

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, as the author explains. Author Dr. Florian Bauer is the co-founder of Vocatus AG, a Munich based market research and consulting firm, and a world-renowned researcher in the fields of pricing, customer satisfaction and image analysis. He can be reached at florian.bauer@vocatus.de.

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-economicus." 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.

Whereas the absolute price level is thus often of somewhat minor importance, the pricing structure is an important variable for companies. **Current pricing research surveys 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 behavioral psychology, and which have already been confirmed many times in market research practice, demonstrate the limits of "rational" price optimization 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.

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The "psychological price profile" that we will now describe, presents three criteria whose characteristic questions explicitly incorporate the irrational factor within human decision behavior 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 investigation 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 judgments 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 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 inquire 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

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 behavior in the real-life context) serve as additional modules to answer the question posed by the research?

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 optimization should analyze 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.