

How to Sell a Dollar for More Than \$1.00

While strategy is truly an art, there is a lot of knowledge to be found in the science of it. As in marketing, the more of the science you understand, the smarter you can execute the art. If you strip away the jargon and math, you'll find a lot of value—whether you need to beat your competition if you're in business, win office if you're a politician, or raise a child if you're a parent.

One of the fundamentals of strategic theory relates to thinking forward and reasoning backwards. The dollar auction is a great example.

So, how do you sell a dollar for more than a \$1.00? Take a group of people and offer to auction off your dollar in 5-cent bid increments. The high bidder wins, but the second highest bidder, the loser, has to give up their losing bid. You'll almost always get more than \$1.00 for your dollar—guaranteed.

How? Let's say that you were one of the bidders and you just bid outbid Mary's 50¢ with a bid of 55¢. Great deal for a buck, right? Well, if Mary's not thinking forward and reasoning backward, she's just thinking about her next move—which is, of course, to outbid you and offer 60¢. She's better off buying a dollar for 60¢ than she is losing 50¢. So, good move right?

Well, what's your next move? You're going to use the same logic and bid 65¢. She'll then bid 70¢, and so on. You can see how this will continue.

Here's where it gets really fun. Now let's say you just bid \$1.00 for the dollar, outbidding Mary's 95¢. Does Mary stop? Is it better for her to bid \$1.05 for the dollar (and lose 5¢), or give up and lose 95¢? Suddenly, you and Mary are bidding more than \$1.00 for that dollar. Until someone comes to their senses, the bidding will keep going.

While this is a simplified model, it does relate to business. Say you're in a competition for a contract and the more time (read money) you spend on the proposal, the more likely it is that you'll win. But if you lose, any amount that you've already spent is lost. See the similarities? There are also plenty of other situations where you can apply this insight.

So, back to the dollar. Your strategy in this game depends on your objective. The key is to think forward and reason backwards. Identify your desired outcome, or objective. Anticipate what moves your competition will make. Think about the ways in which it might end. Then reason backwards to what you should do now.



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HERE ARE A FEW POSSIBLE OBJECTIVES AND STRATEGIES:

Objective: You want to make money

Strategy: In this game, there is no way to make money simply by playing it straight. The only way is to convince your competition, or better yet somehow commit yourself, that no matter what happens you're going to keep going until you "win." If your opponent feels that you're not going to bid rationally, they'll realize that they're better off not bidding against you at all. But why commit yourself? It guarantees that you're not bluffing.

Objective: You want to "win" the dollar

Strategy: Immediately bid \$1.00 for it, or if your opponent opens with 5¢, bid \$1.05. You need to give him no incentive to outbid you. However, you must be pretty confident that he's not going to act irrationally and be willing to lose a lot more money in order to "win" that dollar.

Objective: You want to bankrupt your opponent

Strategy: If you just want to destroy the other guy, and you have more money, just keep bidding until he runs out. Just make sure that you actually do have more money and that you are totally committed!

There is one way to truly win, of course, and that is to collude with the other bidders. That's cheating, though, and in business it's also illegal.

There's much more to this story, but these are the basics. If you want to try it for yourself, go ahead and auction off a dollar to a group of your friends or family. You'll probably get at least a free lunch out of it!

