Van Westendorp’s Price Sensitivity Meter

Product Camp 2012
Scientific Pricing: Research is the Key

What the customer is willing to pay

Estimate of demand

Competitive landscape

Competitor p
Expected Price, Willingness to Pay, Purchase Intent

• Expected price is the price that someone would expect to see the product on the market.
  – Although expected price does not mean that someone would buy it, this is still valuable information.

• Willingness to pay. Don’t confuse it with expected price
  – *That Mercedes should cost $50K, but I wouldn’t buy one. X*
  – *That Subaru should cost $30K. I’d buy one, but I’m not in the market right now ✓*
  – Willingness to pay may be higher than expected price too – particularly when scarcity (hot toys at Christmas) or psychological factors are involved.

• Purchase Intent.
  – *I expect to buy a new refrigerator in the next 3 months, and I would definitely buy that model for $1,900*
Product awareness and research

• All research tools for pricing depend on respondent’s awareness of the product.

• This presents a challenge for radically new products
Pricing research methods: Indirect

• Indirect methods acquire information about price perceptions without asking directly

• Conjoint and Discrete choice research
  • Present respondent with set of products with bundled attributes – e.g. car
  • Analysis extracts price from the results
  • Good for products in mature category where product are well understood.
  • Some debate about using these methods for pricing, but generally accepted
  • Complex and expensive
Pricing research methods: Direct

Direct methods involve questioning where price is identified separately

- Direct questioning ("how much would you pay for this?")
  - Generally meaningless, and particularly bad in group settings. Try to avoid using this method – except perhaps just as a final question.

- Monadic questioning
  - Ask "would you be willing to buy at $10?"
  - Can create a demand curve if the sample is big enough, using multiple price points
  - May be hard to choose price points – pilot can help
  - Variations – additional prices asked of each respondent (random or other approach) – tricky and not likely to improve results

- Laddering
  - Ask "would you buy at $10", then "would you buy at $8" (or $12)
  - Don’t even think about using this approach.

- Van Westendorp (aka Price Sensitivity Meter)
  - Series of questions relating price and quality
  - Can be used with small sample (in-depth interviews or individually in focus group)
  - Creates a range of acceptable prices
  - Inherent assumption is that product is not subject to luxury effect
Van Westendorp questions

At what price would you say the new widget would be a **bargain**?

At what price would you say the new widget would be **getting expensive, but you would still consider it**?

At what price would you say the new widget would be **too expensive to consider**?

At what price would you say the new widget would be **too cheap**, such that you would question whether it would work?
Van Westendorp analysis

Select price increments based on the data

Plot the results as cumulative percentages for each price point

- Percentage stating “Too Expensive” directly
- Percentage stating “Too Cheap” directly
- Percentage stating “Getting Expensive” flipped => “Not Expensive”
- Percentage stating “Bargain” flipped => “Not a Bargain”
Purchase Likelihood => Demand Model

At a price between [bargain] and [getting expensive] how likely are you to buy the new product within the next six months? Would you say you are:

- Very likely
- Somewhat likely
- Neither likely nor unlikely
- Somewhat unlikely
- Very unlikely
Purchase Likelihood => Demand Model

Higher volume isn’t necessarily higher profitability

Maximum volume

Maximum profit

Demand

Profit

Product Price
More information

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