

Van Westendorp Pricing Model

- ◆ Price Sensitivity Models determine optimal pricing using two independent approaches:
 - ◆ The establishment of recommended price range and price points; and
 - ◆ The establishment of a price range for maximizing volume and revenue
- ◆ It is an ideal tool to help define the ranges of acceptable pricing, particularly for new products or categories.
 - ◆ The method relies primarily on respondents' self explicated price sensitivity but also employs aggregate level modeling to enhance the information yielded.
- ◆ Because the respondent task is very direct, the procedure is often used in situations where there is insufficient time to conduct a full scale pricing study that may use a more complex choice model such as conjoint analysis or discrete choice.

Price Modeling Questions

- ◆ First, the **product or service** is described in adequate detail to ensure proper evaluation by the respondent.
- ◆ Next, a series of questions is asked to yield:
 - ◆ The anticipated price of the product, followed by a future intent assessment
 - ◆ A "value" price - the price at which the product begins to seem a bargain / inexpensive, followed by a future sign-up intent assessment
 - ◆ An "expensive" price - the price at which the product begins to seem expensive, followed by a future sign-up intent assessment
 - ◆ A price which is "prohibitive" - so expensive that the product would almost certainly not be used
 - ◆ An anticipated "cheap" price - the price that would be associated with a second rate product in which the quality of the product is questioned

Methodology

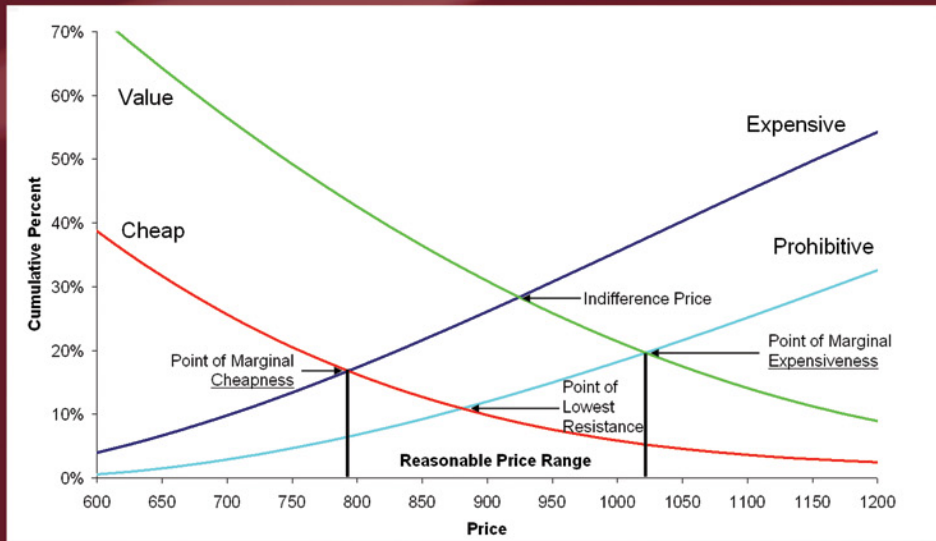
The Pricing Model assists in determining optimal pricing using two independent approaches: 1) the establishment of recommended price range and price points and 2) the establishment of a price range for maximizing penetration and revenue.

These approaches will help answer the following questions

- ◆ What is the perceived median cost of similar products?
- ◆ What is a reasonable price range for the products?
- ◆ What is the approximate price to minimize price resistance and optimize penetration?
- ◆ What is the approximate price / revenue relationship?
 - ◆ A regression function models price to revenue and penetration within the reasonable price range defining the product's uptake at a specified price point by future intent scores.

Recommended Price Range and Price Points

Each line represents the cumulative portion of the sample that would agree that the price along the horizontal axis falls into the specified category



Value Line – represents the cumulative portion of the sample that would agree the price along the horizontal axis is considered a **bargain / inexpensive**

Expensive Line – represents the cumulative portion of the sample that would agree the price along the horizontal axis **begins to seem expensive**

Prohibitive Line – represents the cumulative portion of the sample that would agree the price along the horizontal axis is considered so expensive it would not be considered

Cheap Line – represents the cumulative portion of the sample that would agree the price along the horizontal axis is associated with a second rate product, in which its quality is questioned

Indifference Price

Intersection of Value and Expensive; usually reflects the median price or price of the market leader.

Point of Lowest Resistance

Intersection of Prohibitive and Cheap; *resistance against price is lowest at this point ... Optimal with respect to penetration, not necessarily revenue.*

Point of Marginal Cheapness

Intersection of Cheap and Expensive; *represents minimum price point defining reasonable price range.*

If you price below this point more customers will question the quality of the plan than believe it is expensive

Point of Marginal Expensiveness

Intersection of Value and Prohibitive; *represents maximum price point defining reasonable price range.*

If you price above this point more customers will believe the plan to be prohibitive than a bargain

In Summary

The Van Westendorp pricing model provides a fast, efficient way to do initial exploration of the price sensitivity of a market.

The end result of the modeling is a highly actionable, succinct set of output that affords the user a clearer understanding of the relationship between product price and product acceptance.