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Gleanings

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Perceived-Value Pricing

One vexing question that managers and business owners face is how to determine the selling price of a product. In a free market economy, the purveyor of a product is *free* to set the price. The consumer is *free* to choose whether or not to buy the product. As simple as this may seem, there is much more to it. How does a seller correctly determine the selling price?

I once attended a seminar on perceived-value pricing. The hypothesis of this pricing technique is that the seller of a product sets the price according to the value as perceived by the buyer. Perceived value pricing is commonly used by automobile manufacturers to price luxury cars. For example, the price differential between a Lexus ES300 and a Toyota Camry is ~$7,000. Both cars are made by the same manufacturer and are virtually identical. The difference is in the perceived superior value of a Lexus.

Is perceived-value pricing an appropriate way to price a product? One simple way to respond to this question is to apply the golden rule: "Love your neighbor, as yourself". If you are the purveyor of a product, should you set your price based on achieving a reasonable profit or should you seek to capitalize on the buyer's perception? The golden rule suggests that one should seek a fair price for both seller and buyer regardless of the buyer's perception. Only in this way do both the buyer and seller win.

Perceived-value pricing is a win for the seller only; as such, it is more an indicator of greed rather than an appropriate pricing technique.

Monopolistic Pricing

On vacation this past summer I went into the hotel drugstore to buy bottled water. Much to my surprise, the price was very reasonable. As I walked out of the store, I mused that I would have paid virtually any price for the cold water—I had just completed a workout in the fitness center and was very thirsty. Furthermore, there was no other easily accessible source for procuring bottled water. The hotel had a virtual monopoly. Surely the hotel knew that, so why didn't it take advantage of the situation and double or triple the price?

I don't know how the hotel would answer the question, but I do know what the situation said to me. It communicated to me that the hotel was more concerned about building long-term goodwill with its guests than reaping a short-term windfall profit. As a result, the hotel endeared itself to me.

People respond to experiences in kind; that is, people reciprocate based on the experiences they have with an organization. Good experiences produce positive feelings and bad experiences produce negative feelings. Customers are advertisers. The question is whether the advertisers are communicating positive or negative messages.

In my case, buying bottled water at a resort that easily could have charged much more produced a positive advertiser. How much is a positive advertiser worth to an organization? If a positive reputation is important, positive advertisers are essential to sustaining long term growth and prosperity.