Exhibit 7-2
Sample Differential Value Capture Rates

Market	Differential Value Capture Rate	Notes
Enterprise Software	20 – 50%	High variability due to negotiated pricing and large value differences between customers
Heavy Manufacturing	10 – 30%	Falls to low end of the range for large, powerful customers
Process Manufacturing	10 – 20%	Relatively low because few companies capture the value of bundled services
Computers	20 – 40%	Relatively high, although the amount of differentiation is generally very low leading to thin margins
High Technology	5 – 50%	Tend to take profits early in lifecycle but give them up rapidly to defend share over time
Professional Services	10 – 40%	Higher end of the range for proven firms with well known brands
Distribution	5 – 20%	Tends to be low because of competitive pricing and failure to price for total solution value
Pharmaceuticals	30 – 50%	Relatively high if value (in clinical benefits or cost savings) can be documented at launch. Lower if cannot be documented. Also depends upon whether payer is driven by cost minimization or attracting members quality of coverage.

Exhibit 7-3
Price Sensitivity Drivers

Driver	Description
Reference Prices	Buyers are more price sensitive the higher the product's price relative to the prices of the buyers' perceived alternatives.
Perceived Risk	Buyers are more price sensitive when they believe there is a significant probability they will not receive the full value of a product or service.
Switching Costs	Buyers are less sensitive to the price of a product the greater the added cost (both monetary and non-monetary) of switching suppliers.
Price-Quality Perceptions	Buyers are less sensitive to a product's price to the extent that a higher price signals better quality.
Size of Expenditure	Buyers are more price sensitive when the expenditure is larger, either in dollar terms or as a percentage of household income.
Size of End-Benefit	Buyers are less price sensitive when the product is part of a larger, overall purchase or benefit.
Shared Costs	Buyers are less price sensitive when some or all of the purchase price is shared with others.
Perceived Fairness	Buyers are more sensitive to a product's price when it is outside the range that they perceive as "fair" or "reasonable" given the purchase context.
Framing Effects	Buyers are more price sensitive when they perceive the price as a "loss" rather than as a foregone "gain." They are more price sensitive when the price is paid separately rather than as part of a bundle.

Appendix 7-A
Building a Managerial Price Sensitivity Analysis

A segment-by-segment evaluation of price sensitivity drivers is a useful way to make initial adjustments to segment prices. If several sensitivity drivers influence a particular segment, it may be prudent to reduce the value capture rate for that segment relative to other segments in which the sensitivity factors are less prevalent. This sensitivity analysis can often be performed by market-facing personnel judging the relative importance of each factor. The questions in this section can facilitate discussion and explore the importance of each factor systematically.

Sensitivity Drivers

1. **Reference prices**: Buyers are more price sensitive the higher the product's price relative to the prices of buyers' perceived alternatives.

    - What alternatives are buyers (or segments of buyers) typically aware of when making a purchase?
    - To what extent are buyers aware of the prices of those substitutes?
    - To what extent can buyers' price expectations be influenced by the positioning of one brand relative to particular alternatives, or by the alternatives offered them?
    - For a consumer product, finding out what alternatives buyers face usually requires little more than a visit or telephone inquiry to a few retailers or distributors. For an industrial product, identifying alternatives may be as easy as simply noting the products displayed at trade shows and asking about their availability in various locations and for various uses. One's sales force, sales agents or manufacturer representatives are also particularly good sources for identifying buyer awareness of alternatives. For example, a brief form asking the salesperson to note each alternative mentioned by the buyer during a sales presentation can be a cheap, reliable source of information. Finally, survey research which asks a question such as, "How many brands of this product can you name?" can reveal awareness of alternatives.
    - The second part of this effort involves gauging price awareness. Do buyers know the prices of alternatives? Are some segments of buyers much more, or less, informed than others? What do those who cannot recall specific prices believe is a typical price for this product? At what price level would they consider a brand in this market to be expensive or cheap?

2. **Perceived Risk:** Buyers are more price sensitive when they believe there is a significant probability they will not receive the full value of a product or service.

    - How difficult is it for buyers to compare the offers of different suppliers?
    - Can the attributes of a product be determined by observation, or must the product be purchased and consumed to learn what it offers?

- Is the product new or innovative to a segment of customers, meaning they may not understand the nature of its operation or how to use it effectively?
- Is this segment new to the product category or new to your firm as a supplier?
- Is the product highly complex, requiring costly specialists to evaluate its differentiating attributes?
- Are the prices of different suppliers easily comparable, or are they stated for different sizes and combinations that make comparisons difficult?

3. **Switching costs**: Buyers are less sensitive to the price of a product the greater the added cost (both monetary and non-monetary) of switching suppliers.

- To what extent have buyers already made investments (both monetary and psychological) in dealing with one supplier that they would need to incur again if they switched suppliers?
- For how long are buyers locked in by those expenditures?
- Have customers invested heavily in product-specific training that would have to be repeated if they chose to switch?
- Has the customer adapted its production, logistical or marketing operations to accommodate your product?

4. **Price-quality perceptions**: Buyers are less sensitive to a product's price to the extent that a higher price signals better quality.

- Is a prestige image an important attribute of the product?
- Is the product enhanced in value when its price excludes some consumers?
- Is the product of unknown quality with few reliable cues for ascertaining quality before purchase?

5. **Size of Expenditure:** Buyers are more price sensitive when the expenditure is larger, either in dollar terms or as a percentage of household income.

- How significant are buyers' expenditures for the product in absolute dollar terms (for business buyers) and as a portion of income (for consumers)?

6. **End-benefit**: Buyers are less price sensitive when the product is part of a larger, overall purchase or benefit.

- What end-benefits do buyers seek from the product?
- How price sensitive are buyers to the cost of the end-benefit?
- What portion of the end-benefit does the price of the product account for?
- To what extent can the product be repositioned in customers' minds and associated with an end-benefit for which the buyer is less cost sensitive or which has a larger total cost?

7. **Shared-costs**: Buyers are less price sensitive when some or all of the purchase price is shared with others.

- Does the buyer pay the full cost of the product?
- If not, what portion of the cost does the buyer pay?

8. **Perceived Fairness**: Buyers are more sensitive to a product's price when it is outside the range that they perceive as "fair" or "reasonable" given the purchase context.

- How does the product's current price compare with prices people have paid in the past for products in this category?
- What do buyers expect to pay for similar products in similar purchase contexts?
- Is the product seen as necessary to maintain a previously enjoyed standard of living, or is it purchased to gain something more out of life?
- Is the price of the product high relative to its variable costs?
- Is the price of the product going to go up significantly and without obvious justification?

9. **Framing Effects:** Buyers are more price sensitive when they perceive the price as a "loss" rather than as a foregone "gain." They are more price sensitive when the price is paid separately rather than as part of a bundle.

- Do customers see the price as something they pay to avoid a loss, or to achieve a gain?
- Is the price paid as part of a larger cost or does it stand alone?
- Is the price perceived as an out-of-pocket cost or as an opportunity cost?