Value Communication1:
System 1 and System 2

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P r i c i n g — C l a s s 5

1

Should Steady withdraw?

e) Given the financial information that you have at this point, would Steady be better off to withdraw from this market altogether?

CALC NEW CM	Stay in Business Per Unit	Total	Withdraw from Business Per Unit	Total
Total Unit Sales	ΔSales=0	5,000		0
Price	$8.50	$42,500	$0.00	$0
Variable Cost	$5.50	$27,500	$0.00	$0
$ Contribution	$3.00	$15,000	$0.00	$0
Fixed Costs		$20,000		$10,000
Profit		($5,000)		($10,000)

2

2

VBlock

1. **What's the Value?**
   - *Value in Use:* Reduce time in recovery by 1:20 (1h Nobarf + 20 min more effective) * $150 = $200 less $10 cost of drug = $190
   - *Economic Value:*
     - Reference: Hospitals currently pay 3 x $12 = $36 for Nobarf
     - Differentiation: 20 minutes less time is $50 + 2 administrations saved $20 = $70
     - Total Economic Value = $36 + 70 = $106
2. **But 30% of patients cannot use Nobarf at all and need full 3 hours in recovery**
   - Weighted average? 30% $190 + 70% $106 = $131. No!
   - If you price it at the average, you'll lose 70% of customers… and leave money on the table for 30%
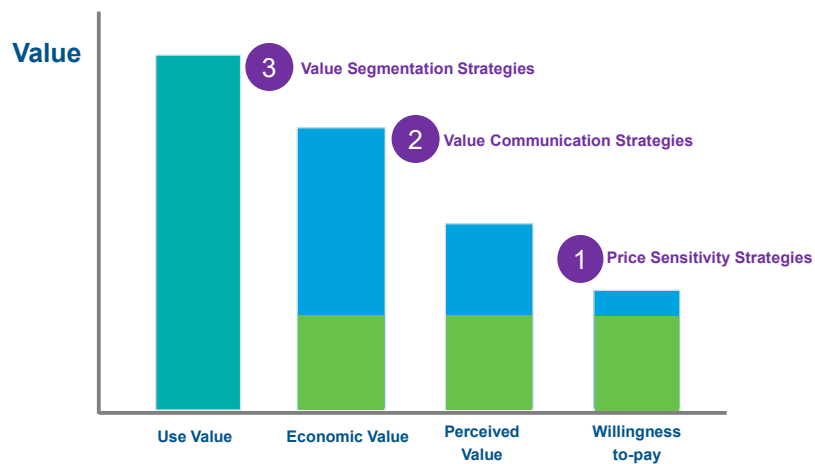   - There are no average customers
3. **What is the value for chemo patients?**
   - Administered only once but twice as effective in preventing nausea
   - Is the value to the chemo patient linear with effectiveness?
   - Who would get the value?

3

3

Manage Value Perceptions and Price Sensitivity

Source: Smith, Nagle, and Hogan (2006)

4

System 1:Associative	System 2: Analytic
Fast!	Slow…
▪	▪

Source: Daniel Kahneman, *Thinking Fast and Slow* (2011), Keith E. Stanowich and Richard F. West, Individual differences in reasoning: Implications for the rationality debate? (2000).

5

5

People Cognitively Prefer
Easy-to-Process System 1 Formats

Anecdotes

Narrative Information

Videos, Videography

Stories

Source: Gerald Smith

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6

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Associative Value Communication Strategies

Framing Strategies

Paradigm Shifts

Value Narratives

Endorsements

verbalAdvantage

Get a Harvard vocabulary in only 15 minutes a day

CASE STUDY

Experience the eHarmony Difference

It's... Oprah's Favorite Things!

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JetShares Hawker 800XP

Aircraft Type	JetShares Hawker 800XP	
Required Repurchase	10	years
Acquisition Price	$1,650,000	
Incentive Allowance	$ 160,000	
Monthly Management Fee	$16,368	
Occupied Hourly Fee	$2,120	
Fuel Surcharge, net of fuel club	$719	
Fuel club discount	20%	
Variable price discount	10%	
Variable price participation	50%	
Advance booking %	15%	
Advance booking surcharge	$ 275	
Hours per Year	100	
Advance Booking Hours	15	
Annual utilization	115	
Annual utilization	100%	
Total used	115.0	
# of contract years	10	
Interest Expense	6.00%	
MMF Annual Adj.	3.75%	
OHF Annual Adj.	3.75%	
Re-marketing fee	N	
Markup %	10.0%	
Residual Value %	56.0%	
Federal Excise Tax	7.5%	
Cost Per Hour Before Tax	$	6,695

Calculated cost of use for customer

JetShares Hawker 800XP

	Year 1	Total
Acquisition Price	$1,650,000	$1,650,000
Acquisition Price #2	$0	$0
Incentive Allowance	($160,000)	($160,000)
Incentive Allowance - #2	$0	$0
Occupied Hourly Cost/Year	$212,000	$2,515,982
Occupied Hourly Cost/Year (Advance Booking)	$35,925	$426,352
Variable price discount	($16,325)	($193,747)
Fuel Surcharge	$82,708	$981,565
Monthly Mgmt. Fee/Year	$196,416	$2,331,033
Interest Expense - #1	$89,100	$891,000
Interest Expense - #2	$0	$0
Mark-up loss	$165,000	$165,000
Mark-up loss	$0	$0
Federal Excise Tax	$15,900	$188,699
Re-Marketing Fee		
Depreciation - #2	$0	$0
Depreciation - # 1	$81,975	$560,522
Total	$2,352,698	$7,706,406
Tax (Benefit) / Cost	($345,079)	($2,730,958)
Add back Non Cash Depreciation	($165,000)	($165,000)
Post Tax Total	$1,842,619	$4,810,448

Calculated Lifetime Cost of Ownership for customer

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Analytic Value Communication Strategies

Value Data **Value Messaging** **Value Calculation** **Value Engagement**

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Value Communication Investment Strategy

System 2 Strategies

Value Data Strategies	Value Messaging Strategies
• Statistics, Data • Concrete Evidence • Estimation Models	• Value Messaging • Value Arguments • Value Logic
Value Engagement Strategies • Trial • Simulation • Testing	**Value Calculation Strategies** • Calculators • Spreadsheets • Apps

System 1 Strategies

Value Framing Strategies	Paradigm Shift Strategies
• End-Benefit Frames • Outcome Frames • Pos/Neg Framing	• Value Associations • Paradigm Shifts • Member Frames
Value Narratives, Stories • Stories, Narratives • Pictures, Videos • Case Studies	**Testimonial Endorsement Strategies** • Opinion Leaders • Testimonials • Endorsements

[ ] %   **Investment Allocation**   [ ] %

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Skim vs. Penetrate

1. **Goals:**

   ▪

2. **Price Sensitivity:**
   ▪
   ▪

3. **Customer Segments – one or many? Network Effect?**
   ▪
   ▪
   ▪

4. **Product Portfolio effects:**
   ▪
   ▪
   ▪

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