Ripe

Welcome to enrich, Ripe Strategic's newsletter

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Get the best price for your brand using the Brand Price Trade-Off tool

Buying decisions are driven to a large extent by what else is on offer. Say you are buying a new TV; you don't know exactly what you want but you've got a few must-have features in mind – it needs to have AT LEAST a 37" screen, and you want to be able to stream music and movies. You go onto Curry's or Best Buy's website, select these requirements and are confronted with a list of TVs that fit the bill. The more options you have, the less price differential there's likely to be between them. Maybe your current Samsung has served you well or you've used other Sony products you've liked, so you value these brands more highly than others and are prepared to pay a bit of a premium for them.

Now imagine you are a seller of TVs. How do you know how much your brand is worth to customers versus brands selling similar TVs? The Brand Price Trade-Off (BPTO) tool will give you a useful measure so that you can maximise your pricing opportunities. It's a market research tool that assesses the relative value of your brand against the competitive set.

This is how it would works… a study is carried out where a number of different brands are shown with a different price next to each one. Respondents choose their preferred TV based on the price-brand relationship. Once the initial responses have been given, the question is asked again, this time with a different set of prices against the same TVs. This can be repeated several times, each time with different prices.

The result is that you can see the inferred ranking of preference that relates your TV brand to the price customers are willing to pay. Models can be built across the market showing likely take-up of brands at different prices, together with estimates of how they will affect your revenue and profitability. If your TV brand is relatively strong brand you can command a premium price or premium market share over the competition. The models can also isolate brand equity compared to your competitors.

The BPTO measure not only identifies individual brand value, but also enables you to optimally position a whole range of products or sub-brands at appropriate price points. For example if you have premium, mid and basic models of TV you can position each so that you maximise market revenue or market share across the brand family.
We've found BPTO an effective measure for helping many clients unravel complex pricing problems - it can be used in markets where there is little functional differentiation (since it's a measure of substitutability) but is an equally powerful indicator when products or services are highly differentiated.

Why are we willing to pay more for a London taxi?

If you use cabs when you travel overseas, you'll be aware of the huge price difference between a Bangkok Tuk Tuk and a London taxi. A recent poll for hotels.com highlights just how powerful the **brand value equation** can be in deciding how much of a hole a cab fare will burn in your pocket.

Hotels.com asked 4,821 respondents from 23 countries their views on taxis in cities around the world. The areas they covered included safety, friendliness, cleanliness, quality of driving, knowledge of the area, value for money and availability.

It will come as no surprise that London taxis came out as the most expensive in the survey. But they also proved the most popular, illustrating clearly the **brand value equation** – the higher the perceived benefits, the greater-price you can charge. We came up with a few benefits we think give London taxis the edge over those in other cities:

- Clearly differentiated design versus other cars and taxis on the road

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- The years of training drivers put in to pass **the knowledge** which both increases their ability to get you where you are going by the shortest/quickest route, and prepares them for the type of driving required in London
- Cabbies chat - about the weather, about why West Ham lost last night's match, or about how long they've been on shift
- A large number of London cabbies own their taxi so have a vested interest in keeping it safe, reliable and clean.

It's these perceived benefits that enable over 25,000 cabbies to profitably ply their trade in the London metropolitan area, despite the high price relative to other global cities' taxis.

The survey also highlights some opportunities. If we were London cabbies, we'd keep the chat to a minimum with Korean or German travellers - the poll showed that a large proportion of these visitors find it annoying. If we drove Tuk Tuks in Bangkok, we'd put the prices up - over 30% of respondents thought this particular mode of transport represented great value for money. We'd spend more on safety too – when we journey on them, we always vow to get our life insurance in order before the next time!

Netflix update - Ignore the value equation at your peril – it cost them $6bn

The story so far: in our last newsletter we reported how Netflix split their film postal service and their movie streaming service, resulting in a 60% price hike for customers previously using both. Predictably, they didn't receive much fan mail - just tens of thousands of complaints from current customers. In case you've been on your seat edge wondering what's happened since…

Here's the sequel… The last three months have been the horror movie of all time for Netflix. Shares fell by 13% (nearly a $1bn worth of market capitalisation) in a single day when they announced the impact of the pricing change - around 1 million subscribers had voted with their credit cards and cancelled their membership to the service. Overall, Netflix has lost over $6bn in market capitalisation or 57% of its market value over the last 3 months versus the Dow Jones Industrial Average (DJIA) decline of 9% for that period.

"I messed up," said the CEO on a blog post. "I owe everyone an explanation. It is clear from the feedback over the past two months that many members felt we lacked respect and humility in the way we announced the separation of DVD and streaming, and the price changes. That was certainly not our intent, and I offer my sincere apology."

The CEO is repentant about the "how" of the price increase, but not the "what". What he's not doing is a U-turn. The company is splitting the offering into two separate divisions and brands. The DVD by mail service will be called Qwikster and the movie streaming remains as Netflix. There are no plans for the services to be integrated.

The company failed in two related areas. First, in not understanding earlier the value placed on it by consumers. Second, in not taking advantage of that **perceived value** by increasing the price at key points in time. The result? Consumers viewed the increased service offering as standard rather than as an added extra. The moral of the story is two fold... don't waste your improved offerings by not taking a price increase and always plan how you go about it.

Wise Words

Delivering a significant change in pricing capability and knowledge requires three things, an effective change management program, strong stakeholder leadership and high quality project management.

Often a business has all the information it needs to take an effective price decision, but without a **structured methodology and approach**, it's difficult to draw any useful conclusions.

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

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