

Can Your Brain Be Tricked By Price?

Does the price you paid for that expensive wine at dinner influence your satisfaction with that wine? The answer to this question may reside in the folds of your medial orbitofrontal cortex, the part of the brain that registers pleasure.

In what should be music to the ears of marketers, the old adage that you get what you pay for really is true when it comes to that most ephemeral of products: bottled wine.

The Research

A recent study by Baba Shiv, an Associate Professor of Marketing at Stanford University's Graduate School of Business, and a group of researchers at California Institute of Technology concludes that people will experience an increase in activity and pleasure within the brain when they consume wine that they perceive to be expensive even though the part of the brain that interprets taste is not affected.

While many studies have looked at how marketing affects behavior, this is the first to show that it has a direct effect on the brain.

In an article, co-authored by Baba Shiv, titled "Marketing Actions Can Modulate Neural Representations of Experienced Pleasantness," published online Jan. 14 in the *Proceedings of the National Academy of Sciences*, students were placed in a MRI and given sips of red wine-including the same one twice, with different price tags: \$5.00 (the actual price) and \$45.00 (a fictional price).

The subjects reported that they liked the expensive wine more than the cheaper wine even though it was the same wine - a preference that was mirrored by an increased activity in the medial orbitofrontal cortex of their brains as measured by the MRI.

The Marketing Implications

According to Shiv, the traditional assumption in economics is that a person's "experienced pleasantness" (EP) from consuming a product depends only on its intrinsic properties and the individual's thirst. Contrary to this basic assumption, several studies have shown that marketing can influence how people value goods. For example, Shiv has shown that people who paid a higher price for an energy drink, such as Red Bull, were able to solve more brain teasers than those who paid a discounted price for the same product.

Despite the pervasive influence of marketing, very little is known about how neural mechanisms affect decision-making, the researchers said. "Here, we propose a mechanism through which marketing actions can affect decision-making," they write. "We hypothesized that changes in the price of a product can influence neural computations associated with EP." Because perceptions about quality are positively correlated with

price, the scholars argued that someone might expect an expensive wine to taste better than a cheaper one.

Says Baba Shiv, "What we document is that price is not just about inferences of quality, but it can actually affect real quality. So, in essence, [price] is changing people's experiences with a product and, therefore, the outcomes from consuming this product."

The lesson says Baba Shiva is that: "there's a temptation among marketers to keep reducing prices. We're saying be careful before you embark on that strategy."

In keeping with this research marketers would do well to position themselves as the most expensive product or service in their market category. Doing so could actually become a unique selling proposition.

I realize this positioning is counterintuitive to the prevailing thought that most marketers have and that many readers of this newsletter will have difficulty with this concept.

A Personal Experience

My study of marketing has demonstrated that most marketers want to position themselves somewhere in the middle of the price range in their marketplace. This positioning eliminates any competitive advantage by creating a "me too" perception in the marketplace.

Several years ago, I experimented with this concept by running a year long radio campaign that stated in every ad that "our training is expensive and difficult". Instead of turning buyers away it actually attracted more of my ideal clients. Interestingly, when prospects became clients their training experience was enhanced because they paid a handsome sum to participate and they would often brag to others about how "expensive and difficult" this training was.

Sure I lost some potential clients, but I repelled a far greater number of wimps, weasels and yahoos that I had no interest in working with. The clients I attracted were among the elite in their sales profession. They were committed sponges who soaked up every thing they could and they were a pleasure to work with. Since then I have raised my prices several times, and every time I do so I get more clients and better quality clients. My most recent change was to raise my daily consulting fee from \$7500.00 to \$9400.00. I have not noticed any loss of business because of it.

As a side note, two years after the radio campaign finished I spoke at a local Rotary Club meeting. I gave the president, who was to introduce me, a written introduction for him to read. When he got up to introduce me he said, "well I had an introduction to read to you about our guest but I can't find it. All I can remember about him is that his name is Steve Clark and you have probably heard his radio ads that talk about how expensive he is. So give a big Rotary welcome to Steve Clark." That is the power of positioning.

A Military Application

Positioning is not lost on the United States Marine Corps. They are well aware of this concept and position themselves as the elite branch of military service. Their campaign for “a few good men” and “we don’t accept applications only commitments” is a practical application of positioning to attract the best. And while other branches of service struggle to meet their recruiting goals the Marine Corps does just fine.

How about you? Are you positioned as the elite in your industry or are you just a little bit better than most of your competitors? If you are anywhere in the middle of the pack, remember that only the lead dog ever gets a change of scenery.

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