

# Pricing and the brain: Why things cost \$19.95

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Are we really fooled when storekeepers price something at \$19.95 instead of a round twenty bucks? It seems so and new research from University of Florida marketing professors Chris Janiszewski and Dan Uy shows that something fundamental might be going on in the brain when we think about the value of a commodity.

Using a series of experiments Janiszewski and Uy decided to test if the precision of the opening bid might be important to how the brain acts at an auction. The researchers used hypothetical scenarios, in which participants were required to make a variety of educated guesses. For example, they had participants think about a scenario in which they are buying a high-definition plasma TV, and asked them to guesstimate the wholesale cost. They were told the retail price, plus the fact that the retailer had a reputation for pricing TVs competitively.

But there were three scenarios involving three retail prices: Some hypothetical buyers were given a price of \$5000, while others were given the price of \$4988 and still others \$5012. When all the buyers were asked to estimate the wholesale price, those with the \$5000 price tag in their heads guessed much lower than those contemplating the more precise retail prices. That is, they moved farther away from the mental anchor. What's more, those who started with the round number as their mental anchor were much more likely to guess a wholesale price that was also in round numbers. The scientists ran this experiment again and again with different scenarios, and always got the same result.

Why would this happen? Well, as Janiszewski and Uy explain in the February issue of *Psychological Science*, a journal of the Association for Psychological Science, people appear to create mental measuring sticks that run in increments away from any opening bid, and the size of the increments depends on the opening bid. That is, if we see a \$20 toaster, we might wonder whether it's worth \$19 or \$18 or \$21; we're thinking in round numbers. However, if the starting point is \$19.95, we might still think it's wrongly priced, but in our minds we are thinking about nickels and dimes instead of dollars, so that a fair comeback might be \$19.75 or \$19.50.

The psychologists decided to check these lab findings in the real world. They looked at five years of real estate sales in Alachua County, Florida, comparing list prices and actual sales prices of homes. They found that sellers who listed their homes more precisely—say \$499,500 as opposed to \$500,000—consistently got closer to their asking price. Put another way, buyers were less likely to negotiate the price down as far when they encountered a precise asking price. What's more, houses listed in round numbers lost more value if they sat on the market for a couple months.

Medical information, Janiszewski and Uy note, can also be offered in either precise or general terms: A physician might say that your chance of responding to a medical procedure is “good,” or that your chance of responding is 75 percent. The percentage is more precise, but many studies have shown that patients prefer vague generalities like “good,” so doctors tend to use them. To the extent patients are

optimistic about recovery, and tend to upwardly adjust their personal chance of responding to a medical procedure, they may be more willing to try procedures described as having a “good” as opposed to a “75%” success rate.