

THE PSYCHOLOGY OF PRICING

Discover how to influence people's perception of
your prices and motivate them to buy.

3XM


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INTRODUCTION

“Price is merely a perception. Nothing more. Nothing less.” – Nick Kolenda

There are numerous techniques you can use to influence your client’s perception of price and motivate them to buy.

When you’ve read this guide you will have a greater understanding of the psychological principles that affect people’s perception and what motivates them to make a purchase. It will walk you through a number of easily implementable tactics that you can use in your business to maximise your sales.



ALL OUR KNOWLEDGE HAS
ITS ORIGIN IN OUR
PERCEPTIONS

LEONARDO DE VINCI



INFLUENCING PERCEPTION OF PRICE

This section will show you techniques you can use to subconsciously influence people to perceive your price as lower. They are very simple and easy to implement.

I. THE POWER OF 9 – CHARM PRICING

Welcome to pricing psychology 101. This tactic is one of the oldest and most widely used. It is known as “charm pricing”. In simple terms, it involves ending the price in 9, 99 or 95. This simple practice can profoundly affect purchasing decisions.



People perceive the price as significantly lower than it actually is because we naturally scan a number from left to right and our brains encode the size of the number so quickly that it happens before we've even finished reading it!

So if a price is \$7.99, we perceive it as \$7 rather than \$8. In other words, we round down to the nearest whole number even though it is closer to the rounded up figure.

Charm pricing is most effective when the left digit changes. For example a one dollar difference between \$480 and \$479 won't matter. However, a one dollar difference between \$400 and \$399 will make a massive difference.

So the motivation is simple - it makes the price seem lower and it is surprisingly effective. William Poundstone looked at eight different studies which he talks about in his book, Priceless. He found that on average, “charm pricing” increased sales by 24% versus “rounded up pricing”. That's phenomenal. Imagine if you could increase your revenue by 24% with something so simple!

\$300



\$299



PRO TIP

Reducing the left most digit is the most effective form of Charm Pricing

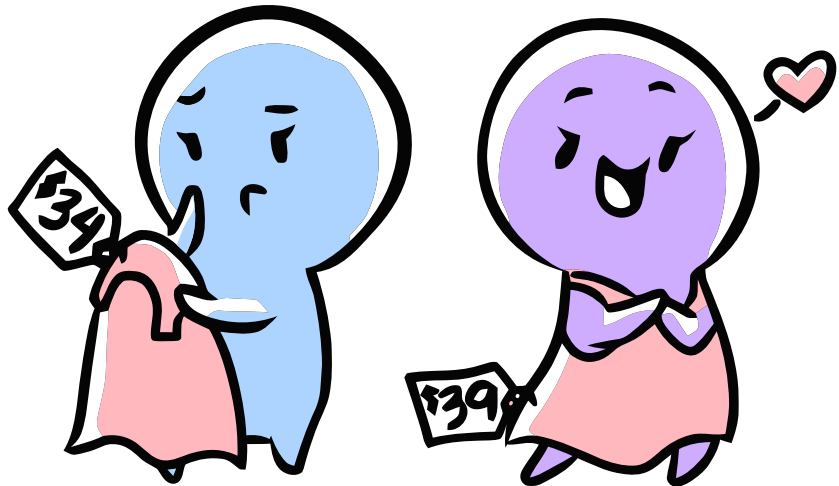
Charm Pricing in Action – An Experiment

There is a well known experiment that was conducted by MIT and the University of Chicago that illustrated the power of 9.

They tested a standard item of women's clothing at 3 different prices: \$34, \$39 and \$44. The item sold best at \$39 despite the fact that it was more expensive than one of the other options. This study also showed that prices that ended in 9 outperformed lower prices by 24% on average.

When 9 is used in combination with a sales price, it also comes out a clear winner. For example, WAS \$50, NOW \$39 outperformed WAS \$50, NOW \$35.

This is another ridiculously simple thing to implement that can clearly have a significant impact on your sales.



A Caveat to Charm Pricing for Luxury Brands

If you're selling a "luxury" or "pleasure-focused" product or service, you may want to consider ditching the charm pricing tactic and using round numbers instead. Why?

Well odd ending numbers can signal "discount" and if you're offering a high-end product and service, you may want to convey that you don't need to resort to charm pricing to make what they're offering desirable. But this relies on you knowing who your clients are and attracting the right ones! If your ideal client happens to be a bit more price conscious and deems price an important consideration when choosing their photographer then you should probably stick to using charm pricing.



When you position your brand as luxury, equate your products and service with quality and make clear the value of the investment they're making. When it comes to "luxury", there are 3 different value categories:

1. **Symbolic Value:** How exclusive is this product?
2. **Functional Value:** Does this product possess a high-level of craftsmanship?
3. **Experiential Value:** Will this product add to my everyday enjoyment?

So if you're a high-end, full service photographer that's focused on offering an incredible experience and top quality products, think about the numbers you use on your price list ;)

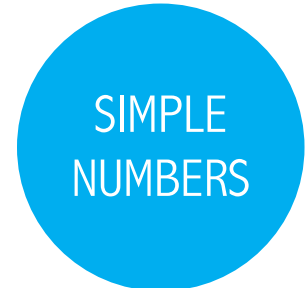
2. SIMPLE NUMBERS – FEWER SYLLABLES

Keeping your prices simple is an easily implemented yet effective tip. The idea here is to use prices with the smallest number of syllables when you say it out loud (or in your head!). A paper published by the Journal of Consumer Psychology found that prices with more syllables appear higher to consumers.

Give it a go... try saying these prices in your head:

\$1,499

\$1499



Did you read the first one as “One thousand, four hundred and ninety nine”? That’s 10 syllables total.

For the second one, did you read it as “Fourteen Ninety Nine”? That’s 5 syllables (exactly half!)

And all we did was **REMOVE THE COMMA!**

Another trick to keeping your numbers simple is to avoid using decimal places.

So instead of \$1,499.00, just use \$1499.

In the above examples, we are showing a currency symbol – the dollar sign. Later on in this guide we will explore the idea of removing this too!

\$1,499.00



\$1499



3. SIZE MATTERS

This might sound crazy but clients will perceive your price as smaller if you display it in a smaller font size. It's because our brains have a universal conceptualisation of size and there's an overlap between visual size and numerical size.

Positioning larger elements around your price will also help to reinforce this effect.

\$199



\$199



SMALLER
FONT SIZE

REVERSE THAT NOTION FOR DISCOUNTS

You want to MAXIMIZE the size of a discount so you should display your discount numbers in a larger font size.

4. EXPOSURE TO A HIGH NUMBER

Exposing your clients to any high number before the price of your product (it doesn't have to be related to your product price at all) can cause people to perceive the price to be lower. This again might sound a bit bonkers but there are numerous studies to back this up.

The Social Security Experiment

Ariely, Loewenstein and Prelec (2003) showed participants a number of random products and asked each person if they would buy the product for the amount equal to the last two digits of their social security number. After receiving the yes/no answers, they then asked participants to state the amount they would be willing to pay. Incredibly, they found a direct correlation between the participant's social security number and the price they said they would be willing to pay! Here's the data from one of the products (a wireless keyboard).

Last 2 digits of Social Security Number	Willing to Pay
00-19	\$16.09
20-39	\$26.82
40-59	\$29.27
60-79	\$34.55
80-99	\$55.64

This is an example of numerical anchoring at work and we'll explore this concept further in the next section.



PRO TIP

Your clients don't need to consciously notice your numerical anchor – they just need to be exposed to it.

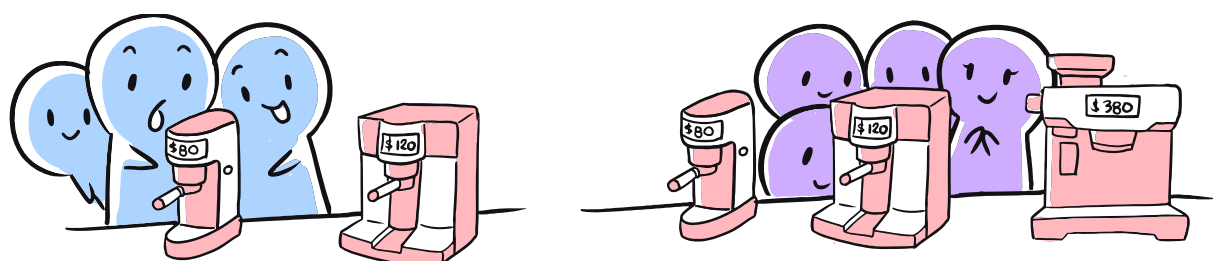
5. PRICE ANCHORING

Anchoring refers to the tendency for people to rely heavily on the first piece of information offered when making a decision. So the first price they see or hear will have an effect on their perception of all future prices. And by future prices, I don't mean the prices you would like to charge 2 years down the line. If we start with \$500, then \$200 will seem cheap and \$1500 will seem expensive. But if we start with \$20, then \$200 seems expensive. An example of this is a car salesman who will start off by showing the customer an expensive car. He will then go on to show the customer the mid-range cars which will seem so much cheaper than the first car.

We've all heard the saying *"The best way to sell a \$2,000 watch is to put it next to a \$10,000 one"*. Placing a premium product next to standard ones makes them look like a bargain in comparison.



PRICE
ANCHORING



THE COFFEE MACHINE EXPERIMENT

We also know that when people are given 3 choices, 70-80% of people will go for the middle option. A brilliant example to explain this is an experiment done with a retailer selling coffee machines.

Initially they offered 2 coffee machines priced at \$80 and \$120. The majority of people went for the \$80 coffee machine. They then introduced a third product priced at \$380. The majority of purchases then shifted to the \$120 machine.

So when you're creating your price list, you should include 3 package options. Ensure you price the middle package at what you would like your average sale to be (desired average order value). You may also choose to include a fourth "Elite" package priced well above even your top package. Even if you don't plan on selling a lot of these elite packages, its presence alone will help the anchoring effect take hold and increase conversions of the main packages which are the ones you are really trying to sell "en masse".

If you are looking to move up the pricing ladder but want to manage your risk, one approach is to price your bottom package at your current average order value. This acts like a "safety blanket" in that you will never be worse off than your current average if you can maintain the same number of sales and the same cost of goods. With the majority of people going for the middle package, your average will automatically increase.

5. SHOW PRICES FROM HIGH TO LOW

This is one of the simplest adjustments you can make to your price list. You can influence your clients to choose a more expensive option simply by displaying your prices from highest to lowest.

THE BEER EXPERIMENT

Suk, Lee and Lichtenstein (2012) tested this theory in a bar over an 8 week period. They alternated how the prices were shown and they found that when the prices were shown from high to low, their average sale increased.

Prices shown LOW to HIGH		Prices shown HIGH to 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	

Reference Prices

Low to High: \$4
High to Low: \$9

WHY DOES IT WORK?

When people look at a list of products, they use the initial prices to generate their reference price. When the first few prices are high, their reference price will be high and all subsequent options will seem like a good deal in comparison.

The other reason why sorting your prices from high to low works is due to what's known as "Loss Aversion" – we'll explore that in the next section.

6. LOSS AVERSION

As humans, we tend to focus on losses rather than gains. It is thought that the pain of losing is psychologically about twice as powerful as the pleasure of gaining. When we choose an option, we lose benefits from the options we didn't choose and that hurts!

Let's return to the example where we showed the effect of sorting prices in descending versus ascending order. When you sort your prices from low to high, as the person scans down the list, they view each product as a loss in price; they're gradually losing the ability to pay a lower price and so they feel motivated to minimise the loss by choosing a lower priced product.

However, when you sort your prices from high to low, people will view each new product as a loss in quality. To minimise the loss in quality, people will be motivated to choose a higher priced product from the list. This will only work of course if the person equates price with quality.

THE GAS STATION EXAMPLE

Gas station A was selling gas for \$1.80 per gallon. If you paid with your credit card, they charged you an extra 20 cents per gallon. Gas station B was selling gas for \$2.00 per gallon but gave you a 20 cents per gallon discount if you paid with cash. Regardless of whether you bought from gas station A or B, the price per gallon was exactly the same. However, customers were much happier to shop at gas station B where there were no penalties for paying with a card over those in gas station A even though the cost of the gas was exactly the same.

So if you take credit card payments and charge your client a processing fee – DON'T. Instead, increase your price by the credit card fee % and offer a discount for cash.



LOSS
AVERSION

MOTIVATING CLIENTS TO BUY

This section will give you pricing tactics that you can use to motivate your clients to buy. It centres around 2 things:

1. The Pain of Paying
2. Discounts.

THE PAIN OF PAYING

When we make a purchase, we feel a sense of pain which is often referred to as the “pain of paying” (Prelec & Loewenstein, 1998). The “pain” emerges from 2 things:

1. **Saliency of the payment:** we feel more pain when we see money leaving our hands
2. **Timing of the payment:** we feel more pain if we pay after we consume

A brilliant example of this in action is Uber. With traditional taxis, you get into the taxi, you generally don't know how much it's going to cost and you sit there watching the meter increase with every minute you spend sitting in it. At the end of the journey, you often pay with cash. There's a lot of pain involved in this simple transaction!

PAIN OF
PAYING

However, with Uber, you know exactly how much the journey is going to cost before it even arrives, there's no ticking meter to watch and the payment happens automatically.

Have you experienced a traditional taxi and an Uber ride? Think about how you felt for each.

So, now let's explore some tactics for reducing the Pain of Paying.



Uber



1. REMOVE THE CURRENCY SYMBOL

The pain of paying can be triggered very easily – the simple presence of a currency symbol reminds people of that pain and causes them to spend less. Be careful that you don't sacrifice clarity though – only use it when it's obvious that it's a price.

Ever noticed that restaurants, particularly higher end restaurants very often employ this technique on their menus?

\$1,499 **1499**



2. CHARGE BEFORE THEY CONSUME

When possible, get your clients to pay *before* they use your product or service. Prepayments benefit both you and your client. You get paid early and your clients will be happier because when people pre-pay for something, they focus on the benefits of the product or service they'll be receiving which helps to "numb" the pain of paying.

Do you charge a Session Fee?

Do you charge a session fee? If you don't, perhaps you should re-consider. Your clients will be pre-paying for their photoshoot and will be excited about it. The other benefit is, you'll get a partial payment from each client which will help with cash flow and reduce your risk of not getting paid at all for the job. Not only that but, money spent is money forgotten and by the time their viewing and ordering appointment comes around, the client has already "forgotten" about the session fee and are therefore more likely to spend more.

3. FOCUS ON TIME

When talking about your products, avoid references to money. Instead focus on something that is much more valuable: time. When writing copy, emphasise the enjoyable time people spend with your product. It will not only make your product much more appealing to your clients but it will also distract them from the pain of paying!

"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



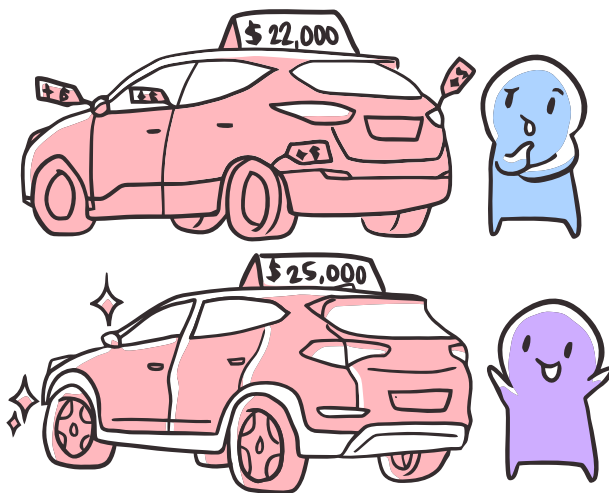
4. BUNDLING

According to the field of neuroeconomics, our brains are wired to “spend ‘til it hurts”. When perceived pain is greater than perceived gain, our limit has been reached.

Price bundling is one way to not only reduce this pain point but it can actually encourage the purchase decision. By showing more value, it also helps to increase post-purchase satisfaction.

The car industry is an excellent example of successful price bundling in action as noted by Professor George Lowenstein. It's much easier to justify a single upgrade than it is to consider individual upgrade items such as heated seats, sat nav, parking assist and so on.

PRICE
BUNDLING



PRO TIP

Avoid bundling expensive and inexpensive products together. The inexpensive products will reduce the perceived value of the expensive products.

5. PAYMENT MEDIUMS

Why do you think casinos use chips? One of the reasons is that they reduce the pain of paying. It doesn't feel like you're spending *real* money so people tend to spend more. The same goes for gift vouchers. Once it enters a separate medium, it distorts the perception of paying and people will be more willing to spend it.

Do you take card payments in your business? If you don't, it might be time to explore this option, as paying with a card feels less painful than paying with cold, hard cash. Do whatever you can to reduce the pain of paying for your clients. You may find that by giving them this option, they'll end up spending more.



6. AVOID TOO MUCH CHOICE

Did you know that giving your clients too much choice can actually result in fewer sales? It's called "decision fatigue". A tired, confused or overwhelmed mind will say no. People may think that they want lots of different options and that we should give them what they want but in reality, it just doesn't work.

AVOID
TOO MUCH
CHOICE

THE JAM EXPERIMENT

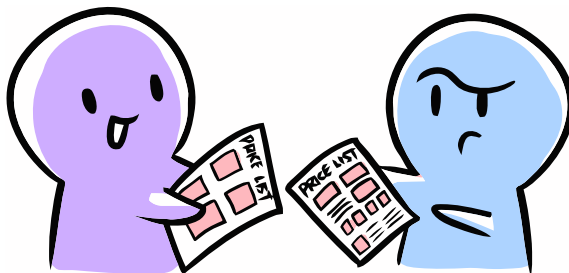
There was a famous study done by Sheena Iyengar from Columbia University who tested this theory.

She set up a jam sampling stand outside an upscale supermarket and offered samples of either 6 or 24 jam flavours. Interestingly, more people stopped to sample the jams when there were 24 flavours to choose from (60% as against 40% for the 6 flavours). However, when it came to making a purchase, only 3% of the customer's who had sampled 24 jams went on to purchase, but 30% of the customers who sampled the 6 jams purchased.



75% Less Choice » 6x purchases

So while customer's can be attracted by lots of options, in reality, it will actually result in fewer sales. So, keep your price list, clear concise and easy to understand.



PRO TIP

If you offer two products that are very similar, add a slight price difference to them. This reduces the need for the person to search for differences in the product in order to choose one. With a slight price difference, the client will focus less on the differences between the products and will be more likely to make a choice.



A study by Kim, Novemsky, and Dhar (2012) show it in action. Two groups of participants were asked if they wanted to purchase a pack of gum.

Group A was offered two types of gum both priced the same.

Group B was offered the same 2 gums but there was a 2 cents price difference between them.

The results? 77% of people in Group B chose a pack of gum where the price differed by 2 cents and only 46% of people in Group A chose a pack of gum where the prices were exactly the same.

DISCOUNTS

When it comes to discounts, you need to proceed with caution. Incorrect use of discounting can actually harm your business in the long run. However, they can also act as a great motivator to purchase when used properly.

I. THE “RULE OF 100”

In section I of this guide, we looked at how people’s perception of price can be influenced, and discounts are no different.

So when you’re dealing with price, the aim was to reduce their perceived size. With discounts, you want to do the complete opposite – you want to maximise it so people feel like they’re getting a better deal.

If you take a \$50 product. Which sounds better to you? A 20% discount or \$10 off? Both have the same value in terms of actual money but people will *feel* like the 20% discount is better simply because it’s a bigger number.

So how do you decide what type of discount to give... absolute or percentage?

Here’s where Jonah Berger’s “Rule of 100” comes in.

Use **PERCENTAGE** discounts for products priced **under \$100**

Use **ABSOLUTE** discounts for products priced **over \$100**

\$20
\$2 off



\$20
10% off



\$250
10% off



\$250
\$25 off



DON'T discount too deeply
DON'T use discounts too frequently

Discounting too frequently can make your clients more price conscious and they’ll wait for your next discount. It can also lower your client’s reference price causing them to spend less in the future because your prices will seem high.



2. GIVE A REASON FOR THE DISCOUNT

Giving a reason for your discount will maximise its effectiveness and will reinforce the fact that it is temporary. By telling people that this is not a “normal” price, they will be less likely to add it to their internal reference price with which to measure all other prices.

Some examples are supermarkets that pass savings from their suppliers to their customers. Clearance prices are also a reason. The consumer understands that this is not a “normal” price and is only discounted to clear stock. This often happens when a product is being discontinued.

3. MAKE THE MATH EASY

When you want to influence people to perceive large prices to be smaller, you should use precise numbers i.e. not rounded. However, with discounts, the opposite applies. To maximise the perceived size of your discount, you should use rounded numbers. It allows the consumer to compute the discount more easily. Also, if you're using a percentage discount, try to ensure that it is an easy discount to apply to the price of the product – make the math easy!

\$97.64 17% off 	\$100 20% off 
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4. TIME YOUR DISCOUNTS

The Bottom Dollar Effect as suggested by Soster, Gershoff, and Bearden suggest that we feel the pain of paying in accordance with the depletion of our budget. We feel more pain when we have fewer funds left in our budget. As a lot of people get paid monthly, you should plan your discount offerings towards the end of the month as this is when they'll be most effective.

5. MAKE THE RIGHT DIGIT SMALL

If the left digit of your regular price and sale price are the same, the discount will seem larger if the right digits are small. It again comes down to numerical cognition. Studies by Coulter and Coulter showed that even when the absolute discounts were larger, people still perceived them to be smaller.

HEALTH WARNING AROUND DISCOUNTS

Discounts may not suit your business and can end up causing more harm than good in the long run.



LOW QUALITY AND LOW PRICES = GO AHEAD AND DISCOUNT

A good rule of thumb is, if you're trying to compete on price, feel free to discount. Lower quality brands with a lower regular prices are generally unaffected when a discount is discontinued.

HIGH QUALITY AND HIGH PRICES = AVOID DISCOUNTS

If you're competing on quality, avoid discounting. Discounting will only place emphasis on the price and when you stop discounting, clients will look for lower priced products/services elsewhere. Instead, focus on the quality of the products and service you provide.

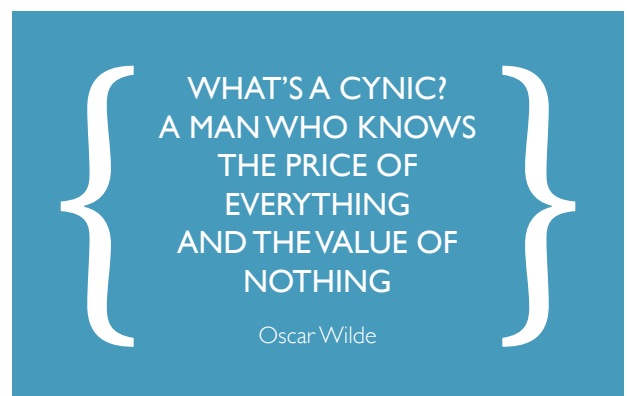
IT'S NOT ALL ABOUT PRICE

It's more to do with value than it is to do with price. While it's a good idea to maximise the effectiveness of your pricing by applying the techniques in this guide, it is more important that you are confident in your pricing and are able to clearly communicate the VALUE you offer.

You should never feel like you have to justify your pricing to your clients. Instead, focus on improving the perceived value of your products and services.

- What makes the service you provide special for your clients?
- What makes your products stand out above anything else available to the average consumer?
- Why should your clients choose you?
- Why should your clients use your services?
- How can you make their lives better?
- Why will they enjoy the experience?
- How and why will they enjoy the products you offer?

You MUST value yourself. You must value your work; you must value the experience you offer your clients and you must value the products you offer. At the end of the day, if you don't see value in yourself and what you're offering, no-one else will either, especially your clients. Your mentality around value is everything. Once you start to value yourself and what you do, selling will become a whole lot easier!



Additional Resources

1. YOUR GUIDE TO PRICING YOURSELF FOR PROFIT

A step by step guide to make sure you're pricing yourself for profit based on YOUR business numbers. This is a must do download!

[DOWNLOAD THE PRICING YOURSELF FOR PROFIT PDF GUIDE](#)

2. DOWNLOAD THE PRICE LIST CHECKLIST

Make sure you're ticking all the boxes on your price list with this handy downloadable checklist.

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