KEY BEHAVIORAL PRICING EFFECTS

Behavioral effects are crucial in optimizing your pricing. However, how can you best leverage these different mechanisms? We have put together a selection of the most important behavioral pricing effects for you.

1 DEFAULT NUDGING

Nudging describes the predictable altering of shopper behavior through positive reinforcement. When you create a default nudge you are suggesting, for instance, that the default option is the most commonly chosen one. This tends to make more of your customers choose this product and can include highlighting a product on your website as a "preferred option" or naming conventions like "standard product" vs. "plus product".

2 POWER OF FREE

The zero price effect describes the phenomenon that consumers tend to choose a free product much more often than its inherent utility would suggest. The phenomenon was described by Dan Ariely in his book "Predictably Irrational" and is leveraged by sellers who throw in free goodies with the standard product option. buynomics recently ran a study showing that this effect could actually be limited in applicability.

3 PRICE ANCHOR

A price anchor sets buyer expectation at a certain price level. This is often used to make the list price look comparatively cheaper. This can be included in discounting but also when referencing a hypothetical price recommendation. We recommend only using this when you actually discounted a product - consumer trust is lost much more quickly than it is gained!

4 PRICE THRESHOLD

One of the most commonly known behavioral pricing effects is the price threshold, also known as the odd price effect. Buyers tend to behave irrationally when they see e.g. "€9.99" instead of "€10". This is especially true where a threshold moves by a decimal i. e. €0.99 vs. 1€ or €9.99 vs. €10. However, recently companies have started to adopt more rounded prices e.g. €10, €20, or €30 to suggest high quality or value. Is this based on an erosion of the price threshold effect in certain industries? Maybe - the science is not yet in.

5 DISLIKE FOR EXTREMES

The dislike for extremes effect describes buyers' tendency to choose a middle product more often than their inherent utility would suggest. This is important in portfolio building as the dislike for extremes effect implies that it can be beneficial to include additional products in your offering to nudge buyers to a certain offering.

6 REFERENCE PRICE

Reference pricing is the act of pricing products in reference to one another. As buyers decide between different products it is highly important to have the right reference price for each product in the portfolio both within your own portfolio but also compared to competition. By looking more or less valuable compared to other product offerings you can influence buyers' propensity to buy your product.

7 ENDOWMENT EFFECT

The endowment effect describes buyers' tendency to value a good higher once they own it. In pricing a free subscription period or trial can take advantage of that effect as buyers are more willing to pay for something they already "owned" in the past.

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With its unique solution, buynomics is able to help managers overcome all the problems elastacities will never solve:

- It can predict customer behavior with >95% accuracy
- It uses your readily available data
- It offers a holistic solution for your whole portfolio