

Ep 114 - The 4 P's of Marketing: Pricing

MichaelAaron Flicker: [00:00:00] Welcome back to Behavioral Science for Brands, a podcast where we bridge the gap between academics and practical marketing. Every week we sit down and go deep behind some of the science that powers great marketing today. I'm MichaelAaron Flicker.

Richard Shotton: And I'm Richard Shotton.

MichaelAaron Flicker: And today. We're continuing our miniseries on the four Ps of marketing.

Here. We're breaking down behavioral science principles that can help improve how you approach product, price, place, promotion. We've done promotion, we're now doing price. Let's get into it. So Richard pricing is such a critical part of the customer journey. It's where the rubber hits the road. They may have awareness of your product.

They may have even gotten to the [00:01:00] shelf and they see it, but when they see that price on the shelf, a lot happened in that moment. We could write. A whole book on this. We could do multiple hours on pricing. In fact, there are books written about pricing and the importance of how getting your pricing right is so critical.

In my own experience working with clients across so many different categories is that marketers. Are generally apt to talk about promotion and they're pretty engaged in talking about product and even place. But pricing, my own experience with marketers that sometimes gets a little bit more on eggshells.

Is this the domain of the finance team, the fp and a team? What's marketing's role in in pricing, but what we want. Everyone to take away here is that price says something about your brand. It's a [00:02:00] tool in the marketer's tool belt because it's a psychological driver that shapes how customers perceive your brand and perceive your offering.

It's really a very powerful tool, wouldn't you say?

Richard Shotton: A absolutely small changes to pricing can have a massive effect on the bottom line of a brand. So it's, it is criminal that marketers ignore this crucial p as it were,

MichaelAaron Flicker: As it were

Richard Shotton: And it's gone depending on the time

MichaelAaron Flicker: you went to school.

Is it four Ps? Is it six Ps? There's lots of different numbers, but the important part to remember is that. To be holistic marketers, we have to think about all the ways that the brand touches the consumer, and of course, increasing mental availability and how people think of your brand is critical.

Of course, having the physical distribution to find the brand is [00:03:00] critical. But the way that you display your price, the way you talk about your price, the way that your price sits in the category amongst competitors says a lot implicitly about your brand. And as we always like to say, now we are in the ripe space of the human mind, where we, depending on what we do, can have a lot of.

Intended consequences for how we can help support the brand. And there's some unintended consequences if we don't handle pricing right. So we wanted to peel back the onion, really look at some serious peer reviewed academic studies that reveal parts about how pricing can be leveraged. And then of course, we'll talk about how everybody can use them.

Shall we jump in, shall we get started in our first insight here?

Richard Shotton: Yes. And. When people think about behavioral science and pricing experiments, they normally think about [00:04:00] how do you make discounts more powerful? How do you make the same price appear better value? And there is a phenomenal amount of work there.

But I think the danger is if you just jump straight to making promotions and discounts and prices as pallet as possible, you miss out a real risk when it comes to pricing. And the danger that we wanna start with, the watch out we're gonna start with is the, as you said, pricing says something about the brand.

People assume high price equals high quality, and if you radically discount, if you constantly reduce price, if you are cheaper than competitors, you are sending a very powerful signal that your product is poor quality and that affects actual experience. So there's certainly evidence of this in previous episodes, like the L'Oreal one we did, which I think was our second ever episode, we talked about a wonderful study with baba shiv.

So high priced [00:05:00] wines taste better than low price ones, even if people are getting exactly the same products in reality. But I wanted to talk about different study one that we've never covered before. And it's by Dan Arieli, who we had as a guest on the show a few months back and back in 2008.

He's at Duke University at the time. He runs a very simple study, recruits people, and he gives them two electric shocks of the same magnitude. So people are randomized into two groups. The first group. They get an electric shock and then they are given a painkiller. Now it's actually a sugar pill, it's a placebo, but they don't know that they're given a painkiller.

And on the box there is a very prominent price label of 10 cents. They then get another electric shock of the same magnitude, and they are asked to rate how painful that was. And what he's trying to measure is how much [00:06:00] is the, does the pain drop? So they've had this painkiller. How much does it reduce the pain?

Now, in that first setup, there is a 61% reduction in pain. The second group of people go through the same process. They get an electric shock. They're given a painkiller. The difference though, is this time there is a very different price label on the packet. Even though again, it's a sugar pill, it's a placebo.

The label says \$2 50. And then when they get their second shock of the same magnitude, they rate it 85% lower. So the point here is even on something as base and important as pain perception are. Expectation of what's gonna happen will affect the actual experience, and price is one of the biggest shapers of what we expect a product to do, what we expect the experience to be like.

People think a [00:07:00] high price painkiller is gonna be better than a low price painkiller, and that actually affects the absolute physical experience they get.

MichaelAaron Flicker: I If it has the power to affect your perception of pain we've talked about in previous episodes, your expectation can change the way you think something tastes.

It can change the way you value it because of your, you taste first with your nose and your eyes, then with your mouth. These insights about how people experience products are very much impacted by. Other elements and what we're talking about here is pri absolutely. The price that they perceive is is critical.

Richard Shotton: Yeah. Yeah. And once you start thinking like that, you realize that putting up your prices and putting down your prices can both be [00:08:00] problematic. We worry that. If we increase our prices, we'll dampen demand. But what we also need to account for is if we reduce our prices, we will reduce desire for our products, and most people actually experience our product as being worse quality.

So if you are a consultant, if you are a small business, if you are thinking about setting your price, what I would generally say is before you think about decreasing your prices, you might want to test increasing them because there is such a hardwired link between high quality and high price that it takes on a life of its own.

I think we are too, we jump too quickly to discounting as the solution when sales aren't as high as we want.

MichaelAaron Flicker: I would say that's one big takeaway. Another big takeaway that I think it's easy for many brands to forget is there's constantly new buyers in the market, and especially when you can segment and see if [00:09:00] how new buyers react to the price versus repeat buyers, it gives you an indication of if there's more room to go, that's obviously easier on e-commerce where you can track that.

Even in stores when you have new people come in versus repeat buyers, seeing the reaction of the price difference really makes it, it can really be instructive.

Richard Shotton: Yeah. Do you know what I've had a in any very small scale experience of this I went to Bulgaria. Did a talk and afterwards we did a book signing and 2000 people at the talk.

I reckon 200, 2 50 bought book. And the book's being sold at the normal kind of retail price. About a week later, I went to Dublin and there was a bit of confusion between me and the compare and what I was expecting is the same type of thing. I'd do a talk, then I'd set up my little stand and [00:10:00] sell books afterwards.

What the compare said is after Richard's talk, he'll be giving free books away.

MichaelAaron Flicker: Oh,

Richard Shotton: now this was to an audience, about 300 people, but the people that turned up for the book, I reckon. Eight 10. Wow. So when we'd been

charging full market rate, 10% of people had bought in Bulgaria, in Dublin, where this product that's exactly the same book, exactly the same caliber of insights and research has been given away.

But for free the purchasing rate drops to what would that be? About? 4%

MichaelAaron Flicker: The take rate. The take rate, yeah.

Richard Shotton: Yeah. The take rate were halved PE even though it was given away for free, there was no price barrier because people assume if I was giving away for free, it must be bloody awful. Why would a decent author give his book away for free?

People read into my behavior even though it was a mistake. They read into that behavior, a very credible sign for the quality of the book. [00:11:00]

MichaelAaron Flicker: So there's. Two parts of this. One is understanding that price can really change the perception of the product that you're getting. And then two, the messaging that you put around it really makes a difference.

So same offer had two different outcomes because of the way it was talked about. Now in, in your example, you're actually charging for one and not charging for the other. But really the way you deliver the message around price matters a whole lot.

Richard Shotton: Oh, absolutely. I think when you start getting to the the real breadth of behavioral science experiments, what you see again and again is the same price can be communicated or set up with slight differences that have really big differences in impact.

So a small change to price communication have a big effect on sales.

MichaelAaron Flicker: [00:12:00] So we wanna always be thinking about both parts of that, what we may be sending as the message, and then how we can talk about it. Yeah. Okay.

Richard Shotton: Yeah.

MichaelAaron Flicker: So that gives us our first insight. What's the next bias that we wanted to bring to the table about pricing?

Richard Shotton: That point about communications, that's where we get into lots and lots of specific studies. So one of them is around the timing. Of your price. And the broad theme here is what's known as present preference bias, sometimes known as present bias, sometimes known as hyperbolic discounting, but they all refer to the same proven insight.

The people are much more influenced by a cost in the now or the immediate future than a cost in the medium or distant future. So what I mean by that is if I have to pay you five pounds today, that is a very painful. Cost for me. If I have to pay you five pounds in a week's time, I'm [00:13:00] starting to treat that similar cost, that same cost as something very different.

It's a problem for future me and we don't really care that much about Future Me. We are much more willing to spend money if the payday or the cost is gonna be far away. Now there are some lovely studies that are done by people like Liam Delaney but in slightly artificial circumstances which have shown this.

So the study that I prefer to talk about is one from 2006 by Anna Breman, who was at the one of the Stockholm universities. She's now actually the Deputy Governor of the Bank of Sweden. But at the time she was an academic economist. And she actually persuaded a Swedish charity called Diaconia.

It's a third world charity to let her run a test. So they have [00:14:00] 1,134 regular monthly donors, and they randomize these donors into two groups. First half of the donors, they do the business as usual approach. They bring up the donor and they say you give us. Five kroner or \$5, whatever it was.

Will you give six or will you give seven? The second half of the donors, they ring them up. They go through a very similar process. So they say, you give us \$5, will you give us six? And then they add an a crucial bit, which is, will you give us \$6 in three months time, will you increase your direct debit and we'll take the money out in three months time.

Now that. Second group were much more likely to agree to the upgrade. It was a 32% increase in likely to agree to the upgrade. Even when you take into account the fact that it's delaying the time that the charity get the cash, it was [00:15:00] still much, much more successful. And the point here is it's a really clever way for a charity to take advantage of this present bias.

The. Feel good factor the donor gets of being a generous person. That's in the immediate moment. You get that on the phone call. So it looms large,

MichaelAaron Flicker: right?

Richard Shotton: The downside of the equation, which is the cost, the pain of paying the fact that you no longer have these extra dollars you're giving away, that's thrown into the future by two or three months, and therefore it becomes attenuated.

It doesn't become as painful in people's minds as any longer. So what brands want to do? Is think about how can I keep the benefits in the immediate moment? How can I push the costs into the future? And if they do that, they're working with human nature, not against it.

MichaelAaron Flicker: It's a fascinating study because when you hear it, it resonates that, [00:16:00] it makes sense that if I can push off that future pain of payment it, the that can really work well.

As you were talking about the study, Richard, I was thinking about in the, in our book Hacking Human Mind, we wrote about a Daniel Reed and Barbara Van Lewin study about. Choosing healthy food now versus a candy bar. I don't know if you think it's worth re, re, re restating this, but in some ways it's a complimentary insight and in some ways it's revealing a little bit of a different part of human nature.

Do you think it's helpful to, to maybe talk about the differences between these?
Yeah

Richard Shotton: So I think, and I think they do have similarities, but I think there are important differences too. Yes. So agreed for the study. It's a really nice study. It's one of my favorites actually. Daniel Reed, I think might be at Warwick now, but was at Leeds University at the time, and he and Barbara Van Lu go [00:17:00] to a I think it's a Danish office block.

There's a couple of hundred people and they make an offer to the employees. They say, look, we've got an apple here and a chocolate bar. They're both free. You just pick which one you want. You can only have one of them. And half of the time they say to people. Pick your snack and you get it. Now, the other half the time they say, pick your snack and we will come back in a week or two weeks time and we'll give you your choice.

And what they see is that if people are picking. For their current cells, they are much more likely to go for the chocolate bar, not the apple

MichaelAaron Flicker: candy bar. Yeah.

Richard Shotton: But if they are picking for their future selves, if they're picking to consume in a week's time, then it's a much more balanced thing. There's a big swing back to the apple.

The apple becomes much more appealing. And the argument there would be if people are picking for now. They are most influenced in what they want. What's gonna be the most enjoyable thing, what's gonna satisfy their appetite, what's gonna be [00:18:00] tasty? But if they're picking for their future selves, they're much more likely to be influenced by what they think they should do concerns about health or the environment.

Yeah, there's a really interesting discrepancy between how people behave if they're picking for their current self. Versus if they're picking for their future self. And I guess some people would say the the reed study shows an illogicality because of course when the receipt has come back and give people the apple when they, after that one week break, if people are consumed disappointed.

Yeah. They, yeah they're consuming in the current moment. So we have this mistake and belief that our future self is some way, is gonna behave very differently from our current self. So I, I think when it comes to pricing, the Bremen study is super useful when it comes to maybe the moment in which you [00:19:00] are, trying to communicate, say, I know environmentally beneficial goods or healthy foods. Then I think the Reed study is amazing. If you want to get people to buy low alcohol lager, much easier to do it when they're online shopping, buying for a week's time than when they are shopping in a small corner store buying for this evening.

MichaelAaron Flicker: I, I think that's why it came to mind for me. Because they reveal similar. Insights or there similar studies that reveal different parts of human nature, but very important depending on how you're gonna apply it. So if you're applying it as you say to consumption something that you're gonna buy today versus a week, that, that Daniel Reed study helps you think about how you can position and market your product.

But if you're thinking about pricing, thinking about that pain. What you pay upfront versus what you'll pay in the future. It [00:20:00] changes the, it changes that ratio a little bit.

Richard Shotton: Yeah. Yeah. A, absolutely. Absolutely.

MichaelAaron Flicker: How about the next bias, Richard?

Richard Shotton: Yeah.

MichaelAaron Flicker: What else would we like to talk about?

Richard Shotton: So the next area is all around the importance of fairness. So it's very easy to fall into the trap of thinking. I will encourage people to pay more for my product by adding in extra benefits increasing the value people get, but actually what people are prepared to pay is not just about what they think the benefits of the product will be.

It's all so what they think is a fair price, and that's a slightly different thing. So just to give, go back a step and give people the evidence. So it's a 1996 study by BLO and Besman. Lovely study where they go up to students on campus. It's one of the early days of term, [00:21:00] so you might be a bit skeptical 'cause it's done with students, but you see the same finding elsewhere in other groups.

I'd just like to talk about the study 'cause it's the original and I think the clearest and to some people they say, you come to our lab tomorrow morning we are running an experiment. We'll pay you \$7 and it'll take half an hour of your time. And amongst that group, 72% of people agreed to take part.

Next group of participants they go up to, they give them basically the same offer, but there's a little bit of a twist. It's still involving half an hour of experimentation. The next morning, half an hour of maths puzzles, but this time they say they'll pay the people \$8. So there's a \$1 increase in the wage.

Yep.

MichaelAaron Flicker: Got it.

Richard Shotton: Got it. But they add in an additional fact, which is an apology. They say, look, we're really sorry. We can only pay you \$8. Unfortunately, we are paying people \$10 earlier this morning, but we've run out of cash.

Now the interesting thing here [00:22:00] is even though the economics of the deal has got better, \$8 for half an hour of time.

And in this is 1996. Remember, that is a good wage for a student, so it's gone up to \$8. But even though the money's gone up, the proportion of people who

accept the deal goes down. Now, just over half of people, 54% of people accepts the deal. Now their argument is people on rational calculate machines working out.

What's the. Decent wage for a particular task. What they instead think of is a very simple question, have I been treated fairly? And their reminder that psychologists give them that other people have got \$10 makes that \$8 feel like a fairness transgression. What this experiment shows is if people think they've been treated unfairly, they in a English proverb or saying we like to say, they'll cut off their nose despite their face, they will turn down a profitable [00:23:00] opportunity to make sure that the unfair actor is punished accordingly.

MichaelAaron Flicker: I think that beautifully describes what we were talking about earlier in the episode, that the messaging around how you deliver the price really matters because that changes, as you say, the perception and it strikes me sometimes. Categories take price, and everyone takes price around the same time and around the same increments.

And in that way, it's not that your customers don't notice it, but it's all in parity. And that happens across almost all categories, almost all years, but it's when you have to take a price that's gonna be noticed, that's when you might want to consider. How you message it in market, that can really make a difference.

The study that we talked about was proving the point, but if you have to take a price [00:24:00] when no one else is, or when you have to take increase, when it will be noticeable. The messaging around it can really make an impact. So you might consider if your costs are going up, disclosing that to your customer because that way it feels more fair that they're paying more.

Or you could may think about what other tactics you can use to justify the price increase if it's gonna be noticed.

Richard Shotton: I think those are great tactics. So there are certainly experiments by Richard Thaylor showing that people will treat prices increases differently depending on whether they think it's passing on costs versus an opportunistic price increase.

So yeah if it's a true story for many businesses at the moment, this will be a true story if. Commodity costs are going up, if labor costs are going up, when you next push through a price increase, make sure the end user knows that and they'll treat it very differently from just [00:25:00] a 10 or 20% increase on the actual price.

MichaelAaron Flicker: You saw this all over the place last year in America with tariffs. If people were taking price because of the tariffs, they disclosed that and that was that was seen as a tactic That made sense.

Richard Shotton: Yeah. And. It only, it's obvious if you think about fairness as being an important principle. If you have this mental model that the consumer is just thinking about the value your product brings versus the cost you're asking, although stories are irrelevant that wouldn't even factor in people's consideration.

But once you've got the right model of human behavior, then the implications become very straightforward. I think you could also argue there's a kind of lateral application of this idea. And we often talk about the illusion of effort. So we've talked about Dyson a lot, where they famously went out and said that 5,000 127 prototypes.[00:26:00]

Now, I think that's interesting when you think about fairness, because what you're doing there by talking about all that effort is increasing willingness to pay. You emphasize the work that's gone into something and then fairness suggests it's deserving of a of a higher price. Now, that's not an angle that we have explored and discussed Dyson before, but I think if you put the illusion of effort experiments together with these fairness studies for BLO basement, I think that would be the implic.

MichaelAaron Flicker: I I think it's very compelling and when we interviewed Les Burnett earlier last year, he talked about more generally the power of great brand marketing to reduce price sensitivity. So does great marketing increase people's willingness to pay as an understudied area of marketing effectiveness? And what you are talking about here, very specific application.

Can the illusion of [00:27:00] choice be stacked to justify increased price? Fair?

Richard Shotton: Yeah. Yeah. Yeah. So the illusion of effort emphasizing the story of work, thank, that's gone behind it. And this is always one that really sticks with me from a personal perspective. My grande. Ran a small kind of mechanics engineering firm, and by all accounts, he was a brilliant engineer, but not a particularly good businessman.

And he had this problem where cars would come in to get fixed. He'd do it in record time because he was master of what he was doing. He would then very quickly give the bill to someone and they would be flabbergasted and annoyed with him. Why the hell am I getting charged so much?

Only took you half an hour of work. Now, he unfortunately died at a very early age. My grand took over the business. Knew absolutely [00:28:00] nothing about engineering. Couldn't tell a axle from a spark plug. But what she was very good at is a understanding of people. So when the mechanics very quickly repaired a car, what she'd say to me is, look, just.

Sit on it for a bit. Don't ring them now to tell them it's ready. Why don't you wait till the end of the day? And then when there were people rung at the end of the day, after days hard labor on it they were completely happy when they were then they were given a bill. So this whole, what a praise that.

MichaelAaron Flicker: Yeah.

Richard Shotton: If you create this appearance of effort. You can charge more. I think is a really fascinating bit of behavioral science that probably we could come back to and look at some maybes design to experiments the test even further.

MichaelAaron Flicker: Oh, I think that'd be very interesting. Man, I'm just thinking of Richard's Grant who had that insight and reduced all those angry customers.

What a, it is a lovely story. A lovely story. [00:29:00] We decided to add one more bonus bias. Yes. And this one really matters to me. I think this one is so easily missed when brands face customers in the marketplace. So maybe you could set it up and we could talk a little bit about it. Yeah.

Richard Shotton: So absolutely. Worth emphasizing.

We've covered, this will be our fourth experiment. We could do 40. There are so many of these studies, and this is a kind of classic example of a small tweak to how you communicate your pricing that can have a big effect.

Yes. And I think it's a really good one to end with because it's not very well known.

Prices are badge of quality, present bias maybe even fairness. There's, they're reasonably well known. This is a much more tactical opportunity, but I think it's one that could be applied far more. So the research comes from 2019 it's by David Hard, who's at the University of British Columbia, and he worked with the New York [00:30:00] Times to run a test into what he called differential pricing.

So people are shown two subscriptions for the New York Times. They are shown a basic package, so the web and the app, or they're shown a premium package web. App, print, and podcast. So always it's those two options, but how the prices displays change. So the first half of people, they see the basic package at 9 99, the premium package at 1699, and 23% of people pick the premium package.

Next group, same products. The basic package is still labeled 9 99, but the premium package. Is referred to as \$7 more. Now if you do the maths, 9 99 plus \$7 is 1699, so you should get a very similar uptake. Again, it should be about [00:31:00] 23% of people picking the premium package, but that is not what happened. The proportion of people who pick the premium package more than doubles, it goes to 47%.

So hard dis argument here is if you've ever showing. Two products. Don't give people the basic price and the premium price. Give them the basic price, and then refer to the premium price as the price differential. Yes. And that makes the the premium feel less extreme. People are more willing to accept it.

MichaelAaron Flicker: I think it also reveals something about buyers that can be surprising to people is that they're just not. Willing to do even the lightest amount of work. If you can frame it for them, you can get the benefit. So what you [00:32:00] really wanna show is a lower number, rather than showing the higher 1699, you wanna focus.

It's only \$7 more for podcasts and crosswords for all the things you love at the New York Times. So by showing the lower number by. Doing the math for them. I think you get to highlight a smaller number that really is what's effective for them. And I think it's taking that extra step as the marketer to highlight the real benefit that helps with people who are maybe not that focused that, that are light users of your product, that are distracted buyers.

It does the, that extra little bit of work for them.

Richard Shotton: Yeah. I think that's exactly it. I think focusing on the podcast bit with the differential price, people thinking, oh, \$7 more. That's two coffees. Is it worth two coffees a month for my podcast? Yeah, that sounds reasonable.

In the other saying where you just go [00:33:00] straight to the 16 point 99, people are thinking 16, 9, 9. My math has left me six coffees five coffees know podcasts of five coffees. That's not worth it. Now you want to give them the smallest possible number, which is completely ethical, which is completely fair.

You what you are making the upgrade very clear, the absolute cost for those extra benefits. I think that's what happening. People respond to these numbers in a slightly naive way. Absolutely. This is a wonderful tactic and I think if anyone's listening. Rather than listen and then get on with your day job.

If you are offering two prices, why not test this? Now, if you've got a

MichaelAaron Flicker: yeah,

Richard Shotton: reasonably sized brand, you could put this test in place a week later. Know if it works. If it does, there's no cost to this little challenge. It's straight to your bottom line. Give it the test, see if it works, and then if it does, I promise you there are hundreds of these studies that you can boost your [00:34:00] margin spot.

MichaelAaron Flicker: Yeah. The other bit of this, that to me resonates is that it takes that extra bit of. Effort by us as marketers to say, is \$7 the right gap? Is that, is it the right offer? And you might be able to charge even more if the gap is justified. But it's up to us as marketers to make that decision. And as you said in the beginning of the podcast, Richard, this is where profit is.

Given away. This is where those the these looking at it rather than 69 9 versus 9 99, thinking of it as 9 99 and then plus seven, is that really en enough of an upgrade? Is that, can we get people to say that's worth another \$9 and that's \$2 a pure profit. That type of thinking challenges us as marketers to say maybe we can put one more thing in and set in [00:35:00] addition to podcasts and crosswords to make that product that they're upgrading to that much more worth it at no more price to us.

So to me, that's where the marketing becomes next level or becomes really smart, is when you ask, can I get more? Price premium, maybe at no more cost to me. Can I get smart about what I'm including? And it just challenges us as marketers to really be thoughtful about the consumer offer.

Richard Shotton: Yeah. And I think there's two ways of looking at this. You can think. Are there additional biases that we can stack on top of differential price framing to create the sense that the offer is even more powerful to push up? Either conversion rates or margin or the other way of looking at it is hard see, is essentially for his own benefit, create quite a simple experiment.

He's kept the prices the same in all of the two scenarios. But the other way of interpreting [00:36:00] his study is. Rather than taking the benefit as increased

conversion, you could actually increase your price using a price differential. And so that there'll be no conversion increase, but there would be a margin increase.

That's, I think another interpretation of the, of the test.

MichaelAaron Flicker: Yeah. That's where my mind went. But and to your point, both are good meaningful takeaways from that study.

Richard Shotton: Yeah. Yeah.

MichaelAaron Flicker: Lovely conversation. Lots to think about for marketers on pricing. Shall we wrap it up for everybody? Go through the big key takeaways of today's episode.

Richard Shotton: Yes. Okay. So four big key takeaways. The first is probably an underappreciated one, which is price is a batch of quality. So Baba, she Dan. Lots of studies that show. Price acts as a credible signal about the quality of a product, and that doesn't just change the desire for the product, it will [00:37:00] change the product experience.

So if you charge,

MichaelAaron Flicker: literally change, it will literally

Richard Shotton: change your experience of

MichaelAaron Flicker: pain.

Richard Shotton: Yeah, absolutely. Pain. So if you are a consultant and you charge someone 10,000 pounds for report. It will probably be more appreciated at the end than if you've given them the exactly the same report for charge for a thousand.

It becomes a self-fulfilling process. So you've got to be very careful about excess discounting. And I think too often entrepreneurs and marketers jump to discounting as a way of boosting demand rather than thinking could actually a price increase, boost demand. Let's try that first. The second principle we talked about was the many named present bias, hyperbolic discounting, present preference bias.

All of these wonderful names refer to the same insight. People really care about pleasure or pain in the current moment. They don't really care about the same level of place or [00:38:00] pain in the future. So what you wanna do as a marketer when you are designing your pricing is push the costs. Into the future as much as possible.

So let's say you wanna sell 10 issues of a magazine over a year. You might logically think let's just charge \$10 for each of those issues. What a psychologist would say is no, don't do that. Charge nothing for the first two, and then \$12.50 for the remaining. Eight magazines you'll get the same income at the end, but people will be far more sorry, per subscriber, but you'll get far more subscribers with the second setup.

If you give people a low price to begin with, that's what affects whether they're gonna click buy rather than what the average cost of the magazines will be. So present bias is a really underused opportunity for many [00:39:00] brands. Third principle we talked about was fairness. This idea that people respond to prices, not just by thinking, is that a decent conversion rate to the utility that'll bring the happiness, that'll bring me.

They're also very keen that price. It's perceived as fair. So make sure you tell people about the work that's gone into it. If you are putting up your product, that is, if you're putting up prices, make sure you emphasize that you are passing on costs rather than just taking extra margin. Now, emphasizing you are behaving fairly with your prices is very important.

Now, people will go to ridiculous lengths. We saw the blo and Bayes in study to punish you if they think you are behaving unfairly. And then finally a lesser discussed study about price differentials that wonderful David Hardisty New York Times study. If you have two prices, don't talk about the premium one's.

Total price. Talk about that price in terms of the [00:40:00] difference from the basic price. Okay. Might sound complex to explain, but it's a very simple thing to apply and it has a nice impact on boosting conversion rates. So four, I think, big principles that can be applied very straightforwardly by marketers.

MichaelAaron Flicker: Hopefully this gives everyone a primer on how to think about pricing as a tool. To affect people's perception of the brand, the way they value the brand. And lots more on this topic. So Richard this has got me thinking. Are there any books that you really look to on pricing that's been helpful as you think about how pricing can affect marketing and how, if people wanna learn more about this topic?

Richard Shotton: Yeah. Yeah, de definitely. So one of my favorites is Priceless by William Poundstone. He was a guest on the post couple of months ago,

MichaelAaron Flicker: episode 86, for those listening at home.

Richard Shotton: Very good memory. And what he's very good at doing is [00:41:00] balancing readability and research. I think there are lots of readable tones out there that are a little bit light on evidence, and there are some amazing but very hard work.

Detailed research that goes into pricing. What Ton is so good at is being evidence-based, talks about a lot of the studies, but you can race through that book in a, a weekend. It's a really good overview of how to apply these behavioral science experiments. Just the area of price. But I think I would be slightly remiss if I didn't mention hacking the Human Mind, which of course the two of us did.

There's quite a lot about price in there. So there's a chapter on Klarna where we cover things like the pennies a day effect, and the present preference bias. There's bits on Red Bull where we talk about price relativity. So yeah, there's certainly quite a lot on hacking the human mind as well that might be [00:42:00] worth people looking at.

And what about you? Any anyone's podcasts or TED talks or books that you particularly like on pricing?

MichaelAaron Flicker: There's there's a concept that I first learned from a a great industry leader named Tim Williams who teaches about. Positioning and pricing, and he first taught me about the idea of three options and the power of how you design your options so that you can give buyers choice, but you can guide them and show the value of let's say, the middle option.

Or you can use an anchor price to help establish the value, the relative value of the three options. I think when we were also talking about Roy Suler covers this a bit in his book, alchemy. So these are that idea that you can use multiple prices amongst variants to drive home. The relative value, to me is a really [00:43:00] powerful part of pricing.

Lots of great people have written about it, but I would say that would be my recommendation.

Richard Shotton: Yeah. And there is a real dangerous martyrs. Sometimes we get super excited by the latest new experiment the new tactic we can use. But actually often it, it's the most well known and well researched experiments have the biggest impact.

So I think, yeah, the power of three when it comes to pricing that idea of extremist diversion is a really important one, and it's one that works again and again.

MichaelAaron Flicker: Yeah, it's, you can count on it. As we like to say, Richard, for those that were listening, found this interesting, please share this with your colleagues, your coworkers, anyone who you think will this will be valuable for, and if you would like, comment, or follow our pages, it helps us reach more marketers just like you so that our work can be as useful as possible.

Until next time, I'm MichaelAaron Flicker.

Richard Shotton: And I'm [00:44:00] Richard Shotton.

MichaelAaron Flicker: Thanks so much for listening.

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