



# How to frame prices for more revenue and profit.

“Standard economics assumes that we are rational. But we are far less rational in our decision-making.

Our irrational behaviours are systematic and predictable.”

Professor Dan Ariely,  
Duke University,  
Author of “Predictably Irrational”



## How to frame prices for more revenue and profit.

The most illogical pricing experiment in history shows us that how you frame your prices - how you present them - is just as important as [where you set them](#). The experiment was performed by Professor Dan Ariely in the early 2000's. He saw this advert for a subscription to The Economist:

Economist.com	SUBSCRIPTIONS
OPINION	<p><b>Welcome to</b>  <b>The Economist Subscription Centre</b></p> <p>Pick the type of subscription you want to buy or renew.</p> <p><input type="checkbox"/> <b>Economist.com subscription - US \$59.00</b>            One-year subscription to Economist.com.            Includes online access to all articles from <i>The Economist</i> since 1997.</p> <p><input type="checkbox"/> <b>Print subscription - US \$125.00</b>            One-year subscription to the print edition of <i>The Economist</i>.</p> <p><input type="checkbox"/> <b>Print &amp; web subscription - US \$125.00</b>            One-year subscription to the print edition of <i>The Economist</i> and online access to all articles from <i>The Economist</i> since 1997.</p>
WORLD	
BUSINESS	
FINANCE & ECONOMICS	
SCIENCE & TECHNOLOGY	
PEOPLE	
BOOKS & ARTS	
MARKETS & DATA	
DIVERSIONS	

This looks to be utterly nonsensical. The Economist is offering the print and web subscription for the same price as the print-only subscription. Surely, nobody in their right mind would take the print-only subscription?

Ariely contacted The Economist, got through to the person who managed their website and, in response to his enquiry about the pricing, the advert disappeared. That wasn't quite the response he wanted. He wanted to know if there was a reason they used a pricing structure that looks nonsensical.

Robbed of the opportunity to understand The Economist's thinking, Ariely decided to do an experiment himself. He showed the advert to 100 MIT students and asked them which option they were likely to choose. The results confirmed that nobody was stupid enough to choose the print-only option.

<b>Economist.com</b>	<b>SUBSCRIPTIONS</b>
OPINION	<p><b>Welcome to The Economist Subscription Centre</b></p> <p>Pick the type of subscription you want to buy or renew.</p> <p><input type="checkbox"/> <b>Economist.com subscription</b> - US \$59.00  <span style="font-size: 2em; color: red;">16%</span> scription to Economist.com.  line access to <b>all</b> articles from  <i>nist</i> since 1997.</p> <p><input type="checkbox"/> <b>Print subscription</b> - US \$125.00  <span style="font-size: 2em; color: red;">0%</span> scription to the print edition  <i>mist</i>.</p> <p><input type="checkbox"/> <b>Print &amp; web subscription</b> - US \$125.00  <span style="font-size: 2em; color: red;">84%</span> scription to the print edition  <i>nist</i> and online access to all  n <i>The Economist</i> since 1997.</p>
WORLD	
BUSINESS	
FINANCE & ECONOMICS	
SCIENCE & TECHNOLOGY	
PEOPLE	
BOOKS & ARTS	
MARKETS & DATA	
DIVERSIONS	

But then he took away the stupid option for the print-only subscription and repeated the experiment with another 100 MIT students. Suddenly, the least popular option became the most popular and the most popular option became the least popular:

<b>Economist.com</b>	<b>SUBSCRIPTIONS</b>
OPINION	<p><b>Welcome to The Economist Subscription Centre</b></p> <p>Pick the type of subscription you want to buy or renew.</p> <p><input type="checkbox"/> <b>Economist.com subscription - US \$59.00</b>  <span style="font-size: 1.5em; color: red;">68%</span> scription to Economist.com.  line access to all articles from  <i>nist</i> since 1997.</p> <p><input type="checkbox"/> <b>Print &amp; web subscription - US \$125.00</b>  <span style="font-size: 1.5em; color: red;">32%</span> scription to the print edition  <i>nist</i> and online access to all  <i>n The Economist</i> since 1997.</p>
WORLD	
BUSINESS	
FINANCE & ECONOMICS	
SCIENCE & TECHNOLOGY	
PEOPLE	
BOOKS & ARTS	
MARKETS & DATA	
DIVERSIONS	

Instead of getting 84% of people choosing the most expensive (and presumably, most profitable) option, now they were only getting 32%. Commercially, this would have been a disaster but the lessons are clear:

- In the first experiment, the most expensive option had also seemed to be the best deal. It was right next to something that looked like a very bad deal – the print-only subscription.
- In the second experiment, it's harder to tell which is the best deal so people gravitated towards the cheapest.

As Ariely says, when we don't know exactly what we want, we're influenced by what looks like the best deal.

If you watch [Ariely's presentation of his experiment](#), you'll see that he also shows similar results from the way prices are presented for holidays.

- In one version of the experiment people can choose between an all-inclusive holiday to Paris or an all-inclusive holiday to Rome. Paris wins.
- In the second version he adds an option for a holiday to Rome that's all-inclusive for everything except coffee. It's the kind of option that makes no sense at all except that it makes the totally all-inclusive offer to Rome look much more attractive.

Sure enough, the totally all-inclusive deal to Rome wasn't just more popular than the version without coffee, it was more popular than the all-inclusive trip to Paris as well.

The only downside of this wonderful story is that I now have a horrible earworm floating around in my head. I'm being driven nuts by that sextet of misery, The Funboy Three and Bananarama and their dreary song "It ain't what you do, it's the way that you do it."



## Next steps

1. The DIY route. If you want to put price framing into action, the easiest way is to build pricing bundles.
  - a. Introduce a low-cost option that you don't want to sell but that you have to include because the market requires it.
  - b. Include a more profitable option that you really do want to sell.
  - c. Then place a diversionary option between them. It can't be as ridiculous as The Economist example but it should make your profitable option look like a spectacularly good deal.
  - d. Finally, burn all records by The Funboy Three and Bananarama.
2. The Assisted route. If you don't have the time, people or system to build this yourself, well, that's what we're here for. Give us a call. We're surprisingly friendly (and we'll gladly burn the records for you).

Remember, Forbes Baxter Associates is a [marketing development agency](#) so we develop your in-house marketing skills while we help you grow your business.



Some links to services you may find useful

**Marketing  
Strategy**

**Events &  
Webinars**

**Marketing  
Department**

**Training &  
Developing**

**Brand  
Marketing**

**Lead  
Generation**

**Market  
Research**

**Marketing  
Automation**

Produced by Forbes Baxter Associates

©

[www.forbesbaxter.co.uk](http://www.forbesbaxter.co.uk)  
[grow@forbesbaxter.co.uk](mailto:grow@forbesbaxter.co.uk)  
01902 544315

e-Innovation Centre  
University of Wolverhampton  
Telford Campus  
Priorslee  
Telford  
TF2 9FT

