



In this three-part series, Mumbai-born consumer psychologist Vanessa Patrick draws on research and real life to point out what's tricking us into spending more and how simple it is to keep our wallets closed

PART III

How Much Does 'Free' Cost?

All that's marked-down is not cheap. All that's convenient is not smart. But it's possible to tell the difference

by Vanessa Patrick

WHO DOESN'T love a good deal? A supermarket discount day, full of offers on practically everything your home needs. Samples of little perfume with your moisturiser. One free shirt for three trousers that looked good enough to buy anyway. A free razor for which you'll only have to buy cartridges at a ridiculous retail price. We all like to think of ourselves as smart shoppers, but researchers have shown that our apparent smarts can sometimes be our downfall.

FREE? THAT'S PRICELESS!

In a study by professors from my alma mater, the University of Southern California, Joe Nunes and Xavier Dreze demonstrated that people loved the idea of 'free', even though there was no real tangible benefit attached to the freebie. They handed out loyalty cards to customers at a car wash. Some customers got a card that said, "buy eight washes, and get your ninth one free". Others received a card that advertised a 'special promotion', "buy 10 car washes and get the eleventh one free, plus two 'free' car wash stamps."

Nearly twice the customers (34 per cent) completed the second offer compared to the first one (19 per cent). They saw the opportunity to get two washes free more lucrative, even though they had to work extra hard to accumulate two sets of 10 paid-for washes.

Interestingly, while people love 'free', they are skeptical about discounts. Research shows that we judge lower-priced products

to be of lower quality. A set of researchers from Stanford, Duke and Insead illustrate a placebo effect, in which people who pay a discounted price for a product perceived less benefit from using it. These researchers showed that the same energy drink, when sold at a discounted price was seen as less effective than when it was sold at full price. So if you get 70 per cent off on designer jeans, remember that you may just end up seeing them as not-quite-designer!

OWE NO!

I feel strongly about credit card debt, actually any debt. It is hard not to use credit cards. But as a

researcher, I know how easy it is to pay virtual dollars (or rupees) for no virtual benefit.

Compelling evidence suggests that people spend more money when paying with credit cards than when they pull out actual notes from their wallets. Imagine that you're bidding for tickets for a sold-out cricket match. Chances are that if your mode of payment is a credit card, you'd bid more (close to double, studies say!) for the tickets than if you paid with cash. This effect was demonstrated by MIT professors, Drazen Prelec and Duncan Simester using a similar scenario. They auctioned off tickets to a baseball game and found a credit card

CHEAT SHEET

Here are some ways to buy right

■ **Everything is a trade off:** An important spending lesson to remember is that everything is a trade off and there are no free lunches at the mall. So the next time you are about to dash off for the freebie, stop, and ask, "Is it really free?"

■ **Call a save, a save:** Sometimes a discount is just a discount and those pennies pinched do not always sacrifice quality.

■ **Buy experiences, not products:** A lot of research shows that spending money on new experiences makes you happier than spending it on new products. So, take a weekend trip instead of buying a new designer handbag.

premium effect of 113 per cent, in which people who had to use credit cards bid more than double than those who had to pay with cash.

What's even scarier is the research that points to why this happens. If someone told you that there was a world where when you walked into a store you got amnesia; and when you walked out you couldn't remember what you did there and how much you spent. Would you believe them?

None of us would. But research by Dilip Soman, now a professor at the University of Toronto, suggests that this is pretty much what happens when we use credit cards. In order to stick to a budget, a person has to accurately remember how much they have spent on past purchases and experience the pain of overspending on their budget. What Soman shows is that we are less likely to remember the amount we spend on a purchase when we pay with plastic (using money we didn't yet have) than with money we actually see flowing out of our reserves and this results in us overspending.

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The series is now concluded*



Illustration: SIDDHANT JUMDE