qualtrics XM

How to price products for maximum profitability

Leverage market research to get the most value from your new product.

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Introduction

Price is more than just a monetary value. Pricing is a critical factor in ensuring that your product yields the highest returns. Price too high, and the market won't adopt your solution. Price too low, and you'll risk cheapening your brand and leaving money on the table.

Pricing research helps you to understand the market's appetite for your product before you launch. By creating pricing studies, you can determine the optimum price - a price that customers will pay and will generate revenue. Pricing research offers several advantages including:

+ Understand the market's willingness to pay
+ Capture the highest return on your product investment
+ Preserve the value of your brand

There are several different types of pricing research, each with its pros and cons. In this ebook, we'll teach you how to run three different kinds of pricing studies:

+ Van Westendorp Pricing Sensitivity Meter
+ Gabor-Granger Pricing Methodology
+ Conjoint Analysis for Pricing

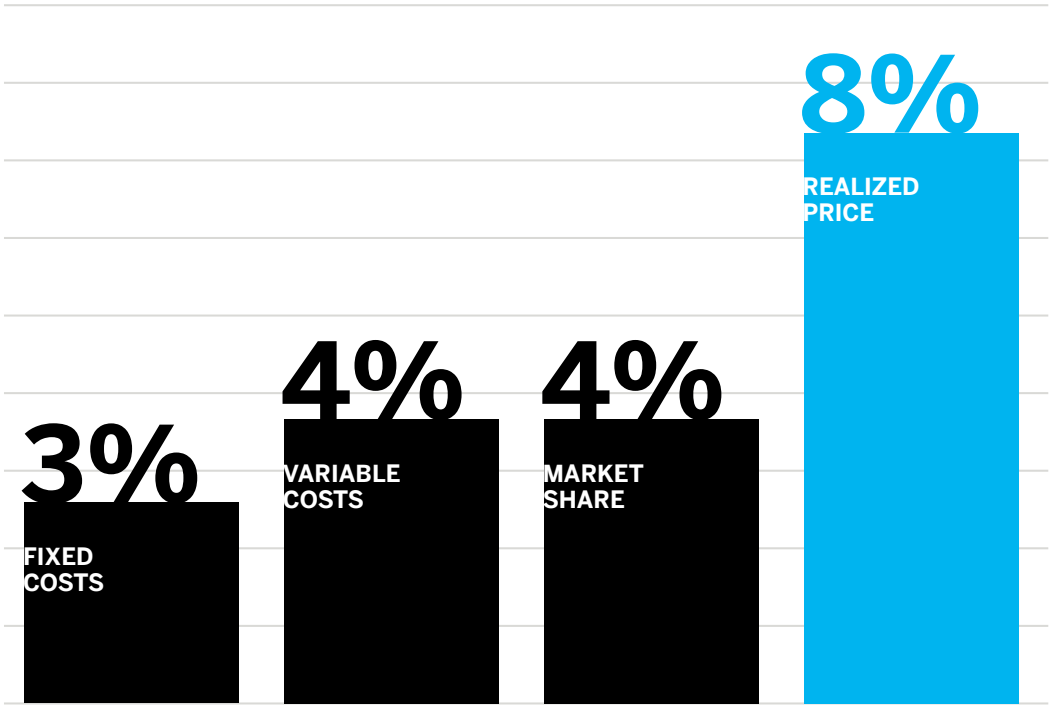
SECTION 1

The ROI of pricing research

The ROI of pricing research

Pricing correctly is critical. Price affects profits more any other factor, including fixed costs, variable costs, and market share according to Bain & Company.[1]

For each variable, percentage increase in EBIT for every 1% of improvement



Notes: Average impact measured across B2B industries. Percentages are rounded.
Sources: Bain analysis

Price is the most important factor for profitability.

[1] https://www.bain.com/insights/pricing-infographic/

> *With meaningful margin upside at stake, managers cannot afford to continue pricing by guesswork or rules of thumb.*

Ron Kermisch
& David Burns
Bain & Company

In fact, if the Global 1200 were to raise prices just 1%, profits would go up on average 11%, according to McKinsey.[2]

While pricing is critical, many organizations could do better. Most companies have pricing as a top priority. Yet 85% say they have significant room to improve, according to Bain.[3]

Companies that fail to price correctly can leave substantial profits on the table. For example, hard-disk drive producers invested $6.5 billion in product research and development over four years in the 1990s. Their investment resulted in tremendous breakthroughs, improving storage capacity a thousand fold. As hardware storage increased, the price per surface area dropped 70 percent. As a result, these organizations realized net losses of $800 million, because they failed to correctly price product innovations.[4]

On the other hand, correct pricing is a key component of market growth. Of the top performing companies Bain surveyed in the previous study, 76% strongly agreed that their pricing strategies maximized returns at customer and product levels.

[2]*https://hbr.org/2012/07/use-pricing-strategy-to-boost*
[3]*https://www.bain.com/insights/is-pricing-killing-your-profits/*
[4]*https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/do-you-have-a-long-term-pricing-strategy*

SECTION 2

Pricing research methodologies

Pricing research methodologies

There are several different ways to develop your pricing research. Depending on your needs, you may opt to run one or more of the following options:

+ **Van Westendorp Price Sensitivity Meter** is a type of direct pricing research that asks respondents four simple questions to gauge whether your product is too expensive or a bargain

+ **Gabor-Granger Pricing Methodology** uses predefined price points to determine the highest price a respondent would pay for your product

+ **Conjoint Analysis** gives respondents a choice between product packages and then asks them to choose one of the feature/price configurations to create the ideal option

Each option comes with trade-offs and a best time to use.

	VAN WESTENDROP PRICE SENSITIVITY METER	GABOR-GRANGER PRICING METHODOLOGY	CONJOINT ANALYSIS
Best to Use	When you have a product and you aren't trying to change it, but you don't know the right price range.	When you have a defined product and a specific price range, but you don't know what it should be priced at within that range.	When you have multiple product options or want to capture other factors in addition to price.
Pros	• Simple for respondents • Simple to program • Suggests an optimal **price point** driven by consumers	• Simple for respondents • Gives you an optimal **price range**	• Provides more details than just pricing • Allows you to create optimum pricing and packaging
Cons	• Respondent needs context around pricing and product	• Harder to program • Needs suggested price ranges	• Hard to program • Requires deep expertise to create • Requires analytics software

VAN WESTENDORP PRICE SENSITIVITY METER

Van Westendorp is ideal if you have a set product, but no idea on the typical price range. Designing a Van Westendorp pricing study is simple. The study is composed of four simple questions:

+ At what price would you begin to think the product is so inexpensive that you would begin to question the quality and not consider it?
+ At what price would you think the product is a bargain - a great buy for the money?
+ At what price would you think the product is getting expensive, but you might consider it?
+ At what price would you think the product is too expensive to consider?

These questions will give you the data you need to identify your optimum price point. Designing a study is very straightforward.

First, introduce your product.

Please read the description below. We will be asking for your pricing feedback about this product.

Woolly Socks - Extra - warm wool socks for outdoor use

Next, ask each of the Van Westendorp questions.

Example Van Westendorp questions

At what price would you begin to think the item is **so inexpensive** that you would begin to question the quality and not consider it?

At what price would you think the item is **a bargain**—a great buy for the money?

At what price would you think the item is **getting expensive**, but you might consider?

At what price would you think the item is **too expensive** to consider?

We recommend collecting at least 300 responses for statistical significance.

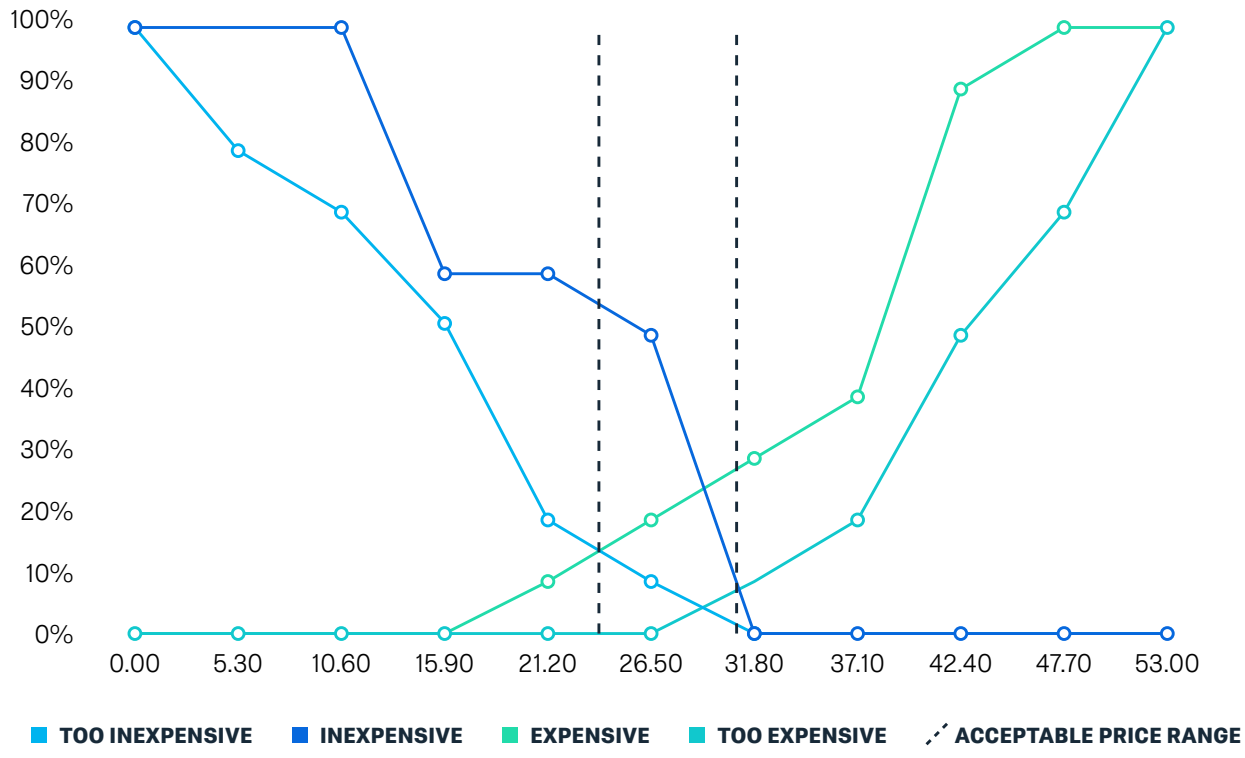
The first step to analyzing your results is verifying your data. For Van Westendorp to work, a respondent's price for "too cheap" cannot be more expensive than their response for "too expensive". For example, a respondent might list their too cheap price as $3, bargain at $5, getting expensive at $6, and too expensive at $2. This response would not fit into the model and should be eliminated from your analysis. If you use validation on your survey, you can prevent users from entering these types of values while they are completing the survey.

Once you've ensured your data is clean, you can analyze it. Van Westendorp requires data visualization to provide a correct price. If your data collection tool does not include any visualization features, you'll need to create your own graph. The most common way is to use Excel.

Excel's histogram feature will generate plots. For the most accurate results, we recommend that you determine the price ranges yourself, versus counting on Excel to create them. You can create ranges based on pricing that makes sense to you, or by skimming your results.

Qualtrics ProductXM™

Easily visualize your ideal price ranges



Optimal Price: $29.15
Acceptable Price Range $23.65 - $30.42

Van Westendorp requires that two of the lines are inverted to create four intersecting points, giving you ranges. Best practice inverts both the inexpensive and too inexpensive options. To do that, alter the formula to one minus the histogram number.

Van Westendorp will give you a set of ranges as well as an optimal price.

+ Lower threshold - intersection of too inexpensive and expensive

+ Upper threshold - intersection of too expensive and not expensive

+ Optimal price point - intersection of too expensive and too inexpensive

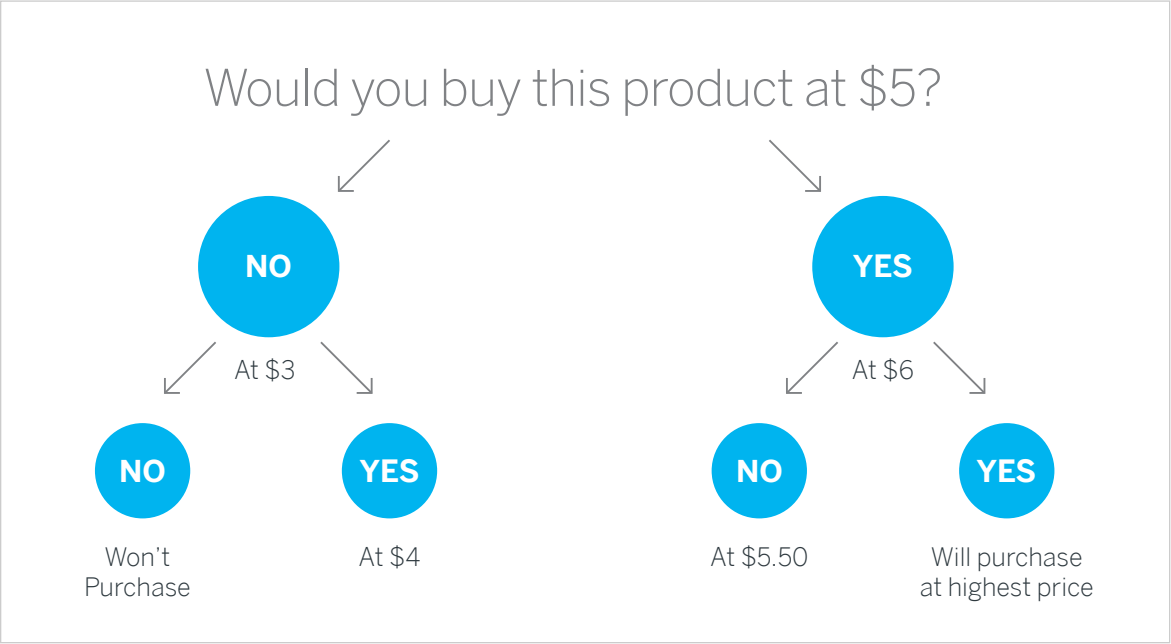
See how to do it with ResearchCore™

LEARN MORE

GABOR GRANGER PRICING METHODOLOGY

Gabor Granger is a great pricing strategy if you already have price ranges for your products. With Gabor Granger, you use set price points to determine the highest range where each respondent would purchase.

First, you show a price and ask if respondents would purchase at that price. If they say yes, you ask them if they will purchase at a higher price point; if they say no, you ask if they would purchase at a lower price point. You then continue asking questions until you can identify the highest price point where your respondents would purchase.



Gabor Granger requires advanced survey logic, including randomization with the initial product price and survey flow logic to guide the respondent through the survey based on their selections.

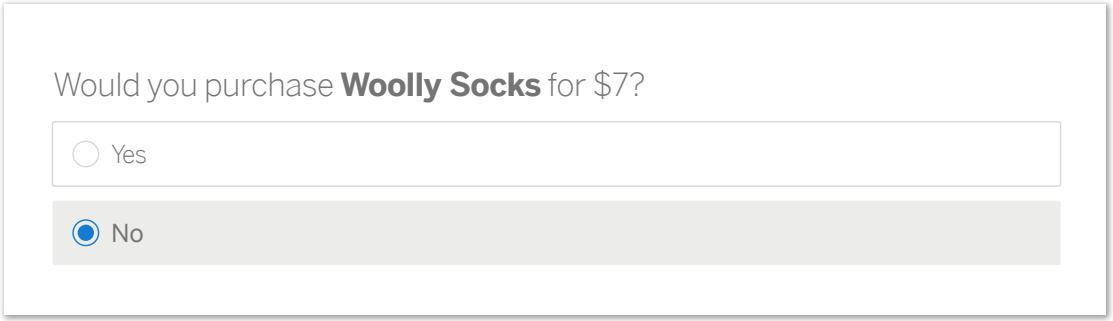
From a survey perspective, your typical flow will look something like this:

First introduce your concept.

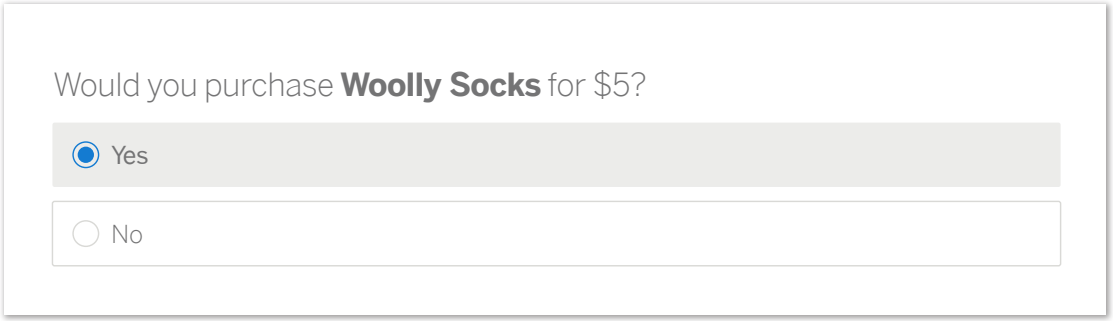
Please read the description below. We will be asking for your pricing feedback about this product.

Woolly Socks - Extra - warm wool socks for outdoor use

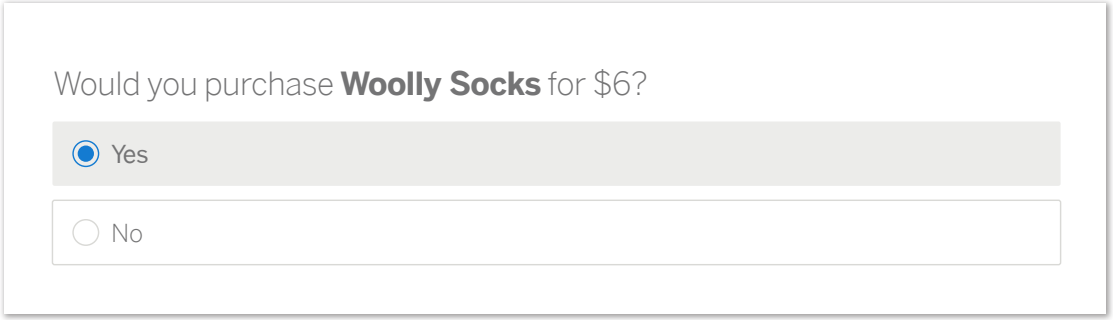
Next, give your respondents a specific price point. In this example, we're asking if the respondent would buy wool socks for $7.



Since the respondent answered no, ask about willingness to purchase at a lower price point.



Since you know that the respondent will spend $5 for your product, but not $7, ask an additional question to see if there is a price between $5 and $7 that they would be willing to spend.



In this example, the most the respondent would pay for your socks is $6.

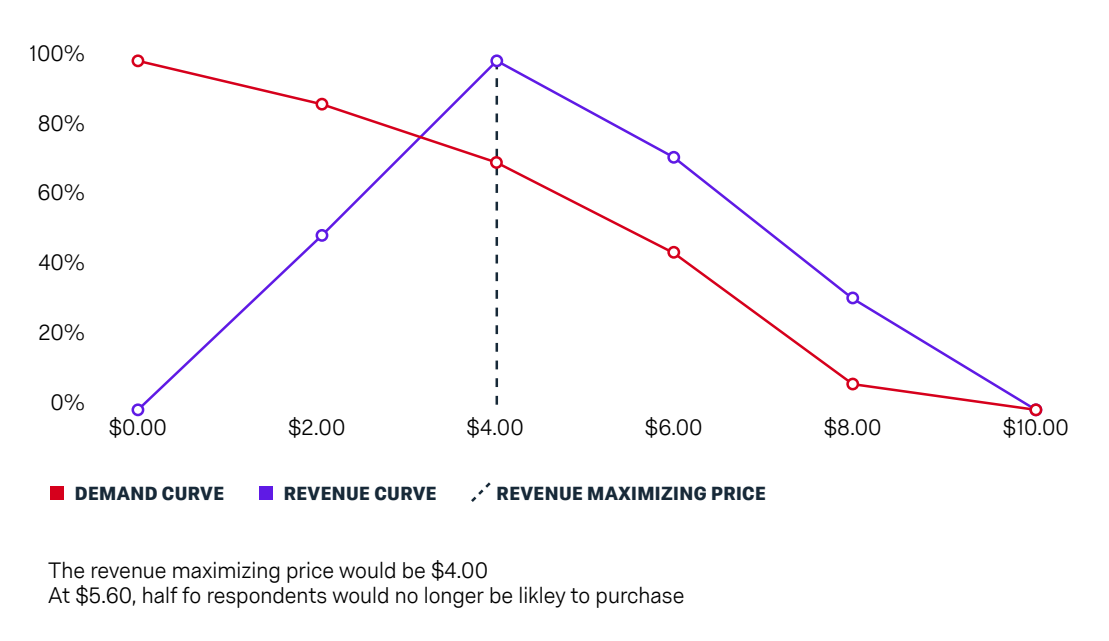
We recommend collecting at least 300 responses for statistical significance.

Gabor-Granger gives you valuable data, including what your demand curve and revenue curve look like.

+ Demand Curve - shows you the percentage of participants willing to pay at each price point
+ Revenue Curve - based on the number of respondents willing to purchase your product at a given price, you can gauge at what price point you will capture the most revenue

To visualize your results, you can use a program like Excel. To capture the demand curve, map the percentage of respondents to the y axis and the price points on the x axis.

To capture the revenue curve, take the percentage of respondents who are likely to buy at that price point, and multiply by the price point. For example, if there were 100 respondents in the study, and 75% would purchase at $4 dollars, the revenue would be $300 dollars. By calculating the projected revenue for each price point, you can generate a revenue curve. Combining both the revenue and demand curves gives you the most valuable price point.



CONJOINT ANALYSIS

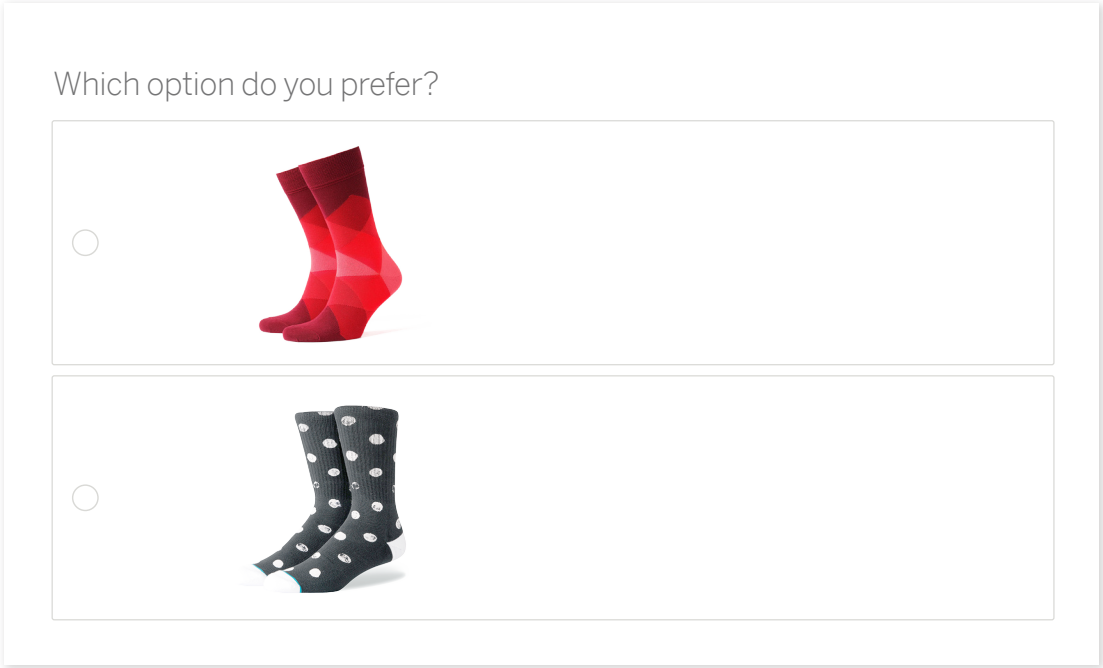
Conjoint analysis is a great way to compare different packaging options. With conjoint, you can measure the value of each feature and put together the ideal package. Respondents will see between 2-5 different product configurations and then choose which option they like the best.

To set up your conjoint project, determine the variables you want to measure. First, you'll want to figure out what types of attributes you want to measure. We recommend evaluating no more than five variables at a time.

Let's use our wool socks example. To determine the most desirable option, we might look at a two attributes like pattern (none, argyle, and polka dots) and color (grey and red). You would end up with six potential options:

+ Grey, no pattern
+ Grey, argyle
+ Grey, polka dots
+ Red, no pattern
+ Red, argyle
+ Red, polka dots

To run a conjoint, you would have the respondent pick out which package the liked the best, and evaluate combinations of each of the packages. Using statistical analysis, you may find that argyle and polka dots are more valued, which means that you could price more for these options.



Conjoint tests preferences, by displaying different combinations until the respondent has selected among all the available options.

While conjoint provides valuable data, building a conjoint study is complex. Traditionally, this type of analysis has required extensive experience in statistics, computer programming, and spreadsheets.

However, software solutions like Qualtrics Conjoint make this task approachable to everyone. Qualtrics Conjoint enables you to create and field a conjoint study in four steps from configuration to analysis. You can also simulate the effects of pricing changes.

See how it works with Qualtrics Conjoint

LEARN MORE

SECTION 3

Conclusion

Conclusion

Pricing research lets you understand the highest price your market is willing to pay, ensuring your product earnings capitalize on its research and development. Using any of the pricing methodologies will help arm you with data to launch your product at the right price point.

+ **Van Westendorp** gives you a optimal price point and price ranges, driven by consumers. This method is best when you have a defined product, but you don't know the right price range. To be effective, your respondents need context about your product and pricing.

+ **Gabor-Granger** allows you to test the most optimal price range. This method is best when you have a defined product and an idea of price ranges, but you don't know which range is optimal.

+ **Conjoint analysis** gives you insights into what your respondents value the most and how to create products and bundles that provide the most value. This method is best for determining the right features for your product. Conjoint requires statistical know-how, but software innovations make this analysis more approachable.

Ultimately, getting pricing right helps you gain revenue and avoid undervaluing your product. Pricing can be tricky - product research helps you get it right.

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on how to get started.

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