

Classroom assignment
Value Based Pricing
Using Expectancy Value Model

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Predicting The Customer's Choice
Rating on Scale 1-10

	Brand A	Brand B	Brand C
Power 40%	7	6	5
Capacity 30%	5	3	4
Comfort 20%	5	4	5
Style 10%	6	5	6
Overall Evaluation			

Which Brand will get the customer's highest overall evaluation?

Predicting The Customer's Choice
Rating on Scale 1-10

	Brand A	Brand B	Brand C
Power 40%	7 BEST on Power	6	5
Capacity 30%	5 Best on Capacity	3	4
Comfort 20%	5 Tied for Best	4	5
Style 10%	6 Tied for Best	5	6
Overall Evaluation			

Which Brand will get the customer's highest overall evaluation? BRAND A

Predicting The Customer's Choice
Rating on Scale 1-10

	Brand A	Brand B	Brand C
Power 40%	4	4	6
Capacity 30%	5	3	4
Comfort 20%	6	4	5
Style 10%	7	5	6
Overall Evaluation			

#2 with New Numbers Which Brand will get the customer highest overall evaluation?

Predicting The Customer's Choice
Rating on Scale 1-10

	Brand A	Brand B	Brand C
Power 40%	(4 x .4) = 1.6	(6 x .4) = 2.4	(6 x .4) = 2.0
Capacity 30%	5	3	4
Comfort 20%	6	4	5
Style 10%	7	5	6
Overall Evaluation			

#2 Which Brand will get the customer's highest overall evaluation?

Predicting The Customer's Choice
Rating on Scale 1-10

	Brand A	Brand B	Brand C
Power 40%	(4 x .4) = 1.6	(6 x .4) = 2.4	(5 x .4) = 2.0
Capacity 30%	(5 x .3) = 1.5	(3 x .3) = 0.9	(4 x .3) = 1.2
Comfort 20%	6	4	5
Style 10%	7	5	6
Overall Evaluation			

#2 Which Brand will get the customer's highest overall evaluation?

Predicting The Customer's Choice Rating on Scale 1-10

	Brand A	Brand B	Brand C
Power 40%	$(4 \times .4) = 1.6$	$(6 \times .4) = 2.4$	$(5 \times .4) = 2.0$
Capacity 30%	$(5 \times .3) = 1.5$	$(3 \times .3) = 0.9$	$(4 \times .3) = 1.2$
Comfort 20%	$(6 \times .2) = 1.2$	$(4 \times .2) = 0.8$	$(5 \times .2) = 1.0$
Style 10%	7	5	6
Overall Evaluation			

#2 Which Brand will get the customer's highest overall evaluation?

Predicting The Customer's Choice Rating on Scale 1-10

	Brand A	Brand B	Brand C
Power 40%	$(4 \times .4) = 1.6$	$(6 \times .4) = 2.4$	$(5 \times .4) = 2.0$
Capacity 30%	$(5 \times .3) = 1.5$	$(3 \times .3) = 0.9$	$(4 \times .3) = 1.2$
Comfort 20%	$(6 \times .2) = 1.2$	$(4 \times .2) = 0.8$	$(5 \times .2) = 1.0$
Style 10%	$(7 \times .1) = 0.7$	$(5 \times .1) = 0.5$	$(6 \times .1) = 0.6$
Overall Evaluation			

#2 Which Brand will get the customer's highest overall evaluation?

Predicting The Customer's Choice Rating on Scale 1-10

	Brand A	Brand B	Brand C
Power 40%	$(4 \times .4) = 1.6$	$(6 \times .4) = 2.4$	$(6 \times .4) = 2.4$
Capacity 30%	$(5 \times .3) = 1.5$	$(3 \times .3) = 0.9$	$(4 \times .3) = 1.2$
Comfort 20%	$(6 \times .2) = 1.2$	$(4 \times .2) = 0.8$	$(5 \times .2) = 1.0$
Style 10%	$(7 \times .1) = 0.7$	$(5 \times .1) = 0.5$	$(6 \times .1) = 0.6$
Overall Evaluation	5.0	4.6	5.2

#2 Which Brand will get the customer's highest overall evaluation? Brand C

Easy

- Same as calculating your grade

Predicting the Student's Grade

	Student A		
Midterm 1			
Midterm 2			
Midterm 3			
Midterm 4			
Game 1			
Game 2			
Game 3			
Participation			
Overall Evaluation 200 points			

#2 What is Student A's score for the course?

Predicting the Student's Grade

What are the importance weights?

	Student A		
Midterm 1 25 points			
Midterm 2 25 points			
Midterm 3 25 points			
Midterm 4 25 points			
Game 1 10 points			
Game 2 35 points			
Game 3 45 points			
Participation 10 points			
Overall Evaluation 200 points			

#2 What is Student A's score for the course?

Predicting the Student's Grade

	Student A		
Midterm 1 25 points	90%		
Midterm 2 25 points	50%		
Midterm 3 25 points	80%		
Midterm 4 25 points	60%		
Game 1 10 points	100%		
Game 2 35 points	80%		
Game 3 45 points	90%		
Participation 10 points	0%		
Overall Evaluation 200 points			

#2 What is Student A's score for the course?

Predicting the Student's Grade

	Student A		
Midterm 1 25 points	90%	$25 \times .9 = 22.5$	
Midterm 2 25 points	50%	$25 \times .5 = 12.5$	
Midterm 3 25 points	80%	$25 \times .8 = 20$	
Midterm 4 25 points	60%	$25 \times .6 = 15$	
Game 1 10 points	100%	$10 \times 1 = 10$	
Game 2 35 points	80%	$35 \times .8 = 28$	
Game 3 45 points	90%	$45 \times .9 = 40.5$	
Participation 10 points	0%	$10 \times 0.0 = 0$	
Overall Evaluation 200 points			

#2 What is Student A's score for the course?

Predicting the Student's Grade

	Student A		
Midterm 1 25 points	90%	$25 \times .9 = 22.5$	
Midterm 2 25 points	50%	$25 \times .5 = 12.5$	
Midterm 3 25 points	80%	$25 \times .8 = 20$	
Midterm 4 25 points	60%	$25 \times .6 = 15$	
Game 1 10 points	100%	$10 \times 1 = 10$	
Game 2 35 points	80%	$35 \times .8 = 28$	
Game 3 45 points	90%	$45 \times .9 = 40.5$	
Participation 10 points	0%	$10 \times 0.0 = 0$	
Overall Evaluation 200 points		148.5	

#2 What is Student A's score for the course?

Predicting the Student's Grade

	Student A		
Midterm 1 25 points	90%	$25 \times .9 = 22.5$	
Midterm 2 25 points	50%	$25 \times .5 = 12.5$	
Midterm 3 25 points	80%	$25 \times .8 = 20$	
Midterm 4 25 points	60%	$25 \times .6 = 15$	
Game 1 10 points	100%	$10 \times 1 = 10$	
Game 2 35 points	80%	$35 \times .8 = 28$	
Game 3 45 points	90%	$45 \times .9 = 40.5$	
Participation 10 points	0%	$10 \times 0.0 = 0$	
Overall Evaluation 200 points		148.5	$148.5/200 = 74.25\%$

#2 What is Student A's score for the course?

Predicting the Student's Grade

	Student A		
Midterm 1 25 points	90%	$25 \times .9 = 22.5$	
Midterm 2 25 points	50%	$25 \times .5 = 12.5$	
Midterm 3 25 points	80%	$25 \times .8 = 20$	
Midterm 4 25 points	60%	$25 \times .6 = 15$	
Game 1 10 points	100%	$10 \times 1 = 10$	
Game 2 35 points	80%	$35 \times .8 = 28$	
Game 3 45 points	90%	$45 \times .9 = 40.5$	
Participation 10 points	0%	$10 \times 0.0 = 0$	
Overall Evaluation 200 points		148.5	$148.5/200 = 74.25\% = \mathbf{B}$

#2 What is Student A's score for the course? **B**

Most obvious Use of Evaluation score is for pricing

- Brand C has the highest preference score.
- Brand C could have the highest price!

Predicting The Customer's Choice Rating on Scale 1-10

	Brand A	Brand B	Brand C
Power 40%	(4 x .4) = 1.6	(6 x .4) = 2.4	(6 x .4) = 2.4
Capacity 30%	(5 x .3) = 1.5	(3 x .3) = 0.9	(4 x .3) = 1.2
Comfort 20%	(6 x .2) = 1.2	(4 x .2) = 0.8	(5 x .2) = 1.0
Style 10%	(7 x .1) = 0.7	(5 x .1) = 0.5	(6 x .1) = 0.6
Overall Evaluation	5.0	4.6	5.2

#2 Which Brand will get the customer highest overall evaluation? **Brand C**

Most Obvious Use of Evaluation score is for Value-Based Pricing

- What is the score of the average brand?
- Total Score = 4.6 + 5.0 + 5.2
- Average Score = 14.8/3 = 4.93
- Brand C is 5.2/4.93 = 105.48% above average
- **Value Pricing Theorem:**
relative value = relative price
- Brand C could have a price of 105.48% above average
- If the average selling price was \$2.00 each Brand C could charge up to \$2.10 each

In the Game

- Average product quality = 2.4
- You have quality 3
- You are 3/2.4 = 125% above average
- The average price is \$3
- Your price could be a maximum of
- 125% x \$3 = \$3.75
- **Relative price = relative quality**

- Use it for predicting market share
- Market Share Theorem
- If you have 125% of the average value
- Then you should have 125% of the average market share

- Use it For Segmentation of the Market

	Brand A	Brand B	Brand C
Power 40%	(4 x .4) = 1.6	(6 x .4) = 2.4	(6 x .4) = 2.4
Capacity 30%	(5 x .3) = 1.5	(3 x .3) = 0.9	(4 x .3) = 1.2
Comfort 20%	(6 x .2) = 1.2	(4 x .2) = 0.8	(5 x .2) = 1.0
Style 10%	(7 x .1) = 0.7	(5 x .1) = 0.5	(6 x .1) = 0.6
Overall Evaluation	5.0	4.6	5.2

Different Weights Different Segments

	Brand A	Brand B	Brand C
Power 60%	4	6	6
Capacity 30%	5	3	4
Comfort 10%	6	4	5
Style 0%	7	6	6
Overall Evaluation			