WHY pay more?

Getting the lowest price can be a compelling reason for a customer to make a purchase. Tony Cram says there may be eight even more compelling reasons.
“W
e have the lowest price.” That does seem to say it all, doesn’t it? How does anyone compete with such a bold, basic, unbeatable claim? In every industry, there are mid-market players, quality brands, and premium producers who seek to win over consumers via an alternative logic – one that goes beyond having the lowest price. To succeed, competitors must help the buyer answer a simple question: “Why pay more?”

As I’ve researched this subject over a number of years, eight strategies – and one practice to avoid – have emerged that give pricing support to premium brands in competitive markets. If that’s the battle your business is fighting, consider:

1. **Offering a genuinely better product, boldly communicated**
   Customers will pay more for quality when the product superiority is made visible and evident. Heinz changed the recipe of its cream of tomato soup in 2004. Originally launched in 1910, it was selling at a rate of 500,000 tins per week. Every day Heinz used enough tomatoes to fill an Olympic-sized swimming pool. But poor margins compared with chilled soups, plus health trends against salt levels, as well as criticism from the Food Standards Agency, led Heinz to create a new recipe with 20 per cent less salt, 18 per cent less fat and 13 per cent more tomatoes. To bring about the change, Heinz recruited about 20,000 “souper troopers” and 1,000 lorries. In one day, it cleared six million tins of the old soup from supermarket shelves and replaced them with the new recipe cans. All the soup removed from the shelves was donated to the Salvation Army – an international Christian charity combining spiritual and social ministry.

   What were the results of the new recipes and the publicity around them? Heinz increased prices by 20 per cent if the borrower is unable to work following redundancy, accident or sickness. If, during this time, the borrower chooses to sell the property, “negative equity insurance” kicks in that caps the borrower’s liability. There are lower mortgage rates on the marketplace, but this proposition will be attractive to the risk-averse.

2. **Highlighting the risks of a low-price choice**
   A major reason for customers to pay more is to obtain security and avoid risks. Contemporary economists suggest that human economic behaviour is less rational than theoretical economists once believed. Where the outcomes of a series of exchanges are predictable as an overall average, but unpredictable for any specific transaction, most people prefer to avoid the risk of a loss, rather than take the chance of making a gain. This is true, even when the average expected outcome of the two actions would be the same. The motivation to avoid losses is greater than the appeal of the gains. The Economist speculated that this might be a consequence of evolution: in nature, with a food supply that is often barely adequate, losses that lead to the pangs of hunger are felt more keenly than the gains that lead to the comfort of being sated. For whatever reason, customers will likely pay more to avoid risks of losses.

   As a house price bubble nears its peak, potential buyers are wary of taking on commitments lest house prices fall and they come to own a property with negative equity. Newcastle Building Society and mortgage broker John Charcol devised a creative solution. Within the package, mortgage payment protection will cover monthly payments for up to a year if the borrower is unable to work for whatever reason, customers will likely pay more to avoid risks of losses.

3. **Showing the trade-offs**
   Customers will also pay more when the trade-offs are explained to them. Buyers tend to underestimate the benefits unless the vendor quantifies them. You can highlight to industrial buyers the benefits of regular deliveries and consistent quality that help them run their businesses smoothly and profitably. Pricing experts, Nagle and Cressman writing in *Marketing Management*, offer more examples. A supplier of long-haul trucks quantified the value of features that created driver comfort by demonstrating factually the positive impact on driver retention. A telecom company showed the value of its superior reliability by calculating the revenue loss from service interruptions in their data lines.

4. **Showing the price-step options**
   Set out the product range in terms of quality steps, so that the customers can see where they benefit.
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6. Colouring perceptions through colour cues
Colour can imply certain attributes. Strident colours demand attention. Discount airlines like Air Berlin, bmibaby, Easyjet, Germanwings, Jet2, Ryanair, Wizz Air sell with a market-trader’s pricing mentality, calling for attention in vivid red, bright orange and glaring green. By contrast, the leading flag carriers in Europe, British Airways and Lufthansa, both subscribe to clean white plane livery with a calming dark blue underside to underscore their professionalism.

7. Adding the sound or smell of quality
Customers are willing to pay more when they draw quality connotations from sensory cues. For example, producers of industrial switchgear pay close attention to the operation of switches and controls used by the operator. Firm and convincing “clicks” leave an impression of durable construction. Industrial detergents include a smell of pine or lemon for a psychological lift in effectiveness. The smooth movement of indicator dials and the quality of paint finish are deployed to present machinery in a favourable light.

8. Endorsing with price signals
Signalling theory tells us that sellers know the quality of their goods and services prior to the sale and prospective buyers are less well informed. Therefore sellers convey quality through signals that are interpreted and used by the buyers in making decisions. Since the 1950s, academic studies identified the popularity of prices ending in 9s. In research published in 2000, M A Stiving proposed an economic model where firms operating in low-quality segments should use the digit 9 for their price endings and those wishing to convey quality with high prices should use the digit 0 as the rightmost digit.

Sandra Naipaul and H G Parsa applied this hypothesis to dining out, studying prices on 231 restaurant menus. Of 3,290 menu items from the 62 high-end restaurants, only 13 per cent ended with the digit 9. Looking at low-end restaurants, 63 per cent of menu items ended in the digit 9. Incidentally, the research had to treat Chinese restaurants separately because, according to ancient Chinese traditions and beliefs, the digits 6 and 8 are the most preferred for price endings, the digit 4 is considered inauspicious and the use of the digit 9 is not allowed as it is reserved for the Emperor.

Round number pricing conveys that you are buying for a broader spectrum of qualitative reasons. Dentists charge round numbers for their treatments. Ecco shoes prices its entry level shoes at £64.99 to convey a bargain, whereas its standard and premium footwear is priced in round numbers such as £85.00, to convey that price is a less important factor in the choice process.

Beware of the risk of “doublethinking”
Finally, don’t lose focus at the final stage. Having persuaded your customer to pay more, there is a danger zone of doubt. In the throes of “doublethink,” customers can change their minds, even at the last minute. It comes with the arrival of the invoice. The invoice is a piece of communication that should
reinforce the impression of good value, yet poor practice affects both consumer markets and industrial transactions. For many subscribers to telecommunications services, the monthly bill is the largest source of complaints. Geoff Nairn, writing in the Financial Times, quotes Verizon, the US local carrier who recently designed its phone bills to make them easier to read for 30 million US customers. Verizon admitted that its old bill had become complicated and hard to follow.

Inaccuracy is worse. AT&T admits that a few years ago its billing systems had errors of 15 per cent. New practices have improved matters considerably. The billing system must be accurate and the invoice must appear easy to understand. Executional shortfalls in invoicing can delay payment and jeopardise the brand reputation that earns a premium price.

In conclusion, in commercial markets competitive pricing is vital. But competitive does not mean parallel pricing. Often, you can command premium prices. These eight points focus strategic positioning on a benefit-led approach that can negate rival discount claims and justify higher prices. You can explode the star-burst.

Resources
Jennifer Howze, “Tried and tested: Heinz souped up new soups”, i.village.co.uk/food.

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