

# The Price is Right.

Consumer Behaviors and Pricing Strategies

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# The Anchor



# The Clueless Consumer

# A



Tversky and Kahneman

# The Clueless Consumer

Jury Awards



Gretchen Chapman and Brian Bornstein - 1996

# Jury Awards

<u>Demand</u>	<u>Award (average)</u>
\$100	\$990
\$20,000	\$36,000
\$5 Million	\$440,000
\$1 Billion	\$490,000

# Anchoring

## Creating Anchors

Use and display "Regular Price"

**The relationship between the reference price and perceived value is nearly linear up to 2.86 times usual market value. - *Lichtenstein***

i.e \$9.99 selling price / ARP of up to \$27.99



# Anchoring

## Creating Anchors

**Mosaic IPA Brewing Kit**

~~Regular price \$79.~~ **Now \$59**



# Fairness



# Fairness and Feelings

**Ultimatum Game** (Kahneman, Knetsch and Thaler)  
Split \$10 with a stranger. Take it or leave it.

Most common was 50 / 50  
Average responder accepted \$3  
**BUT rejected \$2**

**B**

**What about \$100**  
What if that \$100 was just a share of a \$1000 windfall?

**How about \$1,000,000?**

# Fairness and Feelings

**Uber Cab Demand Pricing**  
**Super Bowl Tickets (i.e. Beer Releases)**

Auction

Random Lottery

Line / First come first served

**Line 73% Lottery 16% Auction 11%**

**Losses hurt more than gains feel good**

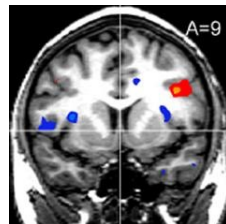


# Fairness and Feelings

**The PAIN of loss**

Would you prefer a guaranteed \$80 **OR**  
spin a wheel with a 75% chance of getting \$100  
**BUT** also a 25% chance of getting nothing at all?

Would you rather pay a fixed \$80 price **OR**  
spin a wheel with a 75% chance of having to pay \$100 **BUT** also a 25% chance of paying nothing?



**Every item with a price causes a customer to experience the pain of loss.**

Carnegie Mellon University

# Transaction Utility

**Prices are NOT one dimensional**

Value is greater than cost =  
Positive Transaction Utility  
**A BARGAIN**

Value is less than cost =  
Negative Transaction Utility  
**A RIPOFF**



Richard Thaler

## Gains and Losses



\$20

\$15



\$200

\$195

Even though the dollar amount is the same, people are more likely to act when the percentage is larger.

-Thaler

## Gains and Losses

### Show larger discounts

**Save 15%** on all gifts for Dad this week!

**Save 50%** on any one gift for Dad under \$25 this week!

## Making the Sale



## Sell Service

### #1 Complaint Online: BAD SERVICE

Perceived Tangible Benefits  
+ Perceived Intangible Service Benefits  
- Price  
= Value

**Significant changes to product quality are not a realistic means of affecting customers value perceptions.**



# Sell Atmosphere

## Beach Bums

At the run down grocery store:

\$1.70

At the upscale hotel bar:

\$5.65

Ambiance was irrelevant BUT  
the upscale hotel was assumed  
to be fair.

The run down grocery was thought  
to be a ripoff.

C



(Richard Thaler 1982)

# Sell Atmosphere

## Assess your ambiance

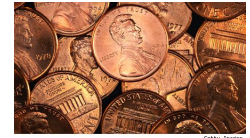
### Physical AND Digital

39%



When Web Pages Influence Choice:  
Effects of Visual Primes on Experts  
and Novices

56%



NAOMI MANDEL  
ERIC J. JOHNSON

# Sell Experience

**21 - 35 Prefer to Spend  
Money on Experiences  
over Goods**

**Homebrewing IS an Experience**

**Build Experiences!**

# Sell Experience

AIRBNB EXPERIENCES  
**One-of-a-kind activities  
hosted by locals**



# Direct Focus

**Consumers focus on price by default. It takes “manipulation” to get them to pay attention to anything else.**

William Poundstone - *Priceless*

# Price Check



# Price Check



Type: Premium  
Rating: 70/100  
Price: \$2.60

Bargain  
50/100  
\$1.80

Result: 66%

33%

*The Journal of Consumer Research*

# Price Check



Type: Premium  
Rating: 70/100  
Price: \$2.60

Bargain  
50/100  
\$1.80

Discount  
40/100  
\$1.60

Result: 48%

47%

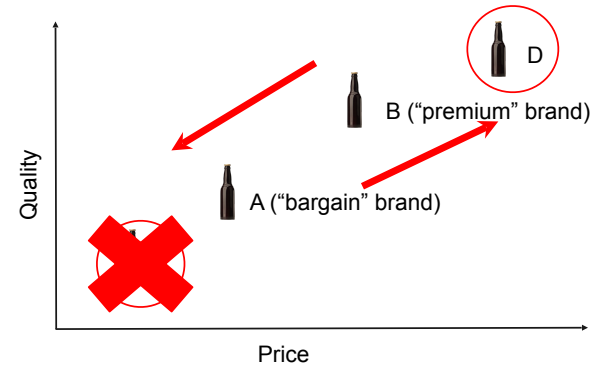
5%

# Price Check



Type:	Super Premium	Premium	Bargain
Rating:	75/100	70/100	50/100
Price:	\$3.40	\$2.60	\$1.80
Result:	10%	90%	0%

# Price Check



- Safe Choices
- Compromise Choices

# Price Check



# Price Check

Somebody must be paying that kind of money! Right?

## Anger / Happiness Mixture

(Sensory Logic)  
Upper Middle Class consumers are ANGRY because they can't afford the featured merch worn by celebs. The knee jerk reaction is to get HAPPY buying something else.



# Price Check

Somebody must be paying that kind of money! Right?

## Anger / Happiness Mixture (Sensory Logic)

Upper Middle Class consumers are ANGRY because they can't afford the featured merch worn by celebs. The knee jerk reaction is to get HAPPY buying something else.



# Price Check

WILLIAMS-SONOMA



# Price Check

## Extremeness Aversion:

When consumers are uncertain, they shy away from the most expensive item offered, or the least expensive; the highest quality or the lowest quality; the biggest or the smallest.

## Trade-Off Contrast:

If X is clearly better than inferior choice Y, consumers tend to select X - even when there are many other choices and it's impossible to determine if X was the best choice of all. Simply X being better than Y becomes the selling point and carries more weight than it should.



- From Priceless by William Poundstone, summarized from Tversky Simonson.

# Highlight the RIGHT choice



Try it Free!

	Pro \$99/month Billed Annually	Plus \$49/month Billed Annually	Standard \$19/month Billed Annually	Basic \$9/month Billed Annually
	All you'll ever need	Most Popular	For growing businesses	Starting out
	Start Your FREE Trial	Start Your FREE Trial	Start Your FREE Trial	Start Your FREE Trial
Visits / Month <small>@What's a Visit?</small>	250,000	100,000	25,000	10,000
Active Pages <small>@What's an Active Page?</small>	100	50	20	10
Reports	Hourly	Hourly	Daily	Daily
	<ul style="list-style-type: none"> <li>✓ Heatmap Report</li> <li>✓ Scrollmap Report</li> <li>✓ Confetti Report</li> <li>✓ Overlay Report</li> <li>✓ List Report</li> </ul>	<ul style="list-style-type: none"> <li>✓ Heatmap Report</li> <li>✓ Scrollmap Report</li> <li>✓ Confetti Report</li> <li>✓ Overlay Report</li> <li>✓ List Report</li> </ul>	<ul style="list-style-type: none"> <li>✓ Heatmap Report</li> <li>✓ Scrollmap Report</li> <li>✓ Confetti Report</li> <li>✓ Overlay Report</li> <li>✓ List Report</li> </ul>	<ul style="list-style-type: none"> <li>✓ Heatmap Report</li> <li>✓ Scrollmap Report</li> <li>✓ Confetti Report</li> <li>✓ Overlay Report</li> <li>✓ List Report</li> </ul>

# Primacy Effect

**Honest prices, no surprises.**

Pay for a full year. Or, pay as you go. No per-user fees.

Pay monthly and switch packages or cancel any time	
Manage <b>UNLIMITED</b> projects Includes 100 GB of file storage	\$150/month
Manage up to <b>100</b> projects at once Includes 40 GB of file storage	\$100/month
Manage up to <b>40</b> projects at once Includes 15 GB of file storage	\$50/month
Manage up to <b>10</b> projects at once Includes 3 GB of file storage	\$20/month
Or, get our biggest, best plan. Pay for a full year in advance, with pay by paper check payment option.	
Manage <b>UNLIMITED</b> projects Includes 500 GB of file storage, pay by check option	\$3,000/year
Also included in every package: Unlimited users, SSL data encryption (the same as online banking), and daily backups of your data to prevent permanent data loss.	
<a href="#">Get started today with a 60-day free trial!</a> No obligation, no credit card required.	

Serial Position Effect

First and last items of a list are the worst choices

# Extremeness Aversion



# Extremeness Aversion

Offer at least 3 price categories

Even when they're not necessarily logical

Help the consumer make the "correct" choice

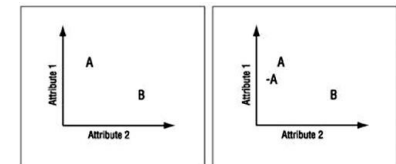


# Decoys and Decisions

Adding a "slightly worse" option gave consumers something to make an easier comparison with.

Motivated sales of the better of the option A's

Add a "dummy" offer directly adjacent to the offer you really want to sell.



# Charm Pricing



# Charm Pricing

\$40

\$39

3:1

# Charm Pricing

Reg \$ 49

\$40

SALE

\$39

1:1

# Charm Pricing

Reg \$ 49

\$40

SALE

\$39

5x

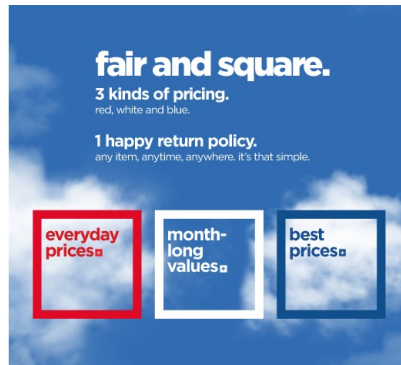
Reg \$ 49

\$39

SALE



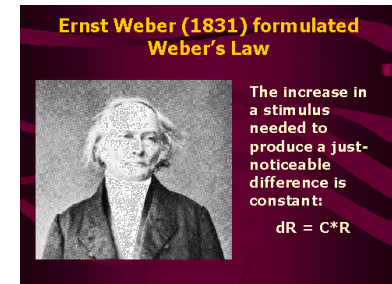
# People love a "deal"



# Raising Prices

Avoid large price increases

**Webers Law**  
Magic number is  
< 10%



# Bundle of Joy



# Bundle of Joy

**What key word was not used?**

Avoid words like **FREE**  
and **COMPLIMENTARY**

**They devalue the offering**

Instead use **INCLUDED**  
and **FEATURED**





# Bundle of Joy

## Price your included items

Recipe included with any purchase (\$9 value)

Brewing 101 Class included with any purchase over \$250 (\$79 value!)

**FREE**

# Increase Value Perception

## Explain the Value

- 5 years of prototyping
- 5,127 prototypes
- Experiments held in "development laboratories"
- 1,000 Dyson engineers and scientists in Britain, Singapore, and Malaysia
- Engineers in disciplines like Fluid Dynamics, Aerodynamics, Turbo Machinery, and Acoustics

Ultra-lightweight, compact and easy to steer.

DC29 Multi Floor has patented Cyclone cyclone technology for no loss of suction.



DC29 Multi Floor

- Easy 20-40 inch height
- 100% suction
- Free shipping
- 2 year warranty

\$499.99

Add to basket



Root Cyclone™ technology

Patented Cyclone technology for no loss of suction.



View features

DC29 Multi Floor Features

- Root Cyclone™ technology
- Ball™ technology
- Designed for ease of use
- Extended reach bar

Learn more

Useful links

- Support
- Register your machine
- Manuals & FAQs

# Use Small Words

## Split test on a usually free DVD trial

(Carnegie Mellon)

- a \$5 fee
- a small \$5 fee **20% Better Conversion**

## Use words

like:

Small  
Minor  
Low



# Use Small Words

**There is a small handling charge of \$4.95 on any custom size hop orders.**

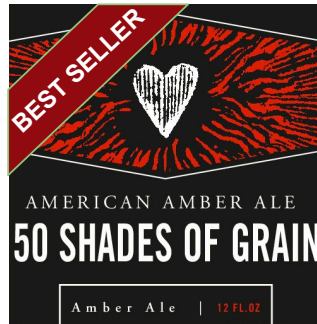


## Highlight the RIGHT choice

Tag products in lists with key phrases

- **Best Value**
- **Best Choice**
- **Most Popular**

Incorporate tags into images



## Highlight the RIGHT choice



Mosaic Dry Hopped Pilsner - All-Grain Recipe Kit

\$34.99-\$27.99

ADD TO CART



Imperial A05 Voyager Organic Yeast

\$9.95

ADD TO CART



The Dank Knight Black IPA - Extract Recipe w/ US-05 Yeast

\$54.95

ADD TO CART



German Weissbier - True to Style All-Grain Recipe Kit



German Weissbier - True to Style Mini-Mash Recipe Kit



Spike Brewing 5 Gallon Flex+ Fermenter

## Remove the Risk

### Satisfaction Guaranteed

We want you to love your choices. If for any reason you're not completely satisfied, let us know and we will make it right.

## Remove the Risk

Offer Size Options / Bracketing

	16oz	/	8oz	/	4oz
Super Hoppy IPA	5.99	/	3.49	/	1.99



Pricing Strategies

Tim Brady - Whetstone Craft Beers

# Celebrate Loyalty

## Reward loyal customers

- Private Newsletter
- "Employee Discount"
- Coordinate events with Breweries



# Questions?

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