Data Development **Worldwide**

Contextual Pricing: Moving Up the Learning Curve – Part 1 of 2

Establishing Price within a Menu of Goods or Services

Marketers know that many elements impact strategic pricing decisions. While the over-riding goal is clearly to price to be profitable, determining potential consumer response to alternative pricing strategies has proven to be one of the more challenging inputs to pricing decisions. Over the course of this and next month's mailing we will review what we term as the Pricing Learning Curve and introduce an approach that can take pricing decisions to a higher level of understanding.

These two mailings will cover four different pricing approaches…

- two of which are on the more simplistic end of the spectrum – Monadic Pricing and Competitive Pricing (both covered in this mailing, Part 1), and
- two of which are on the more sophisticated end of the spectrum – Component Pricing and Contextual Pricing (both covered in the next mailing, Part 2).

Tactical pricing decisions can be made solely on demand elasticity derived from sales data. Strategic pricing decisions require customer input. At DDW we believe that strategic pricing recommendations based on research are only as good as the approach used to elicit the customer's response.

Monadic Pricing

So can't we just ask the customer what they are willing to pay? Here we have two basic approaches. Show the customer your product or service and ask them. What is a fair price? How much is too much? How much is too little? Customers may be able to give a fair estimate to those questions if they have a good idea of what these things tend to cost in the marketplace.

What if they are not too sure? Well, then we can give them a price and ask them if they will buy. If they say yes, we can try again at a higher price. If they say no, we can try at a lower price.

So what's wrong with these methods? We haven't told them what the competition is charging or what alternative goods or services might cost. We are relying solely on their perception of what is available in the marketplace. What they think, from memory, may be quite a different story once they enter the marketplace.

Competitive Pricing

So the next logical step is to place your product or service in a competitive environment; show the customer your price and the competitors' prices and ask them what they will buy, making sure that the prices we show are true to what the customer will find in the marketplace. We need to be sure to key in regional differences, channel alternatives and even promotional pricing, as appropriate. Then we need to alter the prices and ask them again.

This is a highly structured approach grounded in Conjoint-based Choice modeling which can determine individual price elasticities for the products and services evaluated. The resulting information is housed in a point and click simulator that allows the user to play what-if games with their own and competitive prices.

Modeled properly we can begin to move from tactical pricing to strategic insights. To which brands are we most vulnerable if we raise our prices? Which customers will stay with us and which will leave? Can we draw new customers to try and become future users to our products and services through our pricing decisions?

This is a robust approach to establishing market pricing, but does it go far enough? What if our price is not as simple as $x for this and $y for that?

In the next mailing we will get into some approaches that can handle this, and other, complex questions. In the meantime, to learn more about these various approaches and determine what might be the best solution for addressing your pricing research needs please visit us at www.datadw.com or call your contacts listed below.

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