

Why Things Cost \$19.95

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By Wray Herbert

One of Alfred Hitchcock's most enduring bits of comedy is the auction scene in the espionage thriller *North by Northwest*. Cary Grant plays Roger Thornhill, a businessman who has been mistaken for a CIA agent by the ruthless Phillip Vandamm. At a critical juncture, Thornhill is cornered by his enemies inside a Chicago auction house, and the only way he can escape is by drawing attention to himself. When the bidding on an antique reaches \$2250, Thornhill yells out "Fifteen hundred!" When the auctioneer gently chides him, he loudly changes his bid: "Twelve hundred!" When the bidding on a Louis XIV chaise lounge reaches \$1200, Thornhill blurts out "Thirteen dollars!" The genteel crowd is outraged but Thornhill gets precisely what he wants: The auctioneer summons the police, who "escort" him past Vandamm's henchmen to safety.

Clever thinking, and good comedy. It's funny for a lot of reasons, and one is that Thornhill violates every psychological "rule" for how we negotiate price and value with each other. So much of life is an "auction" of one sort or another, whether it's buying a used car or making health care choices or even choosing a mate. But unlike Roger Thornhill, most of us are motivated by the desire for a fair deal, and we employ some sophisticated cognitive tools to weigh offers, fashion responses, and so forth—all the to-and-fro in getting to an agreement.

But how does life's dickering play out in the brain? And is it a trustworthy tool for getting what we want? Psychologists have been studying cognitive bartering for some time, and some basics are well-established: For example, an opening "bid" of any sort is normally perceived as a mental anchor, a starting point for psychological jockeying to follow. If we perceive an opening bid as fundamentally inaccurate or unfair, we reject it by countering with something in another ballpark altogether. But what about less dramatic counter offers? What makes us settle on a response?

University of Florida marketing professors Chris Janiszewski and Dan Uy suspected that something fundamental might be going on, that some characteristic of the opening bid itself might influence the way the brain thinks about value and shapes bidding behavior. In particular, they wanted to see if the precision of the opening bid might be important to how the brain acts at an auction. Or to put it in more familiar

terms: Are we really fooled when storekeepers price something at \$19.95 instead of a round twenty bucks?

Janiszewski and Uy ran a series of experiments to test this idea. The experiments 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*, 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. But if the starting point is \$19.95, the mental measuring stick would look different: 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 \$494,500 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. So, bottom line: One way to deal with a buyer's market may be to pick an exact list price to begin with.

This isn't all about money, however. 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 medication is "good," or that your chance of responding is 80 percent. The percentage is more precise, but many studies have shown that patients prefer vague generalities like "good," so doctors tend to use them. But remember that life is an auction: In his mind the patient is dickering with the doctor, so why not negotiate "good" up to "excellent"? When treatment choices are on the line, the auction house can indeed be a perilous place.