

# How pricing can make or break your NPD launch

Quirks New York



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## Introduction



## Theory and pricing metrics

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- Van Westendorp
- Price Elasticity of Demand



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- Context + Research Questions
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- Survey flow
- Outputs



## Q&A

# All-in-one survey research platform with easy-to-use advanced tools and expert support

**SURV**

## Survey Tool

Fully-functional online survey tool with various question types, logic, randomisation, and reporting for unlimited number of responses and surveys.

[▶ Start now](#) [View details](#)

**GC** ★ Range optimisation 🗨 Features and claims

## Generic Conjoint

Feature and claim selection and measuring willingness to pay for features for a single product.

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**CT** 🗨 Features and claims

## Claims Test

Efficiently test up to 300 product claims on customer appeal, fit with brand, and diagnostic questions of your choice.

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**BSC** 📊 Pricing research ★ Range optimisation

## Brand-Specific Conjoint

Pricing, feature and claim selection in markets where product characteristics vary across brands, SKUs, or price tiers.

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**MD** ★ Range optimisation 🗨 Features and claims

## MaxDiff Analysis

MaxDiff analysis for robust ranking of flavours of your product by consumer preference; or usage occasions by frequency.

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**PVS** ★ Range optimisation

## Product Variant Selector

Identify winning product variants from up to 300 different ideas (e.g., designs, materials, bundle options) on customer appeal, fit with brand, and diagnostic questions of your choice.

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# Your guide for today



## **Stijn Mentzel, PhD**

### *Lecturer Quantitative Market Research*

Stijn is a lecturer for quantitative market research at Conjoint.ly. He is specialized in data and analytics, with almost 10 years' experience in teaching research methodologies, statistics and behavioral psychology.

He has worked together with various Universities and companies all around the world. Before delving into research, he studied human movement science. He is currently based near Amsterdam in the Netherlands.

# Theory and pricing metrics



# BPTO: Definition and when to use

- **Brand-Price Trade-Off (BPTO)** is a specialised tool for answering pricing questions for **consumer goods** in a **competitive context**
- It is a choice-based technique that **reflects** consumers' preferences for **SKUs/brands, advertisement impact, budget** and **psychological pricing constraints**

BPTO can be used to examine:

- How **revenue, profitability, and preference shares** perform after **launching an NPD** at a various price point?
- Where an NPD will **source preference share** from?
- How **re-pricing** will impact an **existing product**?
- What the **effect** is of **awareness** and **advertising** on the adoption of **new concepts**?

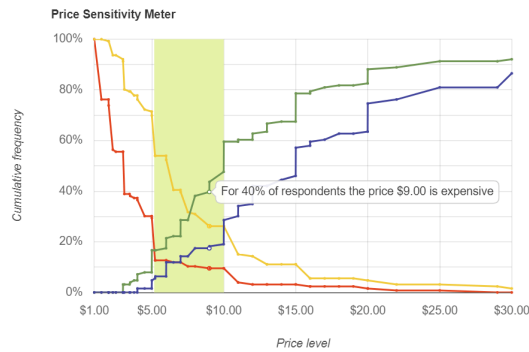


# BPTO: Valuable pricing metrics

- When it comes to **BPTO** there are **two valuable metrics** that can help answer your **pricing questions**

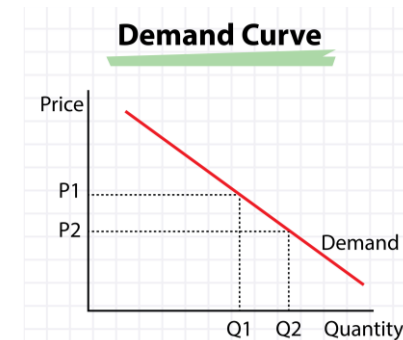
## Van Westendorp

- Helps determine the **psychologically acceptable price range** for a **product** or **service**
- For example, to **assess** what **price range** the **market considers** to be **fair** for your product
- Consist of **four main questions**, with **two** (optional) **extension questions**



## Price Elasticity of Demand

- How costumers **react** when **price** is **adjusted**
- For example, how **demand** for a **product** **increases** or **decreases** as the **price** is **increased** or **decreased**.
- There are **four values** for the **responsiveness** of **quantity demanded** in relation to **changes** in **price**



# Van Westendorp Price Sensitivity Meter: Definition and research methods

## What is Van Westendorp PSM and why is it important?

**Van Westendorp Price Sensitivity Meter (PSM)** is a measure that helps determine the psychologically acceptable range of prices for a single product or service. It is calculated using four questions:

Think about Soundwave's music platform, at what monthly cost (in USD) per active user the software would be...

... priced so low that you would feel the software couldn't be very good?

... a bargain – a great value for the money?

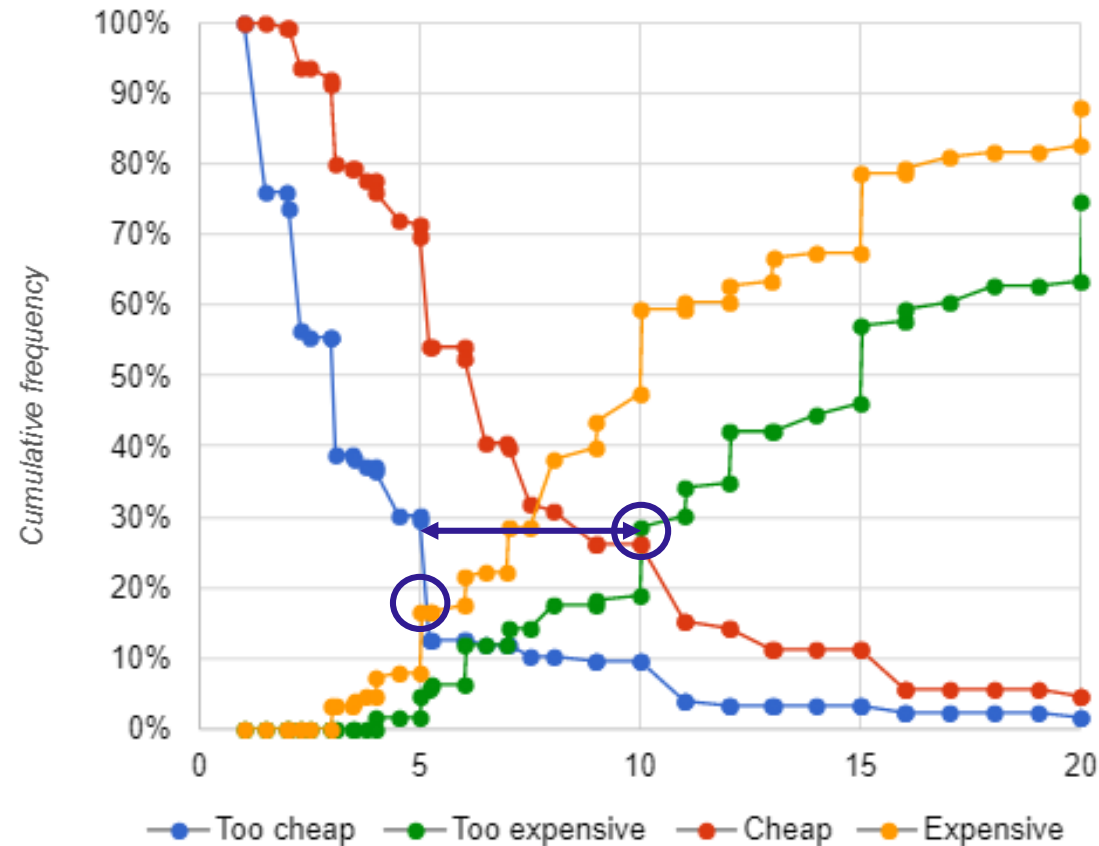
... starting to get expensive, so that it is not out of the question but you would have to give some thought of subscribing it?

... so expensive that you would not consider subscribing it?

- You can add **Newton, Miller and Smith's extension**, which adds **two 5-point scale questions**, asking about **purchase likelihood** at the prices the respondent has identified as **“cheap”** and **“expensive”**
- This extension allows us to **construct elasticity curves** and **revenue charts**
- **PSM** is a **direct pricing technique** and ideal in combination with **indirect methods**, such as **Generic Conjoint**

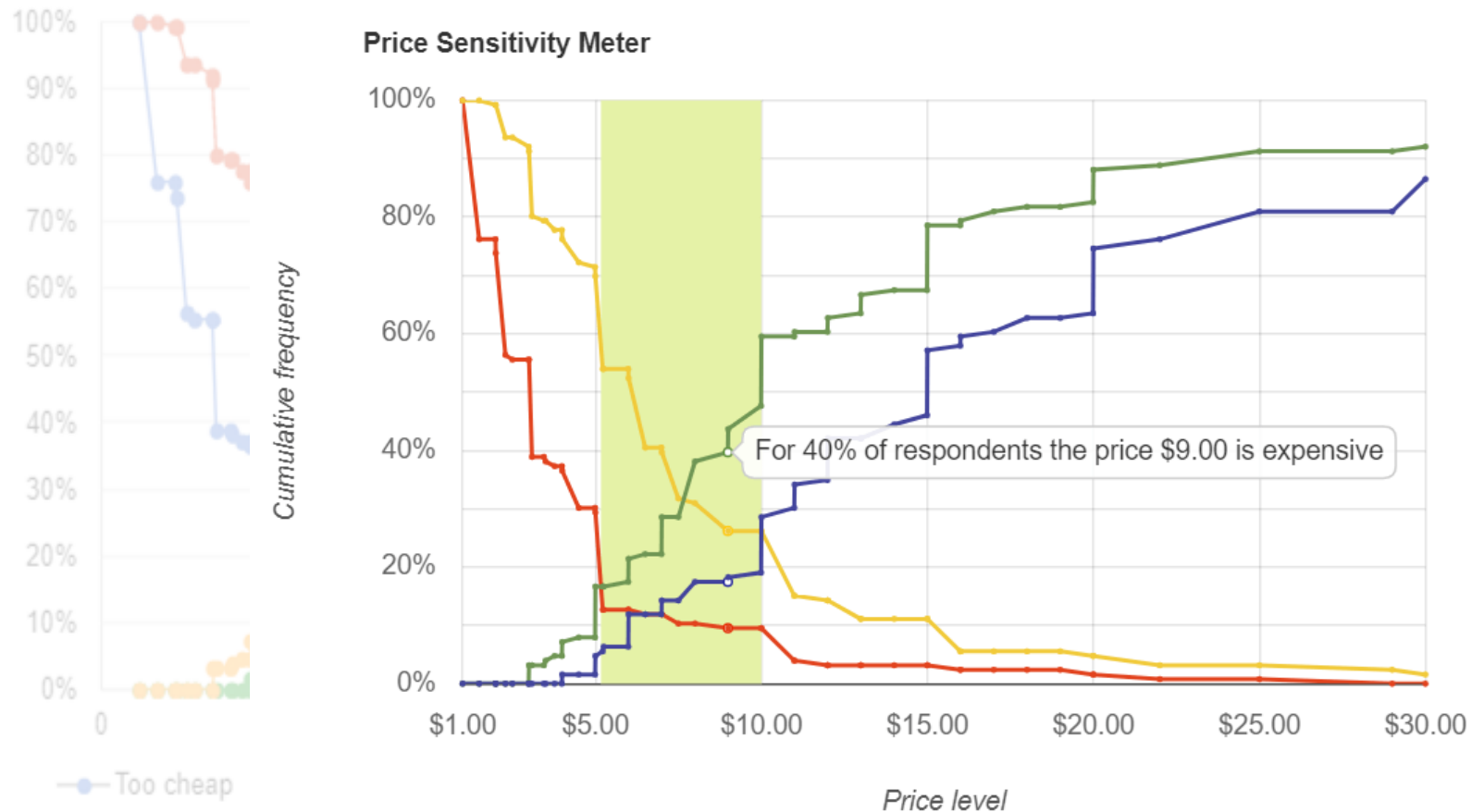


# Van Westendorp Price Sensitivity Meter: Definition and research methods



- The **main output** of the method is a **chart of four intersecting lines**
- **Each** of these **lines shows cumulative frequency** for each of the **four price levels** across the respondents

# Van Westendorp Price Sensitivity Meter: Definition and research methods



	Expensive	Too expensive
Cheap	\$7.65 (“normal price point”)	\$10.00 (upper end of range)
Too cheap	\$5.17 (lower end of range)	\$6.75 (“optimal price point”)

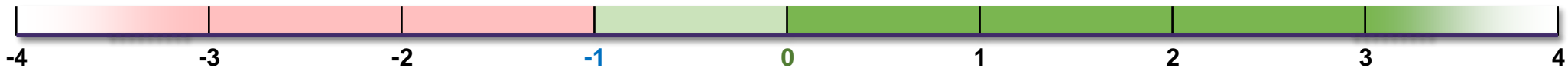
- The **main output** of the method is a **chart of four intersecting lines**
- **Each of these lines shows cumulative frequency** for each of the **four price levels** across the respondents

# Price Elasticity of Demand: Definition and research methods

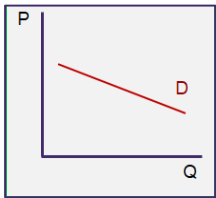
## What is PED and why is it important?

**Price Elasticity of Demand (PED)** is a measure of how quantity demanded is affected by changes in price. It shows how demand for a product increases or decreases as its price increases or decreases. It is calculated by the following formula:

$$PED = \frac{Q_2 - Q_1}{(Q_2 + Q_1)/2} / \frac{P_2 - P_1}{(P_2 + P_1)/2}$$



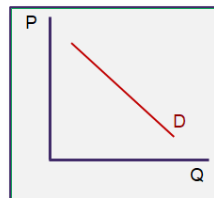
**Elastic:  $PED < -1$**



When elasticity of demand is less than -1, an increase in price by 1% leads to more than 1% drop in volume

→ **Should price low**

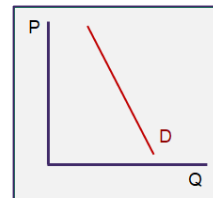
**Unit Elastic:  $PED \approx -1$**



When elasticity of demand is approximately 1, it means that an increase in price by 1% leads to exactly 1% drop in volume

→ **Consider margins**

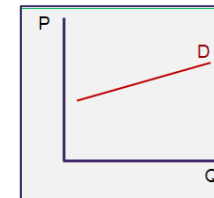
**Inelastic:  $-1 < PED < 0$**



When elasticity of demand is between -1 and 0, it means that an increase in price by 1% leads to less than 1% drop in volume

→ **Should price high**

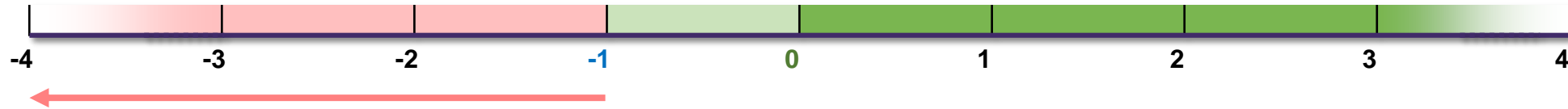
**Positive:  $PED > 0$**



When elasticity of demand is greater than 1, this means that there is price-quality inference

→ **Should price high**

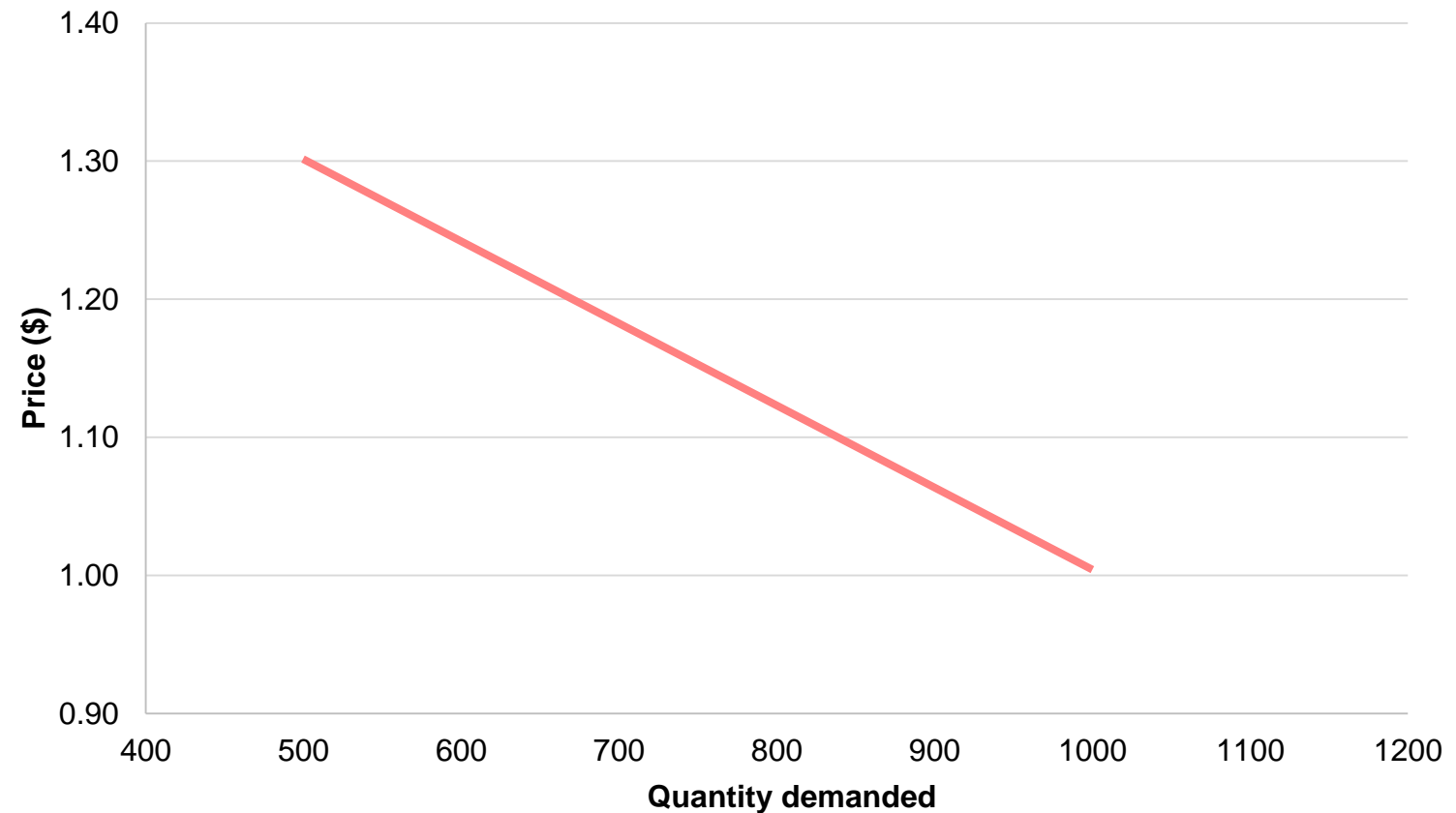
# Price Elasticity of Demand: Definition and research methods



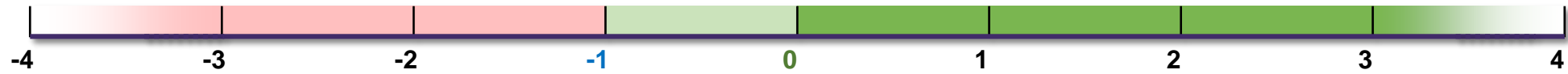
## Elastic: $PED < -1$

When elasticity of demand is less than -1, an increase in price by 1% leads to more than 1% drop in volume

→ **Should price low**



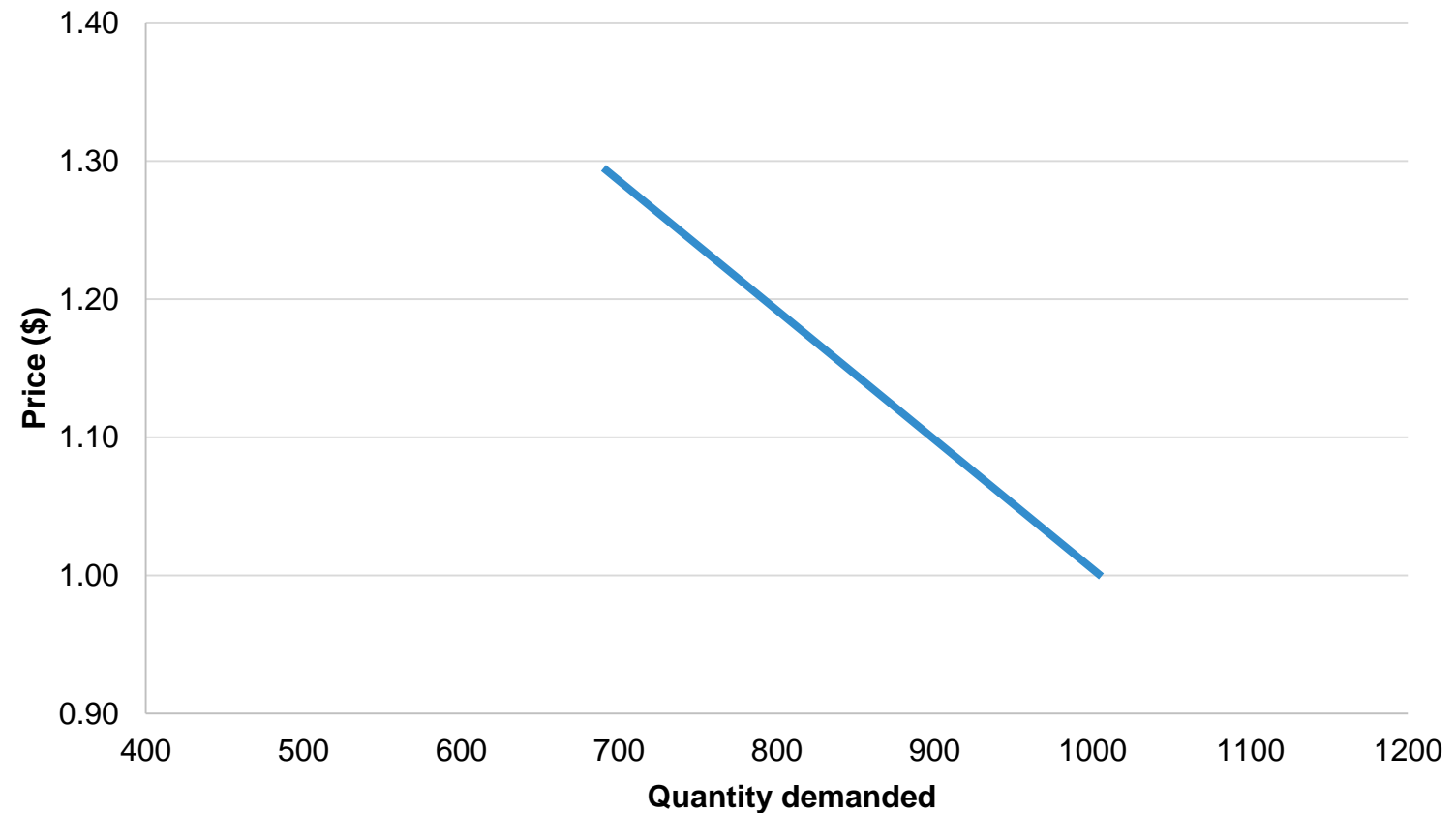
# Price Elasticity of Demand: Definition and research methods



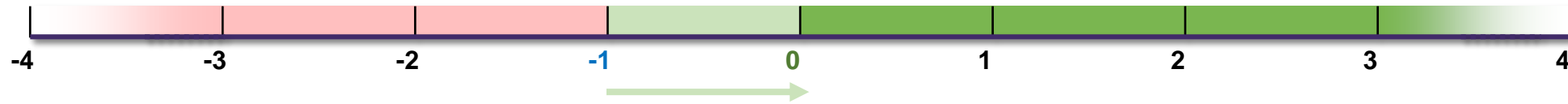
## Unit Elastic: $PED \approx -1$

When elasticity of demand is approximately 1, it means that an increase in price by 1% leads to exactly 1% drop in volume

→ Consider margins



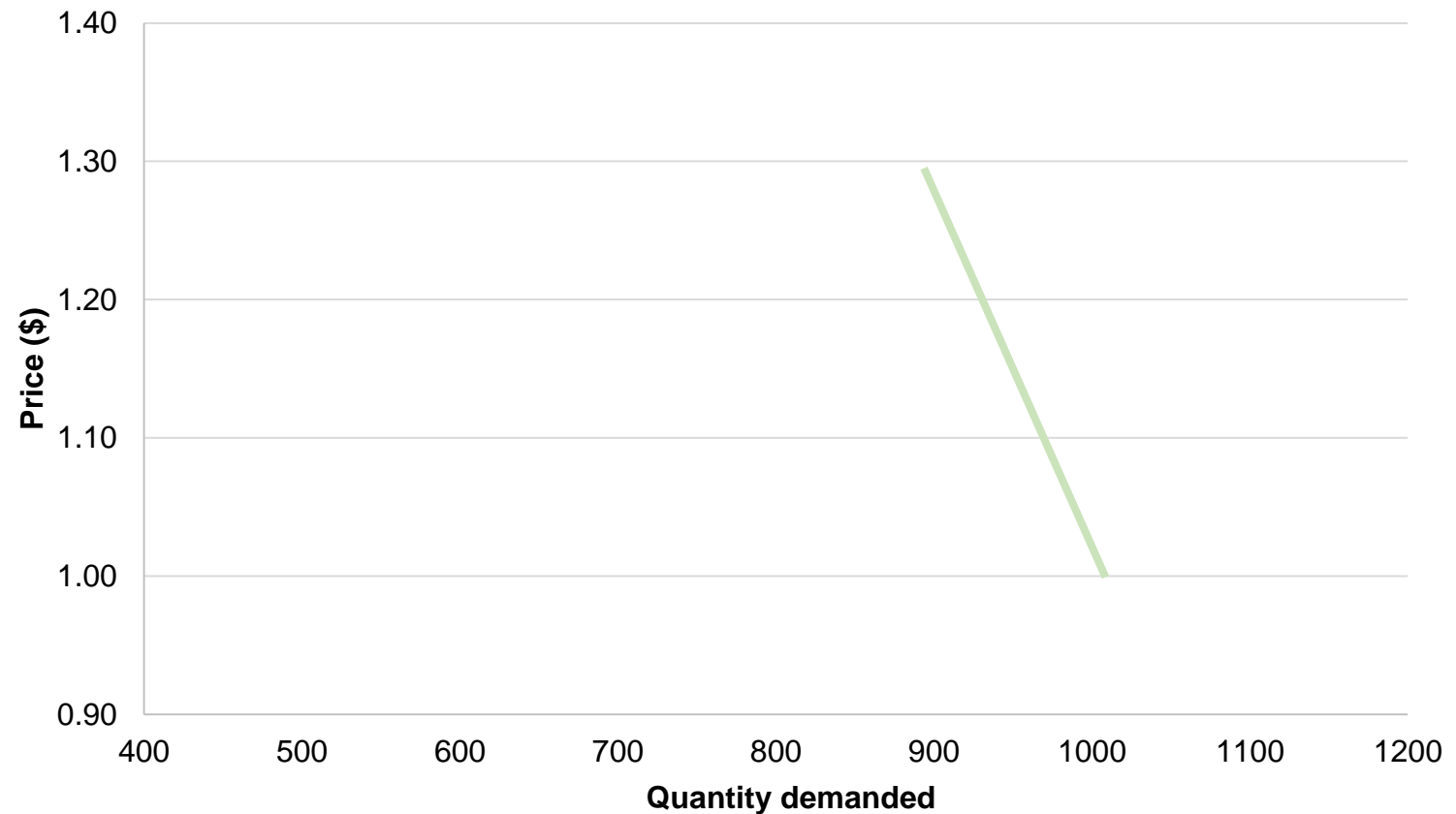
# Price Elasticity of Demand: Definition and research methods



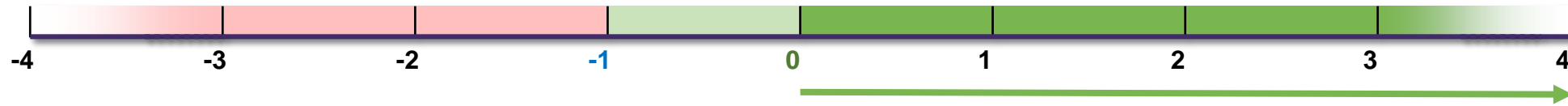
## Inelastic: $-1 < PED < 0$

When elasticity of demand is between -1 and 0, it means that an increase in price by 1% leads to less than 1% drop in volume

→ Should price high



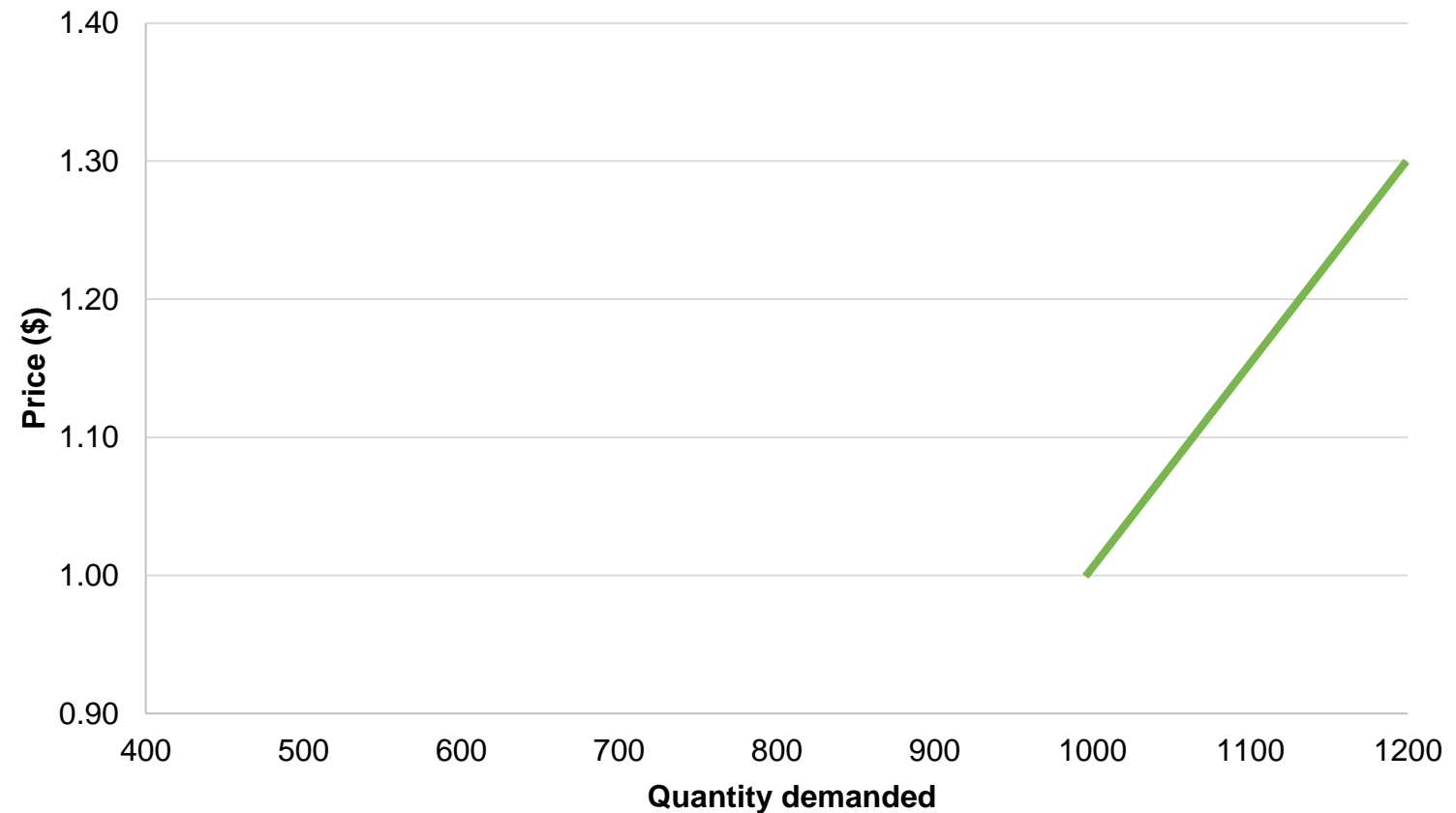
# Price Elasticity of Demand: Definition and research methods



## Positive: $PED > 0$

When elasticity of demand is greater than 1, this means that there is price-quality inference

→ Should price high



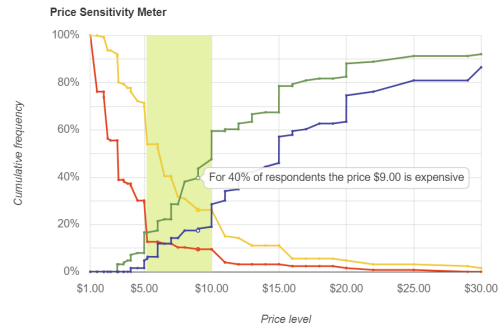
# PSM and PED: Metrics comparison

## Van Westendorp Price Sensitivity Meter (PSM)

### Answers:

What is the **psychologically accepted range of prices** the market is willing to pay for a **single product or service**?

- ✓ **Simple and easy to understand monetary value**
- ✓ Useful for **comparison between products**
- ✓ Ideal in **combination with Generic Conjoint or multiple PSM measurements**

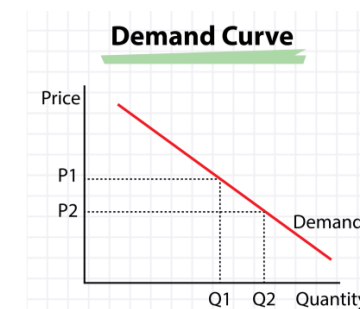


## Price Elasticity of Demand (PED)

### Answers:

What is the **optimal (revenue / profit / volume maximisation) price** for the product?

- ✓ Shows **relationship** between **price** and **quantity demanded**
- ✓ Confirms if **introducing/changing** a product **would allow a brand to charge more**
- ✓ **PED is closely related to a brand's strength**



**Both PSM and PED can help you perfect your NPD launch!**



# Case Study



# Case Study: Organic pet food launch

## Business Case

*Brand Co* is a global pet food manufacturer, based in California, USA. *Brand Co* strategy team would like to launch their new product, **Organic puppy pet food**.

Before launching their new product, *Brand Co* would like to understand whether or not the new **organic range** would perform well with puppy owners. What would be the go-to-market price for *Brand Co* to **position themselves as a premium product**? Where would **Brand Co's** new organic product take share from?



## NPD Launch Research Questions

Working with *Brand Co* Conjoint.ly helped identify various research questions

- **RQ1:** What is the **psychologically acceptable range of prices** for this new organic product vs other pet food products?
- **RQ2:** Where would **Brand Co's** new organic product take share from?
- **RQ3:** What new product pricing will maximise *Brand Co's* **revenue, gross margin or preference share**?








# Brand-Price Trade-Off: Brand Co set-up

## Setting up a BPTO

- **Definition of the market** / category (where would the NPD compete)
  - Dry pet food does not compete with wet food
  - Main competitors are non-organic pet foods
- Consider **where** do you want to **take share from**
- Focus on a **specific sub-category** (e.g. Dry dog food)
- **Size of the images:** Are the products proportional to their real world size?
- **Resolution of the images:** Are the products clear and easy to read?

Which of the following dog food would you buy for your puppy?

<p>Blue Buffalo Natural Senior Small Breed Dry 15lb / 6.8kg</p>  <p>\$28.12</p> <p>CHOOSE</p>	<p>Wellness Chicken &amp; Oatmeal 15lb / 6.8kg</p>  <p>\$37.69</p> <p>CHOOSE</p>	<p>Addiction Grain Free Dry Dog Food Lamb 33lb / 15.0kg</p>  <p>\$55.31</p> <p>CHOOSE</p>	<p>Brand Co Organic Puppy Pet Food 10kgs / 22.0kg</p>  <p>\$35.00</p> <p>CHOOSE</p>	<p>Rachael Ray Real Chicken &amp; Veggies 14lb / 6.4kg</p>  <p>\$16.74</p> <p>CHOOSE</p>
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## Pricing Considerations

- **Price variations**
  - **Minimum of 3** for NPDs, up to 7 on broader categories (check price map)
  - Price gap, typically take 100 price index and the +/- 5 or 10%
- What is the correct **currency** to use?
- Should we use **overall price** or **price per unit**
- Are **decimal points** standardised?
- Include **full price range** of the category / sub-category
- If supermarket data is available, it can be used to **calibrate elasticity of demand**






### Required input:

- **Pack shots** for brands that makes up ~80% of volume share
- **Price levels**, ideally between 3 to 5 price points per SKU
- *(Optional)* Adcept for NPD

# Brand-Price Trade-Off: Organic Puppy Pet Food Survey flow

Conjoint exercise presents various brands along with current offering

Which of the following dog food would you buy for your puppy?






Addiction Grain Free Dry Dog Food Salmon 33lb / 15.0kg	IAMS Proactive Health Adult Minichunks 15lb / 6.8kg	Blue Buffalo Natural Adult Small Breed Dry 15lb / 6.8kg	IAMS Proactive Health Mature Minichunks 15lb / 6.8kg	Addiction Grain Free Dry Dog Food Lamb 33lb / 15.0kg
				
\$55.31	\$19.84	\$35.00	\$19.84	\$79.99
CHOOSE	CHOOSE	CHOOSE	CHOOSE	CHOOSE

[Go back](#) [X NONE OF THE ABOVE](#)

# Brand-Price Trade-Off: Organic Puppy Pet Food Survey flow

Conjoint exercise presents various brands along with current offering






Which of the following dog food would you buy for your puppy?

Addiction Grain Free Dry Dog Food Salmon	IAMS Proactive Health Adult Minichunks	Blue Buffalo Natural Adult Small Breed Dry	IAMS Proactive Health Mature Minichunks	Addiction Grain Free Dry Dog Food Lamb
				
33lb / 15.0kg	15lb / 6.8kg	15lb / 6.8kg	15lb / 6.8kg	33lb / 15.0kg
\$55.31	\$19.84	\$35.00	\$19.84	\$79.99
CHOOSE	CHOOSE	CHOOSE	CHOOSE	CHOOSE

[Go back](#) [X NONE OF THE ABOVE](#)

Conjoint exercise presents various brands along with NPD before accepts

Which of the following dog food would you buy for your puppy?






Blue Buffalo Natural Senior Small Breed Dry	Wellness Chicken & Oatmeal	Addiction Grain Free Dry Dog Food Lamb	Brand Co Organic Puppy Pet Food	Rachael Ray Real Chicken & Veggies
				
15lb / 6.8kg	15lb / 6.8kg	33lb / 15.0kg	10kgs / 22.0kg	14lb / 6.4kg
\$28.12	\$37.69	\$55.31	\$35.00	\$16.74
CHOOSE	CHOOSE	CHOOSE	CHOOSE	CHOOSE

[Go back](#) [X NONE OF THE ABOVE](#)

# Brand-Price Trade-Off: Organic Puppy Pet Food Survey flow

## Conjoint exercise presents various brands along with current offering






Which of the following dog food would you buy for your puppy?

Addiction Grain Free Dry Dog Food Salmon	IAMS Proactive Health Adult Minichunks	Blue Buffalo Natural Adult Small Breed Dry	IAMS Proactive Health Mature Minichunks	Addiction Grain Free Dry Dog Food Lamb
				
33lb / 15.0kg	15lb / 6.8kg	15lb / 6.8kg	15lb / 6.8kg	33lb / 15.0kg
\$55.31	\$19.84	\$35.00	\$19.84	\$79.99
CHOOSE	CHOOSE	CHOOSE	CHOOSE	CHOOSE

Go back X NONE OF THE ABOVE

## Conjoint exercise presents various brands along with NPD before accepts

Which of the following dog food would you buy for your puppy?


Blue Buffalo Natural Senior Small Breed Dry	Wellness Chicken & Oatmeal	Addiction Grain Free Dry Dog Food Lamb	Brand Co Organic Puppy Pet Food	Rachael Ray Real Chicken & Veggies
				
15lb / 6.8kg	15lb / 6.8kg	33lb / 15.0kg	10kgs / 22.0kg	14lb / 6.4kg
\$28.12	\$37.69	\$55.31	\$35.00	\$16.74
CHOOSE	CHOOSE	CHOOSE	CHOOSE	CHOOSE

Go back X NONE OF THE ABOVE

## Introduce NPDs through adcepts

**Brand Co Organic Puppy Pet Food**

- 100% Natural & Organic
- Contains vitamins and minerals for your puppy's health
- Available in small and large packs








Brand Co Organic puppy pet food 10kg net

# Brand-Price Trade-Off: Organic Puppy Pet Food Survey flow

## Conjoint exercise presents various brands along with current offering






Which of the following dog food would you buy for your puppy?

Addiction Grain Free Dry Dog Food Salmon	IAMS Proactive Health Adult Minichunks	Blue Buffalo Natural Adult Small Breed Dry	IAMS Proactive Health Mature Minichunks	Addiction Grain Free Dry Dog Food Lamb
33lb / 15.0kg	15lb / 6.8kg	15lb / 6.8kg	15lb / 6.8kg	33lb / 15.0kg
				
\$55.31	\$19.84	\$35.00	\$19.84	\$79.99
CHOOSE	CHOOSE	CHOOSE	CHOOSE	CHOOSE

Go back X NONE OF THE ABOVE

## Conjoint exercise presents various brands along with NPD before accepts

Which of the following dog food would you buy for your puppy?

Blue Buffalo Natural Senior Small Breed Dry	Wellness Chicken & Oatmeal	Addiction Grain Free Dry Dog Food Lamb	Brand Co Organic Puppy Pet Food	Rachael Ray Real Chicken & Veggies
15lb / 6.8kg	15lb / 6.8kg	33lb / 15.0kg	10kg / 22.0kg	14lb / 6.4kg
				
\$28.12	\$37.69	\$55.31	\$35.00	\$16.74
CHOOSE	CHOOSE	CHOOSE	CHOOSE	CHOOSE

Go back X NONE OF THE ABOVE

## Introduce NPDs through adcepts






**Brand Co Organic Puppy Pet Food**

- 100% Natural & Organic
- Contains vitamins and minerals for your puppy's health
- Available in small and large packs



## Conjoint exercise presents various brands along with NPD after accepts

Which of the following dog food would you buy for your puppy?

Nature's Variety Grain-Free Recipe with Real Chicken	Nature's Variety Grain-Free Recipe with Real Venison	Purina Beneful Natural Salmon with Sweet Potatoes	Pedigree Complete Nutrition Small, Grilled Steak & Vegetable Flavour	Brand Co Organic Puppy Pet Food
11lb / 4.50kg	20lb / 9.1kg	14lb / 6.4kg	3.5lb / 1.6kg	10kg / 22.0kg
				
\$37.69	\$55.31	\$10.63	\$10.63	\$30.00
CHOOSE	CHOOSE	CHOOSE	CHOOSE	CHOOSE

Go back X NONE OF THE ABOVE

# Results: What outputs do you receive?

Summary by product

Individual summary

Acceptable price range

Simulator





# Results: Summary of product

Summary by product

Individual summary

Acceptable price range

Simulator

Feedback from testers

Insights

Crosstab

Simulations

Pivot tables

Segmentation

Weights

All responses

## Study results

Summary by product

Passport of product

## Additional questions

Q1: Welcome to this study a...

## Other

Locations of respondents

## Summary of diagnostics for each product

Quick export

View as JSON

Add to export

Show 20 products

Metric for diagnostics: % top 2 boxes

Type to Search

Product	Score	Rank	Van Westendorp
Pedigree Complete Nutrition Small	57.8	1	\$12.99 to \$19.20
Rachael Ray Real Chicken & Veg	43.6	2	\$14.22 to \$20.00
Pedigree Complete Nutrition Small	42.6	3	\$10.11 to \$14.33
Rachael Ray Real Beef, Pea & Bro	28.4	4	\$15.00 to \$24.00
Nature's Variety Grain-Free Recipe	28.4	5	\$19.99 to \$26.00
Pedigree Dry Food Beef and Lamb	24.4	6	\$21.00 to \$29.85
Kibbles 'n Bits Original Savory Bee	21.1	7	\$14.78 to \$21.00
Purina Beneful Natural Salmon wit	19.7	8	\$15.59 to \$21.00
Kibbles 'n Bits Small Breed Oven F	13.5	9	\$14.17 to \$19.44
Purina Beneful Healthy Weight wit	7.0	10	\$17.00 to \$25.25

# Results: Individual summary of product

Summary by product

Individual summary

Acceptable price range

Simulator

Feedback from testers | Insights | Crosstab | Simulations | Pivot tables | Segmentation | Weights | All responses

## Study results

Summary by product

Passport of product

## Additional questions

Q1: Welcome to this study a...

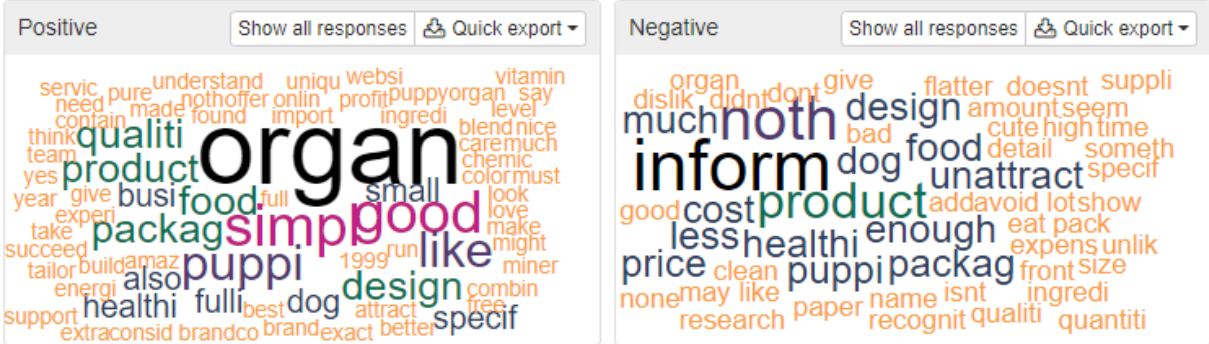
## Other

Locations of respondents

Passport of a Product | Metric for diagnostics: % top 2 boxes | View as JSON | Add to export

Metric for diagnostics: Brand Co Organic Puppy Pet Food 5kgs

Name	Brand Co Organic Puppy Pet Food 5kgs
Topic	npd-ours
Most relevant brand	N/A
Van Westendorp	\$15.29 to \$23.50



# Results: Psychologically acceptable range of prices

Summary by product

Individual summary

Acceptable price range

Simulator

[Adjust charts and currency](#)

N/A

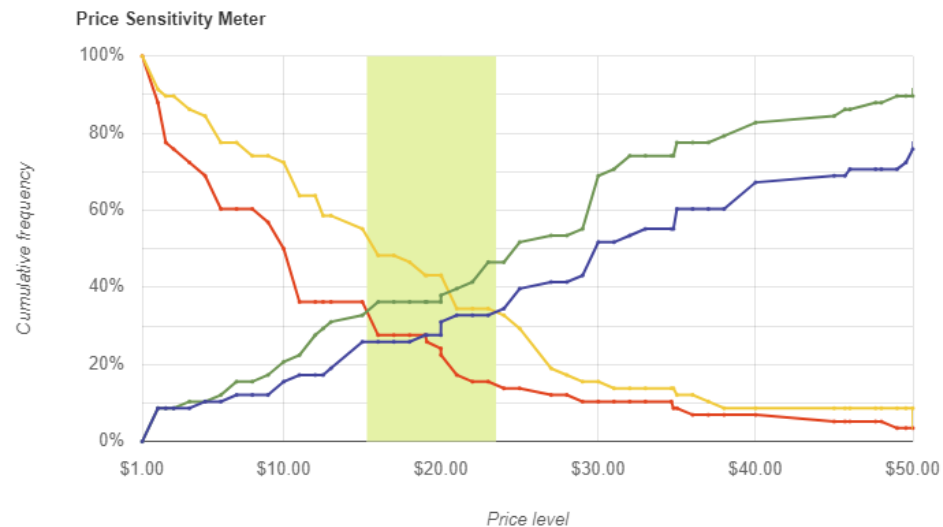
would not buy this product at all

**\$15.29 to \$23.50**

acceptable range of prices

N/A

revenue-maximising price level



	Expensive	Too expensive
Cheap	<b>\$20.50</b> ("normal price point")	<b>\$23.50</b> (upper end of range)
Too cheap	<b>\$15.29</b> (lower end of range)	<b>\$19.00</b> ("optimal price point")



# Results: Psychologically acceptable range of prices

Summary by product

Individual summary

Acceptable price range

Simulator

[Adjust charts and currency](#)

N/A

would not buy this product at all

\$15.29 t

acceptable r.

N/A

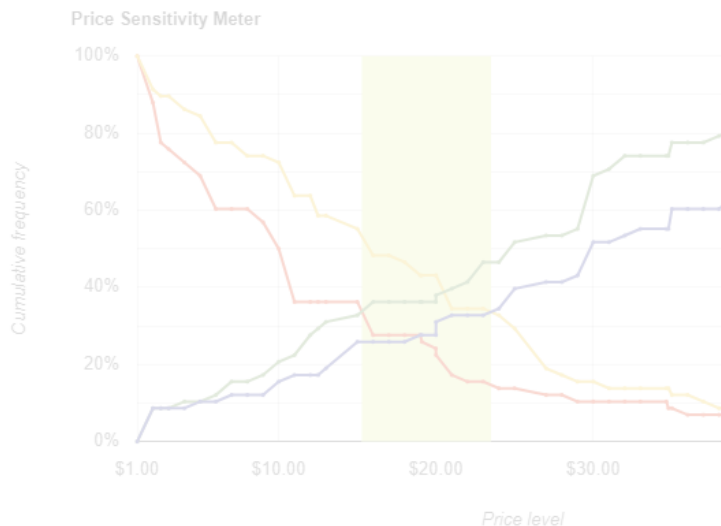
would not buy this product at all

\$25.00 to \$47.33

acceptable range of prices

N/A

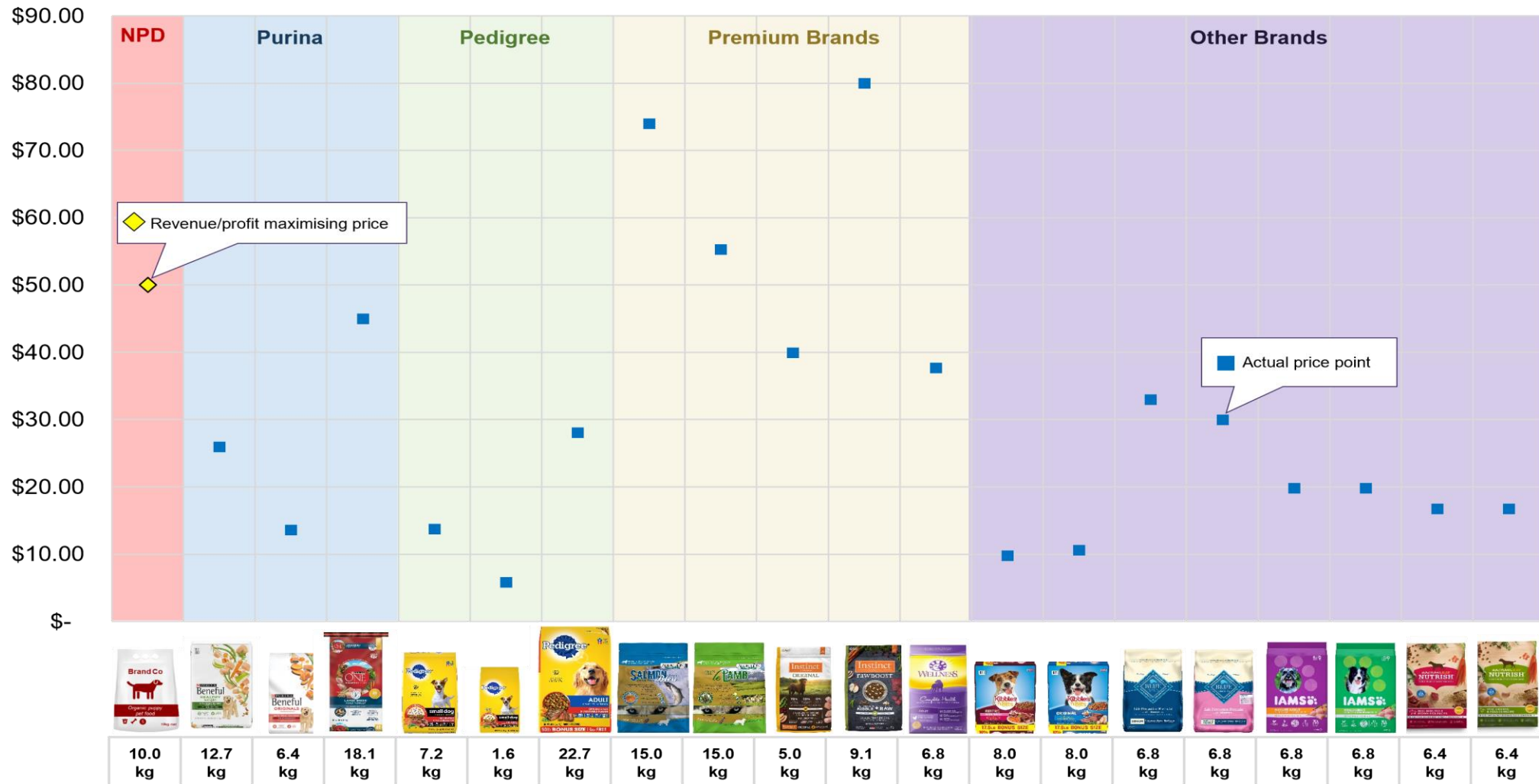
revenue-maximising price level



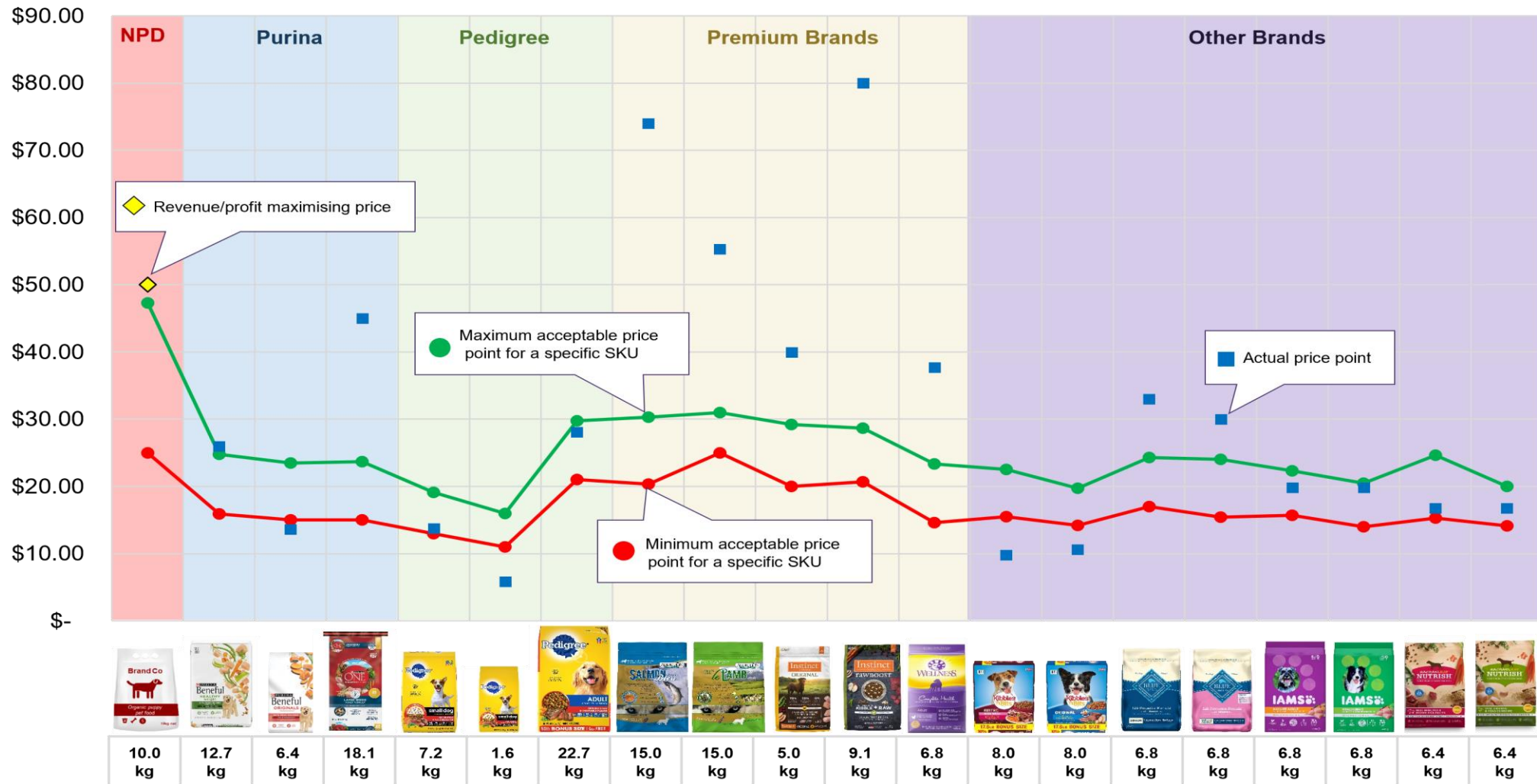
	Expensive	Too expensive
Cheap	\$25.00 ("normal price point")	\$47.33 (upper end of range)
Too cheap	\$25.00 (lower end of range)	\$45.00 ("optimal price point")



# RQ1: What is the psychologically acceptable range of prices for this new organic product vs other pet food products?



# RQ1: What is the psychologically acceptable range of prices for this new organic product vs other pet food products?



# Results: Psychologically acceptable range of prices

Summary by product

Individual summary

Acceptable price range

Simulator

Feedback from testers

Insights

Crosstab

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Segmentation

Weights

# Results: Simulator

Summary by  
product

Individual  
summary

Acceptable  
price range

Simulator

Feedback from testers

Insights

Crosstab

Simulations

Pivot tables

Segmentation

Weights



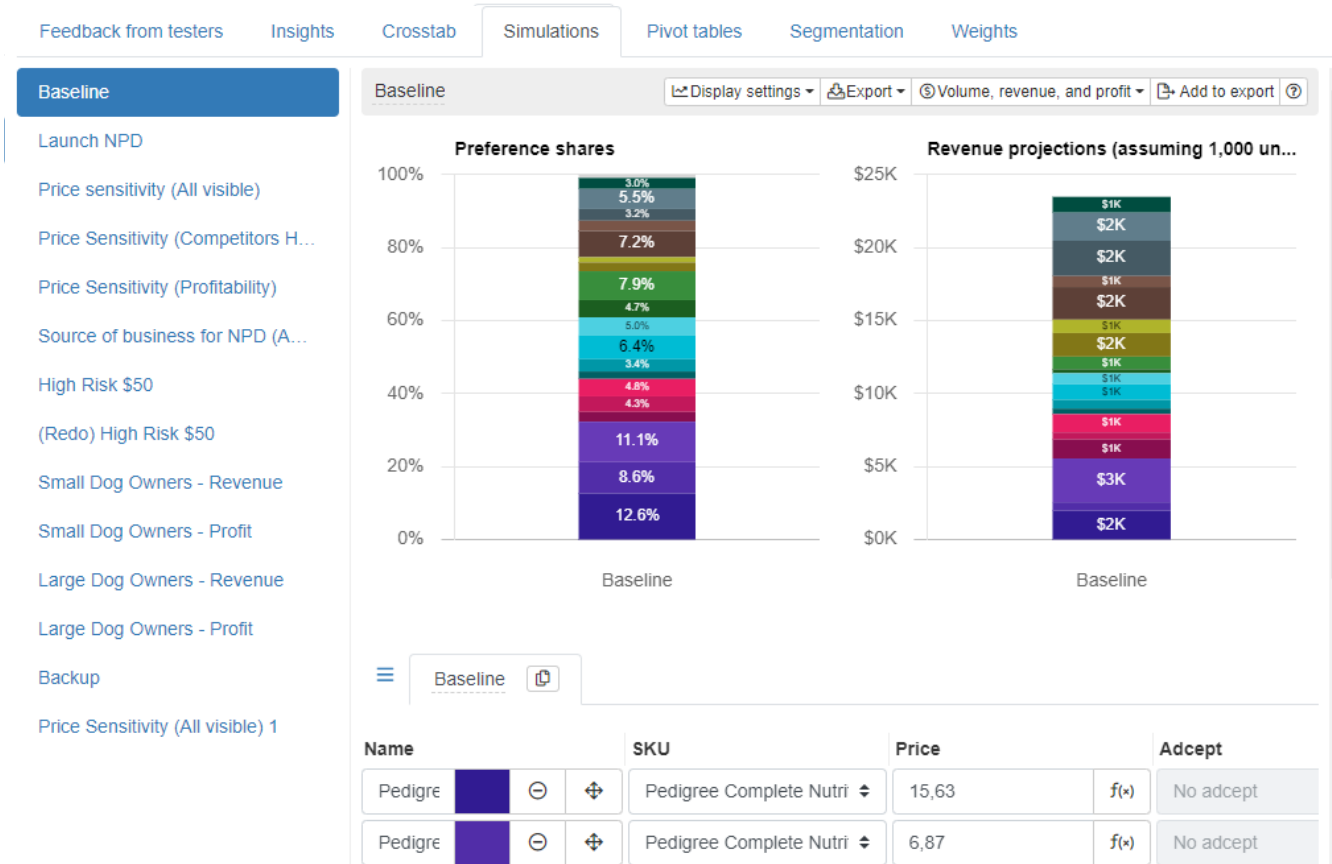
# Results: Preference share of current market

Summary by product

Individual summary

Acceptable price range

Simulator



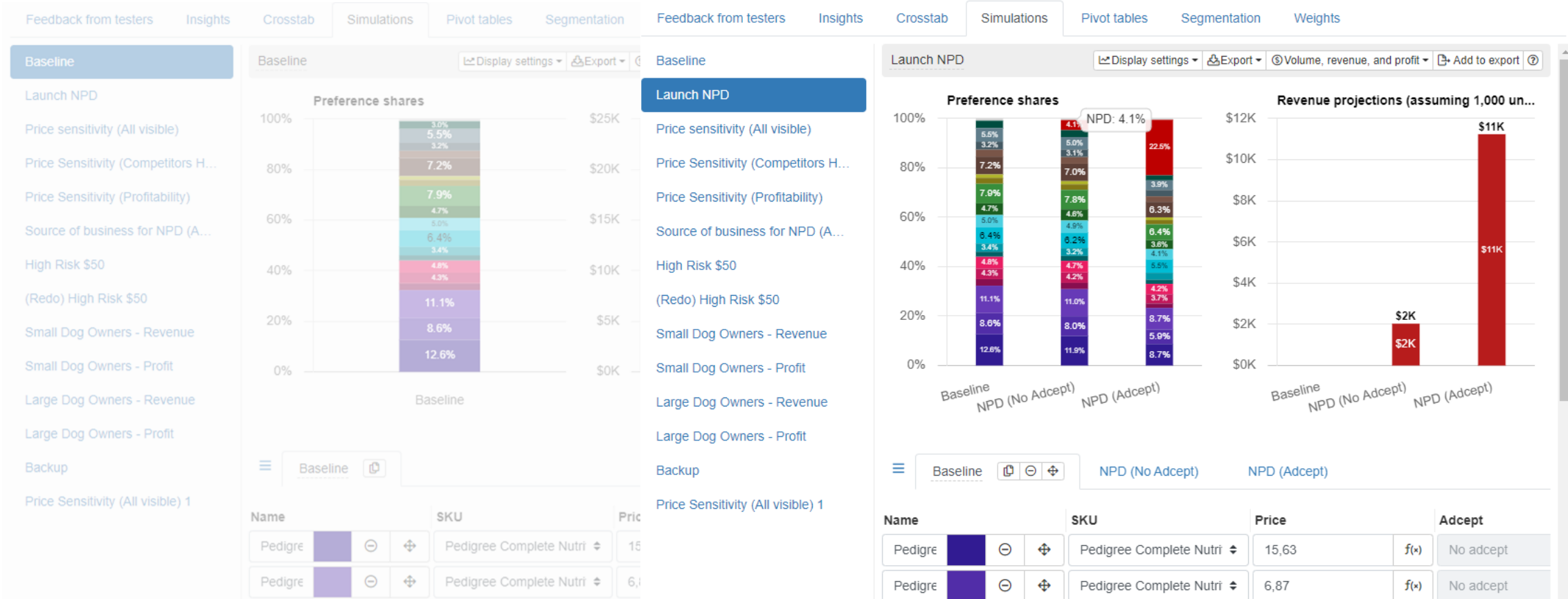
# Results: Preference share after launching NPD

Summary by product

Individual summary

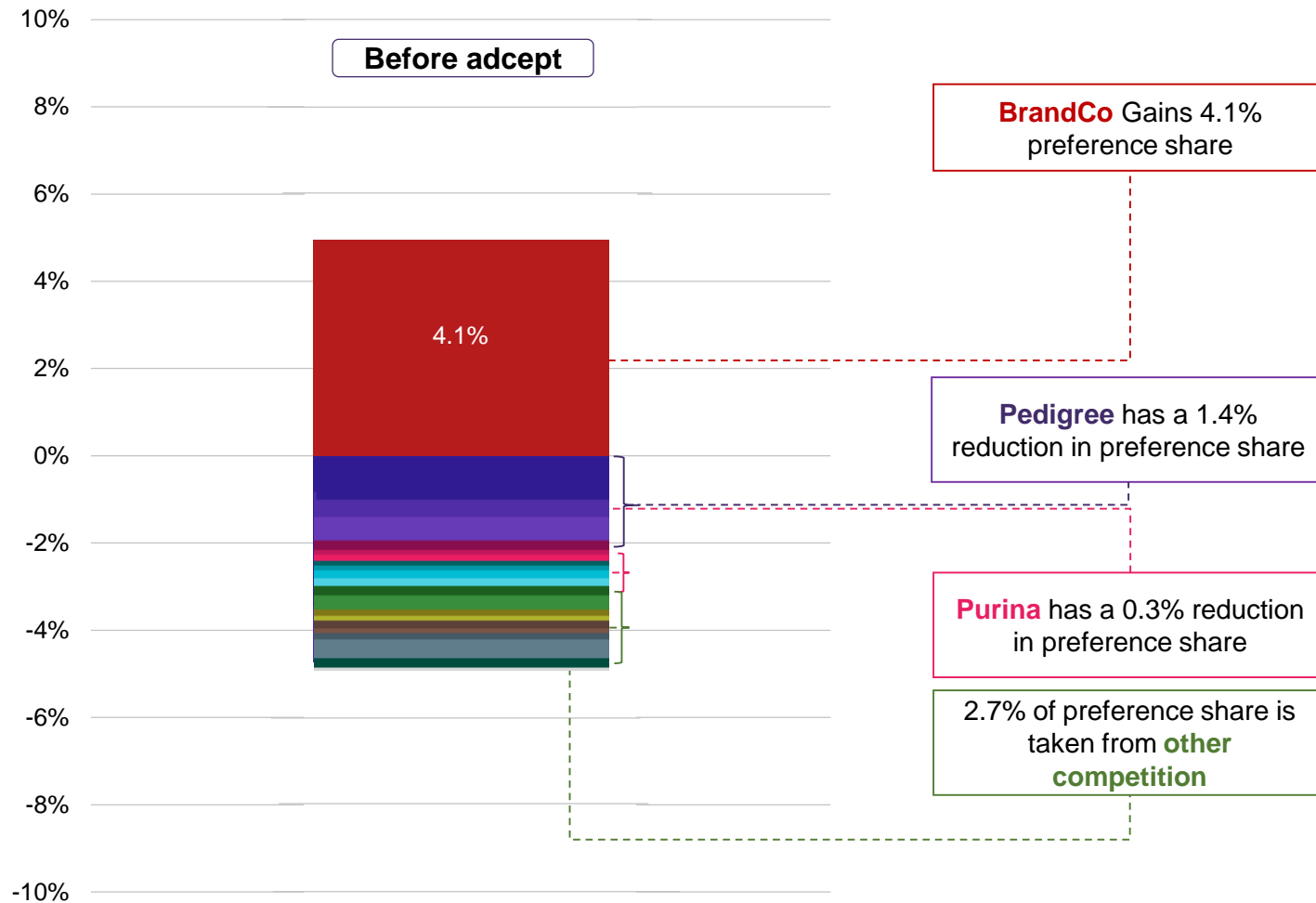
Acceptable price range

Simulator



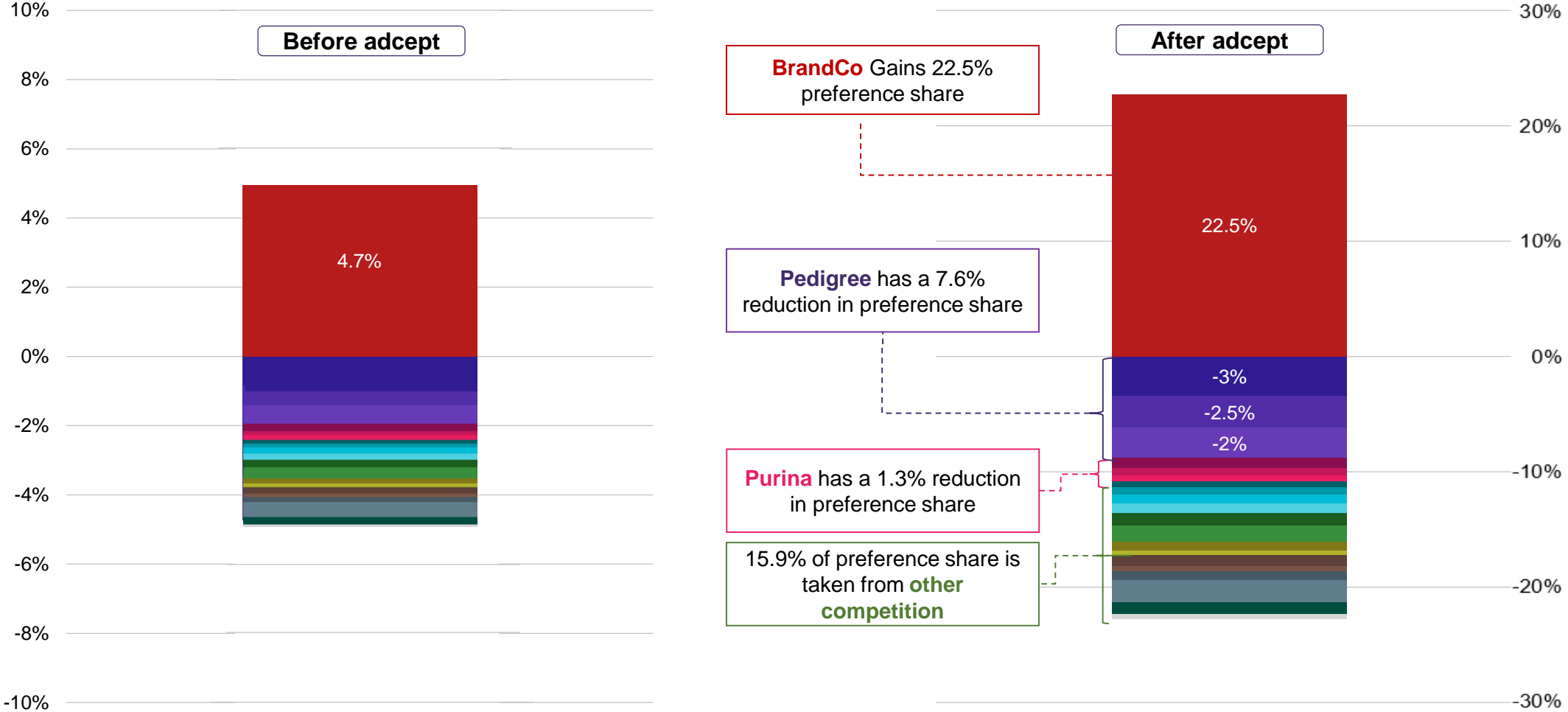
# RQ2: Where would **Brand Co's** new organic product take share from?

Movements in preference share vs Baseline



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Movements in preference share vs Baseline



# Results: Price Elasticity of Demand for NPD

Summary by product

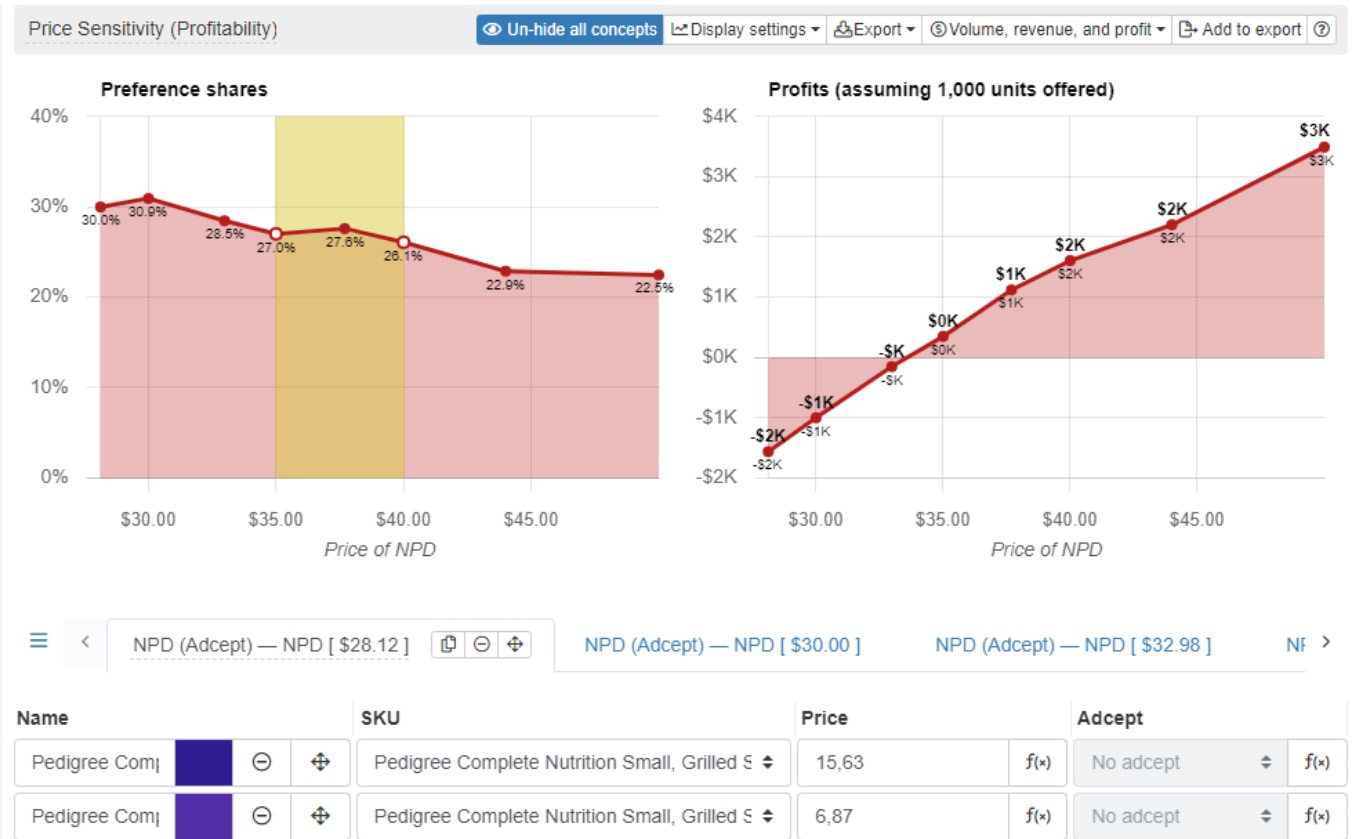
Individual summary

Acceptable price range

Simulator

- Baseline
- Launch NPD
- Price sensitivity (All visible)
- Price Sensitivity (Competitors H...)
- Price Sensitivity (Profitability)
- Source of business for NPD (A...)
- High Risk \$50
- (Redo) High Risk \$50
- Small Dog Owners - Revenue
- Small Dog Owners - Profit
- Large Dog Owners - Revenue
- Large Dog Owners - Profit
- Backup
- Price Sensitivity (All visible) 1

Price elasticity of demand between \$35.00 and \$40.00 is **-0.3**. Demand is **inelastic** (i.e., an increase in price by 1% leads to less than 1% drop in volume).

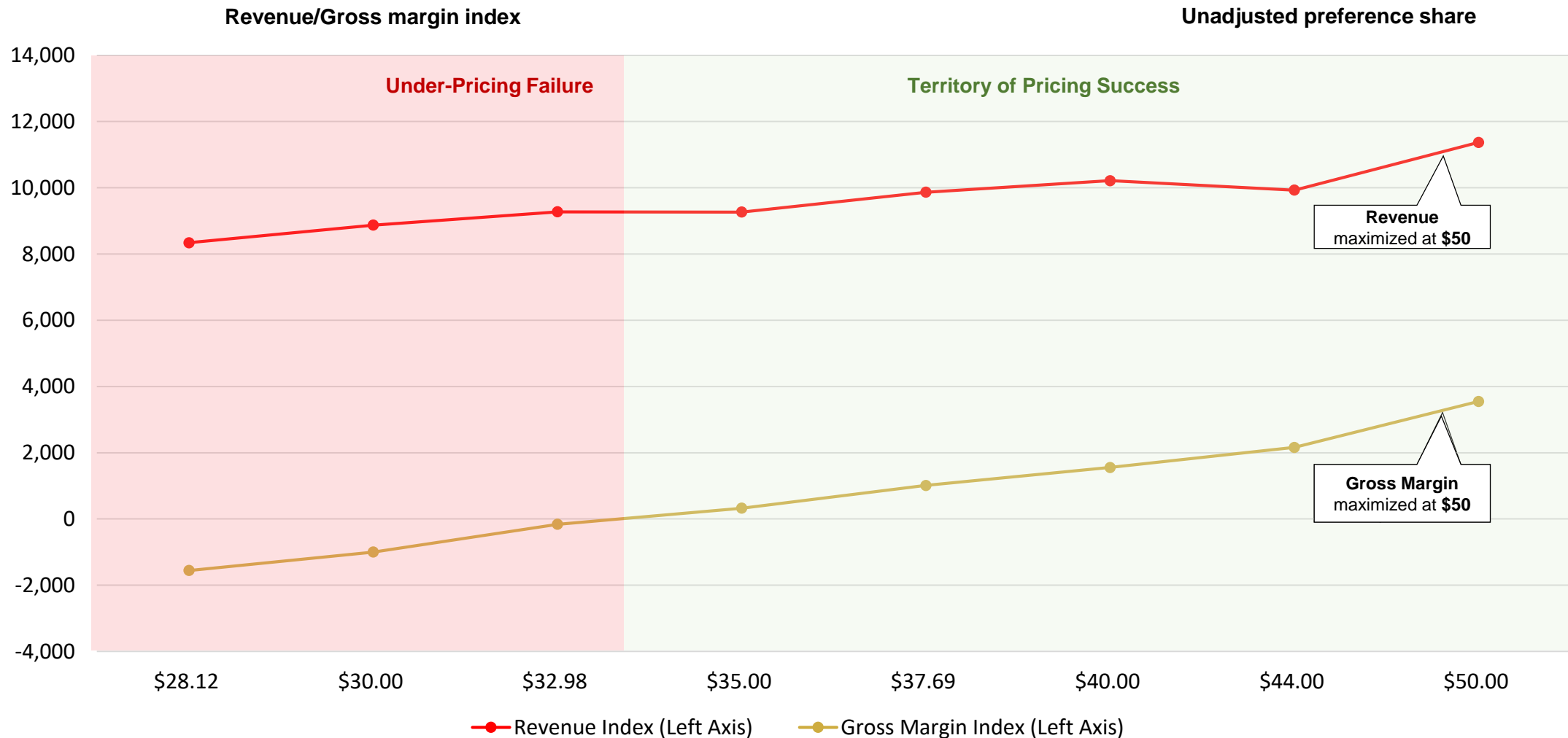


# RQ3: What new product pricing will maximise *Brand Co's* revenue, gross margin or preference share?



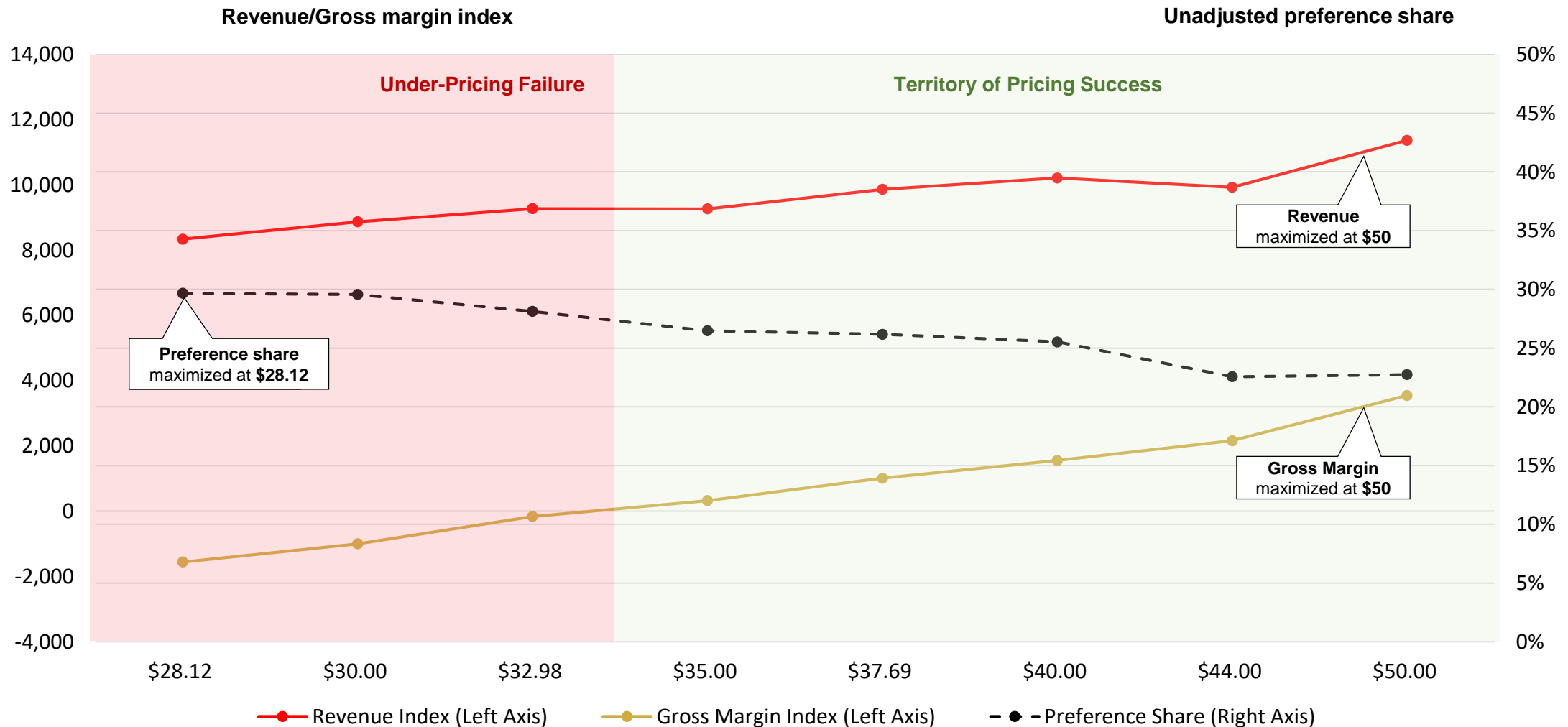
Revenue and Gross Margin Index assuming 1000 units sold  
COGS assumed to be \$3 per kg, with a fixed cost of \$1,000

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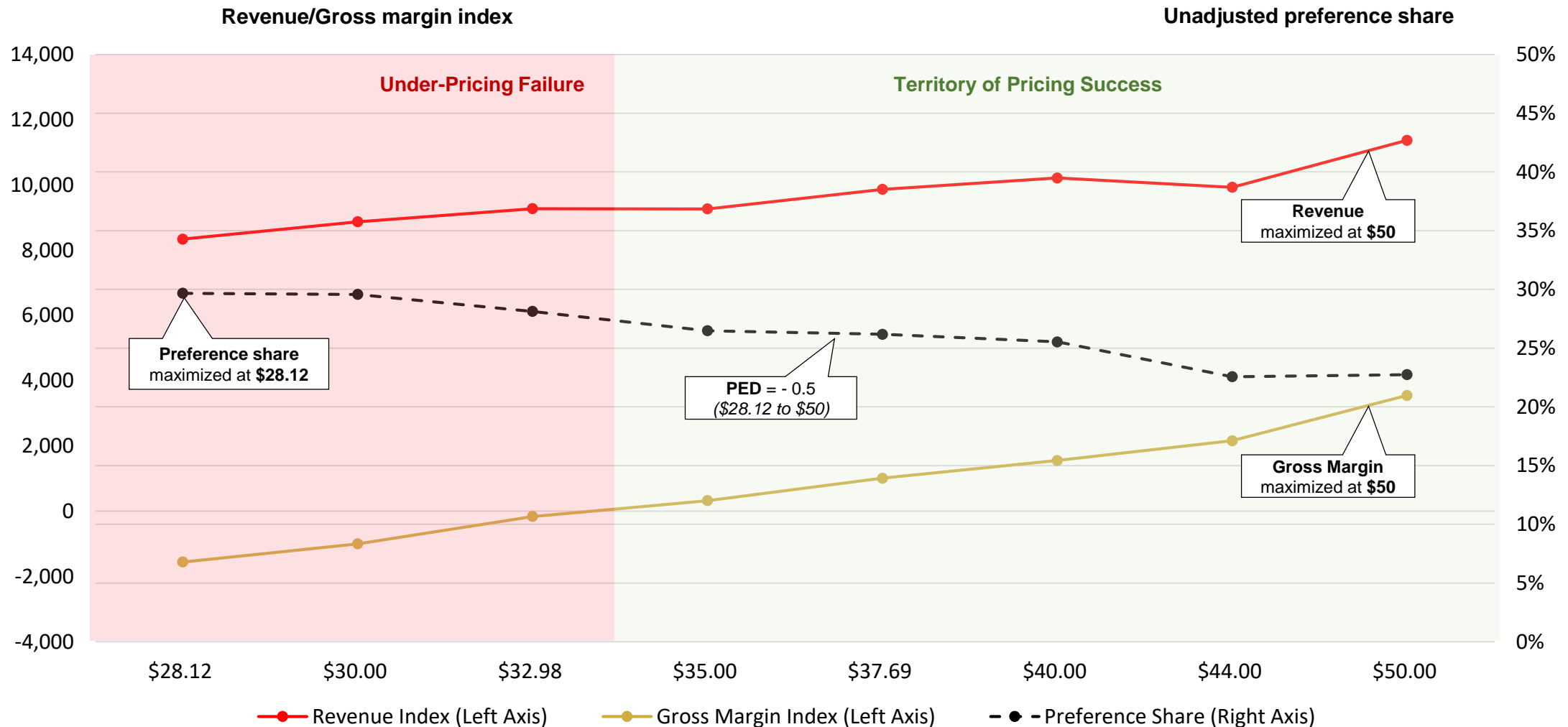
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Revenue and Gross Margin Index assuming 1000 units sold  
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# Conclusions

## NPD Launch Research Questions

Based on the BPTO results *Brand Co* can make some conclusions:

1. The **psychologically acceptable range of prices** for this new organic product was \$25.00-47.33
2. **Without advert** *Brand Co* **received** 4% preference shares, **adding** the advert grows the shares to 23%. The **NPD** mainly take **shares** from one competitor.
3. Both **revenue** and **Gross margin** were **maximized** at \$50. **Preference share** was **highest** at \$28.12. **PED** was **inelastic**, meaning that *Brand Co* should “price high”



# Key takeaways

- 1 Incorporate **Van Westendorp Price Sensitivity Meter** and **Price Elasticity of Demand** to better understand **NPD launch metrics**
- 2 **Brand-Price Trade Off** gives insight into **preference shares** and the **impact of launching an NPD**, as well as, the **effect** is of **awareness** and **advertising** on the adoption of **new concepts**
- 3 **Brand-Price Trade Off** allows businesses to **simulate** estimated projections for **key metrics** such as **revenue**, **gross margin**, and **price elasticity**



Any questions?





Any questions?

**Conjoint.ly** is here and ready to help  
**Feel free to book a call with our team**  
Get in touch at [support@conjointly.com](mailto:support@conjointly.com)  
**Or just walk up and talk to us** 😊



# How Conjoint.ly works: Regardless of mode of engagement, we work in an agile fashion

“

Working with Conjoint.ly was a **truly agile experience**. Mondelez used the platform for an important PPA project for one of our core product lines. The expertise gave us the confidence to **make several critical product decisions** for the business.

Shopper Insights Lead, Mondelez International  
Melbourne, Australia

## Automated solutions



**Manager-friendly tools** and intuitive online reports



**Automated DIY research** process (design, sampling, and analysis)



**Costs:** Licence + sample  
(or BYO respondents)



**Timeframe:** 5 hours to 2 weeks



**Expert support** readily available

## Custom projects



**Decision-ready reports**



**Research process fully managed** by us



**Costs:** Labour + sample  
(or BYO respondents)



**Timeframe:** 5 days to 3 weeks



**Expert support** readily available

# Pricing Goals: Companies have different pricing objectives that explain their pricing decisions

## Maximising Profits

$$\begin{array}{rclcl} \text{Price} & \times & \text{Quantity} & = & \text{Revenue} \\ \text{Var Cost} & \times & \text{Quantity} & = & \text{COGS} \\ & & & & \text{Profit} \end{array}$$

- **Raising prices** to close reflect the value of the product to customers
- **Cutting costs**
- **Increasing demand** through product marketing, diversifying product lines, upselling, etc.

## Price Differentiation



- Setting **higher prices** to appear more **prestigious**, vice versa
- In the tech space, **market leaders** who are unique can justify **setting higher prices**

## Maximising Revenue

$$\begin{array}{rclcl} \text{Price} & \times & \text{Quantity} & = & \text{Revenue} \\ \text{Var Cost} & \times & \text{Quantity} & = & \text{COGS} \\ & & & & \text{Profit} \end{array}$$

- **Broadening market demand** by identifying and pursuing new market opportunities
- **Special promotions**, such as bundling, loyalty programmes, etc.

## Social Fairness



- ✓ Affordable
- ✓ Accessible
- ✓ Achievable

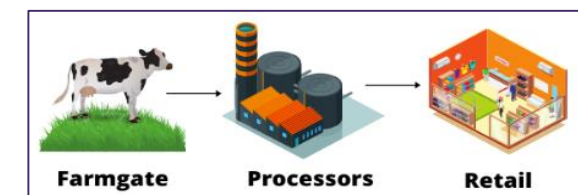
- **Improving product access** to the broader society, taking into account socio-economic constraints
- Typically done by **not-for-profit** companies or social enterprises

## Maximising Quantity / Share

$$\begin{array}{rclcl} \text{Price} & \times & \text{Quantity} & = & \text{Revenue} \\ \text{Var Cost} & \times & \text{Quantity} & = & \text{COGS} \\ & & & & \text{Profit} \end{array}$$

- **Setting competitive prices** to gain as many customers as possible within a time period
- Offering **special promotions** at times
- **Predatory pricing** by larger companies as part of a strategy to remove smaller competition

## Following External Controls



- In certain industries, prices are strongly influenced by **external organisations**, such as regulators, wholesalers, and retailers

# Pricing Strategies: Companies use various strategies to achieve their pricing goals

## Dynamic Pricing

↑ Demand (peak season) → ↑ Price

↓ Demand (off-season) → ↓ Price

- Demand-based pricing model implemented in industries such as **airlines and hotels**
- **Increasing prices during peak season** to maximise profit
- **Lowering prices during off-season** to compete and maximise revenue

## Freemium Pricing

	Free	Premium
🕒	✓	✓
📄	✓	✓
📊	✗	✓
👤	✗	✓
🔧	✗	✓
🔍	✗	✓

- Splits product/service into two parts; **free and paid service**
- **Free tier to induce trial**, with the hope that some will see value in purchasing paid tier

## High-Low Pricing



- **Setting a high reference price** for the product and then **lowering it through a sale/promotional period**
- Works best when **consumers are not sure** of what the **ordinary product price** should be

## Price Skimming



- Setting a **high price** when launching a **new product**, and **later on reduce the price** over time
- By tracing the demand curve, companies can generate **maximum profit from initial sales** and still capture the more price-sensitive customers later on

## Tailored Pricing



- Prices are set on a **case-by-case** basis
- Commonly done by **businesses that offers custom solutions**, varying time, cost, and scale
- Requires an **in-depth understanding** of customer's needs, budget, and potential for upselling

## Fixed Pricing



- Offering a **single price for all customers** regardless of time, cost and other factors
- For businesses who offer **rigid product / services** with little to no variation across their portfolio

# BPTO: Valuable pricing metrics

- When it comes to BPTO there are two valuable pricing metrics that can help answer your pricing questions

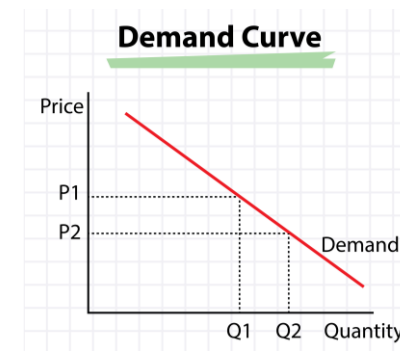
## Marginal Willingness to Pay

- The **amount of money** your customers are **willing to pay** for **features** of your product
- For example, how much a **consumer** is ready to **pay** for an **upgrade** from **feature A** to **feature B**, in addition to the price they are **already paying** now
- The word '**marginal**' refers to the fact that MWTP is always **relative to a baseline**



## Price Elasticity of Demand

- How your customers **react** when **price** is **adjusted**
- For example, how **demand** for a **product** **increases** or **decreases** as the **price** is **increased** or **decreased**.
- There are **four values** for the **responsiveness** of **quantity demanded** in relation to **changes in price**





# Marginal Willingness To Pay (MWTP): Definition and research methods

## What is Marginal Willingness To Pay and why is it important?

**Marginal Willingness To Pay** is the indicative amount of money your customers are **willing to pay** for features of your product.

**MWTP** of a feature  $j$  can be calculated with this formula:

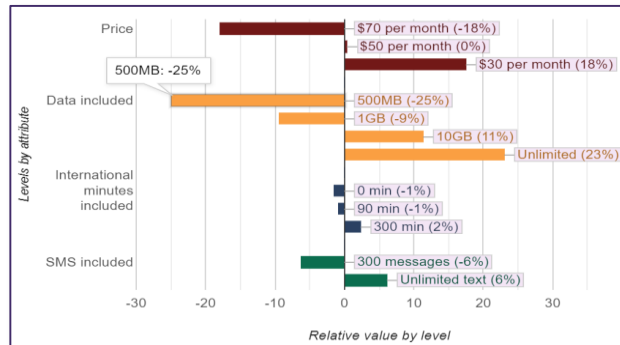
$$MWTP_{i \rightarrow j} = V_{i \rightarrow j} / V_p$$

## Common research methods for understanding willingness to pay

Survey Research		Introduction of purchase commitment	
Simple open-ended question	Choice-based Conjoint	BDM method	Incentive-aligned choice-based conjoint
✗ <b>Direct measurement</b> Consumers state WTP directly	✓ <b>Indirect measurement</b> WTP derived from several trade-off exercises	✗ <b>Direct measurement</b> Consumers state WTP directly	✓ <b>Indirect measurement</b> WTP derived from several trade-off exercises
✗ <b>No real financial consequence</b>	✗ <b>No real financial consequence</b>	✓ <b>Real financial commitment</b> Consumers are obligated to purchase if their stated WTP is higher than the product's price	✓ <b>Real financial commitment</b> Consumers are obligated to purchase if their stated WTP is higher than the product's price
✓ <b>Low cost and shorter timeframe</b>	✓ <b>Low cost and shorter timeframe</b>	✗ <b>Higher cost and longer timeframe</b>	✗ <b>Higher cost and longer timeframe</b>

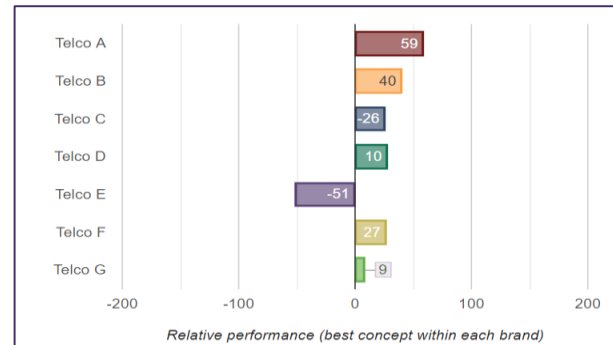
# Price Elasticity of Demand: Definition and research methods

## Generic Conjoint



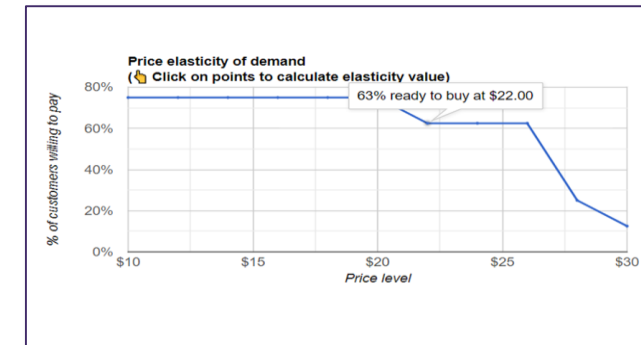
- **Feature/claim selection** and measuring **willingness to pay** for features for a single product
- Understand **elasticity** through **simulations**

## Brand Specific Conjoint



- **Feature/claim** selection and pricing in markets where product characteristics **vary across brands**, SKUs, or price tiers
- Understand **elasticity** through **simulations**

## Gabor Granger



- Determine **price elasticity** for a **single product**
- Identify the **revenue-maximising** price level
- Often performed along side both the **generic** and **brand specific** conjoint

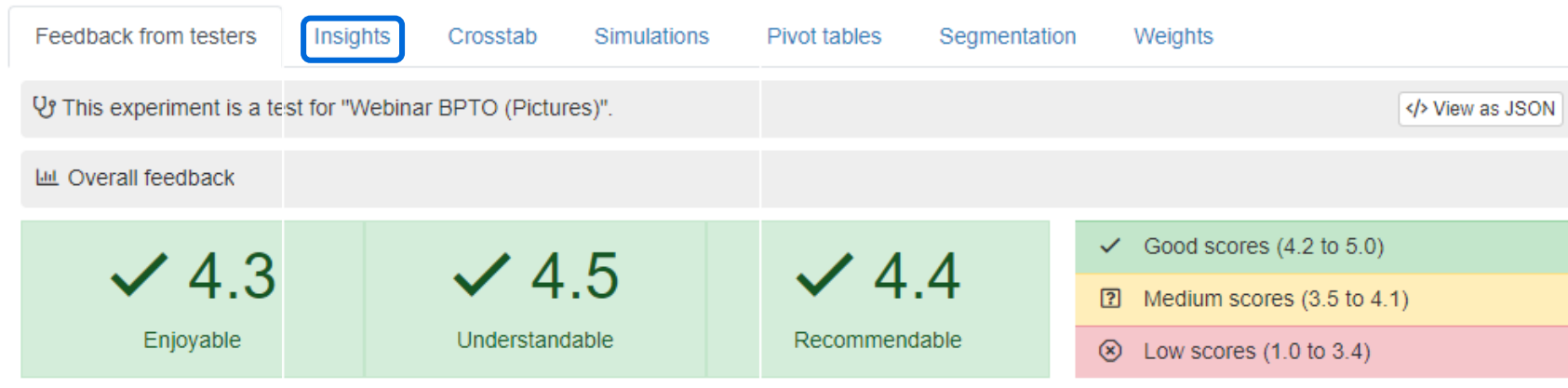
# Results: What outputs do you receive?

Summary by product

Individual summary

Acceptable price range

Simulator

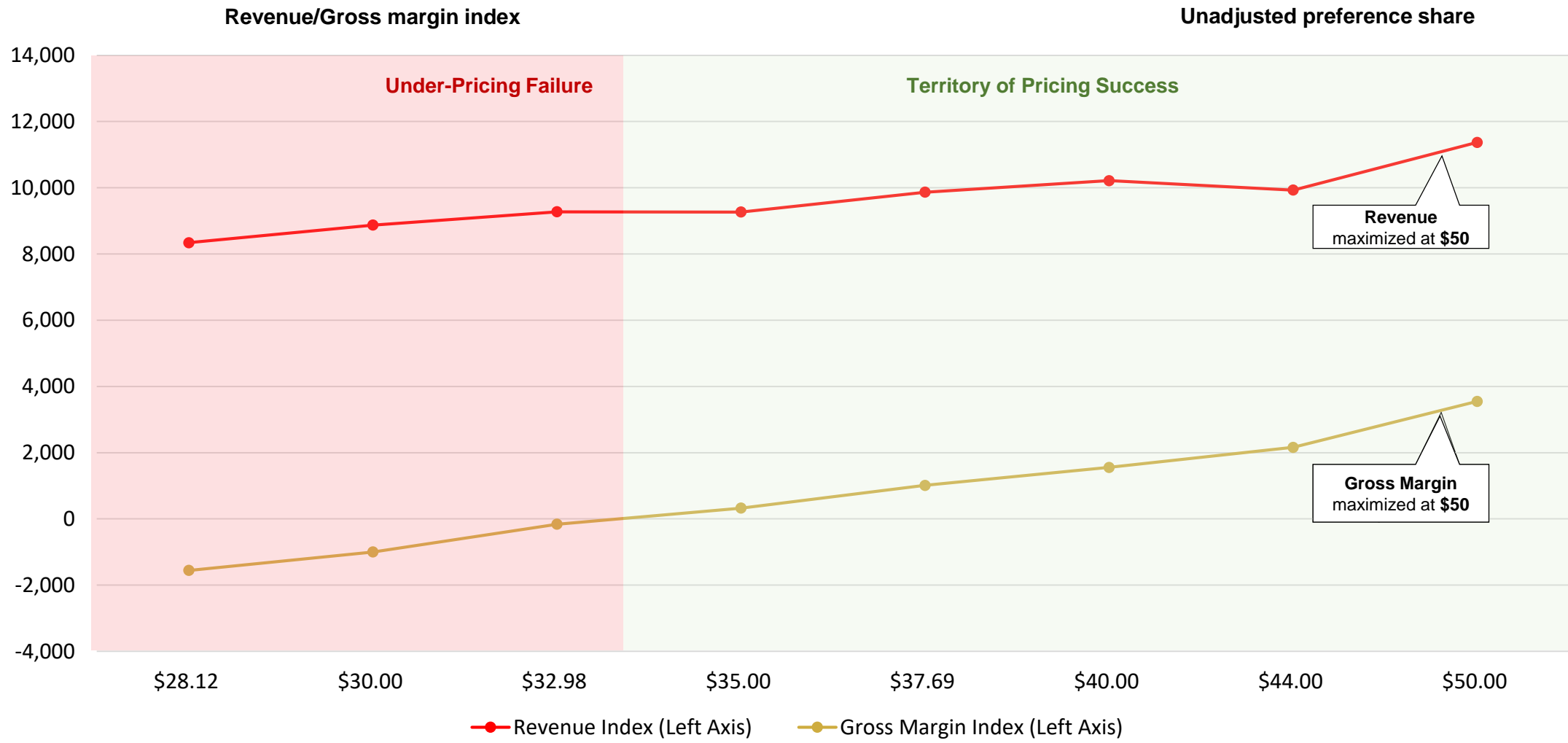


# RQ1: What new product pricing will maximise *Brand Co's* revenue, gross margin or preference share?



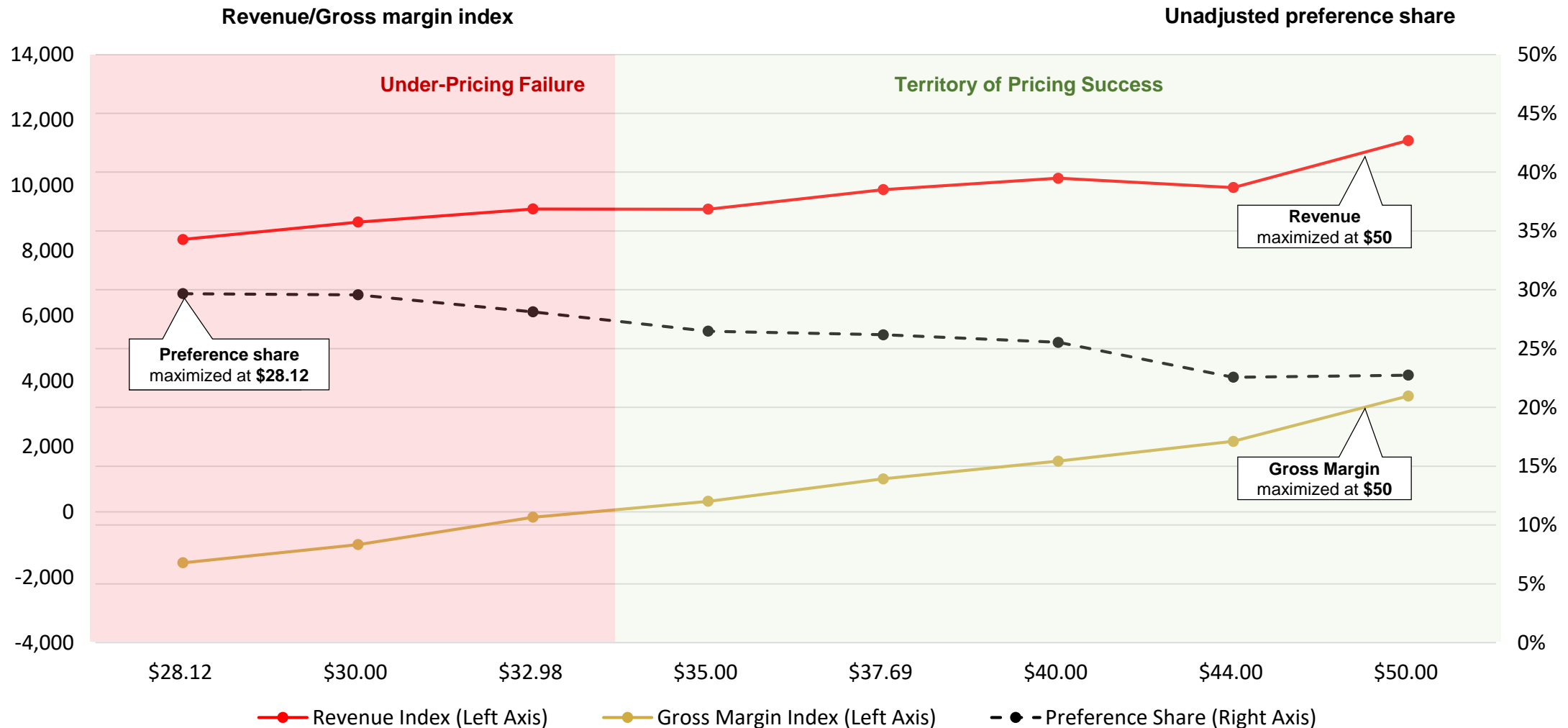
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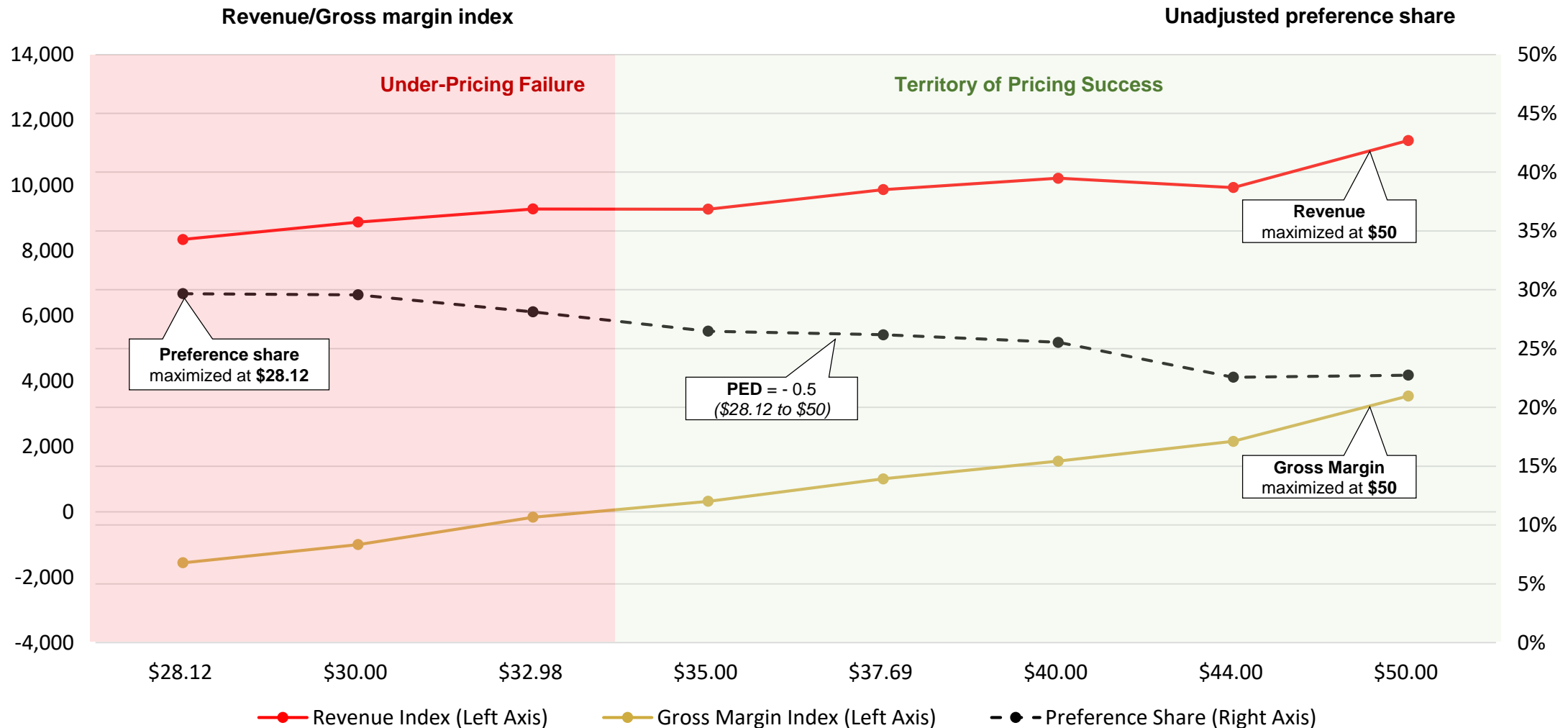
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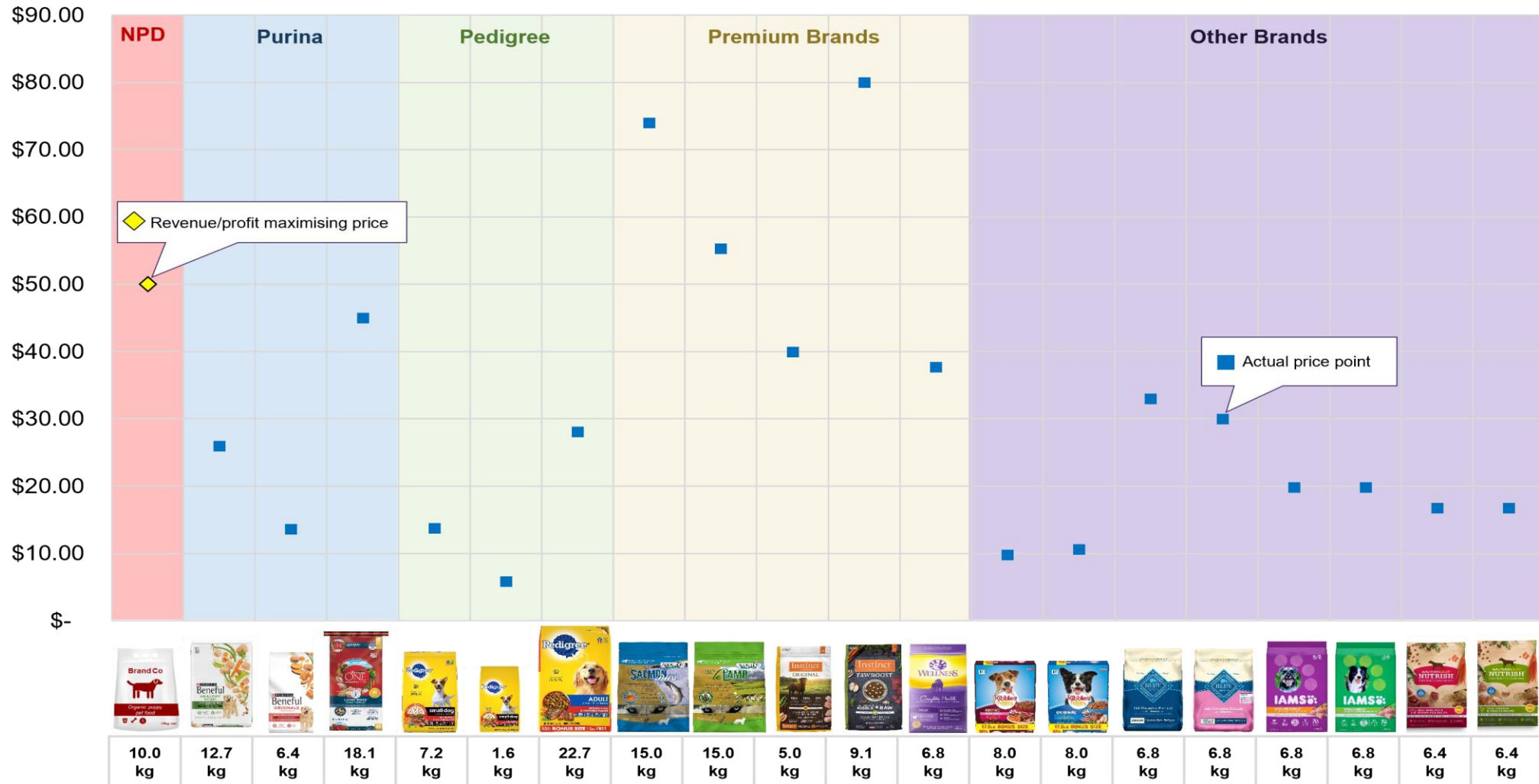
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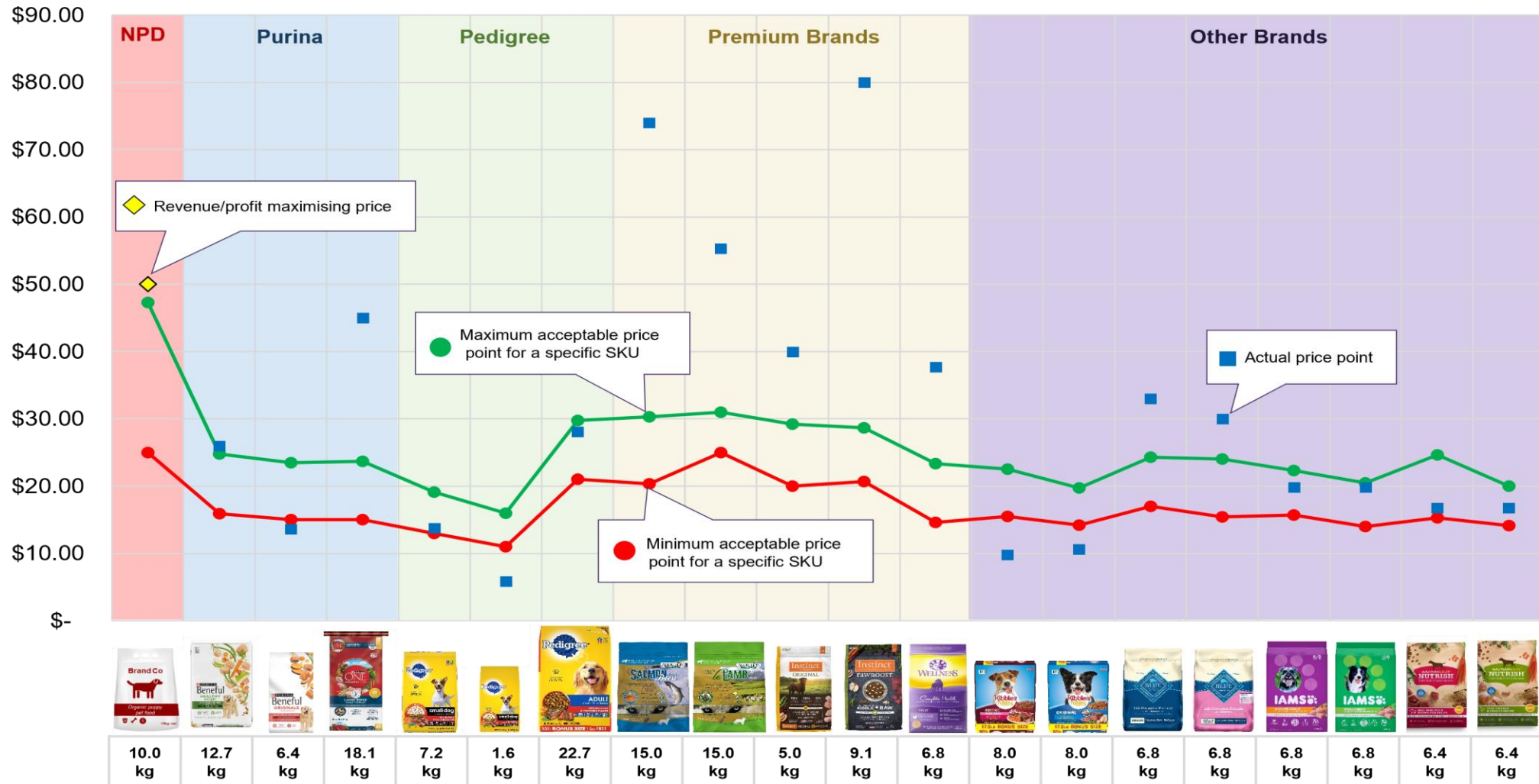
Revenue and Gross Margin Index assuming 1000 units sold  
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# RQ2: What is the psychologically acceptable range of prices for this new organic product vs other pet food products?





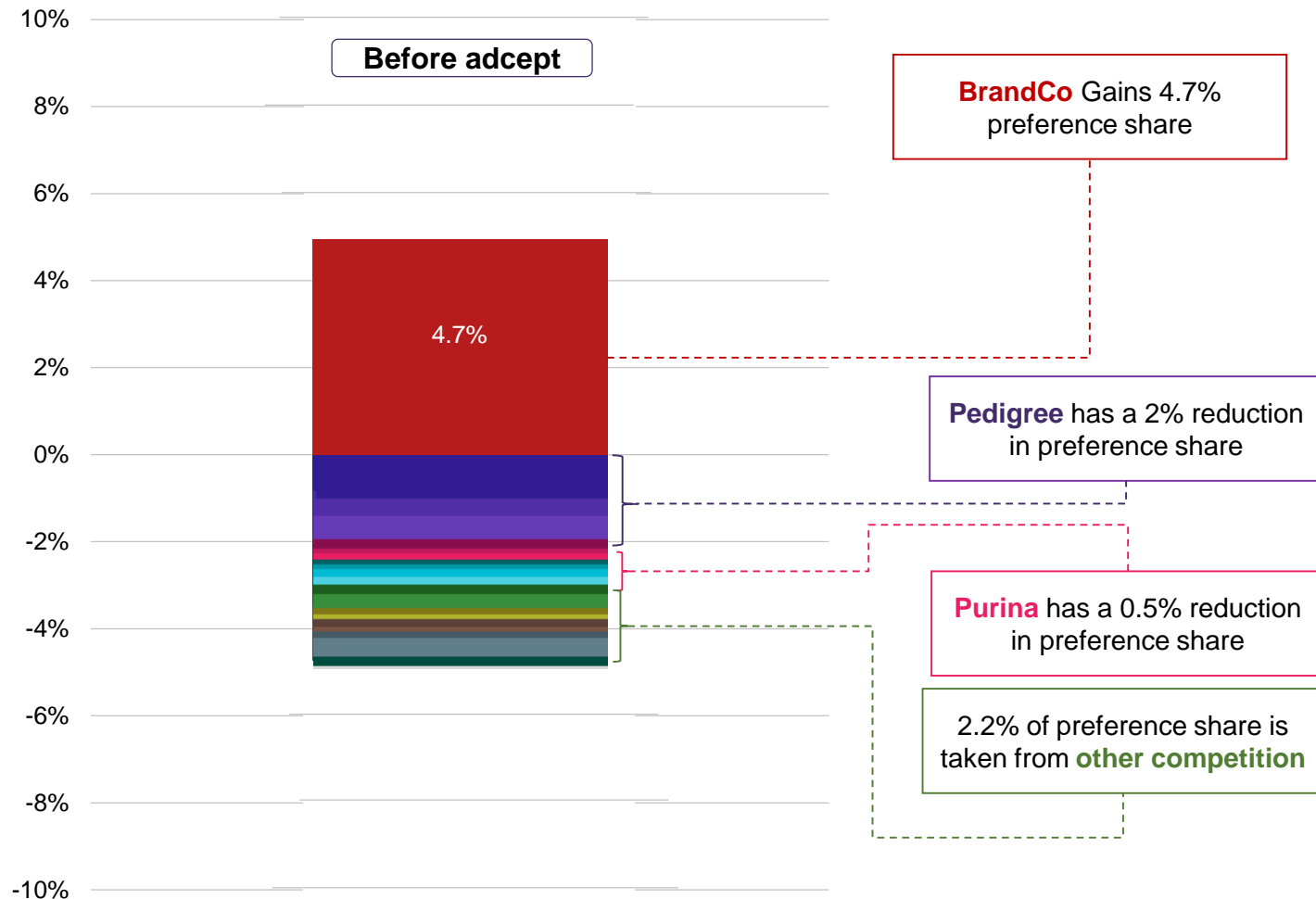
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# RQ3: Where would Brand Co's new organic product take share from?



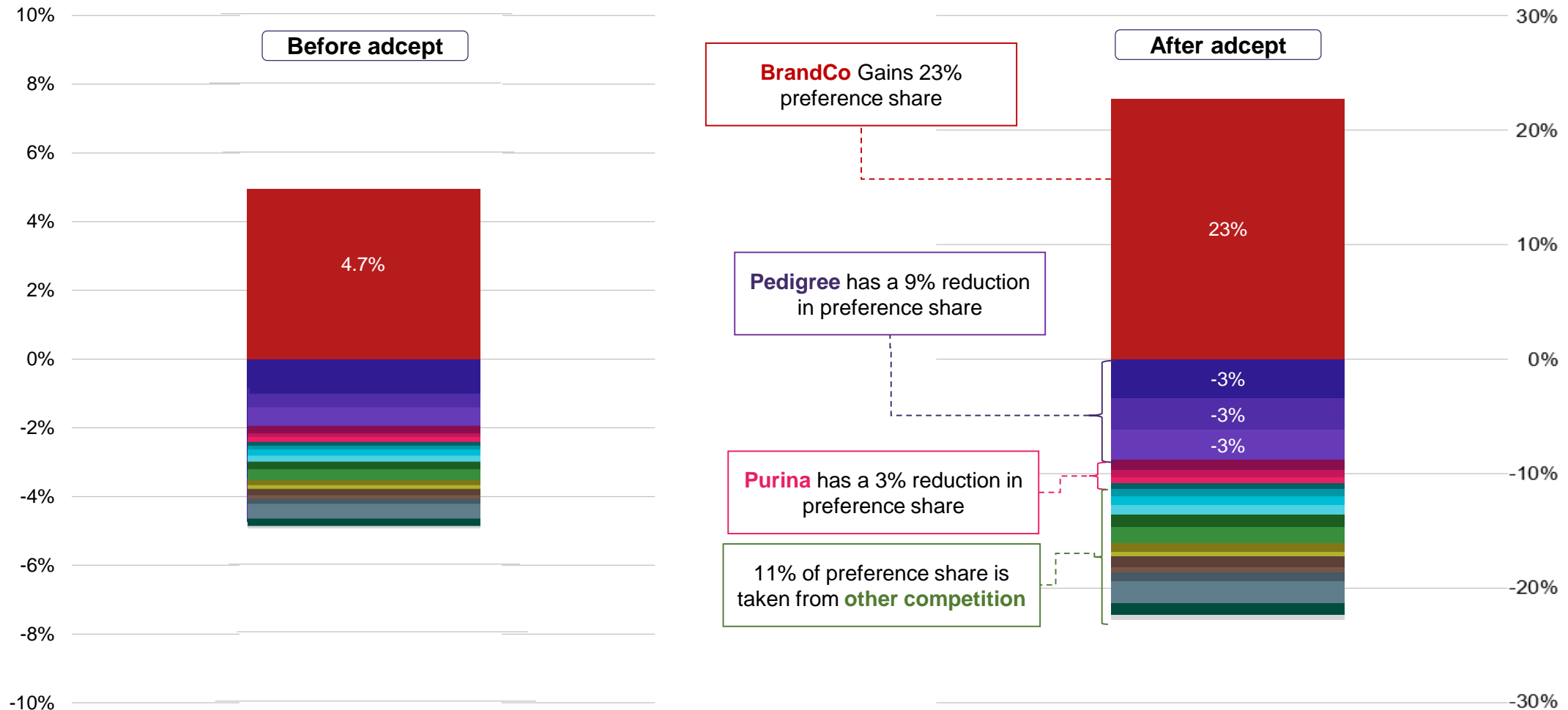
Movements in preference share vs Baseline



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Movements in preference share vs Baseline



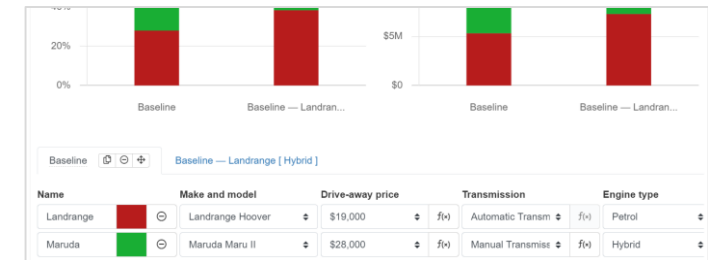
# Practical tips: setting up pricing studies

**Q1 Multiple choice**  
(One response required; Randomise order of options; Place options in 3 columns; Show Go Back button)  
Which of the following categories of **home goods** have you purchased in the last 12 months?  
Please select all that apply:

- Bed linens (e.g. sheets, comforters, pillows) (Screenout if not chosen)
- Furniture (e.g. chairs, tables, dressers)
- Bath linens (e.g. towels, robes)
- Home textiles (e.g. rugs, curtains)
- Other decor (e.g. frames, decorative elements)
- None of above:  None of the above

**Q2 Multiple choice**  
(One response required; One response allowed; Randomise order of options; Place options in 3 columns; Show Go Back button)  
Who is responsible for purchasing **bed linens** in your household?

- I am responsible
- I share the responsibility equally with one or more people in my household
- Someone else in my household is responsible (Screenout)



## Sample definition

- Aim for **representative sample of category buyers** by household income and brand usage (*gender and age less relevant, but can be useful for balancing sample*)
- **Do not sample only buyers of specific brands** because that will underestimate price elasticity

## Study set-up

- Check images are sized **proportionally to pack size**
- **Check consistency of image quality**, especially on retina display (*Conjoint.ly image optimisation tool helps*)
- Do not place more than 5 options per screen
- Generally, it is not essential to do virtual shelf display\*

## Working with outputs

- Important to **play with the simulator** to get a feel for the data
- **Market share adjustments** are possible and easy to do with a limited number of SKUs
- Analysis of promo mechanics is also possible, but requires elaborate work to simulate various scenarios across different weeks

\* We have not seen any evidence in academic literature or in practice that it predicts market outcomes better than simple conjoint. But it costs more.