

SECTION

One

Price and Product Brainfluence

EVERY MARKETER WRESTLES with decisions about how to structure a product line and how to set prices. A small difference in pricing can make a big difference in profits, but the wrong price can kill sales, too. Fortunately, neuromarketing has plenty to tell us about these closely related areas!

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The “Ouch!” of Paying

ONE OF THE key insights neuroeconomics and neuromarketing research have provided us is that buying something can cause the pain center in our brain to light up. Researchers at Carnegie Mellon and Stanford universities presented subjects with cash, put them in a functional magnetic resonance imaging (fMRI) machine to record their brain activity, and then offered them items, each with a price. Some of the products were overpriced, and others were a good value. The subjects were able to choose to buy items with their money or keep the cash. The researchers compared self-reporting of purchase intentions by the subjects, brain scan data, and actual purchases.¹

I spoke with Carnegie Mellon University professor George Loewenstein after that work was published, and he noted that one significant aspect of the findings is that the brain scans predicted buying behavior almost as well as the self-reported intentions of the subjects. In other words, absent any knowledge of what the subject intended to do, viewing the brain scan was just about as accurate as asking the subject what he or she would do.

Loewenstein pointed out that, in this experiment, the questions about the intentions of the subject were quite straightforward and one would expect the answers to be good predictors of actual behavior.

The “negative” activation produced by cost is relative, according to Loewenstein. That is, it isn’t just the dollar amount; it’s the context of

the transaction. Thus, people can spend hundreds of dollars on accessories when buying a car with little pain, but a vending machine that takes 75 cents and produces nothing is very aggravating.

Bundling Minimizes Pain

Auto luxury bundles minimize negative activation because their price tag covers multiple items. The consumer can't relate a specific price to each component in the bundle (leather seats, sunroof, etc.) and hence can't easily evaluate the fairness of the deal or whether the utility of the accessory is worth the price.

Fairness Counts

Cost isn't the only variable that causes "pain." It's really the perceived fairness or unfairness of the deal that creates the reaction. Other parts of an offer that caused it to appear unfair would presumably cause a similar reaction as a price that was too high.

There's not always a single "fair" price for an item. For most people, a fair price for a cup of coffee at Starbucks would likely be higher than a cup from a street corner coffee cart. A famous study by economist Richard Thaler showed that thirsty beachgoers would pay nearly twice as much for a beer from a resort hotel than for the same brew from a small, rundown grocery store.²

Credit as Painkiller

Overall, Loewenstein wasn't enthused about using his work for neuro-marketing purposes. He pointed out that, for many years, credit card companies have prospered while encouraging consumers to spend too much by exploiting the principles he's now uncovering in his research.

The problem is that, for many consumers, the credit card takes the pain (quite literally, from the standpoint of the customer's brain) out of

purchasing. Pulling cash out of one's wallet causes one to evaluate the purchase more carefully.

We think this makes a lot of sense and is entirely consistent with real-world behavior. A credit card reduces the pain level by transferring the cost to a future period where it can be paid in small increments. Hence, not only does a credit card enable a consumer to buy something without actually having the cash, but it also tips the scale as one's brain weighs the pain versus the benefit of the purchase. This can be a bad combination for individuals lacking financial discipline.

Brainfluence Takeaway: Minimum Pain, Maximum Sales

Pricing and the product itself need to be optimized to minimize the pain of paying. First, the price must be seen as fair. If your product is more expensive than others, take the time to explain why it is a premium product.

If you find yourself in a situation where, for cost or other reasons, the price of a product is likely to produce an "ouch!" reaction from your customers, see if some kind of a bundle with complementary items will dull the pain.

Payment terms and credit options can also reduce the pain of paying. Don't push your customers into buying products they can't afford, but even affluent customers will feel less pain if they don't have to make immediate payment in cash.

3

Don't Sell Like a Sushi Chef

I LOVE SUSHI. But I hate the way most sushi restaurants sell it, with a separate price for each tiny piece. Every bite I take seems to have a price tag on it. “Mmm . . . not bad. But was that mouthful worth five bucks? Do I really want another one?”

It turns out my brain is normal, at least in relation to my aversion to the typical sushi pricing scheme. In the last chapter, we met Carnegie Mellon University economics and psychology professor George Loewenstein. Another insight from his work is that selling products in a way that the consumer sees the price increase with every bit of consumption causes the most pain. This isn't physical pain, of course, but rather activation of the same brain areas associated with physical pain. In an interview with *SmartMoney*, Loewenstein noted³:

[Consumers are] not weighing the current gratification vs. future gratifications. They experience an immediate pang of pain [when they think of how much they have to pay for something] . . .

It also explains why AOL switched from pay-per-hour Internet service to pay-per-month. When they did that, they got a flood of subscribers . . . Why do people love to prepay for things or pay a flat rate for things? Again, it mutes the pang of pain. The worst-case alternative is when you pay for sushi and you're paying per piece.

Or watching the taxi meter; you know how much every inch of the way is costing you.

Marketers have realized this for years, and they have responded with offers designed to minimize the pain associated with buying their products. All-inclusive meal options are popular at many eateries. Netflix crushed its video rental competitors in part by its “all-you-can-watch” price strategy. Cruises have surged in popularity in part because they deliver a vacation experience for a fixed price. In each case, the marketer offers a single, relatively attractive price that removes additional pain from the buying experience.

Paying for Pain Avoidance

In many situations, the single price is actually higher than the amount the consumer would have spent on individual food items, movie rentals, and so on. Nevertheless, the all-inclusive number is likely to appeal to many consumers, particularly those that Loewenstein would identify as being most sensitive to the pain of buying.

Brainfluence Takeaway: Avoid Multiple Pain Points

To minimize customer pain, marketers should always try to avoid multiple individual pain points in the purchasing process. Obviously, some situations make individual purchases unavoidable; for example, a grocery store can’t offer fee-based shopping instead of item-by-item pricing.

Many business situations, though, will permit some experimentation with a single-price approach for items usually purchased separately, such as a monthly or annual fee instead of individual transactions. That simpler pricing approach may boost not only sales, but because some people will pay a premium for pain avoidance, profit margins as well.

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Picturing Money

THE CONCEPT OF *priming* is simple, although it's also a bit unsettling: if you present an individual with subtle cues, you can affect that person's subsequent behavior, even though he or she is entirely unaware of either the priming or behavioral changes. Money-related images are some of the more potent forms of priming.

Psychologist Kathleen Vohs has studied priming extensively and found that supplying subjects with cues related to money increases self-ish behavior. For example, she and her colleagues had student subjects either read an essay that mentioned money or sit facing a poster that pictured different types of currency.

The subjects who were primed with money cues took 70 percent longer to ask for help in solving a difficult problem and spent only half as much time helping another person (who, unknown to the subject, was actually part of the experiment) needing assistance.

The money-primed subjects also preferred to work alone and chose solitary leisure activities compared with unprimed subjects. They even sat farther apart when setting up chairs to chat with another subject.

Vohs concludes that even subtle money cues change the frame of mind people are in: they don't want to depend on others, nor do they want others to depend on them.

This work has interesting implications for advertisers who frequently use money themes in their ads. Big savings, higher investment returns,

visions of prosperous retirement, money containers ranging from piggy banks to gleaming bank vaults . . . ads are full of these images. Most of these ads appeal to the selfish interest of the viewer, so any priming that takes place matches the intent of the advertisement. A mutual fund company touting superior returns and prosperous-looking retirees clearly wants to appeal to the self-interest of the customer; the company hopes the viewer will be sufficiently enticed by these images to transfer funds to it.

Money-related advertising images are pervasive in other types of ads, though, and not all appeal to selfish interests. Many print, television, and even in-store ads seem to emphasize savings. Are “save money on gifts for Mom” advertisers shooting themselves in the foot by subtly priming the would-be gift givers with selfish feelings?

The advertisers who should be particularly cautious about money cues are those who want to appeal to the viewer’s feelings about others. Filling viewers with feelings of warmth and a desire to please someone else, and then reminding them about money, could be self-defeating.

Really, of course, it’s a trade-off. Good salespeople often make the sale using feelings and emotion, and then close the deal with a financial incentive that has an expiration looming. If you’ve ever sat through a time-share sales pitch, you’ll recognize that technique. Much of the pitch is intended to evoke warm feelings about recreation, quality time with family and friends, and so on, but there’s always a financial incentive as the close approaches. Special financing is available only today, there’s a price reduction for 48 hours, and so on. This approach is clearly effective. An advertiser must make a judgment call on whether and how to bring money into the picture if the appeal is primarily an emotional one.

No Money in Sight

Think about the long-running *A Diamond Is Forever* campaign. This is a good example of advertising that scrupulously avoids introducing money cues. Their ads target the luxury gift market. Spending large sums of money to give someone else a polished piece of carbon whose value is determined by cartel-enforced scarcity is hardly a concept that appeals to one’s self-interest.

This effective ad campaign is a purely emotional pitch that would be spoiled by a tagline that offered, for example, “special savings in December!” The ads even avoid talking about the investment value of diamonds.

Restaurant Lessons

Even a simple currency symbol in front of a price can make a difference. One Cornell study looked at several common restaurant price display techniques:

Numerical with dollar sign: \$12.00

Numerical without dollar sign or decimals: 12

Spelled out: twelve dollars

The researchers expected that the written/scripted prices would perform best, but they found that the guests with the simple numeral prices (those without dollar signs or decimals) spent significantly more than the other two groups did. When you visit a restaurant and find the menu has small prices presented this way, you’ll know they are up on their neuromarketing best practices!⁴

Brainfluence Takeaway: Use Money Cues Wisely

Use currency symbols in ads for products consistent with selfish feelings—products that offer financial independence, for example, or even a self-indulgent purchase like a sports car.

For campaigns focused on giving and thinking about others, such as gifts, nonprofit appeals, and so forth, advertisers may want to be a bit cautious and should likely avoid introducing financial imagery.

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Anchors Aweigh!

HERE'S A SCENARIO: You decide to venture into a cell phone store (despite your reluctance to deal with a bewildering number of phones, options, plans, and confusing pricing). As usual, you find you'll have to wait a bit for a salesperson. The greeter hands you a card with a big "97" printed on it and says, "It should only be a few minutes. We'll call your number, 97, when a salesperson can help you." You notice that a large digital display on the wall is showing "94." You see it click to 95, then 96, and finally 97. The receptionist says, "Number 97, please," and a salesperson arrives to assist you. You thought nothing of the numeric ordering of customers, but it's possible that the store had an ulterior motive: they could have been attempting to manipulate the price you would pay. Sound bizarre? Read on . . .

When a consumer views an offer, a key element in the decision to accept or reject it is whether it appears to be a fair deal or not. We know that buying pain—the activation of our brain's pain center when paying for a purchase—increases when the price seems too high. But how does that value equation work? The answer is *anchoring*; typically, we store an anchor price for different products (say, \$2 for a cup of coffee for the local coffee shop) that we then use to judge relative value. That sounds simple enough, but it's actually not. Some anchor prices are stickier than others, and at times, totally unrelated factors can affect these anchor points. The better marketers can understand how anchoring works, the more creative and effective pricing strategies they will be able to develop.

Gasoline: Drifting Anchor

First, let's look at a nonsticky anchor price scenario that most of us cope with daily: fluctuating gasoline prices. In the United States, we've seen prices surge past the \$4 level, not high by world standards but a new threshold for Americans. The first time I saw that "4" digit at the front of the price, I'm sure my brain registered pain. I had barely become used to paying \$3 per gallon of gas. But, after a short time, my anchor was reset. The \$4 prices were no longer exceptional, and if I had been seeing mostly \$4.29 prices, a \$4.09 price would register as a good deal. If I saw a station offering gas for \$3.99—a price that only a few months earlier would have seemed outrageously high—I'd be hard pressed not to pull into the station to take advantage of the "bargain." Of course, gasoline is a unique product; we expect its price to vary, and we have constant feedback on current pricing as we pass gas station signs. For this product, we are constantly reanchoring.

Real Estate Prices

Other items have stickier anchor points. In *Predictably Irrational*, Dan Ariely describes research by Uri Simonsohn at Penn and George Loewenstein at Carnegie Mellon University, showing it takes about a year after relocation for home buyers to adapt to the pricing in a new market with higher or lower real estate prices. People who moved and bought a new home immediately tended to spend the same amount on housing as they had before, even if it meant buying a home that was much larger or smaller than the one they left.⁵

Less Familiar Products

But what about items for which we have fuzzier anchors? We get daily feedback on gas prices, and if we own a home, we probably keep an eye on sales of comparable properties to gauge our own level of equity. Items that are unfamiliar or rarely purchased may form an anchor point when we start thinking about the purchase. If we decide to buy a big-screen

television, we may spot one we like in a Best Buy circular for \$1,000. We may not buy that item, but according to Ariely that now becomes an anchor price against which other deals are measured.

Irrational Anchors

Here's where anchor prices get weird—and *weird* isn't a word I use lightly when I'm talking about the foibles of human brains. Up to this point, there was a perfectly logical framework underpinning the brain's anchoring process. But research conducted by Ariely showed that getting subjects to think of a random number—in this case, the last two digits of their Social Security number—impacted the price they were willing to pay for various items. A higher random number led to higher prices.

Table 5.1 is just one data set from Ariely's experiment—prices that subjects would pay for a cordless keyboard:

Table 5.1 Priming Number Effect on Acceptable Price

Social Security Number Digits	Keyboard Price
00–19	\$16.09
20–39	\$26.92
40–59	\$29.27
60–79	\$34.55
80–99	\$55.64

For an unfamiliar product like a cordless keyboard, the random number that the subjects were thinking of ended up affecting the price they said they'd pay. The correlation between Social Security number range and price for this data set was an amazing (to me, at least) .52! (Before you start hanging posters with big numbers all over your store, be aware that, as with many of Ariely's clever experiments, this one used subjects who were answering a questionnaire, not actually buying the product.)

Presetting an Anchor

Other experiments by Ariely showed that anchors could be preset for unfamiliar items; in that case, a payment for listening to an annoying sound. A questionnaire that included, “Would you be willing to listen to this sound again for \$.10?” elicited lower bids than those given by subjects asked the same question with a price of \$.90.

Brainfluence Takeaway: Be Careful Where You Drop Your Anchor!

It’s no big news to marketers that customers may have specific price expectations for a product or product category. If one can bring a product into that category with a price lower than expected, it should be an attractive offer. If one’s product is premium priced, then it will be important to separate it as much as possible from lower-priced products.

The more interesting challenge is how to deal with new products for which consumers have no clearly established anchor price. Ariely’s research shows that anchor pricing for such products is quite fungible, and marketers would do well to avoid inadvertently establishing a low anchor price. If a higher anchor price can be established, then offers involving lower prices will be attractive to consumers.

Apple’s iPhone introduction is a good example of using anchor pricing to keep demand strong. When they first released the iPhone, it ranged in price from \$499 to \$599, establishing the initial anchor for what the unique product should cost. To the chagrin of early adopters, Apple dropped the price by \$200 after only a few months, creating an apparent bargain and stimulating more sales. When they introduced the iPhone 3G, pricing was as low as \$199, and they sold one million phones in three days.

There are many reasons why marketers start with a high price initially. One big one is to work the demand curve, that is, to demand a high price from the portion of the market willing to pay that much before dropping the price to reach a larger number of customers. A key benefit of this strategy for new products, though, is that a high anchor

price is established in the minds of customers, making each subsequent reduction a bigger bargain.

Nonsense Anchors

Can marketers take advantage of irrational anchor pricing? Would asking customers to think of a number between 90 and 99 while standing in line at a fast-food restaurant make them willing to pay more for a burger? Should stores hang posters of big numbers by the checkouts? Although Ariely's work suggests that this kind of irrational anchoring effect could exist, I wouldn't recommend building a marketing strategy around such techniques. But by all means feel free to test it!

Infomercials and Anchor Pricing

One group of marketers that seems to implicitly understand anchor pricing are the creators of successful infomercials. Just about every one of these seeks to establish a high anchor price for their usually unique or unfamiliar product. They start by saying things like, "Department stores charge \$200 for this kind of product . . ."; then they make an offer at a lower price. They typically proceed to add bonus products into the offer as well, making the new anchor price of their actual offer ("Only \$59.99 plus shipping!") look better and better. By the end of the pitch, the offer price is not only far lower than the initial anchor but the offer itself has expanded to include far more products. (One such commercial, as it concluded, dropped the price by \$5 "for callers in the next 20 minutes"—yet another exploitation of a favorable comparison to a previously established anchor.)

Marketers of all types could do worse than studying the techniques of successful direct marketers. The latter live or die by the success of their commercials, catalogs, or websites, and if you see an offer repeated time after time you can be certain that it is working.

6

Wine, Prices, and Expectations

IN AN AREA as subjective as wine tasting, it's easy to believe that what wine drinkers say about a wine is influenced by what they know about the wine. (Or, by what they *think* they know!) It might be surprising to find out, though, that wine thought to be more expensive really *does* taste better at the most fundamental level of perception. Researchers at Stanford University and Caltech demonstrated that people's brains experience more pleasure when they think they are drinking a \$45 wine instead of a \$5 bottle, even when in reality it's the same cheap stuff!⁶

The important aspect of these findings is that people aren't fibbing on a survey; that is, they aren't reporting that a wine tastes better because they know it's more expensive and they don't want to look dumb. Rather, they are actually experiencing a tastier wine.

The price (or what the subjects thought was the price) actually changed their experience with the product. Baba Shiv and his fellow researchers monitored brain activity using fMRI while the subjects tasted the wine to observe how the subjects' brains reacted with each sip.

Wine isn't the only product affected by its price. Shiv, in another experiment, showed that people who paid more for an energy drink actually solved puzzles more quickly than those who bought it at a discount. The higher price made the drink more stimulating.

Yet another study showed that 85 percent of subjects given a placebo pill for pain relief reported a reduction in pain when they were told the

pill cost \$2.50 per dose; when told the pill cost 10 cents, only 61 percent of subjects reported a pain reduction. The pills, of course, had no actual active ingredients.⁷

Here's the conundrum for marketers: On one hand, we know that the pain of paying kicks in when people perceive that a product is overpriced and makes people less likely to make a purchase. But now we have multiple studies showing that people enjoy a product more when they pay more for it. How should a marketer determine the price point?

I don't think these neural reactions to pricing are necessarily in conflict. If the wine drinkers in the Stanford University–Caltech study had been sent to the supermarket and asked to pick up a bottle of wine on the way to the lab, they would no doubt have felt the pain of paying too much for a bottle of wine. Unless they were wine aficionados, they likely would have chosen a less costly bottle. (Other factors could influence the selection process, too. Would the researchers see the bottle chosen? If it was too cheap, would they think the subject was a wine ignoramus? Would blindly choosing a costly bottle make the subject look like a snob or a spendthrift?) The pleasurable boost from a higher price occurs *after* purchase and consumption, so marketers still face the same problem they always have: setting a price that consumers will accept and that will yield a suitable combination of profit margin and total revenue.

Brainfluence Takeaway: Be Careful With Discounts

What this does suggest is that marketers need to understand that price is an important part of the experience for a premium product or luxury brand. This isn't huge news; we've seen once-proud brands destroyed by overdistribution and pervasive discounting. And it isn't even the price that the consumer pays; the subjects in the study didn't pay anything for the wine they tasted, but they still stated that the expensive wine tasted better.

The consumer has to believe that a product is priced at a certain level for the brain effect to kick in. If someone gives me a \$100 bottle of wine, I'll no doubt taste it as such. If I find the same bottle mispriced at

the wine shop and buy it for \$10, it will likely still be a \$100 wine to me (and I'll have greatly reduced my buying pain as well).

But, if I find a bin full of the wine priced at \$10 and marked "Huge sale; save \$90 per bottle!" some skepticism will kick in. Did this vintage turn out poorly? Did the shop store a few cases next to the furnace and find they had gone bad? Did Robert Parker or another wine expert give it a terrible review? I'm certain that these doubts would lower my brain's perceived value of the wine. If the wine was advertised with a "new low price" of \$10, my brain would be even more certain it didn't taste like a \$100 bottle of wine.

There's not an easy way to cut through the complex balancing act of pricing the product high enough to appeal but low enough to sell in volume. My advice is to price the product appropriately for the target market and to be aware that discounting may actually reduce the quality of the customer experience. That doesn't mean that discounts or low prices are bad; they have a powerful effect on consumers, too.

Most consumers will have no problem in deciding whether the better taste (real or perceived) of a more costly bottle of wine justifies the difference in price. That's why two-buck chuck has sold hundreds of millions of bottles to date, whereas \$100 bottles mostly gather dust on wine store shelves.

7

Be Precise With Prices

IN MY TIME as a catalog marketer, I usually priced products just below the next dollar increment. So, for example, a cheap item might be \$9.97 rather than \$10, and a more expensive item may have been \$499, or even \$499.99, instead of \$500.

This approach was based on a couple of assumptions. First, I thought that there was probably something desirable about offering, say, a “nine-dollar-and-change” price versus a “ten-dollar” price. Even though the difference was only a few pennies, I thought, some customers would perceive the \$9.97 price to offer more substantial savings.

Second, I observed that big marketers like Sears, who could afford to test any number of pricing options and no doubt did so frequently, tended to stick with the “just below the next increment” approach. As it turns out, I was right, but for the wrong reason. New research points us toward the reasons why consumers respond better to a \$499 price versus a \$500 price, and it has more to do with the apparent precision of the odd number than the lower price.

University of Florida marketing professors Chris Janiszewski and Dan Uy tested how people react to pricing in an auction environment by giving groups of buyers three different starting prices:

- \$4,988
- \$5,000
- \$5,012

While for practical purposes these prices may be essentially identical, when the researchers asked the buyers to estimate the wholesale price of the item, the buyer group with the \$5,000 price estimated a much lower number. Not only did the \$5,000 group move farther away from the anchor price, but they also tended to estimate the wholesale price as a round number, too.

Janiszewski and Uy attribute this phenomenon to our creation of a mental measuring stick based on the initial price. If we think a toaster priced at \$20 is overpriced, we estimate it might be worth \$19 or \$18. For the same item priced at \$19.95, our measuring stick has more precision, so prices like \$19.75 or \$19.50 come to mind.⁸

Another study looked at the price of houses and found that sellers who listed their house at an odd price, such as \$494,500, sold at a price closer to their asking price than houses priced at even numbers, like \$500,000. Oddly, the even-priced houses lost more value as they aged on the market, too.⁹

Brainfluence Takeaway: Use Precise Pricing

According to these findings, it seems, I might have done just as well selling a \$499 product at \$502.50; the key thing is to avoid the dreaded round number of \$500, which implies a lack of precision and makes customers wonder if \$400 is a more appropriate price.

I still think there might be a small bias toward the slightly lower number than the slightly higher number when it comes to buyer decision making, but the researchers didn't explore that directly. Another area that could use more study is comparing precise pricing to minimalist pricing, such as the tiny "19" (with no currency symbol or decimal) as one might find on a restaurant menu.

This work should give marketers the ammunition they need to fend off requests for simplified pricing. In the past, I recall frequent admonitions that "Nobody is fooled by a price that's a penny cheaper—let's keep it simple and just charge an even number." People may not be fooled by the more precise price, but they may attribute a higher value to the product itself.

8

Decoy Products and Pricing

NEED TO SELL more of a product or service? Here's a counterintuitive idea: offer your customers a similar, but inferior, product or service at about the same price. While it's unlikely that they will actually buy the less attractive item, you may see a jump in sales of what you are trying to sell.

Here's a real-world example. The last time I needed a can of shaving gel, I found myself staring at a shelfful of options. Gels and foamy creams, with variations that included "Sensitive Skin," "Aloe," "Cleansing," and many more, lined the shelves. As I stood there befuddled by the choices, I noticed a taller can of the "Advanced" gel amid the forest of shave products. This can was identical to several other cans of "Advanced," but it was one or two inches taller and held a couple of ounces more of the product. Best of all, it seemed to be the same price as the shorter cans.

I studied the cans for another few seconds to be sure I wasn't missing something. Nope, I wasn't—same stuff, same package design, same price, but 20 percent more product. My confusion evaporated. I had no idea how shaving gel could be "Advanced," or how that might compare with "Aloe," but I grabbed the bigger can, rooted around and found one more in back, and headed for the checkout with both cans. How did buyer befuddlement turn into a larger-than-expected purchase so quickly? The answer: decoy marketing. In this case, the decoy was unintentional, but there are lots of ways that marketers can use the technique to steer customers toward a decision.

In the shaving gel display, the inclusion of the extra large shaving cream can was an accident—the store just had a few left from a previous promotion. But the principle worked just fine. In this case, the regular-sized cans were the decoys. As soon as I spotted a *nearly identical product that was clearly a better value*, that new find stood out as the right choice.

Relativity is the key element in decoy marketing. Our brains aren't good at judging absolute values, but they are always ready to *compare* values and benefits. When used proactively by marketers, a decoy product or offer can make another product look like a better value.

In *Predictably Irrational*, author Dan Ariely describes an experiment using magazine subscription offers. Like most of Ariely's experiments, this one is deceptively simple. Two groups of subjects saw one or the other of these offers to subscribe to *The Economist*¹⁰:

Offer A

- \$59—Internet-only subscription (68 chose)
- \$125—Internet and print subscription (32 chose)
- Predicted Revenue—\$8,012

Offer B

- \$59—Internet-only subscription (16 chose)
- \$125—Print-only subscription (0 chose)
- \$125—Internet and print subscription (84 chose)
- Predicted Revenue—\$11,444

Take a moment to look at this rather startling result. Both offers are the same, with the exception of including the print-only subscription in Offer B.

Despite the fact that not a single person chose that unattractive offer, its impact was dramatic—62 percent more subjects chose the combined print and Internet offer, and predicted revenue jumped 43 percent. The print-only offer was the decoy and served to make the combined offer look like a better value. Although it's true that Ariely's test had the subjects choose without actually consummating the deal with a credit

card, it's clear that introducing the decoy made the combined offer look more attractive.

How Decoys Work

According to Ariely, decoys change behavior when a subject is choosing between alternatives that are more or less equally attractive. He gives an example of choosing between a trip to Rome and a trip to Paris, both of which include free breakfasts. One might expect a slow decision-making process with a more or less even split between the two alternatives. Ariely suggests that introducing a decoy, a trip to Rome with no breakfast, would make the original trip to Rome more attractive, and that, given those options, the trip to Rome with breakfast would handily beat the similar Paris trip.

So, jumping back to the shaving gel topic, if a drugstore received a shipment of promotional cans with an extra 20 percent of product inside, their first reaction might be to remove the regular cans from the shelf until the promotional stock was gone. What customer would be dumb enough to buy the small can when the bigger cans were the same price?

According to decoy marketing logic, however, the store would be well advised to leave a few of the small cans on the shelf with the bigger ones. As counterintuitive as it seems, the presence of some small cans would likely boost sales of the larger promotional cans, perhaps even taking market share away from competing products that came in the larger size to begin with.

Decoys in Real Estate

I've bought a number of homes, and I've found that real estate agents often set up a tour of several houses in the same price range, leaving the most desirable for last. This seems to me to be another form of decoy marketing, particularly when the next-to-last house compares poorly with the one the agent hopes to sell you (e.g., the same price but in need of more repairs).

Ariely suggests that this will be most effective when the comparison is between superficially similar homes, for example, between two-story colonial-style homes with the same number of bedrooms. Buying a house is a complex, risky, and expensive process, and getting a buyer to make a decision—even when he or she knows it’s necessary—can be difficult. Clever real estate agents learn that comparisons are a key part of the buyer’s process and that selecting the right homes to visit is a key part of moving toward a decision.

Brain Scan Evidence

One study used fMRI scanning to see what happens in our brains when we are trying to choose between options. The researchers found that choosing between two equally attractive options caused the subjects to display irritation due to the difficulty of choosing. But, when another less attractive option was offered, the choice process became easier and more pleasurable.¹¹

Brainfluence Takeaway: Try a “Not-So-Good” Decoy to Push Your Top Product

I don’t advocate any techniques that push customers into buying something they don’t need or want. Sometimes, though, customers have difficulty deciding between alternatives. To get the product they need, they require a nudge in one direction or the other. For example, I was certainly going to buy shaving gel in that store, but the unintentional decoy got me to the decision point and on my way more quickly than if I had spent another few minutes considering the weighty issues of gel versus foam, aloe versus sensitive skin, cheaper small size versus expensive big size, and so on. The regular-sized decoys nudged me toward the jumbo can at the same price, and the deal was closed.

When creating their product offerings, most companies try to develop the best and most attractive offers they can—a practice I wholly endorse. But sometimes adding a less attractive offer to the mix will close

more deals on the better offers without disadvantaging the customer in any way. So, the next time you are creating your “good, better, and best” packages, consider tossing in a “not-so-good” package that’s similar to (but not as good as) the one you’d like to drive the most traffic to. If that boosts sales of that item, you’ll know your decoy is working.

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How About a Compromise?

WHEN MARKETERS PLAN a company’s product offerings, they usually try to do so in the most logical way possible. Several levels of product may be offered: a stripped-down, basic version; a more capable better version; and perhaps a “best” version. These are normally priced at quite different levels, probably based in part on the relative manufacturing costs of the products.

In the last chapter, we saw how a seemingly crazy pricing strategy—that is, pricing an inferior product either the same as or almost the same as a better one—could boost sales of the better product. (In that case, the inferior product is the decoy.)

Now, let’s look at a different kind of decoy: a new high-end product that, even if it sells poorly, can boost sales of the next product in the lineup.

Retailer Williams-Sonoma at one point offered a \$275 bread maker. Later, they added a large capacity version at a 50 percent premium. They didn’t sell many of the more expensive model, but sales of the cheaper one doubled.¹²

What happened? Simply put, introducing the higher-priced machine framed the previously most costly unit as a compromise, or middle-of-the-road choice. Buyers were no longer spending too much on the “Cadillac” of the line, but rather making a wise and practical choice. Before the retailer added the higher-priced bread maker, customers may have compromised on a still lower-priced machine, or perhaps bought none at all.

A Stanford University experiment had a group of consumers choose between two cameras, one more full-featured than the other. A second group chose from a selection of three cameras, which had the other two cameras plus one even higher-end model.

The first group split their purchase about 50/50 between the two models. But, in the second group, fewer of the cheapest unit sold while more of the second camera sold. Adding the very expensive model made the second camera look like a reasonable compromise.¹³

Brainfluence Takeaway: Add a High-End Product

From a practical standpoint, this means that if you have a solid product at the top of your line, you can actually *increase its sales* by adding an even higher-priced product above it in the lineup.

You might find, of course, that the market will support the new premium item on its own merits. If that happens, perhaps introducing an even more costly super-premium product might further boost revenue. But, even if the new high-end product doesn’t generate spectacular sales, you may find that it boosts sales of the next-best or mid-range products.

Of course, there are a few cautions. First, the customer may not be comparing your products only against each other; keep an eye on competitive offerings, too. Second, you should avoid having too many product variations. Research shows that having too many choices reduces sales, due to a sort of paralysis of analysis.

Restaurant Decoys

One area where decoy products are used with great regularity (and success) is in restaurants. The costly filet mignon and lobster combination at the top of the menu is likely more effective at making the other

entrees seem reasonable than in generating orders itself. Similarly, the \$100 Cabernet Sauvignon on the wine list makes a \$35 bottle an acceptable upgrade compared with the \$20 plonk at the bottom of the price range.

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Cut Choices; Boost Sales

CONSUMERS MUST LIKE lots of choices—why else would there be hundreds of shampoo brands and variants on a typical supermarket shelf? Actually, it's been known for years that *too many choices can reduce consumer purchases*.

A study at Columbia University compared consumer behavior when confronted with a selection of either 6 or 24 gourmet jams in an upscale grocery store. The bigger selection did indeed cause more customers to stop and check it out—60 percent looked versus 40 percent for the limited selection. The interesting part, though, was the purchasing behavior. Whereas 30 percent of the customers presented with the limited selection made a purchase, a mere 3 percent of those who saw the extensive selection bought something.¹⁴

That result is quite startling—the small selection sold 10 times as much as the larger one.

Choice Fatigue

Additional research shows that making choices tires the chooser's brain and can actually make subsequent decision making more difficult.¹⁵

One study, by Ned Augenblick and Scott Nicholson of Stanford University, analyzed voting patterns in a California county. They found that the lower on the ballot an item appeared, the more likely the voter was to not make any choice or to use a shortcut, such as picking the first choice. The process of working through the ballot making choices caused voters to look for an easy way out as they progressed.¹⁶

We've likely all experienced that ourselves when completing online surveys. We start out paying close attention to the questions and choices, but if the process starts to stretch across multiple screens, our diligence wanes.

Cutting choices works in the real world. Walmart dropped two brands of peanut butter and found sales in the category went up. Similarly, Procter & Gamble cut the range of skin care products at a retailer, and sales of the remaining products increased. Customers reported that the product selection seemed larger after the cut, perhaps because the merchandise could be better organized and displayed.¹⁷

Brainfluence Takeaway: Find Your Choice Sweet Spot

The trick, it seems, is finding the optimal number of choices for your product: offering enough choices to ensure that a customer can find a satisfying product, but not so many that the customer will be bewildered or demotivated. As with most elements of marketing, testing beats guesswork for this kind of decision. If any general conclusion can be drawn, it's that adding more choices because you want to have what looks like a large selection is a bad strategy; if poorly selling choices are axed, sales may actually increase.

Helping Customers Choose

Customer guidance may help, too. In the Columbia study, almost nobody purchased jam products when the selection was huge. What if a salesperson had been on hand to ask customers a question or two about

their preferences and then make a strong recommendation? “If you like strawberries, then you’ll absolutely love our strawberry ginger jam. It’s full of fruit flavor but has really interesting spicy notes, too. A group of chefs rated it their favorite choice from our full range of jams.” Likely, a bit of effort to help the customer decide (and validate that decision with additional data) would go a long way toward slicing through the confusion and frustration caused by too many choices.

Self-Service Help

Even in a self-service setting, guidance in the form of labels, shelf talkers, and so on, may help by directing consumer attention toward products that may be suited to their needs and wants. The wine shelves at the supermarket are a good example of a paralyzing array of choices. Wine shops deal with this profusion of options by offering (apparently) expert advice to customers. In contrast, many supermarket wine sections offer as large a selection as a wineshop but have no trained staff to assist confused customers. I’ve seen smart retailers guide choices by labeling a few wines with prominent descriptions and expert ratings.

Choosing on the Web

Online retailers can offer a greater selection of products than brick-and-mortar stores, and they can use all kinds of techniques to make choosing easier: recommendation engines, sorting and ranking features, ratings and reviews, suggestions of similar products, and so forth. Amazon.com has a product list that numbers in the millions, but it still manages to guide its customers to appropriate choices. Some online retailers fail the test, though. I’ve left sites that presented me with a large assortment of products that met my initial criteria but offered me no way to sort through them and narrow my options.

Avoid Similar Choices

The wide selection phase of the jam experiment is a good example of offering many choices with no shortcuts to help consumers. Choices are less daunting when the items are quite different and offer the consumer meaningful variation. Sales-killing choices are those that appear very similar and offer the consumer no shortcuts in making a decision.

The basic message is the same for all venues: more choice isn't always good and can actually *reduce* sales.

