

FEEDBACK

Communication between Customer and Company

Psychological Price Profile

Price interest, price knowledge, and price assessment are frequently far more important for the purchase decision than the absolute price level. It is above all crucial to understand the actual course of the decision process in order to make corresponding adaptations when conceiving the project. Standard methods such as conjoint analyses are often indispensable, yet in the case of multi-stage decision processes they do not necessarily lead to valid results.

Consumers don't always react rationally to prices, like the academic "homo oeconomicus". For example, prices are spontaneously felt to be



appropriate or inappropriate, or serve as the basis for decisions even though actual knowledge of reference prices is often limited. This is

why a sound knowledge of decision psychology can be very helpful when initially establishing prices, altering them, or developing price models.

Price interest, price knowledge, and price assessment are the crucial variables that differ in accordance with the products and markets that are under investigation. Many surveys show that the customer is frequently far less fixated on the absolute price level than companies suspect. Instead of the absolute price, it is far more the case that aspects such as "being treated properly" or "not being disadvantaged" are to the forefront of customers' needs.

(continued on page 2)

CONTENTS

Psychological Price Profile

Price interest, price knowledge, and price assessment are frequently far more important for the purchase decision than the absolute price level. It is above all crucial to understand the actual course of the decision process in order to make corresponding adaptations when conceiving the project.

Page 1

Price Interest and Price Knowledge

Companies frequently assume that price is an important decision criterion for customers and that they are aware of it. Surveys demonstrate that this is by no means always the case.

Page 3

Question Wording Matters

Logically identical questions don't always lead to the same responses, as Vocatus was able to emphatically demonstrate by using the football World Cup as an example.

Page 4

Conjoint is Not Always the Best Choice

When people choose a data collection method, they implicitly make assumptions about the decision process. This is why Vocatus uses a qualitative pre-study to ensure that the data collection method fits the real-life decision process.

Page 5

Psychological Price Profile

(continued from page 1)

Whereas the absolute price level is thus often of somewhat minor importance, the pricing structure is an important variable for companies. Current surveys conducted by Vocatus demonstrate that people are regularly unable to estimate the effective price when dealing with more complex pricing structures. It's very often asking too much of respondents in the research situation to undertake rational comparisons, and a similar effect is also apparent when it comes to complex pricing structures in real life. These systematic and thus predictable effects of the pricing structure are frequently overlooked when setting prices. In markets with highly complex pricing structures, it is often no longer possible to get the customer to come up with the absolute price. Actively and effectively designing the pricing structure can also make products which, viewed in absolute terms, are possibly not the most competitive, nonetheless appear inexpensive to the customer.

The customer's actual state of knowledge is also regularly overestimated when it comes to price transparency. Companies often assume that customers are familiar with competitor prices as well as prices taken from complex tariff models, and that they judge accordingly. By contrast, if one tests price transparency it is obvious that customers believe they have a good overview of the various competitors' prices; however, when asked concrete follow-up questions they are totally unable to correctly reproduce even those prices of products or services they've already used.

Insights gained from modern behavioural psychology, and which

have already been confirmed many times in market research practice, demonstrate the limits of "rational" price optimisation methods that are based upon a rational decision model. However, they simultaneously also provide valuable clues concerning operative price management.

Companies often overestimate customers' knowledge of prices.

The "psychological price profile" that we will now describe, presents three criteria whose characteristic questions explicitly incorporate the irrational factor within human decision behaviour and pursue the "psycho-logic" of purchase decisions. The set of questions and the precise type of question vary, depending on the sector and the customer segment. The topics under investiga-

tion here are price interest, price knowledge, and price assessment.

The following questions are above all relevant in relation to price interest: in which phase of the customer's/prospect's decision process do they make judgements about the price, and how relevant is price for the decision-maker in this phase? For example, is it relevant as the factor that triggers the switch to a different provider/supplier, or only once the decision about the provider is imminent and the decision-maker undertakes a concrete price comparison? Experience shows that it's also possible to differentiate types of decision-maker who go through very differing "decision routines" and lay down different purchase criteria.

The following questions should be asked in relation to price knowledge: how does the customer proceed when searching for price

Method Checklist: Pricing

In order to ensure that the decision process is adequately illustrated from the customer's perspective, market research studies about price decisions should take account of the following questions from the "psychological price profile" when conceiving the project:

- Does the study design consider the context of the decision (assessment situation, role of price in the decision process, price knowledge such as level, structure, past price increases)?
- Is adequate notice taken of the dynamics of the decision process (multi-stage nature of decision processes where each stage has different decision routines and criteria)?
- Are psychological phenomena recorded, i.e. do people bear in mind that decision-makers try to simplify matters and decide intuitively and emotionally rather than rationally?

- Do the features and characteristics take account of the diverse aspects of the decision and the variety of offer elements (there might be other elements of the pricing structure in addition to price level)? Can they be represented for test purposes, and are their possible mutual dependencies born in mind?
- Does one avoid an overemphasis on price in the questions asked when presenting concepts? Do the brands that are included suggest a relevant set to the respondent?
- Are the issues that aren't considered within the framework of the chosen method examined outside this method? Can other methods (such as experimental research designs and longitudinal studies that record price-dependent decision behaviour in the real-life context) serve as additional modules to answer the question posed by the research?

information? Which sources of information does the customer use? How well informed about prices are they in the respective phase of the decision process? What are their price markers? How well informed are they about price level and pricing structures? Can they recall any price increases made by the provider?

Depending on the market and the product, pricing structure and price transparency are very differently pronounced.

With regard to price assessment, one should finally enquire about the following points: how sensitively do targets react to price changes? Which reference prices do they use for comparisons? Which price elements are excluded when making a price comparison?

How do they rate price increases and savings? What image does the provider have, for example, in relation to fairness and the complexity of prices (buzzword: "tariff jungle")? Which mutual dependencies exist between alternative elements of the offer?

Any meaningful price optimisation should analyse these price-related criteria in the customer's decision process – that is to say, longitudinally. The methodological and analytical tools must be duly attuned to this, since many standard methods assume a static decision process that people go through completely at a given time. However, this is not the case with many products: if, for example, the price is irrelevant as the trigger for switching providers, it is pointless for advertising to above all inform customers about inexpensive prices in the initial phase of their decision process – however, it is important to understand its role during the further course of this process.

Price Interest and Price Knowledge

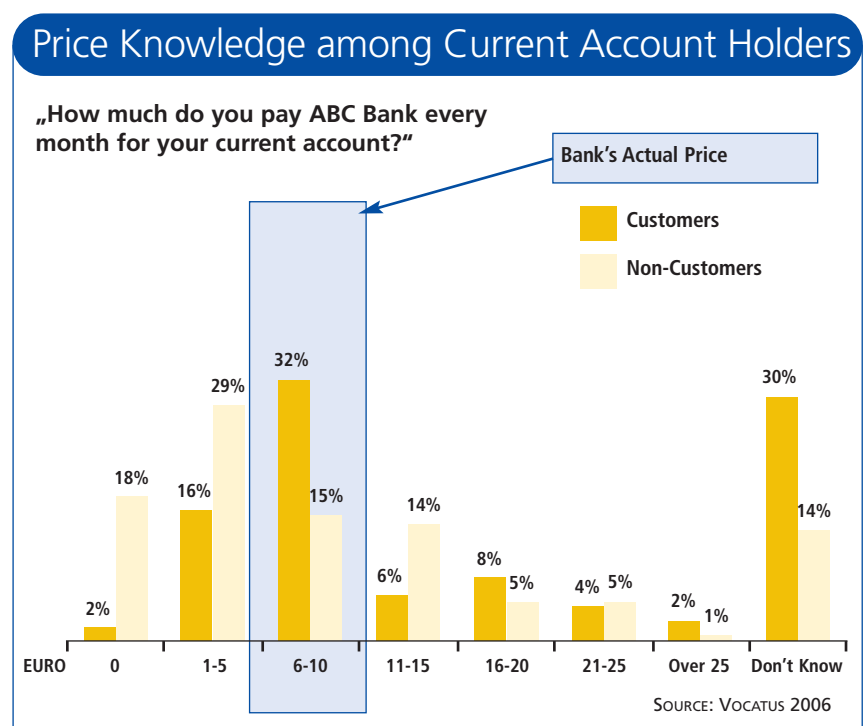
Companies frequently assume that price is an important decision criterion for customers, and that they are correspondingly aware of it. Surveys show that this is by no means always the case, thereby opening up considerable room for manoeuvre when it comes to a strategic pricing policy.

In many markets, prices are actually of only secondary importance to customers. Price interest tends to be particularly limited if one is dealing with "lifestyle products" or customer loyalty is based upon other dimensions. For example, in the banking sector one often finds considerable loyalty to a specific company ("my bank"), and this loyalty expresses a stable preference on the part of the customer. In such cases, the customer's price interest is generally so limited that price is only briefly a relevant decision factor in the actual decision phase. However, if there's already a relationship with the customer,

price hardly ever stimulates a change of provider.

Very few customers are able to correctly indicate how much they pay for their own current account.

When designing price research projects, it is thus particularly vital to initially ascertain the customer's price interest. If the market researcher adopts the company's frequently implied hypothesis, namely that price is an important decision criterion for customers,



the survey will possibly be designed in such a way that actual price interest is not ascertained at all. The outcome is that the price is thereby overemphasised because the selective question about pure price assessment also assumes price interest among those people who aren't in the slightest bit interested in this aspect (because they also assess the price when asked about it). Only when the company is aware of the importance of price as a decision criterion can one weight results from survey methods that possibly overemphasise price in accordance with their true significance within the decision situation, and they can be included when forming a model.

If asked, people can (and do) assess prices – even if they don't see this as an important decision criterion.

Once price interest has been clarified and it is relevant for the respective product, one should then ascertain price knowledge. The latter records the extent to which customers are correctly informed about the prices of the various products or services and the competitors' prices. For example, limited price knowledge in the initial phases of the decision process allows one to conclude that these people would tend to be indifferent to a moderately higher price so long as the subsequent decision process doesn't after all involve a thorough comparison of terms and conditions where price then becomes a relevant criterion. Naturally it is also possible that, regardless of the price level, any price increase will provoke rejection if it exceeds a specific threshold or a specific value.

Surveys conducted by Vocatus often confirm limited price knowledge, expressed in terms of widely varying price estimates and subjective

certainty about one's verdict. Astonishingly, this is also the case in price-sensitive markets and among survey participants who state price to be an essential decision criterion. The more complex the company's price and tariff models, the less its customers are able to name the prices they themselves pay.

The corresponding questions to determine price knowledge might, for example, be: "How high are the monthly (or annual) charges you pay for your account?" and "How certain are you when stating this?" The example below shows that only 32% of customers can even approximate the price they pay (+/- 25%). 38% of customers were far higher or lower in their estimates, and 30% had no idea what price they paid. Nevertheless, over 70% of customers

who state an incorrect price regularly also indicate that they're very sure of their (objectively incorrect) assessment! If one overlooks these dependencies when optimising prices, one will presumably deduce the wrong recommendations; moreover, they can have grave consequences, particularly when it comes to this topic.

70 percent of customers whose price estimate is totally incorrect are convinced that their guess is accurate.

If price interest and price knowledge are not known from earlier studies, it is worth including these aspects in the survey in accordance with the method checklist (see above) and testing them via suitable question techniques. ■

Question Wording Matters

The example of the football World Cup

The way one actually puts the question is extremely important with any form of market research, and a concrete example of this is provided by www.kicktipp.de, which operates a platform for football betting syndicates. During the World Cup, many thousands of fans attempted to predict as accurately as possible how the tournament would pan out. It was possible to bet on individual games, guess which teams would make it to the last sixteen, the quarter-finals, and the semi-finals, and naturally predict the World Champions and the runners-up too.

Vocatus analysed the responses of over 50,000 betting fans. When asked "How far will the German team get?", 4994 people replied "runners-up". Yet when asked "Who will be the runners-up?", a question that was likewise put to everyone, 5989 (i.e. almost 20 percent more) answered "Germany". This is a high-

ly significant result, which as a result of its system (comparable question pairs) should be understood as an effect of how the question was worded rather than the consequence of any betting tactics.

This is precisely because logically identical questions don't always lead to the same answers. One key success factor is to thoroughly consider the psychological effects when designing questionnaires – especially when it comes to sensitive market research topics such as price research. In our example, the wording "How far will the German team get?" evidently means that betting fans focus on the hurdles that have to be overcome and mentally go through the many opponents that will need to be beaten, whereas this is not implied by the question "Who will be the runners-up?", and people thus find it easier to make more optimistic forecasts. ■

Conjoint Is Not Always the Best Choice

The choice of data collection method constantly also makes implicit assumptions about customers' decision processes. Whenever possible, Vocatus therefore uses a qualitative pre-study to ensure that the quantitative data collection method also fits customers' actual decision processes.

For example, in a price optimisation project in the upmarket private customer segment of a leading financial services provider, Vocatus conducted a pre-study to analyse the decision process and its dynamics and then built upon this to determine the methods for the quantitative price optimisation. In this case, the target group only manifested price interest as well as price knowledge in the final decision phase. The importance of price is thus restricted to those within the target group who follow the decision process to its conclusion and don't solely stick with their previous provider out of convenience, without going through alternative offers. This was an important piece of preliminary information for the interpretation of the survey results and the subsequent modelling.

Projects of this kind are typically illustrated via conjoint procedures. However, our qualitative pre-study into the understanding of the decision process revealed that the majority of decision-makers who hadn't in any case already abandoned the decision process at an early stage in favour of their current provider were only able to decide once they'd actually gone through the price model with the parameters that were relevant to them. Nonetheless, a conjoint procedure forbids this very calculation because one has to somewhat superficially rate a multiplicity of concepts

within a short space of time. Given the real-life decision process, it was therefore also necessary to duly adapt the data collection method.

[The choice of a method that fits the real-life decision process is crucial in terms of the results.](#)

The challenge for price research above all lies in how the project is conceived: on the one hand, the survey ideally has to include all the relevant aspects of the decision plus their dependencies. On the other hand, respondents must not be overstretched as a result of countless concept comparisons, since they rapidly tire of indicating lots of consecutive price verdicts or concept preferences.

In order to resolve this dilemma, an experiment was included in the early stages of this project. The design was chosen in such a way that each respondent was presented with two different variants of a price model. The idea was to then compare each of these variants with the price model of the offer they were currently using. Since it was already known from the pre-study that price knowledge is only present among the respondents immediately at the time the decision is made, they also received the corresponding information about their current terms and

conditions as background information for the price comparison.

Given this limited price knowledge that had previously been established and the minor relevance of price in the phases prior to the final decision, respondents in the main study were asked in advance to put themselves into the decision situation. They were given a pocket calculator and plenty of time so that they could compare the variants.

On the basis of this comparison, they were then asked whether they would opt for their previous model or the new one. In this way it was possible to identify the price models with the greatest likelihood of purchase. The traditional conjoint procedure was also carried out in parallel, and this allowed an interesting comparison of methods.

The results showed that the nature of the conjoint procedure means that attributes that were virtually ignored in the real-life decision process took on an excessively high significance – simply because the respondents in the conjoint situation applied different decision rules to those they would use in real life. This example emphatically proves the superiority of a method that's adapted to the actual decision process as opposed to standard methods which people are perhaps all too ready to resort to because many of their peers frequently use them.

The example also demonstrates how the choice of a specific method and the assumptions concerning decision behaviour that implicitly underlie it are of fundamental significance for the validity of the results and the ability to implement them. ■

Our free customer magazine keeps you informed about current market research issues.



- Staff Surveys as a Management Tool
- Understanding Customers via Online Diaries
- Interactive Online Reports
- Multi Rule Conjoint (MRC)
- The Significance of the Net Promoter Score
- The Fragmented Consumer
- The 360-degree Decision Analysis
- Greater Customer Proximity via Online Panels
- Matching with Added Value
- Increasing Sales via Lead Scoring
- Customer-oriented Pricing
- Online Market Research Has Come of Age
- More Meaningful Image Analyses
- Retailer/Dealer Surveys as a Success Factor
- Measuring Customer Satisfaction in a Meaningful Way
- Consumers' Decision-Making Processes
- Process Quality as a Success Factor
- Benchmarking via Mystery Analyses
- Psychological Price Optimisation
- Quality Checks in Call Centres
- Process-oriented Website Evaluation
- Implementation-focused Market Research
- Benchmarking for Company Management

Subscribe to Feedback free of charge or download any issue (available in German only) at www.vocatus.com

Vocatus is an international market research and consultancy institute specialising in customer satisfaction, customer loyalty, employee commitment, decision-making processes, and pricing.

Research conducted by Vocatus is renowned for its sophisticated project design, problem-oriented solutions, findings that aid decision-making, and recommendations that can readily be translated into action. In recognition of its innovative concepts, the Federal Association of German Market and Social Researchers (BVM) awarded Vocatus the 1st Prize for German Market Research.

With its headquarters in Munich, Vocatus is a member of the most important national and international sector forums including BVM and ESOMAR, as well as being the exclusive partner institute in Germany of Iris (International Research Institutes).

Issued by: Vocatus, Heiglhofstrasse 5, D-81377 Munich, Tel. +49 89 159 259 0

Editor: Dr. Florian Bauer

Published by: StrukturPlan, Schachblumenweg 17, D-81377 Munich

Frequency: quarterly

Download at: www.vocatus.com

