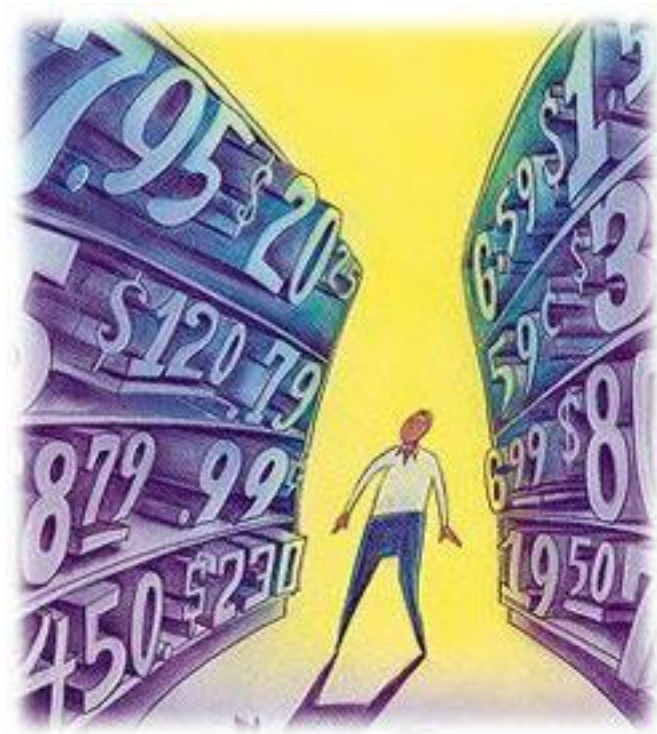


Taking Pricing to the People



We ask customers for input on all of our other marketing decisions — media placement, product placement, promotional activities, packaging — why not capture details about their price sensitivity?

Developed in the 1970s by Peter H. van Westendorp, the van Westendorp Procedure, also known as the Price Sensitivity Meter, embraces two theories: 1) that prospective purchasers, educated about a product or service and its market, can examine it and give a rough price range for it (theory of reasonable prices), and 2) that buyers will eliminate a product or service deemed too low in price because they question its quality (theory of price signaling quality).

This approach yields "willingness to pay" results rather than likelihood of purchase, as conjoint analysis delivers.

For instance, marketers of products like technology components that have different value in different industries or applications can use the van Westendorp Procedure to study patterns of price consciousness and expectations. This will help them set smart, market-sensitive prices — a definite improvement over cost-plus pricing and a good gauge of potential gross profit margin. Take that to the boardroom.

Customers participating in the van Westendorp Procedure must answer four questions about a product or service:

- At what price would you consider this to be a bargain — a great value for the money?
- At what price would it start to get expensive but still worth considering?
- At what price would it be so cheap that its quality is doubted?
- At what price would it be so expensive that it would not be considered at all?

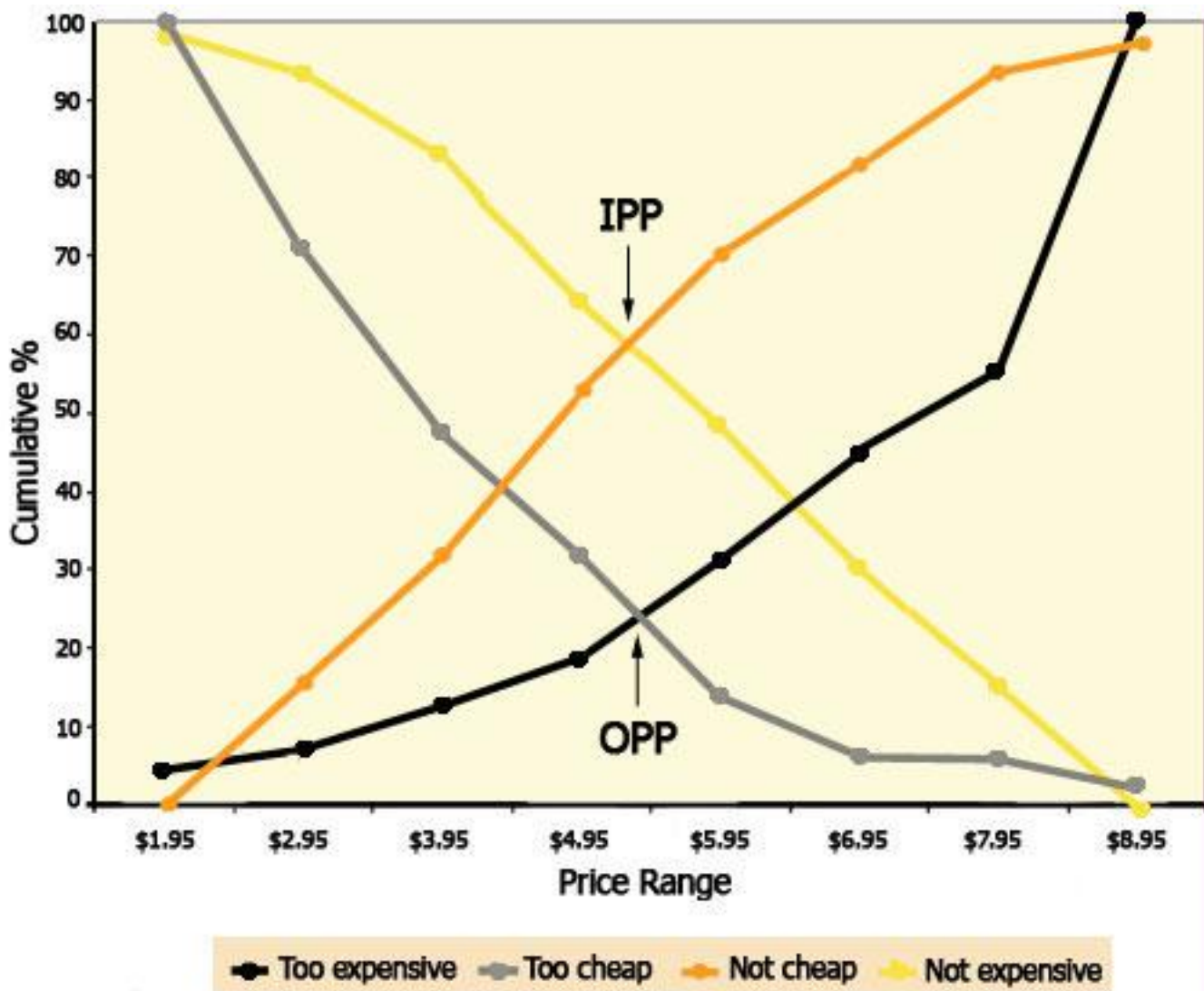
Depending on participants' familiarity with the product or service — existing offering, competitive introduction, or true innovation — marketers may set ranges of prices and then tweak those ranges as results come in from the first respondents, presenting a more refined tool to subsequent testers.

This testing can be done online cheaply and quickly, with product information, descriptions, brand names (the Price Sensitivity Meter provides remedial assistance to brand valuation, too), even 3-D mock-ups. With its outcomes, marketers can determine the percentage of the market that will purchase

their product or service at several price points. By assessing this, once the marketer sets a price, it knows its market size and can set revenue and market share expectations with some certainty.

The data can be pushed into many illustrative formats — price-demand curves and the van Westendorp Indifference Price Point (IPP) diagram, for example. The IPP is the point at which the number of respondents who consider the product a bargain equals the number of respondents who said it is starting to get expensive but still worth considering. This usually represents the median price paid by consumers or the average price of a product produced by the dominant market player.

The van Westendorp Optimum Price Point (OPP) is the point at which the number of respondents who reject the product as too expensive equals the number who reject it for being too cheap. Some consider this to be the ideal price for the product. With this figure, the marketer is assured of losing the fewest customers.



Marketers can monkey with the measurements in order to shrink or expand the go-to-market price range as desired. In a small range of recommended prices, there isn't much room in which to set the price higher than the product's value just to maximize the short-term return or to set it below the product's value in order to build market share at the expense of competitors.

But no matter the marketer's primary goal — short-term profit prowess or market-share manipulation — the Price Sensitivity Meter solidifies pricing strategy in a way intuition and internal politics can't.

