

Customer's Reference Price Perceived Value

Ted Mitchell

• Two classic exam questions

- 1) Various prices on a can of Coke that we see in different situations (in a grocery store, in a vending machine in Disneyland etc) and retrieve from our memory to assess whether Coke price is acceptable or not are called:
 - Referent prices
 - Reference prices
 - Retrieved prices
 - Rented prices
 - Reversed prices
- 2) In most cases consumers cannot process accurately pricing information because they have:
 - unlimited resources
 - limited information
 - biases
 - limited cognitive resources
 - limited mathematical skills

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- 3) Consumers perceive discounts:
 - In Relative terms
 - In Absolute terms
 - In Terms of overall expenditures on all discounted and non-discounted items
 - Only while Shopping in Stores
 - with skepticism
- 4) Partitioned pricing strategy - when product price is presented separately from a surcharge (e.g. shipping and handling surcharge in online purchase) is based on the fact that consumers anchor on product price and:
 - ignore a surcharge
 - overreact on a surcharge
 - insufficiently adjust for a surcharge
 - overestimate total price
 - underestimate total price

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Expected Price or Reference price

Pricing to the Customer's Perceived Value
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Perceived Value Pricing Is A Form of Demand Based Pricing



The illustration shows a man in a light blue shirt and green pants pointing towards a pack of six red cans. A yellow label on the front of the cans reads "Great Value! Pack".

Perceived Value Pricing

Customers respond to value
To a customer
Value = All Benefits to Customer
Minus All Costs to Customer
Or
Value = Benefits/cost to customer
Or
Value = Product Quality/Selling Price

Axiom of Value Pricing Is
If you give your customer 50% more value than your competitor then you should be able to charge a 50% higher price before they switch.

Measuring Perceived Quality of the Product

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE WEIGHT ?	?	?	?	?
POWER WEIGHT ?	?	?	?	?
SPEED WEIGHT ?	?	?	?	?
COMFORT WEIGHT ?	?	?	?	?

Importance of Product Attributes to Customer

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	?	?	?	?
POWER 20%	?	?	?	?
SPEED 15%	?	?	?	?
COMFORT 35%	?	?	?	?

Customers Perceive Different Levels in Different Brands

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	1	2	5	6
POWER 20%	6	3	4	5
SPEED 15%	3	4	2	5
COMFORT 35%	5	6	4	2
OVERALL SCORE	?	?	?	?

Compensatory Model Looks For

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	1	2	5	6
POWER 20%	6	3	4	5
SPEED 15%	3	4	2	5
COMFORT 35%	5	6	4	2
OVERALL SCORE	?	?	?	?

Weigh Each Level of Attribute by the Importance of the Attribute

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	.3 (1) = .3	.3(2) = 0.6	.3(5) = 1.5	.3(6) = 1.8
POWER 20%	.2(6) = 1.2	.2(3) = 0.6	.2(4) = 0.8	.2(5) = 1.0
SPEED 15%	.15(3) = .45	.15(4) = 0.6	.15(2) = 0.3	.15(5) = 0.75
COMFORT 35%	.35(5) = 1.75	.35(6) = 2.1	.35(4) = 1.4	.35(2) = 0.7
OVERALL SCORE	?	?	?	?

Sum the partial worth scores for the total perceived quality

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	0.3	0.6	1.5	1.8
POWER 20%	1.2	0.6	0.8	1.0
SPEED 15%	.45	0.6	0.3	0.75
COMFORT 35%	1.75	2.1	1.4	0.7
OVERALL SCORE	?	?	?	?

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	0.3	0.6	1.5	1.8
POWER 20%	1.2	0.6	0.8	1.0
SPEED 15%	.45	0.6	0.3	0.75
COMFORT 35%	1.75	2.1	1.4	0.7
OVERALL SCORE	0.3 + 1.2 + .45 + 1.75 = 3.75	?	?	?

Which one does the Customer Prefer?

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	0.3	0.6	1.5	1.8
POWER 20%	1.2	0.6	0.8	1.0
SPEED 15%	.45	0.6	0.3	0.75
COMFORT 35%	1.75	2.1	1.4	0.7
OVERALL SCORE	3.75	3.9	4.0	4.25

Highest Preference Score Wins

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	1	2	5	6
POWER 20%	6	3	4	5
SPEED 15%	3	4	2	5
COMFORT 35%	5	6	4	2
OVERALL SCORE	3.75	3.9	4.0	4.25

- Why Is this Basic Model so popular?
- Forces us to be explicit on advertising/ product decisions
 - It allows us to think about probabilities of purchase and using them as a measure of intention to purchase
 - Helps in Pricing and Forecasting Market Share

• **Setting Price to the Perceived Quality of the Offering**

Target Market Averages On Value

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	0.3	0.6	1.5	1.8
POWER 20%	1.2	0.6	0.8	1.0
SPEED 15%	.45	0.6	0.3	0.75
COMFORT 35%	1.75	2.1	1.4	0.7
OVERALL SCORE	3.75	3.9	4.0	4.25

Target Market Averages On Value

	BRAND A	BRAND B	BRAND C	BRAND D
OVERALL SCORE	3.75	3.9	4.0	4.25

Overall Score is a measure of perceived quality or intensity of Preference.

Target Market Averages On Perceived Quality

	BRAND A	BRAND B	BRAND C	BRAND D
OVERALL SCORE	3.75	3.9	4.0	4.25

Average Perceived Quality is

Average Perceived Quality = $\frac{3.75 + 3.9 + 4.0 + 4.25}{4}$

Setting Price for Brand D

	BRAND A	BRAND B	BRAND C	BRAND D
OVERALL SCORE	3.75	3.9	4.0	4.25

Average Perceived Quality is 3.975

Brand D is 0.275 higher than Average Quality

Target Market Averages On Value

	BRAND A	BRAND B	BRAND C	BRAND D
OVERALL SCORE	3.75	3.9	4.0	4.25

Average Perceived Value is 3.975

Brand D is $\frac{0.275(100)}{3.975} \approx 6.9\%$ higher than average.

Implication

- If Brand D is 6.9% higher than average then you should be able to charge up to a 6.9% higher price.
- If the average price is \$200 then the maximum price for Brand D should be
 Max price for D = 200 + 200(6.9%)
 Max price for D = 200 + 13.83 = \$213.83

Problem with Perceived value Pricing As A Form of Demand Based Pricing is To Measure Perceived Price or Cost to Purchase

Other Demand Based Pricing

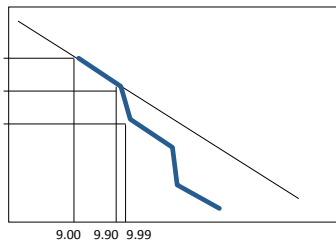
Value Added Pricing (Industrial)

- Consider the value of the benefits to the customer
- Price the product relative to what the product does for the customer

Psychological Pricing

1. This is a closing out sale... This is a once in a life time sale.
Limit of 4 per customer!
2. Loss-leader Pricing
3. Bait & Switch Pricing
4. Nature of Numbers (rounded or sharp)

Nature of Odd-Even Pricing



Cash Rebate

- Coupons
- 2%10 net 30
- Low or no finance charges
- % off list (functional discount)
- volume discount
- Cumulative

Discrimination Pricing

- Customer Based (young, old)
- Product/Image Based
- Geographical or Location Based
- Seasonal

If you cut your price

Customers may not buy more because of

- Anticipate More Price Cuts
- Believe your Products are being made cheaper
- Your competitor reacts

**Difficulties With
Demand Based Pricing**

- “Unfair to gouge people when they need something.”
- “Price should not be the way goods and services are allocated in society.”
- “Too hard to calculate.”
- “Too hard to explain.”
- “Causes too many fluctuations and makes the industry unstable.”

- Any Questions?