Ripe

Welcome to enrich, Ripe Strategic's newsletter

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In this issue:

How important is price in buying behaviour?

74% of us make our purchase decisions on arrival at the store according to research by Point of Purchase Advertising International (POPAI, 1997). We base those decisions on 3 things: the product's position on the shelf, how it's packaged, and how much it costs (Chandon, Hutchinson, Bradlow & Young, 2006). Although we get to the store with pre-conceived ideas about certain brands that we've formed from advertising, PR etc., these pale into insignificance when we're confronted with such an extensive range of choices.

How much does pricing influence our purchase decisions? It all boils down to consistency. If the packaging is inconsistent with the price then that presents a barrier. We see a heavily discounted item and think, "that's too good to be true!" Or with something that's too premium, "that's too expensive".

Like all purchasing decisions, these in-store decisions are based on the brand value equation - that the cost needs to be at least equal to the perceived benefits of the product. If that's not the case, we simply don't purchase the product.

Spend on social media - and digital in general – is increasing dramatically and rapidly. But how much resource and time do we put behind the elements that actually influence 74% of shoppers to buy: what the product looks like, where people can buy it and how much it will cost? Will investing more in the areas that directly influence purchasing behaviour yield a greater return than pouring it into social media? It's something to mull over when you're next sitting through a presentation about the benefits of Twitter or Facebook... maybe you should be spending a bit more time focussing on your pricing.

Pricing advice for Colin Firth

Dear Colin,

We can't tell you how thrilled we all were at Ripe Strategic when you got your Oscar for The King's Speech. The first thing we said was, "Colin would do well to look at his pricing before he accepts his next role". In our excitement, we sat down (over a nice glass of Pinot Gris) and applied our pricing approach to the Colin Firth brand. We looked at the 4 elements that are crucial in naming your price and this is what we came up with…

Consumer – that Oscar has increased your credibility with movie-goers. Experts like the Academy are now telling us what a great actor you are, and us cinema audiences are susceptible to that sort of thing. You have become more popular and that means you'll sell more seats.

Customer – the Oscar makes you more of a bankable name, so you'll be in greater demand by distributors and movie-makers. That means you can justify higher prices.

Competitor – let's look at your segment; most of your roles can be categorised as 'the archetypical English gentleman' (you even managed it in Mama Mia!). No one in your competitive set of English actors of a similar age has your credentials. It's 20 years since a British actor (Sir Anthony Hopkins) won an Oscar. And 21 years since an English actor won one (Jeremy Irons).

Internal – not being part of your inner circle (our telephone number is below though), it's difficult to know what internal factors might help you drive a higher price. But it's worth some consideration – you might think about things like finding a new agent.

You can easily justify a higher price, Colin. Or you could choose to keep your price the same and increase your market share (or in non-marketing speak, star in more films). But as Hollywood says "you're only as good as your last movie", so don't blow it, or the benefits of an Academy Award will be lost. You need to capitalise on the increased benefit that audiences, movie-makers and distributors perceive before your next film. Otherwise they will expect to get that increased benefit for nothing.

The costs v the benefits of student fees

Recent announcements by UK universities about increases in tuition fees tended to focus almost exclusively on price, rather than taking into consideration the whole value equation.

The cost side of the value equation involves more than just tuition fees. Another cost is the academic grades required – the higher the reputation of the university or course, the higher the grades a student needs. Students will also take into consideration the living costs associated with the towns in which their chosen universities are located.

On the value side of the equation, as much as we would hope that education has its own benefit; students will also consider the perceived benefits in lifetime salary expectations, as well as the additional benefits they perceive a particular university providing, for example, sports and social activities.

Let's take Liverpool John Moore University and Imperial College London whose tuition fees are the same. Will potential students of Liverpool John Moore, where the average starting salary for a graduate is £17,969, think that the £9,000 fee per annum is worth it given that an Imperial graduate's average starting salary is £27,000? For the value equation to work, we would expect Liverpool John Moore to have a lower academic cost than Imperial College, London.

The reality is that the very top universities will still be able to charge the maximum value as demand for their places will remain high, and it simply boils down to economics – the more people who want something, the more you can charge.

Will universities develop promotional strategies for their fees and / or academic entrance qualifications focussed on courses less in demand, similar to promotional strategies of retailers or brand owners?

The whole university fees situation is an interesting case in understanding the total cost and total benefits of your proposition, and ensuring you are adding clear value to your customers.

Wise Words

Pricing is a barometer of an organisation's effectiveness.
A pricing review will show whether price positioning is properly linked with strategic intent, is developed with consumer and customer understanding and will demonstrate cross-functional team effectiveness.

Consider the longer term when taking pricing decisions.
What appears beneficial now can have detrimental long-term consequences. For example, entering into a price reduction based on a competitor move, may lead to a long-term value reduction within the category.

Torres vs Carroll follow up...

In our last newsletter we considered whether Chelsea or Liverpool got the best deal when they bought their new star players. It's now the end of the season, and Torres finally got his goal for Chelsea and his confidence is growing. But the value of his £50m transfer remains to be proven in Europe and the Premiership. Carroll has overcome injury to be picked for England (ensuring his value is embedded with an international role) and, despite another injury problem, has clearly shown the value in his price tag. And let's not forget the Suarez deal that was made possible with the Torres money, which looks like the best value in the whole deal. With the start of the summer transfer season, these deals will no doubt affect the prices of the transfers in and out of the Premiership.

Want to discuss your pricing issue with an expert?
We'd be delighted to hear from you. Our contact details are below.

Kaye Coleman

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