



## Is the Price Right? What Makes a Deal?

**How should a new product, service or membership be priced?** What features should be included? What price point maximizes appeal to the target? Is it the same price that maximizes revenue?

These decisions seem particularly difficult in today's market. Sensitivity to pricing is very high, as consumers try to make choices between various options. With our proprietary research tool, IdeaMap<sup>®</sup> Sterling Park Group is helping our clients make pricing decisions more easily.

Many traditional research tools, e.g. focus groups and surveys, suffer from a bias towards rational responses.

*If you ask a rational person a rational question ... you'll get a rational answer.  
After all, who would want to pay more?*

But this type of answer is particularly misleading in making pricing decisions.

IdeaMap<sup>®</sup> is rooted in conjoint (trade-off) analysis. This technique recognizes that purchase decisions are made by evaluating bundles of attributes. For example, airline ticket purchases involve airline, time of flight, destination, price and class. Consumers make choices between various offers based on the combination of factors that most closely satisfies their desire, e.g. a flight at 9pm from LA to LaGuardia might be more highly desired than a flight from LA to Newark at 8pm at the same price and with the same airline. IdeaMap<sup>®</sup> allows us to identify the contribution of each element in the offer to the overall choice. We know the response that we want the offer to elicit (interest, consideration) and IdeaMap<sup>®</sup> helps identify what stimuli (elements) are most effective at eliciting that response. IdeaMap<sup>®</sup> actually identifies causal relationships – not just correlations.

Adding brand elements to the test can also be very helpful in understanding their ability to contribute to the effectiveness of the core concept and their ability to interact with various elements. Brands often act as “catalysts” which either heighten the effect of various elements or detract from the effect of various elements. For example, Mont Blanc might positively interact with high quality in an assessment of pens, while Bic might negatively interact with high quality but positively interact with low price.

Sterling Park Group recently helped a fitness center that was introducing a newly renovated, more extensive facility to reprice club membership. The club wanted to determine the optimal pricing structure to maximize revenue. They needed to price memberships in a ways that recognized improvements from the renovation and recaptured some of the costs, but within the range that consumers would expect the new level of service to be delivered.

The study was fielded in November 2008, and included members as well as lapsed members and prospects. We discovered the price points that consumers expected to pay were actually higher than had been assumed in planning, and that there were definite break points when demand declined. Surprisingly, there was a great deal of consistency across the different subgroups, and none of the program membership options shifted appeal positively.