The European Pricing Blog

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Price Image (Guest Post: Florian Bauer, Vocatus AG)

People say of the market researcher's profession that it's terribly dry: ruled by analyses and statistics, fighting it out between levels of significance and correlation analyses. At Vocatus, Florian Bauer and his colleagues see it in a totally different way. Please enjoy his interesting blog post below about how price image can influence buying behaviour.

PRICE IMAGE: THE HIDDEN FORCE OF PRICING

Price image beyond value for money

One of the unspoken assumptions of marketing goes like this: Increase value-for-money, and your customers will thank you with improved price perception and increased willingness to buy. However, this "the more the merrier" rationale doesn't always prove to be true.

The German newspaper market is facing its most severe crisis for at least 60 years. Hundreds of jobs are threatened due to the closure of famous and prestigious national titles such as "Financial Times Deutschland" and the bankruptcy of the "Frankfurter Rundschau". This indicates major changes in terms of how people are consuming news and media, one of them being the sheer lack of time to read.

"The more the merrier" means that publishers whose goal is to stabilize revenues while advertising sales and circulation are in decline are trying to sugar the pill of price increases via noticeable increases in coverage. However, they are ignoring the main reason why people cancel a newspaper subscription: the "pain" of throwing away a paper that has hardly been read. Increased coverage only aggravates this problem.

This sheds light on an often neglected facet of price image: utilization. What is crucial for price perception is not the potential value-for-money provided, but the degree to which customers are able to utilize this value. It's like buying a cookbook even though you know that only a minority of the recipes will suit your taste, and even fewer of them will ever be cooked.

Price image as a multi-dimensional concept

A leading provider of last-minute package tours recently introduced an online price comparison tool. For every search that a customer executes online, the tool reports not only this provider's price, but also the best price of its competitors (via a real-time search on the respective competitors' websites). This tool led to an overall increase in conversion as it addresses a least two price image related motives:

If the provider's price is cheaper, one of the motives it addresses is transparency. People who want to book a tour online usually compare the prices of several providers and therefore

seldom stick with the website they visited first. The price comparison tool makes those further searches unnecessary, creates transparency, and thus increases conversion.

But even if competitors' prices are cheaper, a significant percentage of customers still book with this provider. The main reason for this is fairness. People who stick with a provider even if it is more expensive assume reciprocity: If they demonstrate fairness by not squeezing the margin, they expect fair treatment from the local agency rep if there are any issues at the destination.

Price image as a driver of purchase decisions

Price image is the hidden success factor in pricing in many sectors – especially in retail, wholesale, and generally in all B2B and B2C industries with a wide variety and/or huge complexity of products and prices. Think about retail: The decision for or against a certain retail chain is mainly based on the retailer's price image, not the prices of actual products. Hardly anyone is aware of actual prices, but the general price image is simply attributed to the prices of individual products. There, price optimization is not only about defining the price of a large number of specific products, but often more about how to optimize the price image as the first hurdle in the funnel or even as the crucial price aspect in the whole decision process.

If price image is reduced to value-for-money, the only way to improve price image is to either reduce prices or increase value. A multidimensional price image construct, including for example transparency, fairness, and other relevant dimensions, much better explains the levers which companies have in optimizing their pricing strategy, and allows for more innovative and profitable pricing approaches.

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