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The ideas interview: R Preston McAfee

The economist tells John Sutherland why we owe it to ourselves - and society - to be better bargain hunters

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Professor R Preston McAfee made the headlines a couple of months ago with a report on the US government's purchase of computer hardware. By going for the best-known label, rather than the best buy, he said, the American taxpayer had been landed with a bill half a billion dollars bigger than necessary. The government procurement agency was that thing McAfee despises most - a "lazy shopper".

Prices fascinate McAfee, a professor of business, economics and management at the California Institute of Technology. He examines price variations as lovingly as a soothsayer looking at chicken entrails, and it's not just multi-million-dollar purchases that fascinate him.

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"You take a commodity like gasoline," he says. "Two weeks ago I went out and surveyed the six closest stations to my house, in San Marino. The price difference was 14 cents a gallon at those six stations. I surveyed them a week later and the station that had been the highest was now the lowest. And not only that, it was the lowest by six cents a gallon. The one that had previously been the lowest was right in the middle of the pack. Those are pretty substantial differences."

But what does this reveal, other than that prices are volatile?

"This isn't volatility at all," he says. "This is a pattern that persists. It shows most consumers are lazy. The ones who shop around, who look for the best prices, save a substantial amount of money. That's true in grocery stores. It's true about gas stations. And it's really, really true about airlines."

So does that mean haggling for everything you buy?

"No. One of the things most companies have done is systematically eliminate negotiation. They don't give the employees that right. If you go to a gas station and try to haggle about price with the person in the booth they'll laugh at you. If you walk into a department store and say, 'Can't you give me the sale price today?', the answer is 'no'. The employee, if they gave you the sale price, would have it taken out of their pay. Airlines will negotiate with companies - but not with individuals buying one ticket."

Are some kinds of transaction more elastic as regards price? If I'm buying a car, for example, I find I can bargain, but not if I'm buying a book.

"Right. Let's talk about cars for a minute. It's true that you can bargain for cars. On the other hand, what they present to you as negotiation and what is actually transpiring are two different things. The normal way it goes is that you're dealing with a salesperson. They are figuring out what is the most you will pay for this car. You're trying to get the best buy you can. If you seem knowledgeable, you'll get a better price.

"Often the salesperson will say, 'I'm not authorised to make that kind of a deal. I'll have to go get my manager to approve it.' That's a common sales tactic in automobile transactions. And, by and large, it's a lie. The salesperson has a clear-cut policy of what they're allowed to do. If they give a discount, it comes out of their commission. So they go and have a cup of coffee and give you time to stew because one of the main elements in bargaining is delay. Then they come back and say, 'My manager says I just can't do it; here's what I can do' - which is part way towards what you've asked.

"If you then hem and haw they'll go back and 'talk to their manager' again. In no case will they actually be talking to

their manager. They themselves have authority to give the discount. But they'd rather not."

You said that the car salesperson profiles you, to see how much can they can get. I have a card at my local supermarket and bookstore which, I suspect, profiles me exactly. Is that information ever used when prices, or "bargains", are offered to me? If not now, will it be used in the future?

"It certainly will be in the future, and it already is a bit today. For example, those annoying parts of a credit-card bill which are offers to buy things, those are very much targeted on the basis of what your purchases have been. But the offers you get aren't necessarily advantageous to you. You may be getting a bad offer because you look like the kind of customer who doesn't shop around much."

Is it true that Amazon offers different patrons different prices?

"Yes. If you search on Amazon, you find they're doing something rather subtle. They don't seem to be targeting prices based on your identity. What they're doing is that with some items they're offering prices that fluctuate - but you don't get the fluctuating prices if you don't clear your cookies. I'm not exactly sure what they're doing, but I have been able to replicate getting different prices from Amazon on different machines within seconds of each other. In general, it seems that people who check prices frequently get better prices than people who don't."

What strategies should the savvy purchaser adopt?

"The best strategy for the buyer is 'search'. That brings big gains in our economy. The common view among buyers about prices - 'Oh, well, they're all pretty much the same' - is just plain wrong. In airline travel, for example, my estimate is that you can save around 25% by searching cleverly and being a bit flexible on times".

• Details of R Preston McAfee's publications can be found on his website, mcafee.cc

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