

Research Brief

A **Research Brief** is a brief summary of research findings.

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Priced to Consider

THE PROBLEM

Proper pricing is a key ingredient of profitability, but unexpectedly to most, pricing can also be a powerful tool to engage consumer thought and ultimately increase the perceived relevance of products and services.

When companies improve their products with innovative features such as energy saving appliances, organic foods, fair-trade coffee, or preferred airline seating, it is imperative for them to motivate consumers' consideration. In his research co-authored with Marco Bertini from London Business School, Luc Wathieu finds that moderate over-pricing can effectively stimulate consumers to actively re-evaluate product benefits, causing in many cases an increase in willingness-to-pay. This previously unsuspected effect of price premiums complements existing interpretations in terms of quality signaling and conspicuous consumption.

To illustrate this theory, Wathieu developed a simple model of behavioral response to pricing. According to that model, if a new product offering is priced only slightly higher than previously existing products, then the decision to purchase will be a “no-brainer” as the added benefit clearly outweighs the minor price premium. If the new offering is priced exceptionally high, it will also engender a “no-brainer” decision, but to reject rather than purchase; consumers assume that additional deliberation could reveal nothing that would overcome the budgetary downside. Thus, both underpricing and exceptional over-pricing result in the consumer not investing much consideration at all. However, when the product is priced moderately higher than its competitors, in what Wathieu calls “the thought-provoking range,” consumers have an incentive to question their initial impressions.

To support the model, Wathieu and Bertini presented consumers with hypothetical purchase decisions in two product categories, lettuce and coffee. Consumers were first introduced to conventional products in each of these two categories, and then introduced to new products, comparable on standard attributes (e.g., taste, quality), but with the added benefit of being organic (lettuce) or fair-trade (coffee). The new products were presented with a small, intermediate, or large price premium, relative to the conventional products. Consumers were asked to report the maximum price they would be willing to pay for the new product, and to rate their perceptions regarding the personal relevance and the quality of the added attribute (fair-trade, organic).

FINDINGS

Wathieu found that consumers recalled significantly more descriptive information about the new benefits when presented with the intermediate price premium, compared to the small and large premium. They also perceived the added benefit attribute more extremely (either



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Wathieu's research combines economics and psychology to understand consumer engagement – the motivation of consumers to interact with firms and actively explore the relevance of products and benefits.

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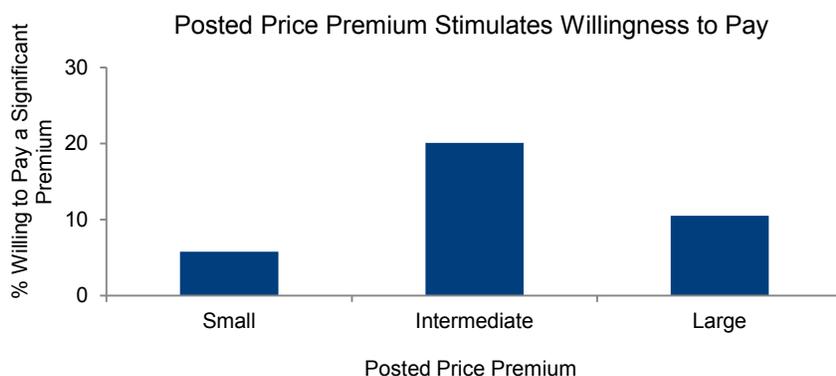
Marco Bertini

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extremely unimportant or extremely important) in the presence of an intermediate price premium, compared to small and large premiums. These findings suggest that consumers did think more about, and developed stronger opinions of, products presented with an intermediate “thought provoking” price premium.

As it turns out, consumers presented with the intermediate price premium experienced an increase in willingness to pay as compared to consumers in presented with small or large premiums. Consumers presented with the intermediate, compared to the large, premium were twice as likely to be willing to pay at least the intermediate premium. This was not caused by differences in quality perceptions. Instead, the effect is attributable to effortful consumer engagement and thoughtfulness.



IMPLICATIONS & CONCLUSIONS

This approach is applicable, for instance, to the pricing of upgraded seat options (e.g., extra legroom) on airlines. While most people quickly dismiss these potential upgrades, a well calibrated, surprising but not outrageous price premium can induce travelers to stop and mentally simulate the experience of the upgrade, and gain a better appreciation of the likely benefit.

In sum, if the price premium associated with a unique additional benefit is too low, consumers will buy or ignore it without further questioning their prior impression. An excessively high price premium, on the other hand, will discourage purchase in a blink. There often exists between these no-brainer extremes a thought-provoking range of prices, a sweet spot to engage consumers at the point of purchase.

Source: Wathieu, L., and Bertini, M. (2006). Price as a Stimulus to Think: The Case for Willful Overpricing, *Marketing Science*, 26, 118-129.

This Brief, based on the work of Luc Wathieu, was composed by Chris Hydock in collaboration with Luc Wathieu.

Key Points

- Pricing can be a powerful tool to engage consumer thought.
- Consumers recalled significantly more descriptive information about products when presented with intermediate price premiums.
- There is a thought-provoking range for prices, a sweet spot to engage consumers at the point of purchase.