Value Communication

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Pricing—Class 5-6

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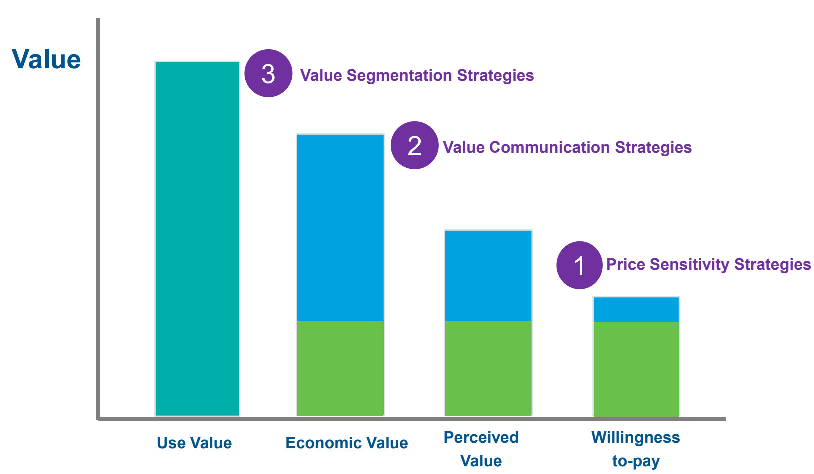
Manage Value Perceptions and Price Sensitivity



Source: Smith, Nagle, and Hogan (2006)

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What comes to mind?

Source: Daniel Kahneman, *Thinking Fast and Slow* (2011)

5

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What comes to mind?

17 x 24

Source: Daniel Kahneman, *Thinking Fast and Slow* (2011)

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

- Fast thinking
- Associative, memory-based
- Intuitive
- Automatic
- Lazy
- Heuristic
- Low Knowledge Thinking

- Slow thinking
- Analytic, calculation based
- Deliberate
- Controlled
- Disciplined
- Intellection
- High Knowledge Thinking

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).

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Associative or Analytic?

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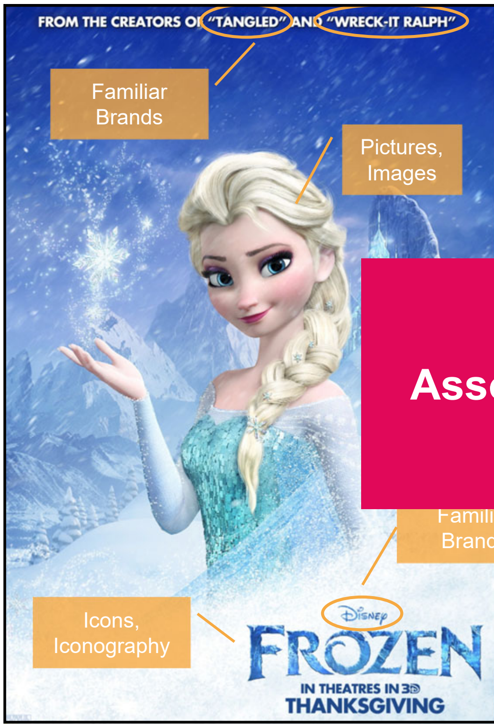

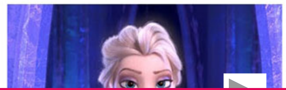

Associative or Analytic?

Stories

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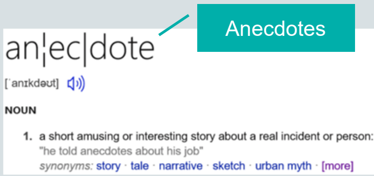
People Cognitively Prefer Easy-to-Process System 1 Formats



Anecdotes

Narrative Information

Videos, Videography

Stories

Source: Gerald Smith

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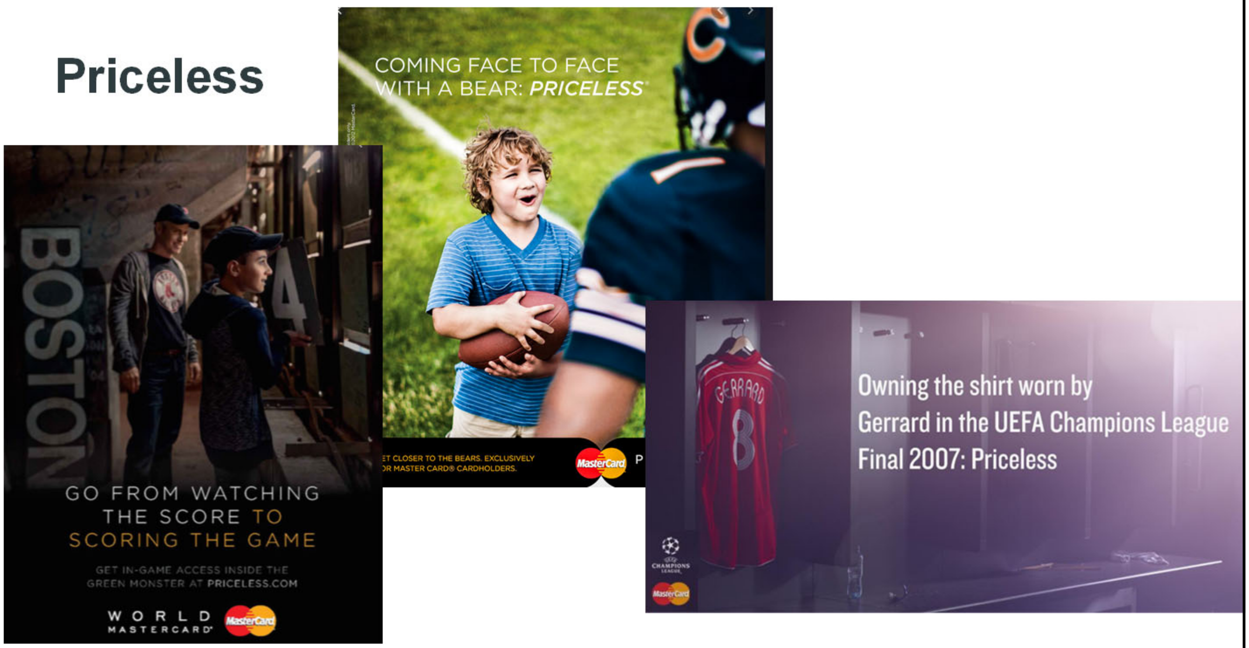
Priceless



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Liberty Mutual Insurance

https://youtu.be/MW5v1nDvApg

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Associative Value Communication Strategies

Framing Strategies

- End Benefit Frames
- Outcome Frames
- Positive/Negative Framing

Paradigm Shifts

- Value Associations
- Paradigm Shifts
- Framed as Membership

verbalAdvantage

Get a Harvard vocabulary in only 15 minutes a day

Value Narratives

- Stories
- Narratives
- Case Studies
- Videos

Endorsements

- Opinion Leaders
- Testimonials
- Endorsements

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Analytic Value Communication Strategies

Value Data

- Value Statistics
- Concrete Data
- Value Estimation
- Lots of Evidence

Value Messaging

- Value Messaging
- Value Copy
- Value Arguments
- Value Logic

Value Calculation

- Value Calculators
- Spreadsheets
- Value Apps

Value Engagement

- Value Trial
- Value Sampling
- Value Simulation
- Value Testing

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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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AWS Total Cost of Ownership (TCO) Calculators

AWS helps you reduce Total Cost of Ownership (TCO) by reducing the need to invest in large capital expenditures and providing a pay-as-you-go model that empowers you to invest in the capacity you need and use it only when the business requires it.

Economic Value S2

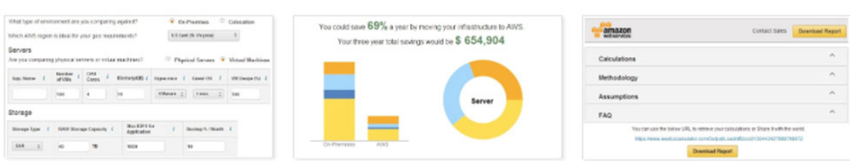
Value Messaging S2

Our TCO calculators allow you to estimate the cost savings when using AWS and provide a detailed set of reports that can be used in executive presentations. The calculators also give you the option to modify assumptions that best meet your business needs.

Value Calculator S2

AWS Total Cost of Ownership (TCO) Calculator

Use this new calculator to compare the cost of your applications in an on-premises or traditional hosting environment to AWS. Describe your on-premises or hosting environment configuration to produce a detailed cost comparison with AWS.



1. Describe your existing or planned on-premises or hosting infrastructure in four steps, or enter detailed configurations.
2. Get an instant summary report which shows you the three year TCO comparison by cost categories.
3. Download a full report including detailed cost breakdowns, Methodology, Assumptions, and FAQ or store the report in Amazon S3 for sharing with others.

Value Simulator S2

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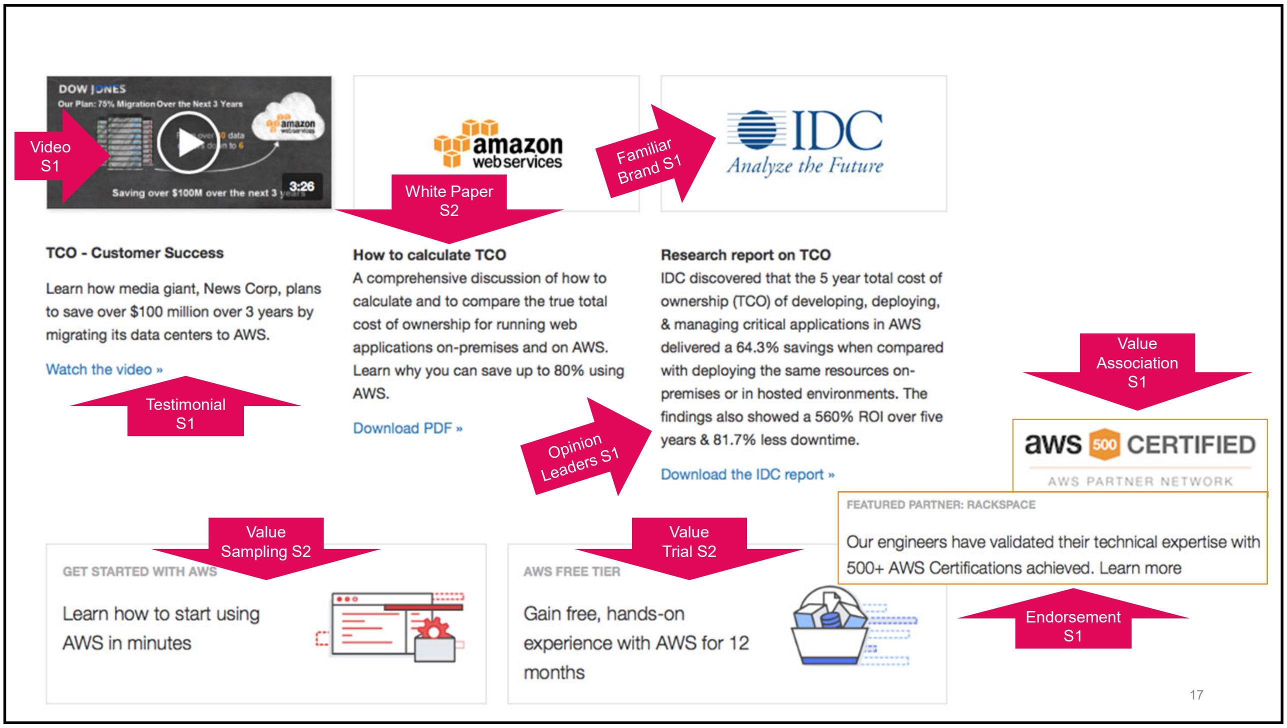

DOW JONES
Our Plan: 75% Migration Over the Next 3 Years
Saving over $100M over the next 3 years
3:26
Video S1
White Paper S2
Familiar Brand S1
amazon web services
IDC
Analyze the Future
TCO - Customer Success
Learn how media giant, News Corp, plans to save over $100 million over 3 years by migrating its data centers to AWS.
Watch the video »
Testimonial S1
How to calculate TCO
A comprehensive discussion of how to calculate and to compare the true total cost of ownership for running web applications on-premises and on AWS. Learn why you can save up to 80% using AWS.
Download PDF »
Opinion Leaders S1
Research report on TCO
IDC discovered that the 5 year total cost of ownership (TCO) of developing, deploying, & managing critical applications in AWS delivered a 64.3% savings when compared with deploying the same resources on-premises or in hosted environments. The findings also showed a 560% ROI over five years & 81.7% less downtime.
Download the IDC report »
Value Association S1
aws 500 CERTIFIED
AWS PARTNER NETWORK
FEATURED PARTNER: RACKSPACE
Our engineers have validated their technical expertise with 500+ AWS Certifications achieved. Learn more
Endorsement S1
Value Sampling S2
GET STARTED WITH AWS
Learn how to start using AWS in minutes
Value Trial S2
AWS FREE TIER
Gain free, hands-on experience with AWS for 12 months
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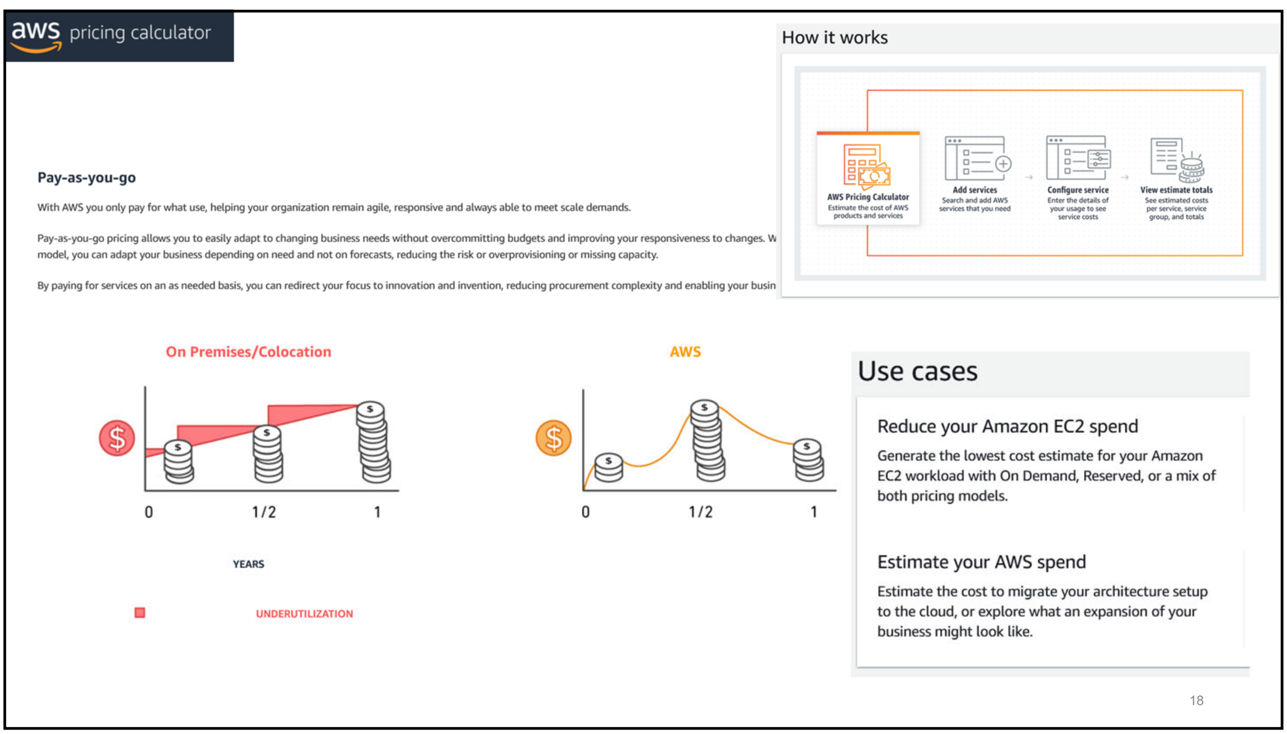

aws pricing calculator
Pay-as-you-go
With AWS you only pay for what use, helping your organization remain agile, responsive and always able to meet scale demands.
Pay-as-you-go pricing allows you to easily adapt to changing business needs without overcommitting budgets and improving your responsiveness to changes. W model, you can adapt your business depending on need and not on forecasts, reducing the risk or overprovisioning or missing capacity.
By paying for services on an as needed basis, you can redirect your focus to innovation and invention, reducing procurement complexity and enabling your busin
How it works
AWS Pricing Calculator
Estimate the cost of AWS products and services
Add services
Search and add AWS services that you need
Configure service
Enter the details of your usage to see service costs
View estimate totals
See estimated costs per service, service group, and totals
On Premises/Colocation
AWS
0
1/2
1
YEARS
UNDERUTILIZATION
Use cases
Reduce your Amazon EC2 spend
Generate the lowest cost estimate for your Amazon EC2 workload with On Demand, Reserved, or a mix of both pricing models.
Estimate your AWS spend
Estimate the cost to migrate your architecture setup to the cloud, or explore what an expansion of your business might look like.
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Value Communication Investment Strategy

System 2 Strategies		System 1 Strategies	
Value Data Strategies • Statistics, Data • Concrete Evidence • Estimation Models	**Value Messaging Strategies** • Value Messaging • Value Arguments • Value Logic	**Value Framing Strategies** • End-Benefit Frames • Outcome Frames • Pos/Neg Framing	**Paradigm Shift Strategies** • Value Associations • Paradigm Shifts • Member Frames
Value Engagement Strategies • Trial • Simulation • Testing	**Value Calculation Strategies** • Calculators • Spreadsheets • Apps	**Value Narratives, Stories** • Stories, Narratives • Pictures, Videos • Case Studies	**Testimonial Endorsement Strategies** • Opinion Leaders • Testimonials • Endorsements

☐ % **Investment Allocation** ☐ %

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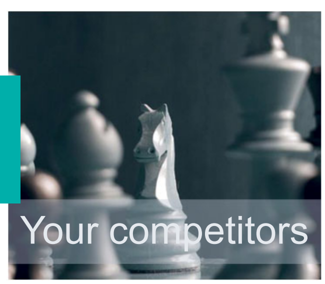
If you don't communicate your value . . .

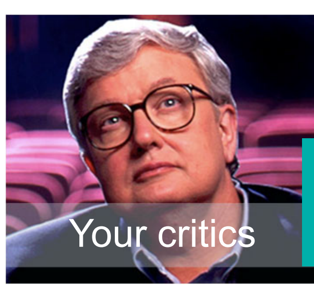
"Same components, same performance, and ours costs less"



"The online reviews are about the same, so brands must be too"

If you don't communicate your value then who will translate your value in the marketplace?

And how will they do it?
Using System 1 heuristics



"This is my checklist for a quick comparison of the competitive brands"

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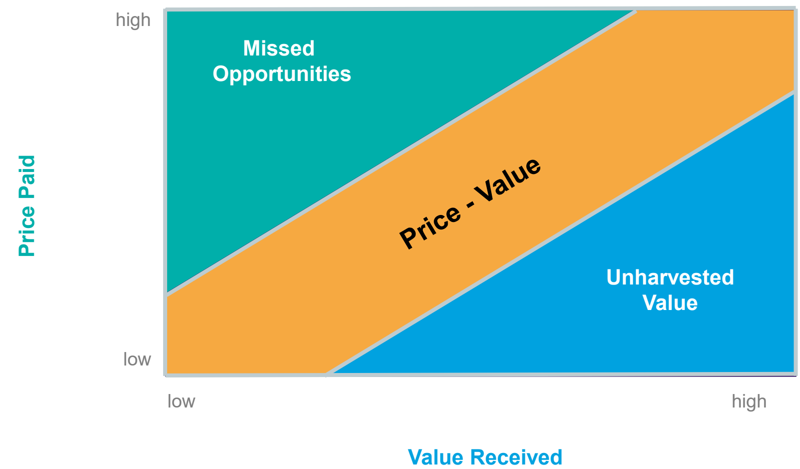
Align Price with Value: “Diver Down”



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Willingness to Pay = **Economic Utility of the Transaction** + **Fairness**

Perceived Value – Actual Price

Actual Price – Expected (reference) Price

Actual Price – Cost of Goods Sold

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Prospect Theory

People assess gains and losses relative to a reference point

- People do not perceive gains and losses in proportion with their true value (positive or negative)
- People are loss-averse: they overweight the pain of a small loss and underweight the pain of a large loss
- Once people have something, it hurts to let go
- People ascribe diminishing value to marginal benefits: two small gains add up to more than one big gain
- People are risk-averse: they prefer certainty and avoid uncertainty

Source: Kahneman and Tversky (1979); Thaler 1986.

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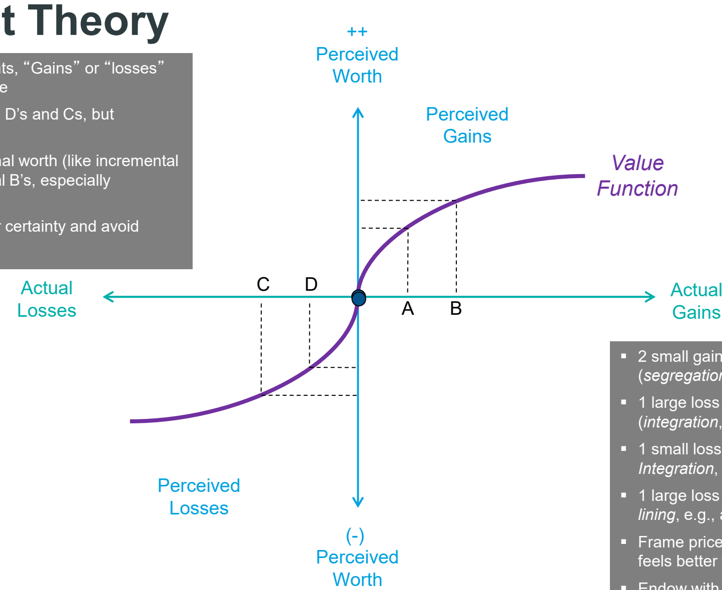
Prospect Theory

- Use reference points, "Gains" or "losses" relative to reference
- Loss averse (avoid D's and Cs, but especially D's)
- Diminishing marginal worth (like incremental A's and incremental B's, especially incremental A's)
- Risk averse, prefer certainty and avoid uncertainty



- 2 small gains feel better than 1 large gain (*segregation*, e.g., direct marketing)
- 1 large loss feels better than 2 small losses (*integration*, e.g., payroll deductions)
- 1 small loss feels better with 1 large gain (*mixed Integration*, e.g., spend tax refund)
- 1 large loss feels better with 1 small gain (*silver lining*, e.g., auto rebates)
- Frame prices as gains: Discount off higher price feels better than lower price + extra fee
- Endow with ownership, to set a frame of reference (try for 30 days free)

Source: Kahneman and Tversky (1979); Thaler 1986.

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Celebrate irrationality!

Break gains apart into multiple smaller pieces *(example: "And that's not all! Order now and…"*	**Combine smaller losses into a single larger loss** *(example: car wash 10-pass)*	**A small loss feels better with a large gain** *(example: spend tax refund)*
A large loss feels better with a small gain *(example: $2,000 cash-back with car purchase)*	**Use reference prices to make prices seem like a win** *(example: list price… with Amazon Prime you save…)*	**Endow buyers with ownership to set a frame of reference** *(example: book of the month club)*

Source: Kahneman and Tversky (1979); Thaler 1986.

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https://www.youtube.com/watch?v=Zz1ZVg2RtTo 0:00 – 2:50

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Drivers of Price Sensitivity

Price Sensitivity is Lower/Higher if…

	Lower ←→	Higher
Product	▪ ▪	▪ Low differentiation of alternatives ▪ Easy comparability ▪ Will perform as expected (performance can be assessed before purchase) ▪ Not mission critical
Price	▪ Low-budget item ▪ ▪	▪ Easy comparability ▪ High relative to budget (personal or business) ▪ Reference prices exist ▪ Not needed as a quality cue
Buyer	▪ Unsophisticated ▪ ▪	▪ Sophisticated, deliberate ▪ Bearing the costs him or herself ▪ Able to switch easily ▪ Not motivated by prestige

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Drivers of Price Sensitivity

1. The Reference Price Effect
2. The Difficult Comparison Effect
3. The Switching Cost Effect
4. The Price-Quality Effect
5. The Expenditure Effect
6. The End-Benefit Effect
7. The Fairness Effect
8. The Framing Effect
9. The Shared-Cost Effect

Source: Nagle and Holden (2002)

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Reference Price Effect

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

The Difficult Comparison Effect

Buyers are less sensitive to a product's price if it is more difficult to compare it to potentially competing alternatives.

Source: Nagle and Holden (2002)

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The Switching Cost Effect

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

The Price-Quality Effect

Buyers are less sensitive to a product's price to the extent that a higher price signals that the product:

- is of higher quality,
- excludes other buyers,
- is associated with prestige.

Source: Nagle and Holden (2002)

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The Expenditure Effect

Buyers are more price sensitive when the expenditure for the product is large, either in monetary terms or as a percentage of total income or budget.

The End-Benefit Effect

Buyers are less price sensitive:

1. when they are less sensitive to the cost of the end-benefit to which it contributes; and,
2. when the product's price accounts for a small share of the total cost of the end-benefit.

Source: Nagle and Holden (2002)

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The Fairness Effect

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.

The Shared-Cost Effect

Buyers are less price sensitive to the price of a product, the smaller the portion of the price they actually pay.

Source: Nagle and Holden (2002)

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The Framing Effect

Buyers are more price sensitive when they

1. Perceive the price as a “loss” rather than as a forgone “gain;” and
2. When the price is paid separately rather than as part of a bundle.

Source: Nagle and Holden (2002)

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