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INTERNATIONAL NEGOTIATION ACADEMY

Negotiation: The Genesis of Management



Negotiation Skills Training

- Managers at senior, middle and junior levels
- Labour Union Negotiators
- Conflict dispute resolution mediators
- Sales Negotiators
- Buyers
- Hostage & Crowd Control Negotiators
- Facilitators

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THE PSYCHOLOGY OF PRICE

Are you getting poorer by the day due to some **psychological weakness** in you? Perhaps you are getting richer, because you understand that most people are so affected by their own emotions, that you can sell them anything.

We are all affected by our frail **egos** and emotions when we are shopping and we don't seem to know ourselves that well!

Can anybody **negotiate effectively** without **understanding some basics** about pricing?

To illustrate this, let's start with a question (and please try to answer it first before you read the answer behind each question):

1. *Is it better to sign a contract for 12 months at an exercise gym for R180 per month or don't sign and pay R60 every time you exercise?*

And:

Is a cell phone more expensive on contract than on prepaid (although we all know that the prepaid rate per call is dearer)?

Answer:

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- 2 – 4 June (Midrand)
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We do not know ourselves very well. **We think we are better than we really are!** Ninety percent of all people who sign contracts at gymnasiums only practice for one or two months and never again*! They may all have had wonderful surges of inspiration to lose weight or to become fit and shapely, but the urge does not seem to last! So, first try it out for a few times at the more expensive rate!

The same goes for cell phone and some other contracts. We all **pay much more** for the contract. We actually PAY for the free 'state of the art' phone we get 'free' on contract! Prepaid sim cards do not only limit your calls to the really necessary, it saves you so much money that you do not have to hassle your boss (or dad) every month for an increase in your allowance!

2. *Do you order the steak at R55 or the one below that on the menu at R79?*

Answer:

Many of us will, of course, order the cheaper steak (because we only have R60 in our pockets), but many will think that the more pricy steak **must be much better** and rather order that (perhaps the chef takes it off the same heap)!

So, the question is: in which cases are you thinking that the **higher priced article is the better article**? Many people think there is a correlation between quality and price*. It may well be, but how often and at what price?

Can you really taste or feel the difference between the **expensive and cheap** wine, coffee, hair shampoo, T-shirt, shoes, mattress, etc? A Rolls Royce is pricier than a Toyota. They serve the same purpose and are equally effective. Why do you want to pay a million extra for the Rolls?

(Well, I agree the Rolls will be great for my **ego**, but perhaps it will not make me more money and it will only serve one purpose: to empty my pocket!)

3. *Should you go on strike if the company does not want to meet your 9% demand (and stick to their 7% offer)?*

And:

To put it differently: Will you drive 50km to purchase the same welder at R100 cheaper than the one in your local hardware store?

Or:

*Lets complicate the question: Is a 9% per month increase in salary better than a 2% per month increase and an immediate cash bonus of 7% on your yearly salary? (Which choice do you prefer if you were the **CEO** of the company? And which choice would you recommend if you were the **labor leader**)?*

Answer:

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Due to our dislike of bosses or the local hardware owner, we may be inclined to allow our emotions to ruin our family's finances. We often **justify our decisions** (to rather strike for three weeks) on words like: "It's **the principle** of the matter". The only principle I can detect is that no money will buy any bread!

If you strike for three weeks (and you receive no pay during the strike), it will take you **years to make up** for the 2% difference in offer and demand. Not only that. Bosses seldom like to increase salary budgets without a corresponding increase in revenue. If that does not happen they will replace you with a machine or get rid of you completely!

Salary choices could be complicated. **Cash** could be more valuable right now than 9% increases (the tax bracket, medical and pension will also make it dwindle to about half the money). Cash could be invested. Cash could make you buy the shares. Cash could make you buy the cattle on the rented farm next to town! **With cash you could study** further!

4. *Is it better to accept an offer on your house today for R880 000, or wait for the R1million price you desire?*

Answer:

If we take our emotions out of this choice, it will be easy. In 99% of the cases you should accept the offer! **Irrationality research*** indicates differently. We think we are better at decision-making than we really are. Unless there are queues of buyers outside your house (which indicate your price is seriously wrong), you could be waiting another year to find a buyer. The property market could take a turn for the worse. In the mean time you have to pay monthly taxes, electricity, maintenance, etc, while you could have invested the R880 000 and after a year could have more in your pocket than your desired price anyway!

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5. *What will be the extra profit for the cell phone company if they increase their prices by 1c per call?*

And:

Who makes more? The grocer who sells bread at a 1% profit, or the mattress store owner next door who ads 150% to mattress prices?

Or:

How much extra income does the State earns if they tax petrol (or bread) an extra 1c?

Answer:

The three questions above all have one principle in common, namely, the huge effect of **turnover**.

'Turnover' could make pricing difficult. How should I price the maize flower on the shelf compared to the foot powder?

The bread seller makes his 1% every day. His real profit is therefore $1\% \times 365\text{days} = 365\%$. The mattress seller sells the mattress once a year. He makes less!

With millions of cell phone owners around, a 1c increase in dialling cost will mean **millions in profit**. The same for the State who can tax you on anything; and **one cent tax** on something does not feel unfair. For 50 million people who each buy one bread or litre of petrol per day, 365 times per a year, the tax income is more than you or me can imagine!

6. *What will be the financial difference if your down payment on your house is taken from your account on the 15th or the 30th of the month?*

And:

Is it better to buy a car on a lease of 60 months at a 10% interest rate, or pay for the car with your home bond?

Answer:

Do we understand how banks get rich from us (and we willingly give them our money)?

Interest calculation is a science and a very complicated one. Ask any actuary at an insurance company and they will give you a lecture on the **'art of bankrupting the public with interest manipulations so that they love you for it!'**

Banks quote interest on loans in terms of 'fixed' or 'effective' interest. They could quote you a fixed interest rate on your R100 000 loan of, say 10% p.y., in other words, R10 000 per year interest for the 5 years of your loan (totalling R50 000 interest). The bank could also quote **interest on outstanding balance** (effective rate). On about the 30th of each month, they calculate interest rate on what you still owe them (about half of R50 000 depending on frequency).

Worse still, banks often calculate interest on a 'compiled' basis (interest on interest), but make you pay it back on 'fixed' payment terms. Making you sometimes **pay double for you car**, or pay your loan of R100 000 back by giving the bank an extra R100 000. Well, perhaps you are still happy. They 'helped' you in your time of need (sic), by doubling your debt! Surely this becomes a sitcom comedy!

When banks calculate your 'outstanding' balance, they normally do it **before you make your down payment**. They earn a little extra interest that way (but they have 2 million customers and love it!). If you **negotiate with your bank** and try to move your down payment to the 20th of the month so that it lands in your account before the interest calculation, you get the benefit and your house is paid about **one full year before the end of the 20-year bond period!** There are many more of these 'price considerations' that could be vital in our daily decision making process. It further confirms the close link between our psyche and our price decisions.

Here are some more examples:

Do you offer extra discount to the department store (lets assume you are a supplier) if they put your products on eye level on the shelves or don't you care (as long as they list it)?

Do you pay your sales people commission or a salary, and on which products do they get huge commission and on which little?

The local dentistry has 6 dentists and they are booked up well in advanced. The next-door dentist works alone and is also booked up. They charge the same. Which makes more money and why?

You accept jobs where they offer to give you a bonus in listed shares or cash. Which do you chose?

Is it financially better to opt in or out of the medical scheme at work?

Talking about medical schemes; which are more expensive: having a hospital plan and pay the rest yourself, or having a full medical scheme?

Which is less expensive: a movie that you download for free from the Internet or the same movie that you buy in DVD format?

I am sure that by now, you know most of these answers. You are always welcome to [email](#) us or join us on facebook (International-Negotiation-Academy) so as to jointly find answers to some of the ways that you **negotiate prices**. Unfortunately most things that we need in life do have a price.

And lastly; Please remember that some people know the **price of everything but the value of nothing**. There are still many things in life that cannot be priced, and they are possibly the most gratifying!

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