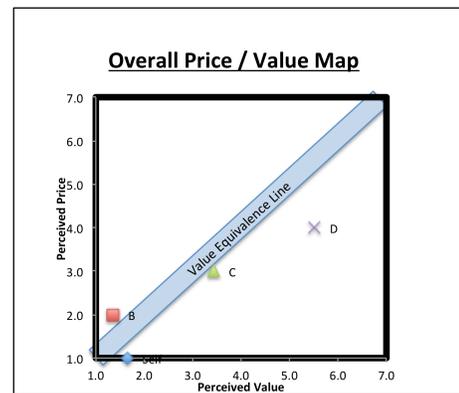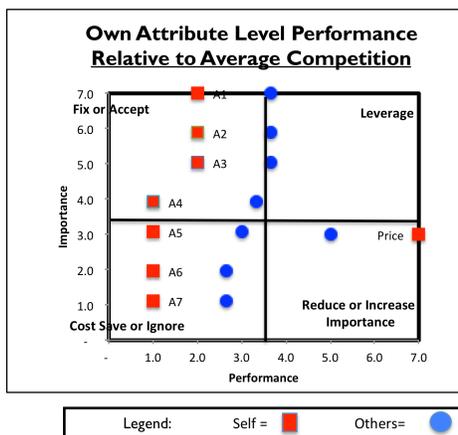# Pricing Tool Guide

Price / Value Positioning Determination

Background:

As Peter Drucker says, "The purpose of a business is to create a customer." Customers are created when the they perceive the value of what is offered exceeds the value that they could get from something else that they could buy for the same price. So it is value for the price, not value alone or price alone, which creates the sale and, therefore, the customer.

In 2007, Ralf Leszinski and Michael Marn, published an article the McKinsey Quarterly that contained a description of a price/ value map that captured the relationship of perceived price and value. [1] The approach emphasizes the importance of consumer perception in both the assessment of price and value, as changes in both that are not perceived do not change the competitive situation. The article also explains how low value/ low price offerings can coexist with high price / high value offerings as long as they both lie on the value equivalence line. Products that above the line do not have offer relative value for money are in danger of losing dollar share over time unless they improve value or price perceptions or other follow them. Products that are below the line offer superior value for money and should grow dollar share unless others improve perceptions of price and value. The result of this exercise can look like the following:

Price / Value Charts

These price/ value graphs can be created simply with judgment – just draw it on a white board either by oneself or, more preferably, as a multifunctional group exercise. It is also a good idea to do so at the beginning of this process to capture current

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[1] Ralf Leszinski and Michael Marn , "Setting Value, Not Price", McKinsey Quarterly, February 1997.

judgment before diving into the details. A more detailed approach builds this graph from the attribute level upwards. Doing this helps to understand how comparative attribute performance drives the perceptions of value. This approach is similar to what one might get from a conjoint analysis with the help of consumers, but the version in the Toolkit is a simpler expert wisdom approach that uses a simple linear model that predicts value from a number of different sources integrated with judgment and logic.

How to Create:

1. **Collect the data that is needed.** This includes the management input on business and marketing priorities, such as those developed with the use of the Business Triangle or the Driver Tree exercises, but also should include other insight sources such as might arise from product development, competitive intelligence, and brand equity research. While actual price data is a good to know, the graph reflects perceptions. Consequently, the multiple sources of data that provides price perception information is what ultimately one wants to collect.
2. **Frame of the market represented by the graph.** The market definition would ideally align with the segments defined in the targeting exercise. This is because the perceptions of value and, perhaps, price, will change with the segment.
3. **Define the units of value and price on the axes.** The units of price could change the slopes of the competing products. For instance, products that last a long time may have high value / high value on a per unit basis, but a similar value to others on a per hour basis.
4. **Compete the steps on the worksheet.**
   I. **Step 1:**
      • Define the scale for the scoring relative perceptions of value and price. (A default scale is 7)
      • Count the number of competitors (7 in this version)
      • Count the number of attributes (max of 15 in this version)
   II. **Step 2:**
      • Name the competitors
      • Provide abbreviations for them for the graphs.
   III. **Step 3:**
      • Name the attributes to be scored
      • List the abbreviations from each name
   IV. **Step 4:**
      • **4A:** Allocate 100 points across the product attributes in terms of their relative importance. The spreadsheet with convert these to a scale commensurate with the scale chosen in Step 1. (See caution below regarding interpretation of scales.)
      • **4B:** Assign an importance score for price that is commensurate with the scale chosen in Step 1.
      • **4C:** Assign a relative score for each competing product in the market for each attribute.

5. **Analyze the outputs for the graphs.**
   - Attribute level -- identify key drivers and relative strengths vs. the competition.
     - The chart on the left illustrates your position vs. the average of competitors in the marketplace at the attribute level. Those attributes on the top half are more important to the segment than those on the bottom half. Those on the right half reflect superior performance to those on the right. This in turn can inform discussions about what can be done through performance and communication to drive perceptions of relative performance or attributed importance to change relative positions.

   - Aggregate level – Interpret the relative position of the competitors on the price/value map
     - The graph on the right aggregates the attribute-level results into an overall value for money relationship among the competitors, with the blue line reflecting a consistent value for money relationship among the competitors. Those below the line have a superior value for money perception and those above have a negative value for money perception.

6. **Develop scenarios as to how changes in attribute performance would change competitive position in the map.**
   - Be conscious of what scale means in the context of changes.
   - Consider how competitors might respond to changes in price and value perception in the scenario.
   - Consider how changes in product and communications can influence perception.

Cautions:
- The discussion involved in the creation of these maps is as valuable, if more so, than the output. Do not short-change them.
- The scale in this version assumes that a unit of price perception should be equivalent to unit if value perception to value equivalent. Since the units are linear, a change in unit represents a different percent change at one level vs. another. One should keep this in mind as one considers changing attribute performance in the scenarios.
- The choice of attributes may also create issues for misinterpretation. The methods of scoring on a 1:7 scale means that some attributes will not be ranked as very important. However, the process of identifying the attributes to score may have already weeded out the low important attributes to begin with. It might be possible that all the attributes are above average importance. Consider this before deciding to cost save on attributes that might really be important.