the end of the month — when budgets are nearing exhaustion:



Likewise, you could offer free trials toward the beginning of the month — when monthly budgets are higher:

“...if a marketer’s goal is to attract new customers or generate word of mouth, initial satisfaction with trial is important. So, promotions of these types might be better timed at the beginning of the month, or immediately after consumers receive tax refunds, in order to ensure that budgets are not approaching exhaustion at the time of purchase.” (Soster, Gershoff, & Bearden, 2014, pp. 672-673)



However, this tactic assumes that customers are using *monthly* budgets. Always consider your target customers (and their type of budget):

“...consumers may construct their mental budgets differently on the basis of individual circumstances (e.g., college administrators may budget for the academic year, assistant professors may budget for the semester, college students may budget for the week).” (Soster, Gershoff, & Bearden, 2014, pp. 673)

Plan your promotions accordingly.

TACTIC 39: POSITION SALE PRICES TO THE RIGHT OF ORIGINAL PRICES

Oftentimes you'll be displaying a sale price next to the original price. If so, which placement is more effective:

▶ \$25 \$19

▶ \$19 \$25

The answer? The first placement: \$25 \$19

Biswas et al., (2013) found that customers perceive a larger discount when the sale price is positioned to the right of the original price.

Why does that happen? Based on numerical cognition, we can subtract two numbers more easily when the smaller number is positioned on the right:

EASY:

$$100 - 75 = ?$$

HARD:

$$-75 + 100 = ?$$

The researchers dubbed it the *subtraction principle*.

They also found that it alters the perception of discounts. When a sale price appears to the right, customers can calculate the discount more easily — enlarging its perceived magnitude.



But one caveat: the discount should be moderate in size. If your discount is either very low or very high, you might want to place the sale price on the left:

“...at both very low discount depths and exaggerated discount depths, retailers should use sale price display locations that hinder initiation of the subtraction task. This is because when consumers calculate these discount depths, they may either suspect the retailer of opportunistic motives (in the case of very low discounts) or question product quality (in the case of exaggerated discounts).” (Biswas et al., 2013, pp. 63)

TACTIC 40: ONLY GIVE DISCOUNTS ON LOW-PRICED PRODUCTS

Discounts can be harmful. When you end a discount, you might cause people to (a) choose a competitor’s product or (b) wait for the next discount.

But *when* and *why* do those harmful effects occur?

The answer lies in the positioning of your brand — whether it's high quality or low quality ([Wathieu, Muthukrishnan, & Bronnenberg, 2004](#)).

When retailers retract discounts on premium products, demand shifts toward lower priced products. However, when retailers end discounts on lower priced products, demand remains the same:

“...higher quality, higher regular price brands are less likely to be chosen after posting and retracting a price discount, whereas lower quality, lower regular price brands will continue to divert buyers away from higher quality brands after the discount is retracted with no detrimental impact on their own initial customer base.” ([Wathieu, Muthukrishnan, & Bronnenberg, 2004](#), pp. 652)

That effect occurs because of price saliency...

“A price discount posted by a brand not typically assumed by consumers to compete on the basis of price (i.e., a discounted higher quality, higher price brand) is particularly likely to be perceived as unusual and should cause price salience...causing an immediate increase in the amount of attention paid to price information and, ultimately, an increase in the weight accorded to the price attribute in subsequent choices.” ([Wathieu, Muthukrishnan, & Bronnenberg, 2004](#), pp. 657)

In other words, when premium brands retract discounts, customers will still be focusing on price. Thus, they'll consider price more heavily in their purchase. Since the product is already priced high, the perceived cost will seem even larger.

The takeaway?

If you're competing on price, feel free to give discounts.

However, if you're competing on quality, you should avoid discounting (so that you deemphasize price). Instead, remain focused on the attributes and quality of your product.



TACTIC 41: END DISCOUNTS BY PHASING THEM OUT GRADUALLY

Marketers generally use two types of pricing strategies: hi-lo pricing and everyday low pricing (EDLP).

“...managers might regularly charge \$999 for a television, put it on sale for \$799 for a week, and then raise the price back to \$999 after a week. Alternatively, some retail managers choose to employ an EDLP tactic and price the television at \$919 every week.” (Tsiros & Hardesty, 2010, pp. 60)

Tsiros and Hardesty (2010) found benefits for a new strategy: *steadily decreasing discounts* (SDD). Instead of retracting a discount entirely, *gradually* return the price to the same base level:

“Our research supports the use of an SDD tactic, in which the television described is discounted to \$799, and then instead of returning it to its original price all at once, the retailer offers at least one additional sale, such as \$899.” (pp. 60)

The researchers found positive outcomes on multiple metrics. An SDD strategy led to...

- ▶ Higher revenue (Study 1)
- ▶ Higher willingness-to-pay (Study 2)

► Greater likelihood of visiting a store (Study 2)

The researchers even conducted a field study. Over a 30-week span, they alternated between three strategies for a \$24.95 wine bottle stopper at a kitchen appliance store.

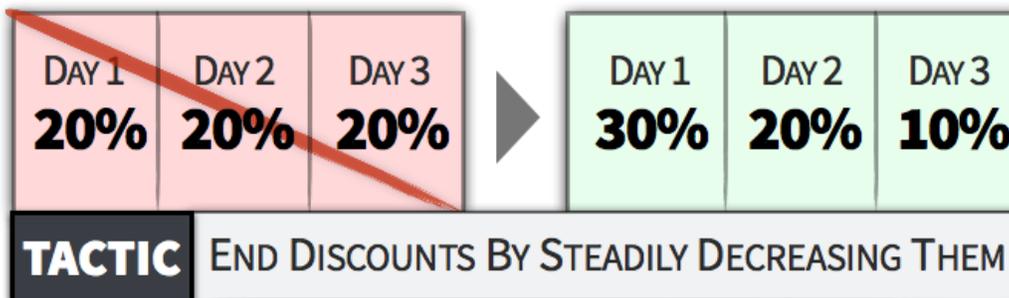
| | SDD | HI-LO | SAME DEPTH HI-LO |
|---------------|-------------------------|-------------------------|-------------------------|
| DAY 1 | \$17.45 (30%) | \$19.95 (20%) | \$17.45 (30%) |
| DAY 2 | \$19.95 (20%) | \$19.95 (20%) | \$17.45 (30%) |
| DAY 3 | \$22.45 (10%) | \$19.95 (20%) | \$24.95 (0%) |
| PROFIT | 55% | 5% | -12% |

 **Highest increase in profit**

With the SDD strategy, customers developed an expectation of higher future prices, which increased their anticipated regret:

“...the “steadily decreasing” part of the discount is fundamental in providing consumers with a signal for higher future prices, which encourages them to buy now.” (Tsiros & Hardesty, 2010, pp. 59)

The researchers found no detrimental effects on store or brand image.



TACTIC 42: OFFER DISCOUNTS WITH LOW RIGHT DIGITS

If your regular price and sale price share the same left digit, your discount will seem larger if the right digits are small (less than 5).

| | PRODUCT A | PRODUCT B |
|-----------------------|-----------|-----------|
| ORIGINAL PRICE | \$19 | \$23 |
| SALE PRICE | \$18 | \$22 |

Discount seems larger because the right digits are smaller

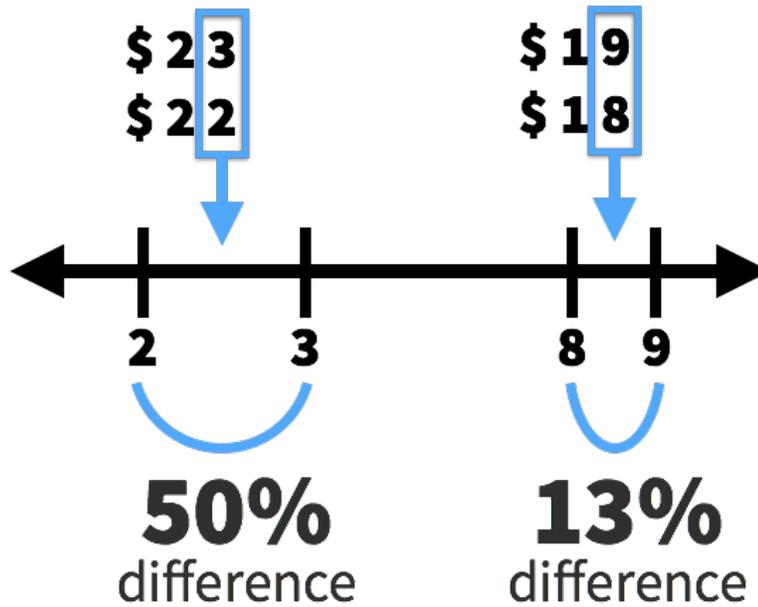
Based on numerical cognition, we compare numbers in relative terms. All else equal, a \$10 discount will be more appealing for a \$50 item — compared to a \$500 item — even though the absolute discount is the same (Tversky & Kahneman, 1981).

A similar process occurs when you compare small numbers (e.g., 0-4) with larger numbers (e.g., 6-10):

“The Weber-Fechner Law is based on people’s tendency to compare disparate digits (and, hence, price reductions) in relative terms. For example, because 3 is 50% greater than 2, and 8 is 14% greater than 7, the absolute difference between 2 and 3 is perceived to be greater than that between 7 and

8, even though their absolute differences are identical.” (Coulter & Coulter, 2007, pp. 163)

Thus, the perceived magnitude will seem larger for small numbers, compared to larger numbers.



Coulter and Coulter (2007) conducted a few experiments, and they found support for that claim. Even when the absolute discounts were larger, people still perceived them to be smaller:

| | REGULAR/ SALE | ACTUAL DISCOUNT | PERCEIVED DISCOUNT |
|-----------------------------------|------------------|--------------------|-----------------------|
| SMALL RIGHT DIGITS | \$244 / \$233 | 4.51% | 5.29% |
| | \$233 / \$222 | 4.72% | 5.53% |
| | \$222 / \$211 | 4.95% | 5.76% |
| LARGE RIGHT DIGITS | \$199 / \$188 | 5.52% | 4.18% |
| | \$188 / \$177 | 5.85% | 4.41% |
| | \$177 / \$166 | 6.21% | 4.53% |

Assuming that the left digit remains the same in the original and sale price, a discount will seem larger when the right digits are smaller.

| ORIGINAL | SALE |
|------------------|-------|
| \$199 | \$188 |
| \$133 | \$122 |

TACTIC OFFER DISCOUNTS WITH LOW RIGHT DIGITS

CONCLUSION

Did you trudge through the entire article? Then you're a brave soul, my friend. And you deserve a pat on the back. I spent a ton of time researching and writing, so I hope you found the insights helpful.

Instead of reiterating the pricing strategies, I want to end with one final tactic — the most important tactic in this list.

If you still have trouble justifying your price to customers — even after implementing the strategies in this article — then you might not have a pricing problem. You might have a problem **communicating the value of your product**.

Instead of adjusting price, adjust your value proposition. Improve the perceived value of your product or service.

- ▶ What makes it special?
- ▶ How is it better than other products?
- ▶ Why would customers enjoy it?

Oftentimes, you can solve your pricing problem by communicating value more effectively.

With that tactic — and all of the other psychological pricing strategies in this article — you should be able to justify your price more easily.

Ready to tackle another in-depth article? You might enjoy these topics:

- ▶ [Conversion Optimization: An Enormous List of Tactics](#)
- ▶ [How to Choose the Right Font \(According to Science\)](#)
- ▶ [How to Name a Product: An Enormous Step-By-Step Guide](#)