Buying Value, Not Price

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My old Galaxy smartphone recently gave up the ghost, and I upgraded to the new model for $750. My friend was surprised when I told him. The old model is now available for $250, is the new one really three times better?

"Three times" better can mean several things, but in my post on spending money wisely I came up with the metric that should guide purchasing decisions: happiness gained per unit of time spent experiencing a thing, or 😊/hr. By this metric, since the new phone costs 3x as much, unless it provides 3x the 😊/hr it's worse in terms of $/😊. That means I'm getting less happiness per dollar spent.

I like my new phone a lot: the screen is bigger, the battery lasts all day and night, I can use it for blogging. It brings me at least 25% more 😊 than the old phone. But, it doesn't make me 200% happier. And yet I feel like I'm getting a good deal.

When my friend asked how I would justify this decision I warned him not to trust my explanation – since I already bought the phone, any justification may just be a post hoc rationalization. That caveat aside, my justification is that the price of the phone is a red herring. What I really care about is the *value*.

Ask yourself: how much would you be willing to pay for your smartphone if it was the only model available for sale?

Whether they "ruined a generation" or not, but I think that smartphones are awesome and immensely improve my life. If I had to choose between no phone at all or a Galaxy smartphone, I'd pay at least $4,000 for the old model and $5,000 (25% more) for the new one. That means I'd be willing to pay $1,000 more for the upgrade, and they only charge me $500 more ($750 vs. $250) for it. The fact that smartphones cost less than what I'm willing to pay is just a wonderful bonus born of engineering ingenuity and market competition.

I square this with the $/😊 disparity by noting that my goal is to maximize 😊 over all the money I spend, not in each category separately.

Consider a toy example of a world in which only two product categories exist: jackets and smartphones. You have $1,000 to spend, and four products to choose from:

1. Galaxy S7, $250, 4,000 😊
2. Galaxy Note 9, $750, 5,000 😊
3. Regular jacket, $250, 500 😊
4. Fucking jacket, $750, 1,000 😊

Given the constraint that you can only enjoy one smartphone at a time, the most happiness is bought by purchasing the Galaxy Note 9 and a regular jacket – 5,500 😊. The S7 does better in terms of $/😊 but it doesn't leave you with great options for the remaining $750. It's better to spend more on *categories* of products where you get a lot of 😊 and spend the minimum in low-value categories instead of looking to optimize *within* each category separately.

This example is not too far from the real case for me. The fact that I'd be willing to pay ~10x the asking price for a smartphone is a sign that smartphones (along with soap, tea, and underwear) are high-value categories. If I have enough money to buy great things in each of those I should do that before looking elsewhere. For things that I value little compared to their average price (cars, jewelry, whiskey) even a good within-category deal is a bad deal overall.

Decomposing Value

One more thing to consider is that the value of a purchase is made up of several factors. Marketing theory usually breaks those into four types:

1. **Functional value** – the direct use of a thing, the problem it solves. The value of a spoon is mostly functional.
2. **Social value** – the connection with other people and the signaling value of the thing. The value of a college degree is mostly social.
3. **Psychological value** – the happiness resulting from merely having the thing. The value of a framed family photo is mostly psychological.
4. **Monetary value**– the financial benefit generated by owning or reselling the thing. The value of stocks and bonds is mostly monetary.

Companies use this breakdown to market product to consumers, but as a consumer, you can flip this around to figure out what you're looking for and how much it's worth. For example, I can decompose the value of a tailored suit:

1. $50 of functional value – keeping me warm and not-naked.
2. $2,000 of social value – a requirement for certain jobs and social events.
3. $300 of psychological value – I feel like I look good in it.
4. 0 monetary value – no one is going to pay much for a suit tailored to someone else.

This means that I'd be willing to pay up to $2,350 for a good suit (thankfully, I can find one for a fraction of that price), but I won't pay much extra for a suit that is slightly better looking for me or does a better job of keeping me warm – most of the suit's value is social.

In rich countries, people tend to spend a lot more money on social value than on other kinds. Making me warm in New York costs a lot less than making me cool.

For an opposite example, I almost always buy the cheapest overnight airline tickets I can find, even if an airline with great food and service costs only 10% more. The value of a plane ticket to me is almost purely functional – getting me to another city. I don't care to pay more than $15 for an in-flight meal, let alone hundreds of dollars for business class or more polite flight attendants.

Advanced Putanumonit users don't have to limit themselves to the four types of value described above. You can goal factor any purchase and break it down to your personalized components of value. And after doing this exercise, truly advanced and enlightened users may decide not to spend their money on anything except peanut butter. Unfortunately, I'm not there yet.