FREE PLAYBOOK · NO. 05

YOUR PRICE IS PART OF THE PRODUCT

PRICING PSYCHOLOGY



A FREE PLAYBOOK FROM

BINA

BUILDWITHBINA.COM

BEFORE YOU START

NOBODY KNOWS WHAT ANYTHING IS WORTH.

Your customers judge a price by what sits next to it, what they saw first, how it ends, how it is paid and what it says about the product. These six findings show how, and what to change on your own price list.

WHAT'S INSIDE

01 THE DECOY
Why an option nobody picks can double your best seller

02 THE ANCHOR
Why the first number decides the rest

03 THE ENDING
Why $39 can outsell $34

04 THE PAIN OF PAYING
Why the way people pay changes what they pay

05 TOO MANY CHOICES
Why fewer options can mean more sales

06 PRICE AS A SIGNAL
Why a discount can make the product worse

Then: all six rules on one page (p. 10), the signs you're getting it right (p. 11) and a 15-minute worksheet (p. 12).

HOW TO USE THIS PLAYBOOK

Twenty minutes, front to back. Keep your own pricing page, quote template or menu open next to it.

READ IT ONCE

Twenty minutes. Each finding is one page: the study, why it works, and the rule.

TAKE THE RULES

Page 10 is the whole thing on one page. Photograph it before you next change a price.

USE THE WORKSHEET

Page 12 is four questions about your own prices. Fifteen minutes, with a pen.



WATCH THE FILM · 1 MINUTE

THE WHOLE PLAYBOOK IN ONE MINUTE

Six findings, one rule each. Watch it first, then read the pages that matter to you.

Watch the film →

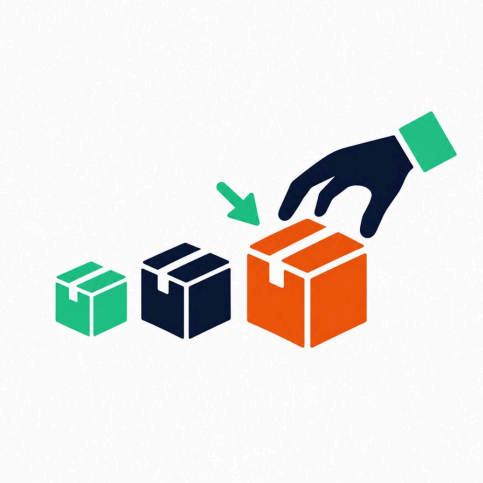
Opens the film in your browser

SMART, OR SNEAKY?

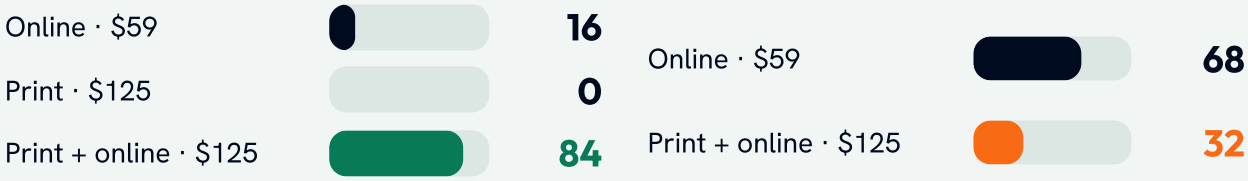
Every move in here can be used either way. Our line: it is smart when it helps a customer pick the option that is actually right for them. It is sneaky when the only person it helps is you. Fake "was" prices and countdown timers that reset are on the wrong side of that line, and in a lot of countries they are illegal too.

01 · THE DECOY

NOBODY CHOSE IT. REMOVING IT CUT THE BEST SELLER FROM 84 TO 32.



Dan Ariely showed 100 MIT students an old subscription offer from *The Economist*: online for $59, print for $125, or print and online for $125. Nobody chose print only. When he took that option away and asked another group, the expensive plan fell from 84 to 32.



Choices out of 100, after Ariely (2008). Our maths from his numbers: about 43% more revenue with the decoy.

Why it works

People rarely judge a price on its own. They judge it against the option next to it. Print only made print and online look like getting the website for free.

THE RULE

Never show your main offer alone. Put a real option beside it that makes its value obvious, like a smaller package that costs nearly as much, or a bigger one that costs a lot more.

02 · THE ANCHOR

THE FIRST NUMBER THEY SEE SETS THE SCALE FOR EVERY NUMBER AFTER IT.



In 1974, Tversky and Kahneman spun a wheel rigged to stop at 10 or 65, then asked people what percentage of African countries were in the United Nations. The wheel had nothing to do with the question. It still moved the answers.

WHEEL LANDS ON 10	WHEEL LANDS ON 65
25%	45%
MEDIAN GUESS	MEDIAN GUESS

A random number, and nearly double the estimate. After Tversky & Kahneman (1974).

On your price list

If the first number a customer sees is $49, your $900 package looks huge. If the first number is $4,000, the same $900 looks reasonable. You don't change the price. You change what it's measured against.

What it costs you

Leading with your cheapest option. A "from $49" headline sets the scale for everything after it, so every real package feels expensive.

THE RULE

Show your biggest real option first, top or left. Then work down. It must be a real offer that someone could buy, or it is not an anchor, it is a lie.

03 · THE ENDING

THE SAME DRESS SOLD BETTER AT $39 THAN AT $34.

Anderson and Simester ran it in a real mail-order catalogue: one women's dress, printed at $34, $39 and $44 in different copies. The $39 version outsold both. A price ending in 9 reads as a deal, even when it is not the lowest.



$34	$39	$44
FEWER SALES	SOLD THE MOST	FEWER SALES

$2.99 is read as "two-something": the eye stops at the left digit. After Anderson & Simester (2003) and Thomas & Morwitz (2005).

Ending in 9 says "deal"

Good for anything people compare and shop around for: everyday products, add-ons, the entry option on your list.

A round number says "treat"

Wadhwa and Zhang found round prices suit purchases made on feeling, like a gift or something premium. $200 can feel more right than $199.

THE RULE

Pick the ending on purpose. Use 9 where you want to look like good value, a round number where you want to look confident. A list where every price ends in 9 says "discount shop", even if you are not one.

04 · THE PAIN OF PAYING

HOW PEOPLE PAY CHANGES HOW MUCH THEY WILL PAY.

Prelec and Simester ran a sealed-bid auction for sold-out basketball tickets. Half the bidders were told to pay by credit card, half in cash. The card group bid about twice as much for the same seats.





Average bids for the same tickets, after Prelec & Simester (2001). When paying feels smaller, people spend more.

What it costs you

Every separate charge is a separate small pain: the booking fee, the delivery fee, the $15 add-on. A quote with twelve line items feels more expensive than one price, even when it is less.

Worth knowing

A brain-scan study by Knutson and colleagues found prices people saw as too high lit up a region linked to discomfort, and predicted when they would walk away.

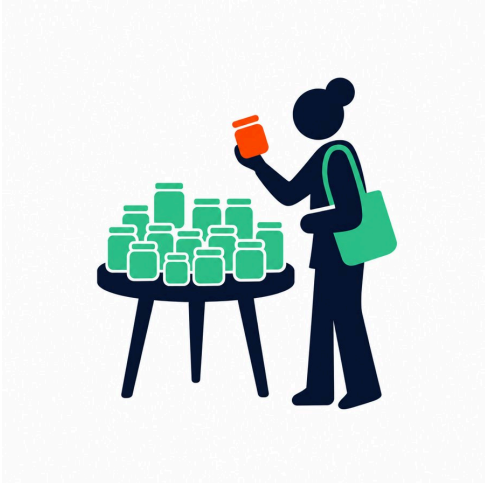
THE RULE

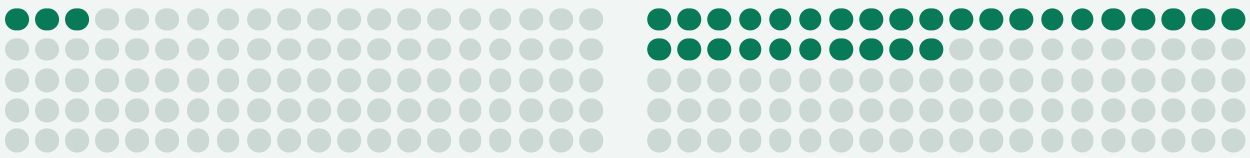
Make paying feel like one decision. One clear price, extras bundled in, a payment plan for anything large, and the easiest way to pay you can offer. Never surprise anyone at the checkout.

05 · TOO MANY CHOICES

24 JAMS DREW A CROWD. 6 JAMS MADE THE SALES.

Iyengar and Lepper set up a tasting table in a supermarket, some days with 24 jams, some days with 6. The big table stopped more people. But of the shoppers who stopped, about 3% bought from the 24, and about 30% from the 6.





Of shoppers who stopped at the table, after Iyengar & Lepper (2000).

What it costs you

A services page with nine packages. A menu of add-ons nobody can compare. Every option you add is another reason to say "I'll think about it" and leave.

Be fair about this one

Not every follow-up study found the same effect. A 2010 review found it is strongest when options are hard to compare and people don't know what they want. That describes most small-business pricing pages.

THE RULE

Three options per decision, each clearly for a different person. If you sell more than that, group them and let people choose a group first.

06 · PRICE AS A SIGNAL

THE SAME WINE TASTED BETTER AT $90 THAN AT $10.

Plassmann and colleagues gave people the same wine twice, once labelled $10 and once $90. They rated the $90 glass as more pleasant, and a brain scan showed more activity in a region linked to pleasure.



LABELLED
$10
SAME WINE

LABELLED
$90
RATED MORE PLEASANT

The price did not just describe the experience. It changed it. After Plassmann, O'Doherty, Shiv & Rangel (2008).

What it costs you

When a bigger competitor undercuts you, cutting your price feels safe. It tells customers you were worth less all along, and a price war is a fight the bigger company is built to win.

The other way round

Shiv, Carmon and Ariely found people who drank a discounted energy drink then solved fewer puzzles than people who paid full price. A discount can lower what people get from you.

THE RULE

Add, don't cut. Keep the price and give them something a cheaper rival cannot copy: faster service, an owner who knows their name, a bonus that costs you little and means a lot to them.

YOUR PRICING RULES SHOULD BE:

PHOTOGRAPH THIS PAGE. LOOK AT IT BEFORE YOU CHANGE A PRICE.

01 · Never show your main offer alone

Put a real option beside it that makes its value obvious. Real means someone could buy it.

02 · Show your biggest real option first

The first number sets the scale for every number after it.

03 · Pick the ending on purpose

9 says good value. A round number says confidence. Don't end everything in 9.

04 · Make paying feel like one decision

One price, extras bundled, a plan for anything large. No surprises at the checkout.

05 · Three options per decision

Each one clearly for a different person. Group the rest.

06 · Add, don't cut

When you're undercut, give more of what a cheaper rival can't copy. Your price tells people what you're worth.

THE LINE

Every rule here works by making the right choice easier to see. None of them needs a fake price, a fake deadline or a fake option. If a move only works because the customer doesn't understand it, it isn't pricing. It's a trick, and tricks get found out.

IS YOUR PRICE LIST WORKING?

✓

SIGNS YOU'RE GETTING IT RIGHT

- Most people pick your middle option
- Your biggest real option is seen first
- Your quotes show one clear total
- Three options per decision, no more
- You add value instead of cutting
- Nobody is surprised at checkout

✗

SIGNS YOU NEED MORE WORK

- Your page leads with "from $49"
- You list nine packages
- Every single price ends in 9
- You drop your price when undercut
- Fees appear at the checkout
- Your main offer stands alone

THE BIG GOAL

Make the right choice easy to see. When customers can tell which option is for them, and nothing about the price surprises them, they stop asking for a discount and start asking which one.

YOUR TURN

Four questions about your own prices. Fifteen minutes, with a pen. Open your pricing page, quote template or menu next to this.

1 WHAT DOES A CUSTOMER COMPARE YOUR PRICE TO RIGHT NOW?

The first number they see, a competitor, last year's price. Is that the comparison you would choose?

2 HOW MANY OPTIONS DOES SOMEONE HAVE TO COMPARE TO BUY FROM YOU?

If it's more than three for one decision, which could you group or remove?

3 DOES YOUR BEST OFFER HAVE A REAL OPTION BESIDE IT?

If your main package stands alone, what smaller or bigger option would make it the obvious choice?

4 NEXT TIME SOMEONE UNDERCUTS YOU, WHAT WILL YOU ADD?

Decide it now, on a calm day, not while a customer is waiting for an answer.

CHECK IT YOURSELF

Every claim in this playbook comes from published work. Where a finding is still debated, it says so on the page.

01 THE DECOY

Ariely, D. (2008). *Predictably Irrational*, ch. 1. First named by Huber, J., Payne, J. & Puto, C. (1982). Adding Asymmetrically Dominated Alternatives. *Journal of Consumer Research* 9(1). The 43% is our arithmetic from Ariely's figures.

02 THE ANCHOR

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03 THE ENDING

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04 THE PAIN OF PAYING

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05 TOO MANY CHOICES

Iyengar, S. & Lepper, M. (2000). When Choice Is Demotivating. *Journal of Personality and Social Psychology* 79(6). Review: Scheibehenne, B., Greifeneder, R. & Todd, P. (2010). Can There Ever Be Too Many Options? *Journal of Consumer Research* 37(3).

06 PRICE AS A SIGNAL

Plassmann, H., O'Doherty, J., Shiv, B. & Rangel, A. (2008). Marketing Actions Can Modulate Neural Representations of Experienced Pleasantness. *PNAS* 105(3). Shiv, B., Carmon, Z. & Ariely, D. (2005). Placebo Effects of Marketing Actions. *Journal of Marketing Research* 42(4).

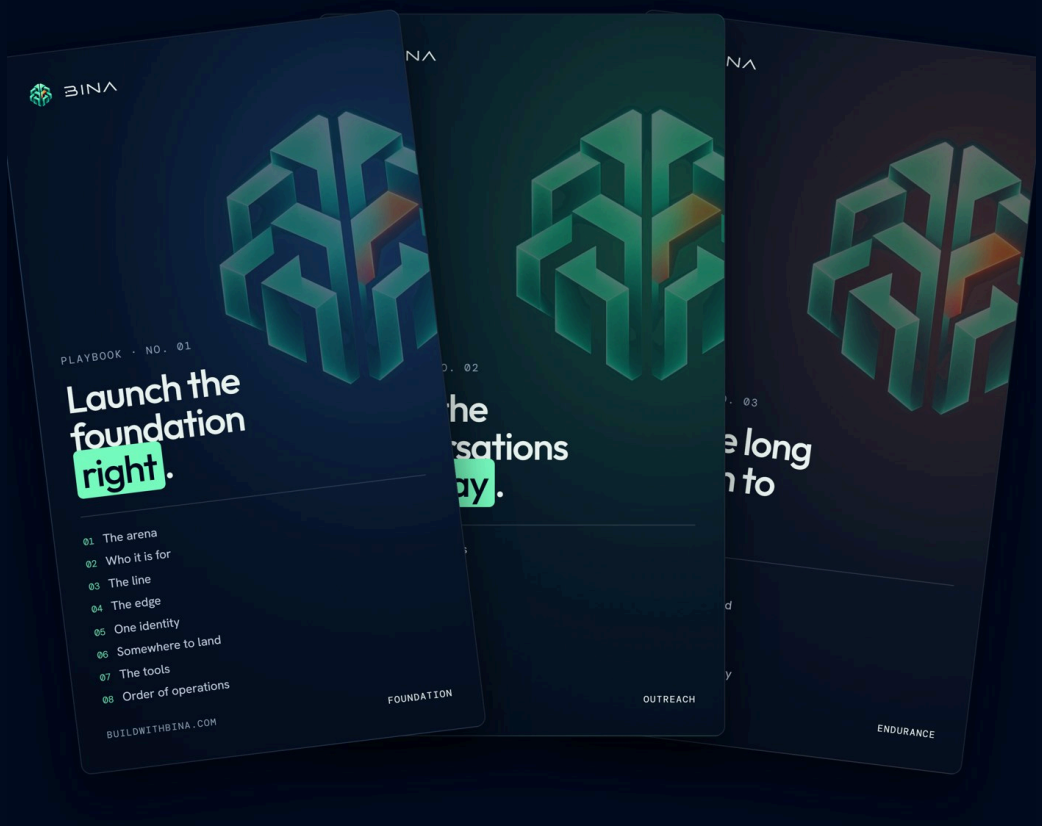
WHY THIS MATTERS

Most pricing advice names no study, because naming one invites you to check it. Everything above is checkable. If a claim isn't in these papers, it shouldn't be in this playbook.

THIS WAS ONE PLAYBOOK. HERE'S THE WHOLE SYSTEM.

THE DAY ONE SYSTEM

Three playbooks that take a business from idea to its first real customers: how to set the foundation right, how to start the conversations that pay, and how to keep going long enough to win.



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Five steps, three playbooks, the films and five bonus books.