Ep85 - Interview: William Poundstone, author of Priceless, on anchoring, fairness, and the myth of “fair value”

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 the science of some of America's most successful brands. I'm MichaelAaron Flicker.

Richard Shotton: And I'm Richard Shotton.

MichaelAaron Flicker: And today we're sitting with Will Poundstone, a bestselling author and one of the clearest thinkers when it comes to how pricing psychology shapes our everyday decisions.

Let's get into it. So Will, welcome to Behavioral Science for Brands.

William Poundstone: Yeah, it's good to be with you.

MichaelAaron Flicker: Yeah, thank you for being here. Richard and I have made it our little mission to be on the hunt for how we can apply behavioral science to the world of marketing. And your book has been at the center of so much of our thinking about pricing.

I thought if it was okay with you, if you'll indulge me, I will give our listeners a little bit of background on you [00:01:00] and then we can get into the conversation.

William Poundstone: Sounds good.

MichaelAaron Flicker: So, Will, you are the author of more than a dozen books, including Priceless, the Myth of Fair Value. And how to take advantage of it.

One of Richard and MA's favorite works that explores how behavioral economics has upended everything we thought we knew about pricing value and decision making. And throughout your career you've tackled complex topics. Ideas like game theory to quantum meha, mechanics to behavioral science. And in my opinion, from all of the research that I did to get ready for today's episodes, you have a special skill not just to explain complex topics, but to break them down, make them understandable, and then.

Actionable for normal people like me. Your work has been featured in the New York Times, the Harvard Business Review, the Economist, and it's really a essential reading for all of us in marketing. We're thrilled to welcome you to Behavioral [00:02:00] Science for Brands. So thanks so much for being with us.

William Poundstone: Well, thank you and thanks for the kind words.

MichaelAaron Flicker: Yeah, absolutely. Our listeners love stories, and so we thought Richard and I, we could start with an opening story. How did you become interested in the field of psychology, of pricing and decision-making? What brought you to wanting to write this book?

Priceless.

William Poundstone: Well, it was definitely a team of Israeli American psychologists Amos Tversky and Daniel Kahneman. Unfortunately Mr. Kahneman recently died and Amos Tversky died actually before I actually wrote the book. But they were a legendary team known as the dynamic duo in psychology. And I would just come across them from time to time in my reading.

And anytime I saw the names Tversky and Kahneman, I knew it was gonna be something really interesting. [00:03:00] So I sort of filed it in my mind and thought maybe someday I should do a book on what they did. And I finally came across the idea that. A lot of what they did actually had to do with prices, which is something so simple that you don't really think about.

You don't really think that it would be a topic of psychology, but it really is and it's become very important. And as you say particularly since the 1980s. The psychology of pricing has also become a very practical thing. There are, as I explained in the book, a whole industry called Price Consultants that advise companies on how to set prices, how to advertise prices, how.

How to make menus and restaurants, all sorts of things like that. And I realized there was this whole culture out there that I was totally unaware of, and most people were unaware of, but it makes a big difference in how we live. So that's [00:04:00] basically the, the snowball that that grew into this particular book.

MichaelAaron Flicker: It's such a lovely, it's such a lovely story because as we were talking about before the show, you've had interest in many topics in your writing career and to know that you kept coming back to Kahneman Tversky and to, to think that like, eventually you could hone in on one particular thing. You know, as we were as as, as we go through the conversation, one thing that struck me is you see these tactics once you see them.

It's almost like you can't unsee them, like once you've revealed them. Has that been your experience after having written the book, that that's really that you see more and more of these in play all the time?

William Poundstone: Yeah, absolutely. When you go in a store and they're having a sale, when you look at a menu, you see all these psychological tricks that you've seen all your life, but you never realized how they work.

So it is [00:05:00] kind of fun in that sense.

Richard Shotton: Bill, the the subheading of of priceless is, is about the myth of fair value. So, so what do you mean by that, that phrase? What's, what's, what is that myth?

William Poundstone: Well the, in America, one of the most popular game shows is the Price is Right and it's a very simple show.

All they do, they show you a refrigerator or a car or something, and you're supposed to guess how much it costs. And it's incredibly popular because everyone thinks they're good at it. I mean, it's not like Jeopardy where you have to know obscure facts. Everyone thinks they've got this mental superpower almost where you can just look at a product and tell what it's value is gonna be.

But the interesting thing is that if you look at the price psychology they've, there's an incredible amount of evidence showing the exact opposite, that we are not good at at divining fair prices at [00:06:00] all. And in fact one of the things they found back in the, the 19th century, they started doing studies on human judgements.

Sensory phenomena like temperature, is it hot or cold? Lightness, loudness, things like that. And they'd find that people were very good at at determining slight differences but not so good at absolute values. For instance, if you give me two identical suitcases and one of them weighs 32 pounds and one of them is 34 pounds just by hefting them.

I can tell which one is, is the heavier suitcase. But if I needed to know whether either suitcase would would fit an airline's 40 pound limit, I'm really gonna need a scale that's something human judgment really can't do. So we're bad at absolute values and it's basically the ramifications of [00:07:00] this that was really the foundation of price psychology.

Richard Shotton: And, and are there any experiments, because I think that's fascinating that it works in the world of light and weight, but are there any experiments that show that that's the case with, with money? Or are you extrapolating from the, from the other studies?

William Poundstone: Yeah. No, they, they've been many, many experiments like that.

One of my favorite ones was done at MIT where they would auction things like boxes of chocolate and bottles of wine. Now they chose those products because they're known to have a very wide range of values. I mean, that's really why chocolates and wine are popular gifts. 'cause if you give someone a bottle of wine, they don't know whether you paid $10 for it or a hundred dollars for it.

So they would have this auction. And in any auction you have to decide what your limit price is, what you think something is, is worth to you. Because obviously, if, if it's a bottle of wine and you know that you can buy that [00:08:00] bottle of wine for $20, you're not gonna bid any more than $20 for it. But what they found was that that there was a huge range of estimated prices.

You would have someone saying a bottle of wine was worth $12, and someone else saying it was worth $36. I mean, a threefold difference. Yet it wasn't totally all over the map because they did find that there was a lot of agreement on relative values. People would intuit that one bottle of wine was worth more than another.

Just looking at the label the packaging or whatever. They would intuit that, that this was the most expensive box of chocolates and this was the cheapest and. It's just that they couldn't agree on how much the chocolate should be worth. So they, they decided they needed a term for this. And the term they came up with is coherent arbitrariness.

It's coherent [00:09:00] in that they do have a hierarchy of values and everyone agrees what's the expense of bottle of wine? But it's also arbitrary because. There's really no agreement on what the actual value is, and that's really sort of the foundation of a lot of this price psychology.

MichaelAaron Flicker: One, it's a term that we all can put on a post-it note and, and, and smile at when we see it.

But two, it's a, it's fascinating in that it reveals so much about how we all look at the value of something with, while yet still being unable to choose the price, as you say. So if that's the way that humans would approach the. The is the observed nature of humans as they think about pricing. How have businesses applied this relative nature of value to their advantage?

Like, so, so knowing that, what have businesses done? Because our listeners are marketers, their [00:10:00] CEOs, their people that wanna think about how can we use human nature to our advantage, and how can we do it ethically and morally, but how do we understand it?

William Poundstone: Yeah, well that's really the basis of this whole business now price consultancy, where you have people whose business it is to apply the psychology to, to various things.

And one of the, the consequences of that really is the rise of streaming, which is a whole new way of pricing things. Instead of paying so much for a record or a download you're now playing for a subscription and you can get millions of songs. And the, the basis of that is something that they call flat rate bias.

Consumers really do like flat rates, even if it costs more. The classic example is a gym membership. No one would want to have to pay every time they go to the. And they think they're being [00:11:00] very smart when they do that. They figure, I'm gonna pay this yearly fee, I'm gonna make this commitment, and then I'm gonna have to go to the gym in order to get my money back.

But the companies know very well based on. Statistics that there's a large proportion of their customers who are gonna pay that monthly or that annual fee. And then they'll go a few times and then basically drop out. And if you figured what they were actually paying per visit, it would be something utterly outrageous.

MichaelAaron Flicker: And that's a, it's a great example of when the consumer thinks they're getting a great deal because they think they're, they're almost compelling themselves to get the value out of the deal. They think that they're making a economic decision and they're gonna extract the value.

William Poundstone: Well, they're even thinking they're using smart psychology, not realizing that the other guy has better psychology that he's using against them.

Richard Shotton: I was gonna say, do you think there's an element of overconfidence? I mean, [00:12:00] that's one of the themes that often comes out from experiments. You know, we think we are better looking in average, better drivers than average. Do you think people face themselves, oh, I'm gonna go to the gym five times a week.

Therefore the flat rate is amazing and they end up going twice.

William Poundstone: Yes, absolutely. In fact, there's a name for that. The, the Dunning Kruger Effect where if you don't know too much about a particular topic, you think you know more than you really do because you don't realize all the things you don't know

Richard Shotton: particularly probably important for, for new gym goers.

William Poundstone: Yes, definitely.

MichaelAaron Flicker: So when you said streaming, originally my mind went to Spotify, Disney Plus all of these streaming services, which actually follow a similar flat rate price to access an unbelievable amount of content. In what ways is the example that we use at the gym similar to that model? And in what ways is it different in your mind?

William Poundstone: It's certainly different in that most people, if you're subscribing to Disney or something, you are gonna actually watch it. [00:13:00] But you tend to think you know, since I'm getting these millions or whatever of content that I can watch, that you're getting a really good deal and you don't realize that you do have a finite amount of time for watching things.

So it does, you know, you think you're getting a great per, per hour deal when really you're not necessarily.

MichaelAaron Flicker: And again, it's a maybe a misjudgment of what your future self will do versus what your current self, at the moment of making the decision of, is 6 99, 12 99 a fair price? 'cause I wanna watch this one movie right now, or I wanna get access as one thing.

Is that a fair deal? And if I got 20% off for the year. Can, you know, the human's ability to imagine what they will then do over the course of the next year, I think is not it. It is notably limited.

William Poundstone: Yes. Present me is a very bad judge of future me. In fact, one of my favorite examples that I write [00:14:00] about is the big Texan Steak Ranch.

Which has this deal and has since the 1960s that you can get a free 72 ounce steak, but it comes with a catch. In order to get that free steak, you have to eat this entire 72 ounce steak, plus all the fixings, and they give you a whole baked potato and other things within an hour. And if you do that, it's free.

If not, it costs $72. And everyone who goes for that deal thinks they're gonna be the one who can do it, but in fact, only about 11% of the people who try do so it shows you again that people are not very good at predicting their actual behavior.

MichaelAaron Flicker: Richard and I are co-authors of a book that is coming out in the fall.

And one of the studies we talk about. I think we talk about this in the book, Richard, is choosing healthier decisions in the [00:15:00] future versus now. So if I have to, if I'm, if I'm, if I, and Richard, I'll ask you to see if you can pull over the, the, you remember the details, but it's the, you know, you get a, a wedding RSVP bill and you're saying you know, I'm choosing steak and potatoes or the steamed broccoli and vegetarian dish and what you choose now.

Very often. Disappoints later, Richard. It was it was on, it was on healthy eating a week in the future, right?

Richard Shotton: Yeah. So it's, it's a lovely study. It's a, a Daniel Reed study, so I think he's at Warwick now, but was at Leeds, and he goes to a, a Danish office block. And there's 200 people who take part half of them.

He says, look, you can have an apple or you can have a chocolate bar. You can only have one of them. Which do you want? Completely free. And you get to eat it now. And the vast majority of people go chocolate bar remainder of people. It's the same offer in terms of they can have an apple or a chocolate bar, but he says, you're gonna pick now.

I'll come back in a week and I'll give you your choice. And suddenly you see this [00:16:00] flip of preference. Now it's the apple that people want. So his argument is if we are pick picking for current consumption, we are very interested in, you know, taste and what's enjoyable, what we want to do essentially. But if we're picking for our future selves, we evaluate those offers, think about what we should do.

So it's very much what we ought to be wanting. So then things like health or wellbeing come, come to the fore. Yeah, so it's a, it's a lovely study really. I think clearly demonstrating that, that that difference.

MichaelAaron Flicker: Yeah.

William Poundstone: I, I, that's quite interesting.

MichaelAaron Flicker: And it's it kind of shows the flip side of what we're talking about here.

Maybe we're better judges of our future health Yeah. But bad judges of, of, of, of wanting to indulge now.

William Poundstone: Well, and, and the point is too, in that experiment, you are committing to that. Whereas in real life. You do whatever you want and you don't go to the gym, you do eat the chocolates. So it's, it's important to have someone you know else making sure that you, you do play by the rules.

MichaelAaron Flicker: Yeah, that's, [00:17:00] it's, it's well said. And. You know, one of the examples from the book that really stuck with me was I think it's Prada, that you talk about them using some anchor prices when you first walk into the store to affect how you evaluate value of everything else in the store. So this is another angle in, on this coherent arbitrariness that we're talking about.

Could you, could, could you explain this example?

William Poundstone: In the luxury retail trade an anchor, which actually is a term that Kahneman and Furge came up with is a obscenely high priced item. It might be a $50,000 handbag, it might be a million dollar watch, and they've got it displayed very prominently.

You go in the store, you look at it and you're expected to look at it and say, gee, who would spend a million dollars on a watch? And then your, your gaze lens on something else in the [00:18:00] store and whatever it is. It's gonna be expensive, but it's gonna be a lot less than that million dollar watch. And the result is that makes whatever you're looking at look almost affordable in comparison.

And in, you know, when they've actually done studies, they show that this increases your willingness to buy the cheaper item, which is actually probably more than you would've dreamed paying before you had gone in the store. And it's all because of that anchor price. So anchoring is really one of the most powerful of psychological things because when you don't know what you should be paying for something, which is generally true wi in luxury stores you can be incredibly influenced, even at an unconscious level by any other.

Prices or numbers that you've been exposed to. So that anchor price, it doesn't matter if they ever sell that, that million dollar watch it pays for [00:19:00] itself in that it gets people to buy other more expensive things. And if you actually look at, at the way Prada makes their money, it's mostly from these more moderately priced items.

Richard Shotton: It does require a degree of sophistication on the, the businesses part, because you could imagine it. Another shop, they, they have a very expensive item. They naively interpret sales data, so they see that the very expensive item doesn't sell and therefore they think it's worth less and, and, and they remove it.

So you've got to have a, yeah. A business who knows about these principles, they can interpret the data correctly.

William Poundstone: This is really an artifact of the rise of, of price consultancy. One of, one of the consultants I spoke with, Dan Hill told me that the, the point of an anger is to cause people to feel anger.

And then get happy. By that he meant that regular people get angry when they see, you know, [00:20:00] these really expensive items that they can't afford yet they're prominently displayed. They've seen celebrities with these items and the knee jerk reaction is to get happy by buying something you can't afford.

So it's very powerful in getting people to take their wallets out and buy something.

MichaelAaron Flicker: In the luxury good space, it's like almost like you could imagine how all luxury, but from pens to watches to to handbags can use this. But your book gives plenty of other examples of using price anchoring in the same way.

What comes to mind for me is William Sunnova. I think you have a story of a, is it a bread maker? Maybe you could share that because it makes the, it takes this example and makes it much wider for all listeners to think about how they could use it.

William Poundstone: Yes. This story actually is due to Amos Tversky , who, who found out about it.

The, the Williams Sonoma company had a bread maker that sold for $279. It was one of the first [00:21:00] consumer bread makers. And they decided to introduce a second model, more expensive, bigger that they sold for $429. Now the more expensive model was a complete flop, but they found that sales of the cheaper model almost doubled after they introduced it.

Now it appeared that there was a big market for a Williams Sonoma Breadmaker, but the thing that was keeping people from buying it was the price. Even at $279, it seemed really expensive for a, a product that people weren't at that time really familiar with. But when they added the more expensive bread maker, it provided a point of comparison.

They could say, well, gee, this, this 279 model is really just as good as the bigger one, and it's it's cheaper. So suddenly it didn't feel like an extravagance. It felt like a really smart buy, and that's why [00:22:00] people started buying this. So again. Adding a price point that really no one chose could still have a big influence on the, their willingness to buy and the price point that they do actually choose.

MichaelAaron Flicker: Yeah, it's a lovely example. Every year I go to the Kentucky Derby and the cost of a mint Julep has continued to go up over the last 10 years. This Richard is the classic drink at the Kentucky Derby. It's a whiskey with mint, with mint in it. Anyway Woodford Reserve has the $10,000 mint julip that you can buy there.

The proceeds go to go, go to to charity. It's a nice pr play for them. But you start to feel a little different about paying $25 for a mint julip when everybody's talking about the $10,000 charity glass. You know, it's fascinating. You know, it's a, it's fascinating all the ways this comes to life. So, so Bill, we're bringing people [00:23:00] in on this so they can think about how to apply it to their brands.

Is there any evidence that professionals are as affected by these findings as the general public?

William Poundstone: Yeah, absolutely. The, this is really part of human nature, and even if you're an expert on this, you're still a human being. One of the people I spoke with was Donald Lichtenstein at the University of Colorado, and he's an expert on what's known as reference pricing.

Now, the name might, may not be familiar, but we've all seen it. When something's on sale, they'll usually give the old price for comparison. They'll say This is a $95 product on sale for $35. And we're all cynical enough to know that it probably wasn't on sale at that high price for very long. But, and, and.

Probably the sale price is the defacto normal price. But even with that cynicism, they've done studies and [00:24:00] found that just displaying that higher reference price does encourage people to buy. And Lichtenstein is a big tennis player. He was out shopping for a racket. He went into a sporting good store and they had, you know, this huge display of rackets, of which at least half.

We're on sale and all the, the rackets on sale had the regular price and the, the sale price. And Lichtenstein said, you know, he studies this stuff, he knows how it works, but even he could not help himself from looking at the reference price and having it affect his, his decisions. So, you know, it, it's human nature.

Yeah.

MichaelAaron Flicker: It's an amazing it's a, it's an amazing story because it reminds us all that we we're affected by these things. How does the concept of fairness affect willingness to pay? That's a, a topic in the book.

William Poundstone: Yeah. It's, it's a very important thing. In fact, I'd say that fairness. [00:25:00] Is really one of the main things that distinguishes conventional economics from behavioral econom economics.

When Dsky and Kahneman started investigating fairness it, it was not an economic concept at all and they were psychologists but they just realized that so much in the world seems to hinge on what you think is fair. Not necessarily what you think is rational. Now, in conventional economics, it's assumed that, you know, there are laws and rules and regulations, but basically everyone is out for themselves.

They're trying to get the best deal for themselves. But Turky and Kahneman did studies where they found that fairness, you know, really makes a big difference. One of my favorite examples of that, there's a famous study done by max Bazerman at Northwestern University where he ask his MBA students to choose among hypothetical job offers.

For instance, he'd have something like [00:26:00] one offer is an opening salary of $150,000 a year. For starting MBAs. And this company is known to have a policy of always paying that same salary to MBA students. Well, the other offer was for a salary of $160,000 a year, but it's a company that is known to pay certain MBAs as much as $200,000 a year.

Overwhelmingly, the students said they, they preferred the first offer, which actually had $10,000 less money because it seemed more fair. They didn't like the idea that they were being told, we're gonna pay you $160,000. But of course there are some people over here we're paying more. That didn't seem fair.

And they were willing to accept less money for what they saw as being a, a more fair offer. So, and you have to [00:27:00] figure, MBA students are much more hardheaded than the average person. They're less emotional about this, but even for them they were emotions kind of trumped the actual numbers. So it's a really powerful influence and first game, Kahneman realize that this is something we really have to first acknowledge and then maybe look at how we can harness.

Richard Shotton: And when it comes to harnessing, have you, have you seen any examples you think of businesses or brands applying this very well?

William Poundstone: Well I think a lot of things do I mean, when you have things like even a, a, a, you know, a streaming service that has a flat rate that seems very e egalitarian, it's the same for everyone.

You're not being charged more because you watch you watch more TV or something. So I think it's part of the appeal of, of a lot of things really.

Richard Shotton: Have you ever speculated or does Besam speculate on why this this fairness bias occurs?

William Poundstone: Well, that's a good question. I [00:28:00] think we are very much social creatures.

We kind of know you have to get along with people. And it's just easier to do that when you have something that you can spin as fair. And it doesn't necessarily mean it has to absolutely be fair in any particular ethical or moral sense, but it's really the perceptions that are very important here.

MichaelAaron Flicker: I was, I was, I was thinking about a question around.

Do we think that there's difference between claimed research like this study that Kaman was just talking about, an actual behavior, like when if they were actually being made an offer, would they still choose one 50 over one 60 when they had two offers next to each other? Is, is there any discu, have you, have you thought through that or is there any, any, any reference points that you have Bill, about actual behavior changes rather than just claimed actions?

William Poundstone: I'm not aware with that. [00:29:00] Particular study by Beman. But yeah, with a lot of these studies, they do try to get real world data as well, because that's the best sort of experiment. So it, it is definitely something they, they look into. In the case of Kaman Anderski they said that their modus operandi was that they would first take an A phenomenon that they seemed to.

See happening in real life and then figure, this has not been published. Let's see if we can devise an experiment that captures this. And they usually tried to get something where the effect was so overwhelming that you didn't even need to, to, you know, use statistics to show that this is compelling evidence for this.

And for the most part, that's, that's what their research was.

Richard Shotton: I mean, it's quite hard to do the 150, 160,000 study in real life 'cause it, it's such large scale. But I know that Beman and Sally Blount did something with students with real money. So they [00:30:00] asked some students back in the late nineties you know, to come take part in a psychology experiment.

And they said they'd pay them $7 and other students were told we'll pay $8 and then the little white lie comes in. But we did pay people previously. $10 and they found that it was the group who were offered $7 who were more likely to come in. So it went from something like three quarters of students accepting.

$7 down to about 55% accepting $8 when they were told others got, got, got 10. So certainly on a small scale like that amongst a student audience that, that the fairness point hold holds. So I think it is a, as you say, it's one of these fascinating biases that I think you can see in claimed and, and observed data.

William Poundstone: It's interesting because in economic experiments like that, they, they actually have been kind of, there has been inflation in the amount of money they offer. They used to be incredibly cheap. They would say, would you [00:31:00] rather have $1 or $2, something like that. But I've seen experiments now where they're actually paying like $700 or something and somehow they raise the money from from, you know, grant making organizations and do that.

So it's not always as cheap or as trivial as you might think.

Richard Shotton: And then the other one I've seen, where they're both smaller sums of money, but they loom large is taking a small grant and then going to Malawi or Sudan or Papua New Guinea and running an experiment there where the money can be up to, you know, a month salary.

Yet you still some see some fairness beha behaviors occurring. So I do love it when you see the creativity of an academic to turn a small budget into, into something meaningful. Yeah. One of the things I absolutely loved about Priceless is it's a lot of small chapters packed with insight, information and all the chapters.

William Poundstone: I, I, I can actually credit my father with [00:32:00] that. Oh. Because he said when he reads a book, he likes for them to, to have short chapters 'cause he doesn't know how long you'll have to read. So short chapters are good and I've, I've tended to do that where at least in, in, you know, books where it will fit that format.

Richard Shotton: Yeah. Yeah. Well, it certainly, certainly work, work works on me. Of all those chapters, the one that I absolutely loved and it wasn't just 'cause there was pictures in the chapter, but was the one around menus, because that seems to be like a microcosm for all the, these techniques. Could, could you take us through a couple of your favorite techniques that menu designers use in terms of pricing?

William Poundstone: Well, of course I fell into a rabbit hole with these price consultants, but I found that there's a. Specialty in among the price consultants, which are menu consultants because they're, you know, restaurants are one of the most common small businesses and they can use this, this advice as much as anyone.

So there are experts at designing menus and they've found [00:33:00] that, you know, when you are scanning a menu. You're basically multitasking. You're trying to make witty conversation. You're thinking about work, you're thinking about home. So you're very easily distracted, and that means you're susceptible to all these psychological tricks.

So the goal of menu design is to pack as many of these tricks as you possibly can into a menu. So one of the things you'll see is that in some menus, particularly old fashioned ones you'll see all the prices in a vertical column. And they know that thrifty diners will sometimes scan down that column to see what's cheapest, and then they'll sort of order from the few cheapest things.

Well, obviously they don't want you to do that. They want you to order, you know what you want, which is hopefully more expensive. So menu designers tell them to, to use a center justified arrangement for the menu, which means that the prices [00:34:00] aren't in a column. They're all kind of in ragged order.

Now, the result of this is that it makes it just a little harder to go down the line and compare prices. So instead you look at the the items themselves and you choose probably the few things that look the best, and then check to see that they aren't too expensive, but that as a result that you generally end up paying a little more than you would've.

Another thing they do is that they tell you you should not use dollar signs, not use decimal points, not use sense figures. So you just see 35 rather than $35 and 95 cents. By minimizing the price you actually cause the diner to pay less attention to it, which is what you wanna do. Another thing is anchoring very much applies to menus.

You'll see something like a seafood tower or a Wagyu steak that will be like a hundred [00:35:00] dollars and very few diners may would want to even consider paying that much money. But you look at that and then you realize that that. $65 T-bone isn't such a bad price and you're more likely to, to buy it that way.

Another thing you they do is use what's known as bundling. This is having a number of items for a fixed price. So it could be a prefixed meal it could be a combo meal in a fast food place whether it's an upscale restaurant or a cheap one. It's the same psychology really. And the whole point of these bundles is that it makes hard, it makes it hard to compare prices.

You don't really know what you should be paying. I mean, you know what a hamburger might cost, but if it's a five course meal, it's harder to say. As Richard Thaler, a famous behavioral economist said, the point of bundling is so that you don't know [00:36:00] that you're paying $20 for two scallops. And of course if you don't know that it's easier to do.

And they even use typography on menus. You'll sometimes see the certain items are in boldface print or they might be in. Side of a box. They might be located on the upper right can corner, which is usually the first place people look. What this means basically is that these are the items that are likely to be most profitable for the restaurant.

So that's why they're emphasizing them. Unfortunately, it doesn't necessarily mean these are the best tasting things or the things that are the best deal. So, as I say, having learned all this now, I can't look at menu without, you know, seeing all these tricks. But probably like Donald Lichtenstein, I'm still gonna fall for them just like anyone else.

Richard Shotton: Well, the one that. I, I really resonates with me from a personal perspective is [00:37:00] the the anchoring. Like so many times I've sat down a, a, a dinner, like seen as you say, the filet steak or the Chateau Brion or the Lobster had a, a, a small moment of panic thinking, God, am I gonna come out of this, you know, 200 pounds lighter?

And then I find myself looking at the, the rib eye or the rump and thinking few, it's only $50. Which is a, a bizarre feelings have. So, yeah, I, I. I do love, I love that menu chapter. I thought it was, and I thought it was amazing.

William Poundstone: Mm-hmm.

Richard Shotton: The, the other chapter I thought was, was, was brilliant and I think both from a professional level, but also a, a personal one was the, the, the final chapter.

And you talk about this amazing study around chocolate that people are given an offer of a large cockroach shaped chocolate or a small heart shaped chocolate. Could you, could you talk about that experiment, like what the results were, but also why you chose to, to end the book on that?

William Poundstone: Well this was [00:38:00] an experiment advised by Christopher shee at the University of Chicago. His name is spelled HSEE if you wanna look this up. And he has made what I would call an art form out of doing economics, experiments with chocolate rather than money. So, as you said in this one, he just asked people, which would you rather have the big cockroach shaped chocolate or the small heart shaped chocolate?

And you're told it's, it's stipulated that these are both the same fine chocolate. And she has found that the vast majority of people say, yeah, I, I take the ch, the cockroach shaped chocolate. They have a logical reason. You know, you're told it's the exact same chocolate, you're just going to eat it. So it doesn't matter what the shape is.

But the twist is that she then asks these people but which chocolate do you think you would enjoy more? And without missing a beat, people immediately admit, yeah, it's, it's this small chocolate [00:39:00] shaped like a heart. That's what I did enjoy. So it's, it's, it's basically, you know, they're admitting that they're choosing the option that actually is less enjoyable.

I thought this was a great way to end the, the book on because it really, I mean, has so many implications in life. People, you know, in our consumer economy feel that there is this, this, you know, prime directive that you have to, to make as much money as possible, save as much money as possible. But maybe in this case wisdom consists of realizing that money is a path to happiness, but it isn't happiness itself.

So I thought that was a good thing to end on.

Richard Shotton: Yeah. I, I, I, I, I loved it as ending 'cause it feel almost a slightly kind of tragedy about human nature, that we've got some insight into what could make us happy, but we don't act on it. Yeah. What, why do you think there is that [00:40:00] discrepancy? Do you think it, were you alluding to it being social, social pressure, or, or what do you think accounts for it?

William Poundstone: Well, I think I, I mean, in talking, I've sort of asked this to Daniel Kahneman when I interviewed him. He said that all these things basically presumably have, have some survival value, some context in evolution because we've had to, you know, our ancestors didn't always have enough food. I mean, so you really did have to maximize that.

But they also were social creatures and they had to get along with. The people who are around them. So somehow, I mean, these do all help us function in society, but it's also important that sometimes you can take a, a general principle and particularly with money, which is something that didn't exist for much of human society we can make it just totally an end in itself.

And, and something that you want more and more of, which isn't really the case with food. I [00:41:00] mean, with food, you, you, if after you eat enough, you realize you don't want anymore. But we don't really have that effect with money. So sometimes money we do take that maximizing too far.

Richard Shotton: I think, I think that's a, a, a really interesting one, this idea that we've got neolithic brains, but we're operating in a completely modern society.

And some of the, the supposedly irrationalities come from applying ideas that were once super brilliant for. Survival, but now have unintended negative consequences.

William Poundstone: Yes. I mean, Kahneman said that much of the, the research he was doing on so-called economics really would've applied in the Stone Age.

MichaelAaron Flicker: Yeah. And maybe, and, and maybe an an application or extrapolation of this for brand leaders and for marketers is do you really need to maximize all the profit and drive as much growth as you can? Or is there benefits to [00:42:00] not having unbounded growth, maximum profits, and could there be other benefits that you're not considering?

So you bill, you talked beautifully about how that may affect how we look at our relationship to money versus food where, you know, there's enough food. But how can brand leaders and business owners say maybe Unbounding growth. Comes with other challenges that aren't worth the benefit of just focusing on healthy growth or healthy profits.

Not extreme profits may. Maybe there's a connection there for folks to think about as they're bringing back to their businesses.

William Poundstone: Yeah, definitely. And as I say, fairness, just the concept of fairness is something that you're not necessarily taught to think about in business school, but you know, they can show that.

It does make a big difference in deciding, you know, who do I wanna spend my money with?

Richard Shotton: Well, one of the. Businesses we talk about in our, in our book is Dyson and they, with all their pr, their advertising, they're always emphasizing how much [00:43:00] effort they went to. So they have this line, we went through 5,127 prototypes to get to the Bagless vacuum.

And I think. You know, we, you could explain why that's so powerful with regards to, to fairness because people's conception about what's a fair price to pay is often how much effort I think went into this product. Not what value will this bring. So businesses, reminding people of behind the scenes effort that might not be visible, I think is a way to apply that, that that fairness principle.

William Poundstone: Yeah, definitely. And I mean that's that's a factor even in menus. One of the things that restaurants have to deal with is that the prices of the food they, they're selling are constantly changing. And the consultants will say, if you do have something that's more expensive, like eggs right now.

It's perfectly okay to say on the menu or just in the sign that, you know, eggs are more expensive, so we're having to charge a little more for them. But we expect to, you know reduce the [00:44:00] price when, when the price of eggs goes down. So, I mean, people are reasonable about that as long as you convince them that it's not price gouging, that it's just, you know, you are being affected by this and you have to pass on the price.

People are much more accommodating.

MichaelAaron Flicker: Such a great message, at least, you know, depending on when our listeners are hearing this. Tariffs are very much in the news right now in America. And you know, some of the most recent news reports in early August are late July, early August, 2025. That it's not affect, it's not only affecting American prices at the shelf, but all the countries where these products come from are having so much more cost levied on them.

And there has been a real discussion in the business community of how much do you have transparency with your buyers that prices costs are going up because of tariffs. And that's a politically charged issue here in America. But I think that sense of fairness, that there's [00:45:00] not price gouging has been very much at the forefront of lots of CEO's minds.

William Poundstone: Yeah. And it's definitely something you want to communicate to your your customers.

MichaelAaron Flicker: So Bill, we have one final question for you before our conversation comes to a close. And it comes back to you kind of thinking more broadly about everything that you've worked on in Priceless. If you could have a marketer remember only one pricing principle from the book, what should it be and why?

What's the biggest takeaway you want folks to remember about pricing and how it affects consumers?

William Poundstone: Well, one that I, I think is very important actually has Richard Thaler called it The Principle Don't Wrap Up All the Christmas presents in One Box. And it's, it's the idea that when you're selling something, anything it's important to, to give people [00:46:00] multiple reasons.

To, to perceive value. So if you want to to sell a particular product, don't just say it does this one thing. Say it does this other thing, it does this third thing so that you have many reasons to contemplate it and. Contemplate how much it's worth to you. This is applied by price consultants, basically on everything from, you know, restaurants to to consumer products to business, to business products.

But it's a very important principle. The person is buying, not, not. What they think the product is, but what your, you can convince them the product is. So it's very important to, to have this idea that, you know, it's a multifaceted product and you want to, to make sure they know that. And many people have a different perspective being in business.

They think, oh yeah, I know what that product is, but your customer doesn't. So you [00:47:00] really want to convey that to them because that's one of the big determinants of value.

MichaelAaron Flicker: What a lovely way to end. Bill, thank you very, very much for joining us today. Like every week we will take the conversations we had with Bill, the studies that we mentioned.

All will go in the show notes. Of course, there'll be a link to Bill's book, priceless in the show notes and we're very excited to, excited to share with everyone that one of Bill's, other's books. Fortune's formula is having its 20th anniversary reprint, and much expanded content and new information coming out this November.

We'll obviously put a link to that in the show notes and recommend everybody who has interest. Bill, you wanna give the the, a little bit, it's a little different than priceless, but fascinating material. What is Fortune formula about?

William Poundstone: Well, it's about the Kelly [00:48:00] criterion, which is essentially a scientific gambling formula that actually works, and I show how it was used in Las Vegas on Wall Street, in organized crime, and a lot of other places.

MichaelAaron Flicker: The applications on Wall Street. It was a hedge fund that you focused on in the original book. A fascinating material for everybody to, to, to, to, to learn from. Thank you again for being with us. Bill, if if folks liked what you've heard today, please please give us a comment on our show. Share this show with anyone else who loves marketing as much as you do.

And until next time, I'm Michael Aaron Flicker.

Richard Shotton: And I'm Richard Shotton.

MichaelAaron Flicker: Happy listening.

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