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Mental Accounting and Consumer Choice

Richard Thaler, Marketing Science, 1985

Why the same beer is worth more from a fancy hotel, and why we judge a price by whether it feels like a good deal.

The big idea

Thaler argued that we get two kinds of value when we buy something. There's the value of the thing itself, and there's the value of the deal: how the price compares with what we expected to pay. He called the second one "transaction utility". It explains why a bargain can feel good even when we didn't really need the thing, and why a fair price can still feel like a rip-off.

The famous example

You're lying on a beach on a hot day, gasping for a cold beer, and a friend offers to get you one. What's the most you'd pay?

FROM A FANCY RESORT HOTEL
$2.65

FROM A SMALL RUN-DOWN SHOP
$1.50

Median answers in Thaler's study, in 1980s dollars. Same beer, same beach. The only thing that changed was what felt like a fair price.

Why it matters for pricing

Customers carry a reference price around in their heads, and every price you charge gets judged against it. Beat it and they leave happy. Miss it and they feel ripped off, however good the product. It's why Asda can sell a turkey below cost and still win the whole Christmas shop.

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Thaler, R. (1985). Mental Accounting and Consumer Choice. *Marketing Science*, 4(3), 199–214.
doi.org/10.1287/mksc.4.3.199

The Strategic Times
Summary by The Strategic Times
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