

Predictably Irrational

Book Review

Predictably Irrational, by *Dan Ariely*

Despite how we like to view ourselves in decision-making situations – rational, sensible, logical, every decision based on intelligence and “what's best” for us – we are not only frequently driven by irrational influences, but often predictably so.

Irrational is not presented as bad, by the way. As used in the book, it simply means not logic-based. Not crazy.

Any time a business owner can get inside the decision-making process of customers, it's an advantage to do so. This book takes us inside many of the irrational influences behind a consumer's decisions. Dig in.

Chapters 1-3 are the most easily applied to marketing. The others were a bit more social, and at that point I felt the book dragging on a bit. I found myself reading it just to get through it instead of reading it to get good material to apply to my practice.

The following are three “irrational” influences I found most interesting from the book:

1. Relativity

That is, we are significantly influenced by the context of a given choice. Having options that are easily comparable makes the decision-making process itself easier.

If we have a choice between A, B and C – A and B being similar but with B being better – we will tend to choose B even though C might have been equally good. It just wasn't as easily comparable.



Greg Zirkle, Fox Marketing Group

“Don't just make an offer – frame it where it looks it's best!”

Another example is a restaurant with a high-priced item on the menu. Even if it is never selected, it often drives customers to the second-highest item on the menu, where the margin is excellent for the restaurant. So having the high-priced item there is beneficial even if no one orders it.

Among the many marketing applications of this first principle is to “control the 'circles' around us,” the context in which our offer is presented and the comparators our customers view us in relation to.

2. Arbitrary Coherence

There are some settings in which supply and demand are unrelated to basic pricing. Black pearls, for example, are not priced based on how hard they are to come by, but based on how they were priced when they were first introduced.

It has been shown that the first price presented to a customer on a given item becomes a sort of mental “anchor” against which that item will be compared from that point on – even if the price was completely unrelated to value or supply or demand.

One interesting experiment had people take the last two digits of their social security number as the price. It's a completely arbitrary starting point.

Would you pay that for item X? No? Well, what *would* you pay?

Ariely: “The difference between two cents and one cent is small; the difference between one cent and zero is huge!”

People with higher numbers (like 72 or 88) were significantly more likely to name a higher price versus people with lower numbers (like 19 or 32). They had a higher anchor than the others.

Irrational, yet the results are repeated over and over. This is good food for marketers.

The theme is arbitrary coherence. The price points discussed were arbitrary, yet people accepted the proposition and either bit or not. If they bite, they naturally develop a rationale so the decision makes sense to their own brains – even if it really doesn't.

So if you ask people if their decisions make sense, they'll say yes – even if the driving influence behind the purchase was not logical at all.

3. The Power of Free

We will take something that's free even if it's not something we really want. Pairing items with free is a big winner.

Free shipping on your Amazon order if you buy two books gets you “free shipping” – for the price of an extra book! This is a big win for them, so how can you create the same thing in your business?

As the author states, the difference between 2 cents and 1 cent is small, but the difference between 1 cent and zero is huge!

Summing Up

If you read this book, it's very interesting. But if you *study* it, it can be very profitable.

The three lessons I've taken from *Predictably Irrational* include how to frame your offer(s), how to reduce price sensitivity, and how to increase purchases by leveraging the magnetism of free.

What will you learn? Let's talk about it – and do something with it!