Pricing Tools in the Commercial Market – An Overview

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Agenda

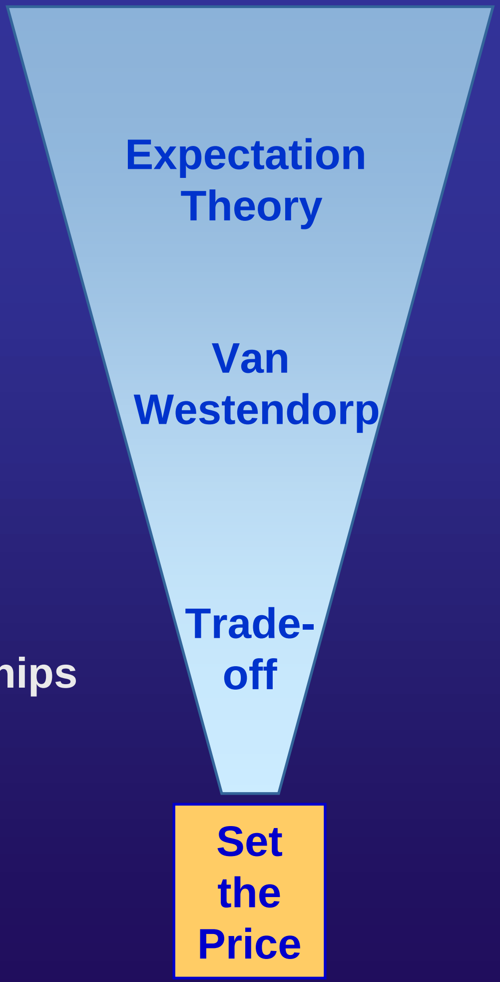
- The Spectrum of Pricing Research
- Van Westendorp
- Tradeoff
- Expectation Theory

The Spectrum of Pricing Research

Pricing Research Objectives

- Understand feasible pricing band
- Understand value assessment and pricing perceptions
- Understand price/volume relationships

Pricing Methodology



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Van Westendorp

A methodology designed to understand the perceived price-quality relationship.

- **Attempts to identify feasible price range for as many respondents as possible based on four questions:**
  1. **What price is so high that you would not consider purchase?**
  2. **What price is expensive but you would still consider purchase?**
  3. **What price represents a good value?**
  4. **What price is so low that you would not purchase?**

Examples	♦ **New drug introduction among existing treatments** ♦ **DELL MP3 (after iPOD had already been introduced)**

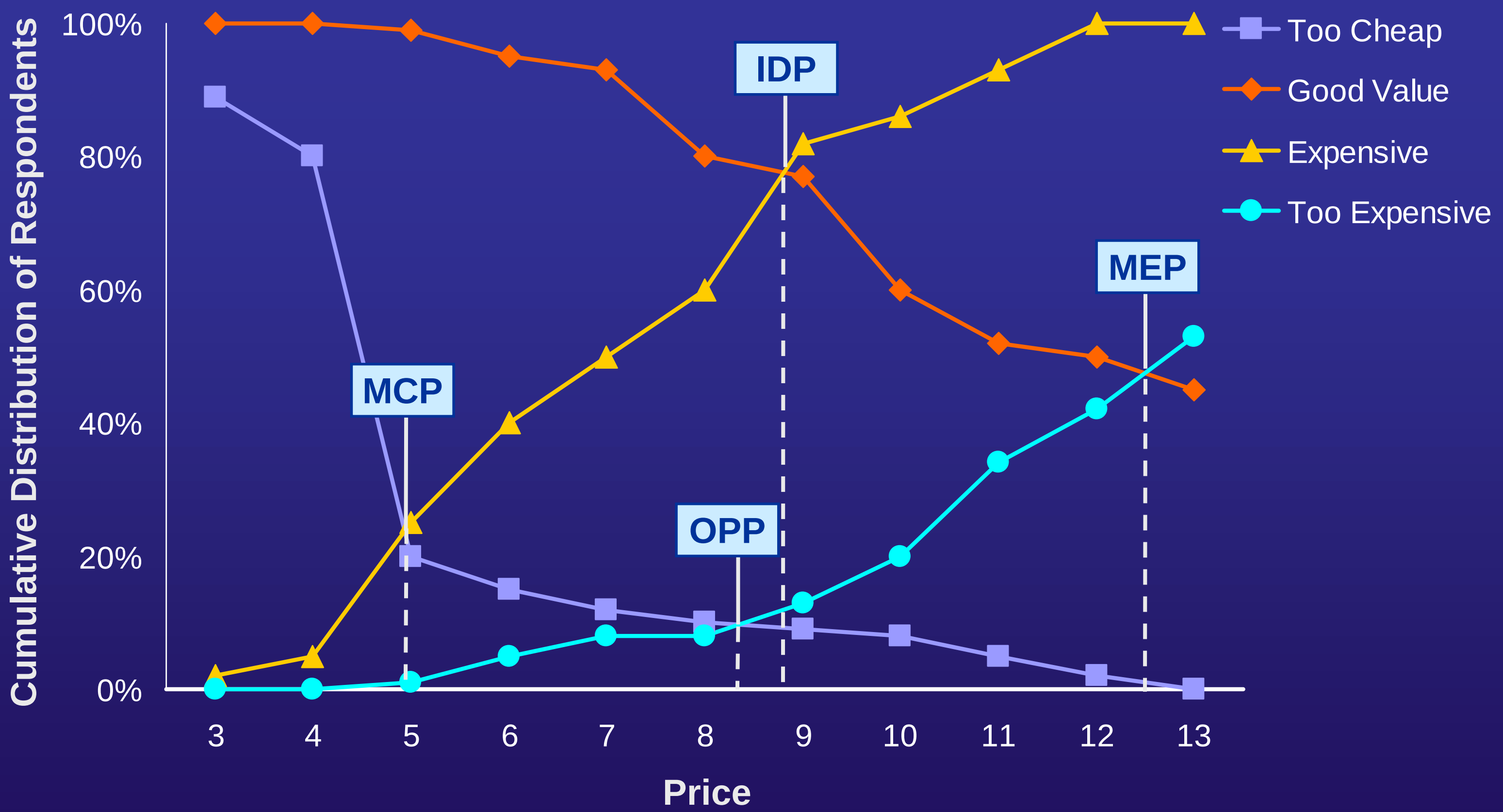
Van Westendorp

Applications

- When the product category is known
- When price range is the objective
  - Will give you a price range to work with but not reliable estimates of purchase behavior
  - Estimates of market share (ballpark only)
  - Rough estimates of price sensitivity
  - Not useful for product optimization
- Qualitative/quantitative methodologies
- Type of respondent:
  - Typically with consumers
  - 20% responses may be inconsistent

Van Westendorp

Typical Results



OPP: Optimal Price Point
IDP: Indifference Point
MEP: Marginal Expensive Price Point
MCP: Marginal Cheap Price Point

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Tradeoff Pricing Methodologies

Tradeoff methodologies are used to study the factors that influence choices—including price.

- ♦ Attempts to mimic market choices that involve tradeoffs
- ♦ Utilizes experimental design to vary levels of product features (price as a product feature)
  - – Links “share” to market utility for price and other features

Examples	 **Convertible Car** **$38,000**	 **Compact Car** **$22,000**

Tradeoff Pricing Methodologies

Applications

- Evaluation of preferences
  - Caution when price is the only feature
- Relating price and volume or share
- Many ‘versions’
  - Full profile conjoint
  - Discrete choice
  - Adaptive conjoint
  - Response surface analysis
  - Best/worst
- Quantitative methodology
- Type of respondent:
  - Decision makers

Tradeoff Pricing Methodologies

Approach

Full Profile Conjoint Example: Cellphone

Feature	Levels
Monthly Fee	$19.95, $25.95
Free Minutes	15, 30 Minutes
Brand	Nokia, Phillips

Subset of Alternatives
(Total of 8 possible alternatives)

Fee: $25.95 **30 minutes** **Philips**	**Fee: $19.95** **15 minutes** **Philips**	**Fee: $25.95** **15 minutes** **Nokia**	**Fee: $19.95** **30 minutes** **Nokia**
3	**2**	**4**	**1**

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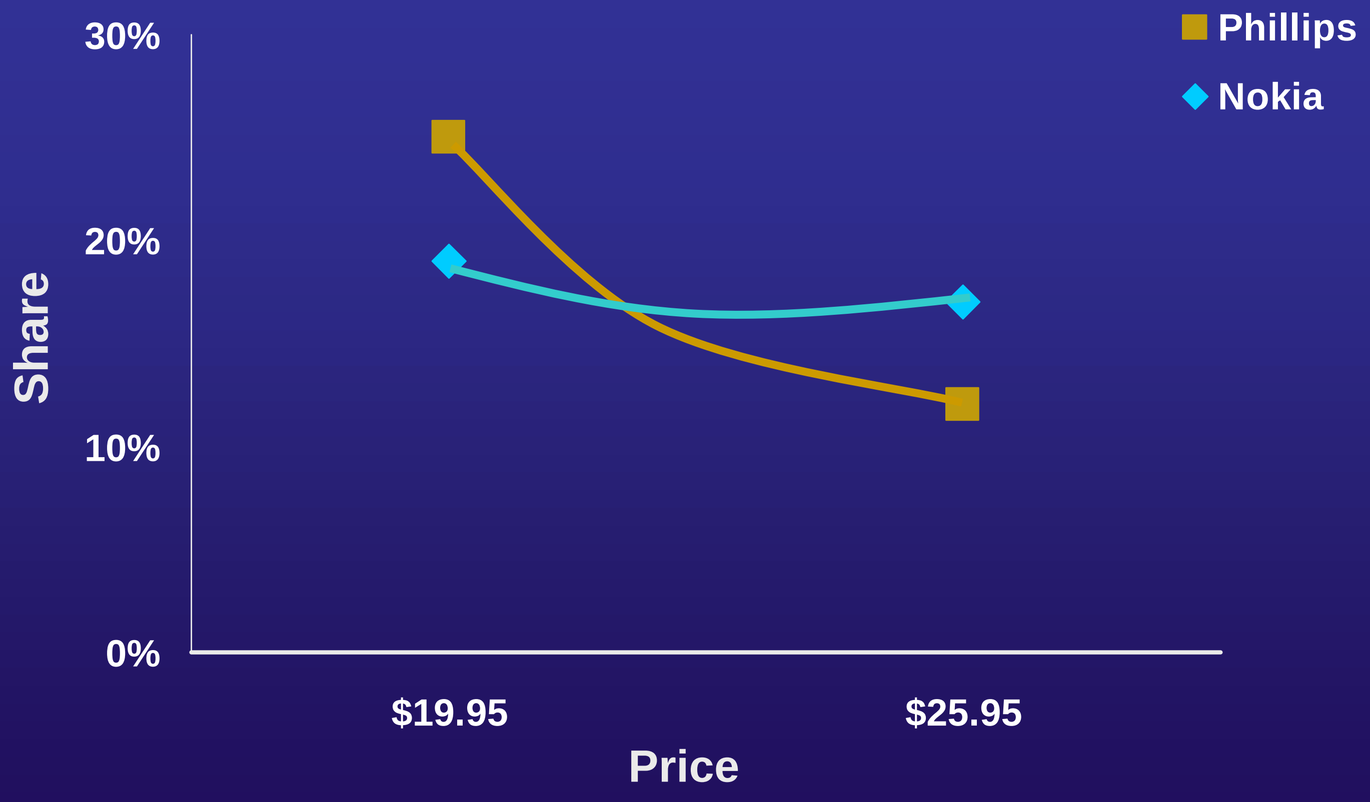
Tradeoff Pricing Methodologies

Typical Results



Expectations Theory

Methodology to understand and establish pricing parameters in the absence of full information and/or consumer experience using the product category.

Examples	♦ **New product introductions that create new product categories in the marketplace** ♦ **Walkman, VCR, iPOD**

Theoretical Framework

- **Price = *ƒ*{Product Features, Benefits, conditional on Experience / Competitive Products}**
  - Assuming perfect information
  - Assuming perfect competition
  - Assuming existing comparable products
- ***Relaxing assumptions about existing competitors, knowledge of product category:***

  Price = *ƒ* {<u>Expectations</u> about Product Features, Benefits, Expected Experience/Competitive Products}

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Expectations Theory

Applications

- New market space or new product category
- Market characterized by lack of:
  - Competitors
  - Experience using product among population of potential users
  - Experience around price setting among price setters
- Qualitative methodology
- Type of respondent:
  - Potential users
  - Purchasers
  - Content experts
  - Practitioners
  - Community leaders
  - Price setters (decision-makers in regulatory institutions)

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Expectations Theory

Approach

- The technique explores questions such as:
  - Is the market aware of the imminent introduction of a new product/therapy?
  - Are there expectations around what the product will be in terms of features and capabilities?
  - Are there expectations around what the price of the product will be?
  - Are there expectations around what value the product will deliver?
  - Test scenarios to link price to product usage/acceptance

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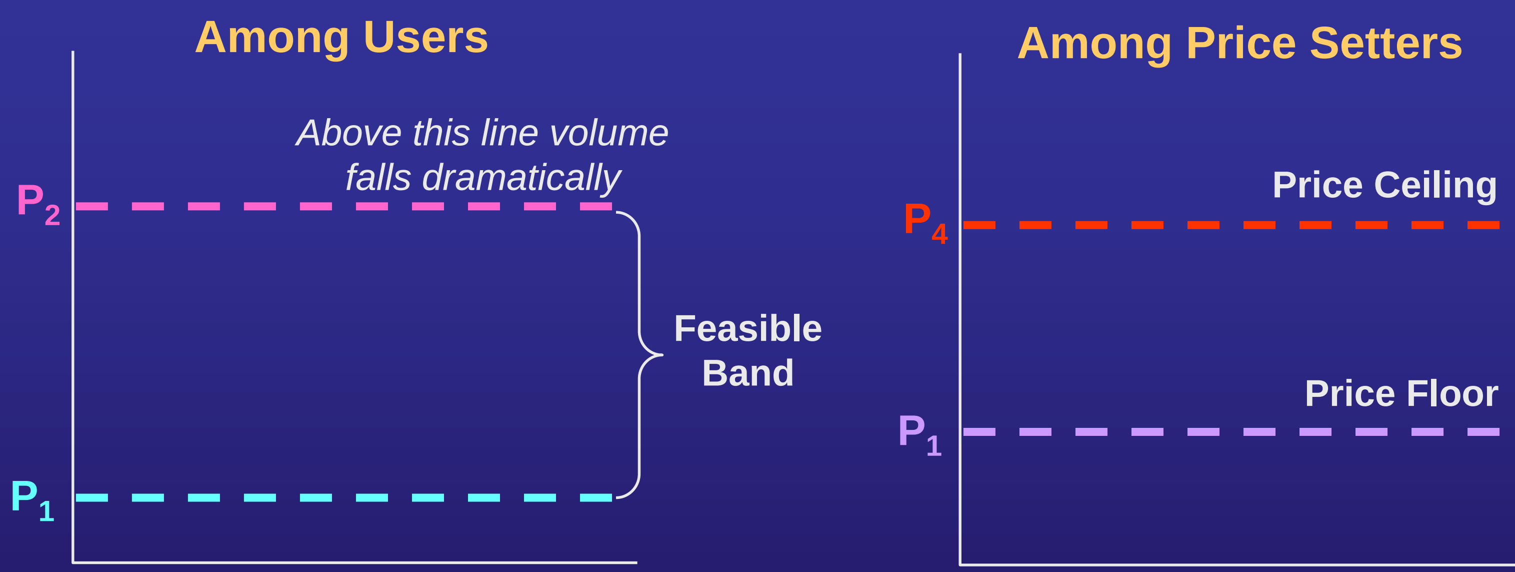
Expectations Theory

Typical Results

Emerging Band of Feasible Prices



Key Questions to Explore

- ***Is there consistency among respondents around what the "floor" and "ceiling" are?***
- ***Is there convergence between product users/buyers and price setters?***

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Pricing Methodology