How to trigger neurological connectivity—and increase sales—through strategic pricing

Have you ever heard of the brothers Sid and Harry Drubeck, two tailors in the 1930s?

When a customer whom Sid was helping would find a suit he liked and ask what it cost, Sid would shout to his brother at the back of the shop, and Harry would shout back, "$42!" Sid, explaining to the customer that he was hard of hearing, would ask again, prompting Harry to repeat: "$42!" Sid would then turn to the customer and tell him that the suit's price was, not $42, but $24. Believing he'd just been offered a steep discount on an otherwise expensive suit, the customer would more often than not jump at the chance to buy it.

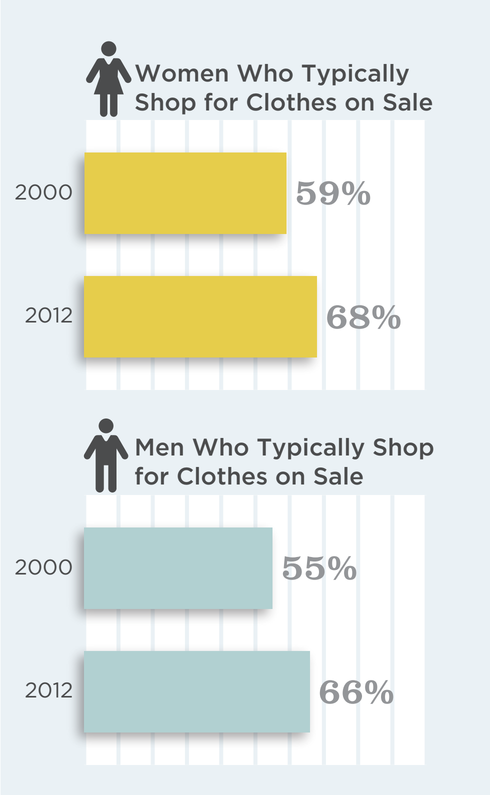
Robert Cialdini in his book *Influence: The Psychology of Persuasion* holds the Drubeck brothers' story up as an example of the belief on the part of consumers that expensive equals good. And any consumer will tell you that a more than 40% discount off an expensive item equals not just good, but great, value.

We would take that one step further and posit that it's also an example of how strategic pricing triggers neurological connectivity, a powerful tool for getting consumers to buy your product—and, in the process, turn them into loyal customers.

Triggering the all-important dopamine surge

Neurological connectivity, which occurs when a retailer or brand makes its particular value offering so compelling that it results in a dopamine surge in the consumer's brain, is one of the great differentiators in retail, as Robin Lewis and I explain in our book, *The New Rules of Retail*. That's because once triggered, the consumer will subsequently seek out such a positive subconscious reaction again and again.

One way of achieving neurological connectivity is through pricing. Retailers often determine pricing using a formula based solely on input costs: Costs + standard markup rate = price. But such an approach fails to take advantage of the power of a creative pricing strategy.



And as the creative pricing strategy of the Drubeck brothers illustrates, consumers not only believe that expensive equals good, but that when deciding whether the product is valuable in the first place, it's all relative.

Indeed, as Dan Ariely explains in *Predictably Irrational*, we make decisions based on comparisons. Ariely, who showed three one-year subscription offers for *The Economist* to a group of 100 students from MIT's Sloan School of Management, found that they made the following choices:

1. Internet-only for $59 – 16 students
2. Print-only for $125 – 0 students
3. Print and Internet for $125 – 84 students

But when he removed the print-only option —the option not a single student had chosen in the first place—the number of students who opted for Internet-only rose to 68 from 16, while the number of students who chose the print-and-Internet option fell to 32 from 84.

The thrill of the hunt

But it takes more than a relatively low price to trigger neurological connectivity in a consumer's brain; the consumer must also feel like they've had to exert some effort to get the deal in the first place. The dopamine surge, then, becomes not just a pleasurable result, but a reward. Even better is when there's an element of surprise—when the consumer knows her efforts will yield something good, but she doesn't know exactly what that something good will be.

Some examples of how retailers trigger neurological connectivity by getting customers to search for deals include:

JC Penney. Customers had not only grown used to but loved finding lower prices through JC Penney's frequent sales and coupons, which is why the retailer's move to an Everyday Low Price strategy (EDLP) in 2012 may go down as one of its biggest missteps. The EDLP strategy eliminated what customers felt was their reward. (For more on JC Penney's failed EDLP strategy, see our piece on digital chatter.)

Gilt Groupe, Fab, Rue La La, etc. Flash-sale sites have found enormous success tapping into the power of neurological connectivity by offering deep discounts on an ever-changing lineup of products at regular intervals for a limited amount of time.

Savers. The for-profit thrift store partners with local charities that bring thousands of new items to its locations every day and has an aggressive, but simple, markdown cadence. For customers, that means every time they visit, they have the opportunity to purchase a unique item at a discount that grows deeper the longer the item sits on the shelf.

Triggering neurological connectivity through pricing requires doing the following:

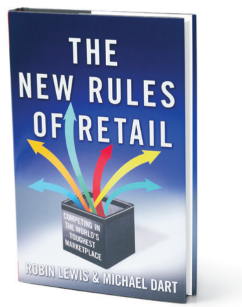
1. Creating a frame of reference that establishes your product's value in the consumer's mind, then discount off that. Remember, however, that consumers have an innate sense of value, a deep understanding of what things are really worth, which is why retailers must instill integrity in their pricing strategies by assigning an original full-value price that is credible.

2. Using "good, better, best" pricing to drive people to your higher-margin, "best value" products. Much like Ariely's students demonstrated when choosing subscriptions to *The Economist*, the comparisons offered by the retailer or brand will shape the relative value assigned by the consumer.

3. Throwing standard, across-the-board markups out the window and price each product on an individual basis. In the same way that consumers are making individual price comparisons and buying decisions, the cost of a product must not be the sole driver of its ultimate price.

4. Making consumers work for it. The satisfaction consumers feel when they have found a deal—whether through clipping coupons, being the first in line at a preplanned flash sale or hunting for one-offs in a thrift store—cannot be overstated.

Consumers always have and always will look for great deals. But when the shopping experience offers more than just a low price and instead triggers an actual chemical reaction in their brain that produces a feeling of pleasure, even reward, they will go from being shoppers to loyal customers. ❖



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