

THE PATH TO INFORMED PRICING FOR NEW PRODUCTS AND SERVICES



Customer expectations with regard to price can be challenging and elusive. If price thresholds are not understood relative to customer needs and expectations, it will be difficult to accurately predict customer behavior and price products accordingly.

BUSINESS QUESTIONS TO ANSWER



What prices will the market support for a new product or service?

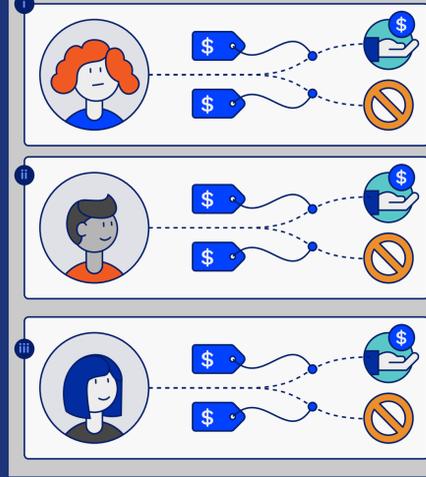


What are the price thresholds for a new product or service?



How sensitive is the target audience to increases or decreases in price?

CAPTURING THE CUSTOMER PERSPECTIVE



Illuminas specializes in pricing research that **measures a buyer's perceptions of value, price thresholds, and likelihood of purchase.** By simulating actual buying behavior, pricing research **can validate (or reject) various assumptions about the prices customers would be willing to pay.**

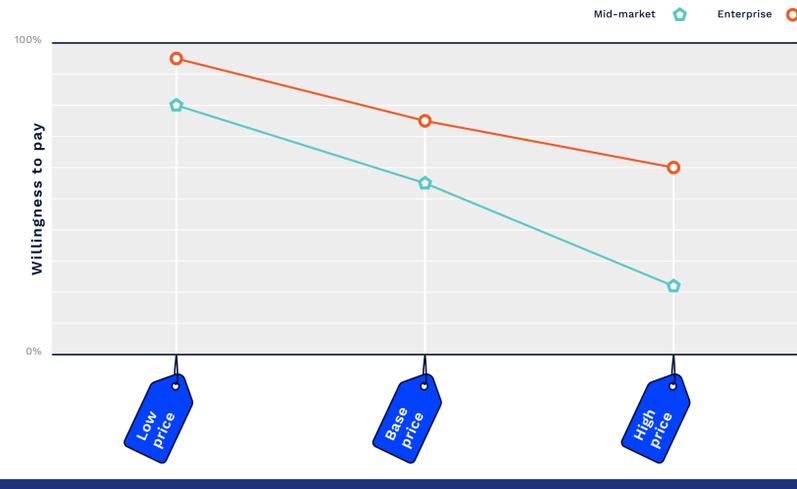
Our customer-focused research models enable a business to **further develop and validate market segmentation models, linking price thresholds to particular buying groups.**

Resulting insights might lead to product variations or selective discounts based on a segment's price sensitivity. Product and strategy teams can leverage the research to explore new pricing models (e.g., pay-per-use, or volume-based pricing) that reflect the perceived additional value experienced by their core customer segments.

POTENTIAL QUANTITATIVE METHODOLOGIES

GABOR-GRANGER

This method is used to determine the price elasticity of new products or services. First, respondents will rate their purchase intent at a base price. If the base price elicits favorable intent, the question is repeated with a higher price point. If the base price elicits low intent, the question is repeated with a lower price point. The results from this series of questions will **generate a price curve for the potential product or service.**



VAN WESTENDORP

This method is appropriate when a category is new and little marketplace information is available to suggest how an unfamiliar product may be priced. Decision makers are asked four open-ended questions to determine the range of acceptable prices. This approach to price sensitivity is valuable because it **elicits open-ended pricing expectations from respondents, allowing them to associate key price points with perceptions of utility and value.**



HYBRID APPROACH (GABOR GRANGER + VAN WESTENDORP)

Where possible, Illuminas recommends using a combination of these methods to triangulate price perceptions with purchase intent.

CASE STUDY

BACKGROUND

A software company conducted a pricing and packaging diagnostic to **better understand discounting levels for its products and buying behaviors of their customer base.** Primary findings from the diagnostic were that extreme discounting was occurring for its core product and customers were not buying into the company's product packages as they were currently structured.



RESEARCH QUESTIONS

- How should we **bundle features to create adoptable packages that have clear value, offer transparent options to buyers, and drive competitive differentiation?**
 - Which features are **most and least important?**
 - Which features **differentiate us from our competitors?**
 - Which features are **table stakes**, and which could be **paid or premium add-ons?**
 - How should our **service offerings be integrated into packages, if at all?**
- What pricing lever will **optimize revenue, align to value, and meet buyer expectations?**

OUR APPROACH

- An online survey that included a **MaxDiff exercise** and a **Gabor-Granger pricing exercise.**

THE OUTCOME

- Our client **redesigned their packaging using the MaxDiff data**, which indicated that the **LEAST** important features were the same features they were using to differentiate their packages, and the **MOST** important features were ones they were selling as extremely expensive add-ons.
- They **completely reset all their list prices**; the survey data helped them understand total willingness to pay, which kept them from dipping prices too low.
- The data clearly showed **buyers were willing to pay a premium for the features they need**, so that became an anchor for our client as they fine-tuned how much to reduce their pricing.

THE IMPACT



ABOUT ILLUMINAS

Illuminas is a full-service research consultancy that delivers strategic market intelligence across B2B and consumer markets worldwide. The company is focused specifically on the technology industry and any other industry that intersects with technology. The largest technology companies in the world are able to make more informed business decisions because Illuminas generates the insights they need to drive action.

Visit us.illuminas.com to learn more.