



# Pricing Strategy

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*Discover the future*

*"If you have a great product and service paired with the wrong pricing strategy ... you don't have a business."*

*Richie Norton*

Pricing is a key element of the marketing mix. It is also a balancing act.

Setting prices at the right level will optimise revenues.

If your brand is too expensive your sales volumes will clearly suffer. The margin will be good but overall profits will potentially be a lot lower than those you might have achieved with a lower price.

However, if you sell at a price that is too low you may also end up losing revenue. The volumes might be great but it may be that if you sell at a slightly higher price volumes don't actually fall that much. As a result your overall profits could potentially be a lot higher!

There are a number of ways in which Market Research can help you achieve the optimum pricing strategy for your brand.



# Research approaches to price optimisation

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*Photo by Heidi Fin on Unsplash.com*

We employ three different techniques for measuring price sensitivity.

Which one we recommend will depend on the circumstances & in this guide we will provide a brief overview of each of these:

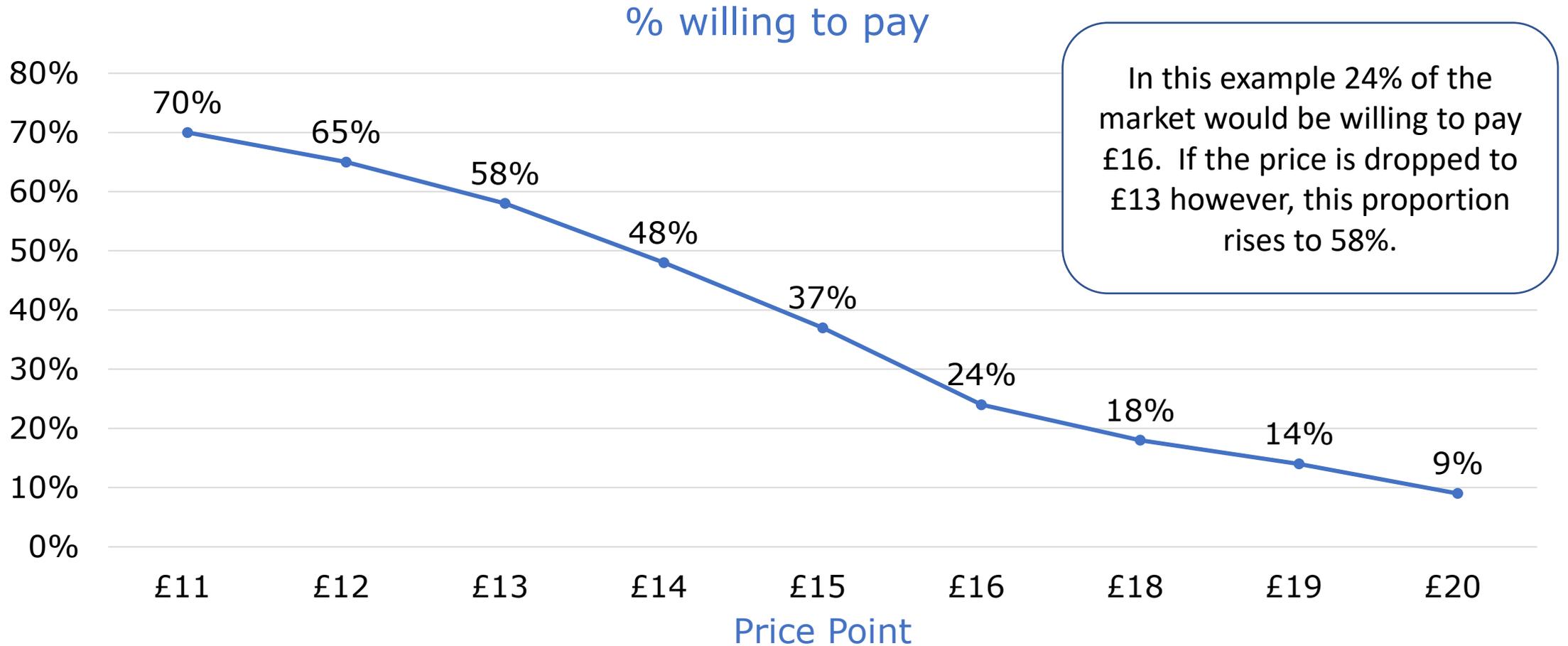
- Gabor Granger Method.
- Van Westendorp's Price Sensitivity Meter.
- Conjoint Analysis.

# Gabor Granger Method

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- The Gabor Granger Method is best suited to measure price sensitivity within a narrow range of options (e.g. £11 - £20).
- It works by asking respondents to comment on the acceptability of different price points.
- If a respondent finds a particular price point acceptable, they are then asked about a price point one step higher. This process continues until the highest acceptable price point is found.
- If a respondent finds the price point they are initially asked about to be unacceptable, they are then asked about a price point one step lower etc.
- At the end of the survey we will have established the highest price point that each respondent finds acceptable (the highest price they would be willing to pay).
- This allows us to plot the % of people who would be willing to pay for a product at each of the price points we tested.

# Gabor Granger Method - Example

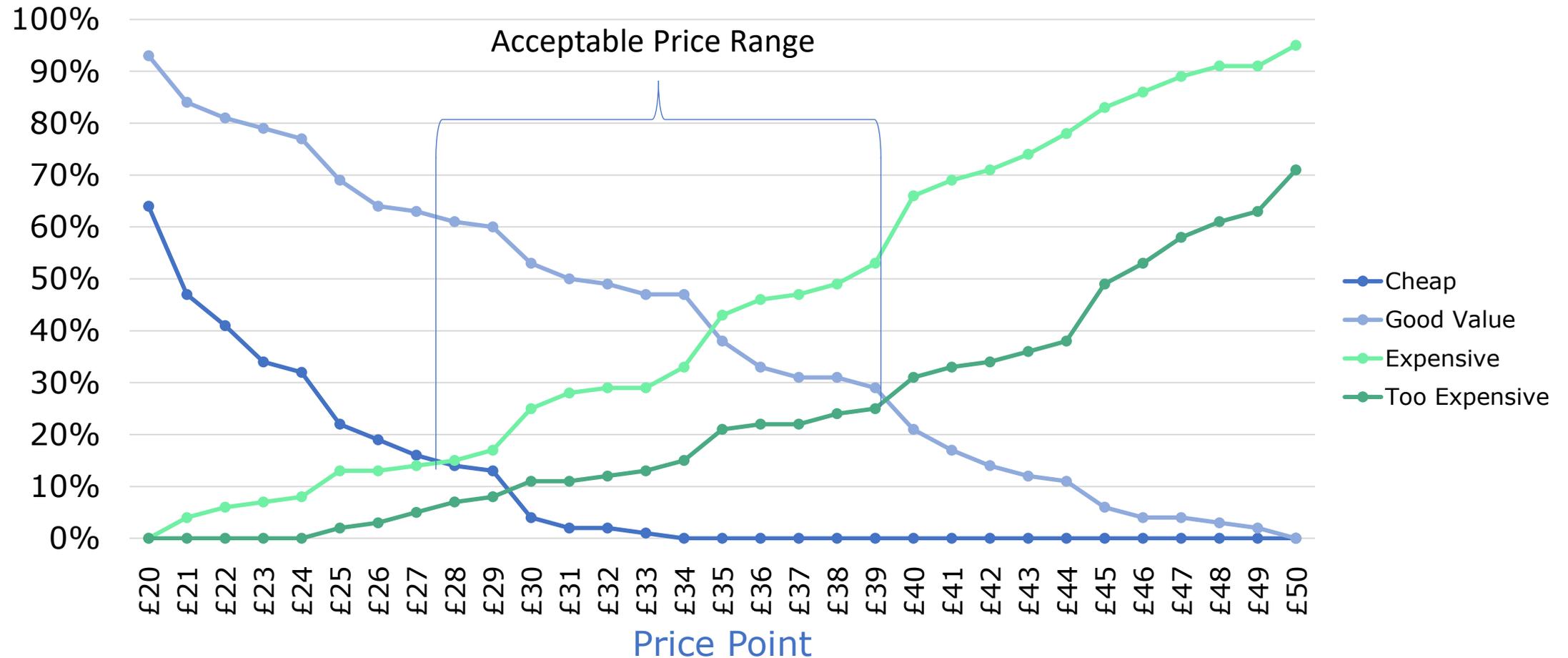


# Van Westendorp Price Sensitivity Meter

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- It is not always possible to view pricing within a narrow range of options. Some products could potentially be priced within a very wider range of possibilities.
- In these cases, the Gabor Granger method becomes unwieldy. For this reason we would recommend the Van Westendorp Price Sensitivity Meter.
- In this approach, a respondent is shown a practical price range within which the product might potentially be sold.
- They are then asked to identify four price points within this range:
  - The price point at which they would start to regard it as good value for money.
  - The price point below that at which they would actually consider it to be cheap.
  - The price point at which they would start to regard it as expensive.
  - The price point above that at which they would consider it to be so expensive that they definitely would not consider buying it.
- This gives us four measures which we can then plot to establish an optimal price range.

# Van Westendorp's Price Sensitivity Meter - Example



# Interpreting Van Westendorp

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- Within our Van Westendorp range, we are able to identify four different key price points:
  - The point at which the % of people who think the product is expensive exceeds the % who think it is cheap. (Referred to as the point of “marginal cheapness”). This is usually an indication of the lowest price point that it is worth considering.
  - The point at which the % who feel the product is so expensive that they definitely would not buy it exceeds the % who feel it is cheap. This is referred to as the “Optimum” price point.
  - The point at which the % who find the product expensive exceeds the % who think the product is good value. This is referred to as the “indifference” point (the point at which the market’s opinion of the product pricing is most split).
  - The point at which the % who find the product so expensive that they definitely would not consider it exceeds the % who find the product to be good value. This usually an indication of the highest price point that is worth considering.
- How we use this information to establish the final pricing of our product will be partly dependent on the unit cost of production and distribution at each level within the range we identify.
- Once we have our base Van Westendorp data, we can model various scenarios at different price points to arrive at the best overall strategy.

# Conjoint Analysis

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In the case of many pricing studies we probably already know a lot about the product we plan to test.

This would certainly be the case for an existing product in the market. Here the product features are often a done deal and hence the question is really all about how we price it. The same may also apply even when testing many prototypes in cases where it is not practical to make significant design changes.

However, sometimes we may wish to look at a genuinely new product design that may potentially incorporate a variety of different feature options at different price points.

In such cases we may consider a more advanced form of research we call conjoint analysis.

This becomes relevant if, for example, we wanted to look at the potential for a new wearable device. We might be considering whether or not to include various features in the design – e.g. waterproofing, bundling in a particular app etc – in addition to looking at price.

That means price is just one element we need to make a decision about. We therefore need an approach capable of considering all the different elements in combination to help us select the ideal package of features at the ideal price.

# How Conjoint Analysis works

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*Photo by Victoriano Izquie on Unsplash.com*



Conjoint Analysis is sometimes also called “Discrete Choice Modelling”. This is because it works by presenting people with a number of scenarios and asks them to make a discrete choice – picking the most attractive option.

The end result enables us to model many different scenarios – predicting demand for different combinations of features and functions at different price points.

This would answer questions such as:

- Would customers prefer a basic product for £60?
- A product with some extra features for £80?
- Or a product with a lot of extra features and functions for £120?

At the end of the process we would be able to model “what if” analysis to compare many different possible combinations to establish which scenarios were preferred.

# Other Design Considerations

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- **Removing the influence of awareness & familiarity:** If people are unaware of a particular product or very unfamiliar with its features and benefits, this makes it difficult for them to comment accurately on pricing. It is important to consider this in the project design; so that we are able to correctly assess the impact of price in isolation.
- **Limiting the test to a relevant audience:** It is pointless testing price with people who have no interest in buying a product at any price. It is important to ensure that any test is designed in such a way as to focus on the relevant potential audience only.
- **Measuring the relevant audience:** Whilst we may only wish to perform a pricing test amongst a relevant audience, there may still be very good reasons why we would wish to measure what proportion of a total market that audience represented. Measuring this important variable accurately is critical for modelling potential market size.
- **Modelling Pricing options:** Once we have completed a pricing study it should be possible to use the data to model various options and perform what-if analysis. This will take a different form depending on your precise requirements and on the approach used. Nevertheless, we can work with your team to assess a number of different scenarios and help you to come up with the best overall pricing strategy.

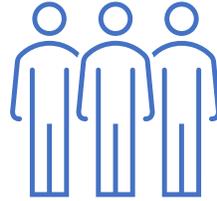
Working with us

# Our design approach

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## **We always start by getting to fully understand your needs:**

- It's important to ensure we get a full brief from your key people.
- So that we understand what you need to discover about the market.
- And we can make full use of existing knowledge in your organisation.
- And ensure we get full buy-in from key stakeholders early on.
- That way we get the clearest possible picture of:
  - a) what your business already knows, and...
  - b) what it needs to find out.



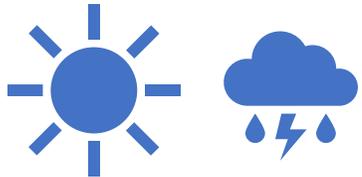
# What we deliver

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We feedback our findings in a report form best suited to your needs. In it we will:



Explain the key findings of the project. Creating a clear narrative that helps you discover important insights about your market.



Relate our findings to the specific circumstances of your own organisation; outlining the potential opportunities and threats that they represent. Recommending possible actions and strategies you might take.



Facilitate a suitable form of de-briefing to help your organisation to disseminate the information and make practical use of it. Depending on your needs, this might be anything from a simple de-brief presentation to a more interactive workshop/brainstorming event.

# Other options: Help with surveys you run in-house

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Some people may these days elect to run some of their own surveys in-house. Some may acquire simple online survey tools that enable the collection and analysis of data and, for a basic survey, that may well be sufficient.

However, running a survey in-house can be a time drain and the technicalities of designing and analysing such a survey can be a daunting prospect. Accessing respondents, aside from customers, can be a huge challenge.

So before embarking on such a course it is important to feel confident about all the things you will need to do (and having enough time to undertake these tasks).

However, there is a middle road you can take here. You can choose to manage some tasks in-house and outsource others. We can provide you with a modular service, that enables you to select only the services you need:

- **Questionnaire design service:** Based on a brief you provide; we can design a survey questionnaire for you in MS Word format. You can then do the rest.
- **Analysis and Reporting service:** Maybe you've already designed and run a survey in-house and just need a helping hand with analysing the data and reporting the results.

# Contact us for more information or to discuss a potential project

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