

Fashion Marketing – Session 5

8.11.2023

Dr. Pekka Mattila
Associate Professor



Aalto University
School of Business

Pricing fashion and lifestyle

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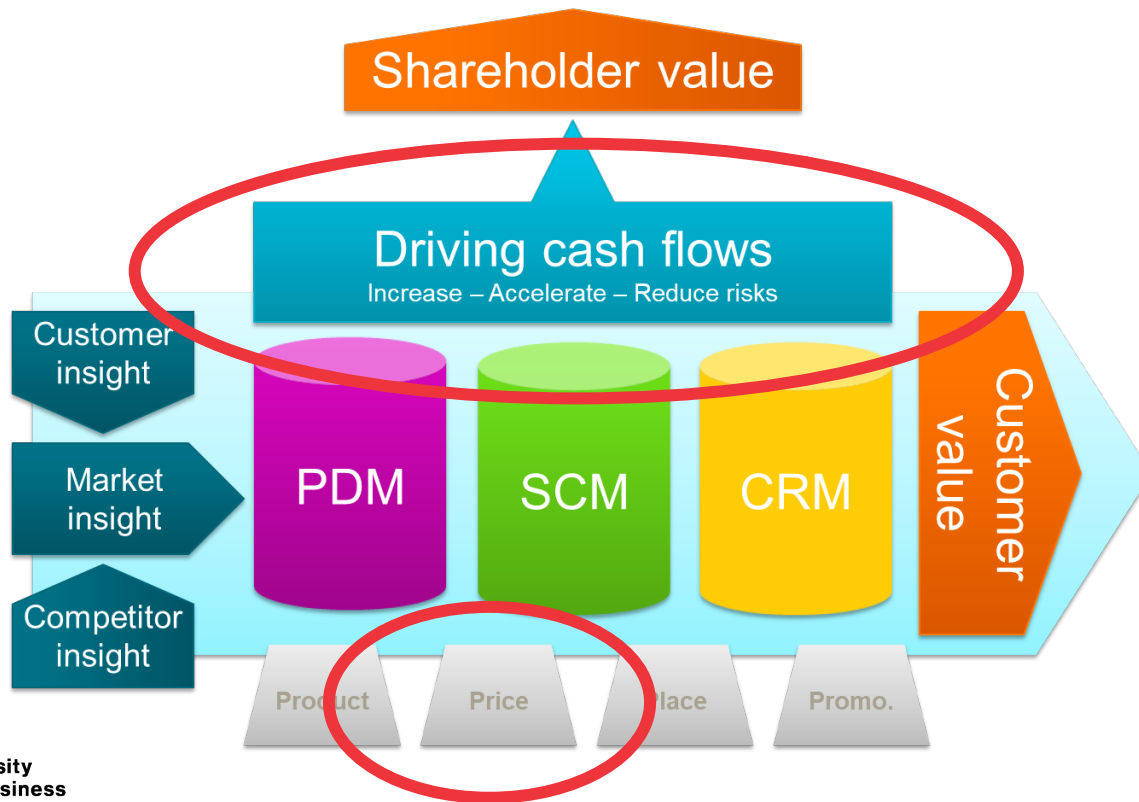
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Strategic marketing architecture

(Mattila)



Impact of pricing

(Kohli & Suri)

	Impact on Profitability for 1% Change	% Change Needed to Double Profits
Increase in Price	11.0%	9.1%
Increase in Unit Sales	3.7%	27.1%
Decrease in Variable Costs	7.2%	13.7%
Decrease in Fixed Costs	2.7%	37.1%

Value, price and cost

1. Perceived value > Price > Variable cost

- Ideally pricing to value
- Possibility for value pricing
- Hard to know when pricing too low
- Seller's remorse as a curiosity

2. Price > Perceived value > Variable cost

- Bad deal
- Explicit customer response: decision not to buy

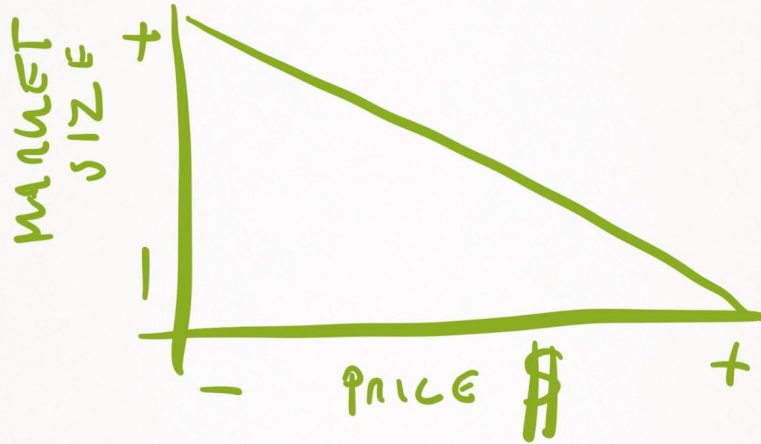
3. Variable cost > Price > Perceived value

- Failed offering

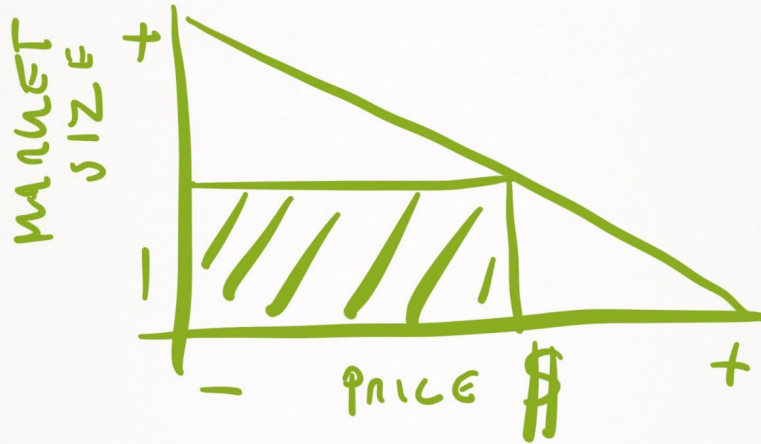
Customer loyalty matrix (Chernev)

	Low price-sensitivity	High price-sensitivity
High value	High-value loyals	High-value switchers
Low value	Low-value loyals	Low-value switchers

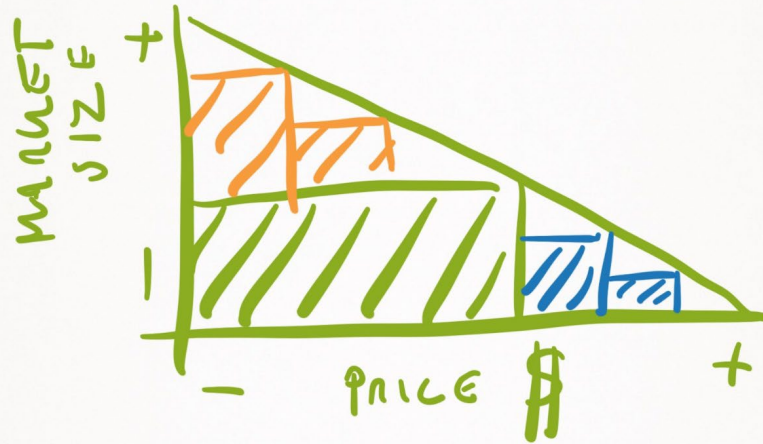
PRICE ACCEPTANCE



PRICE ACCEPTANCE



PRICE ACCEPTANCE



Having the price right (Dolan)

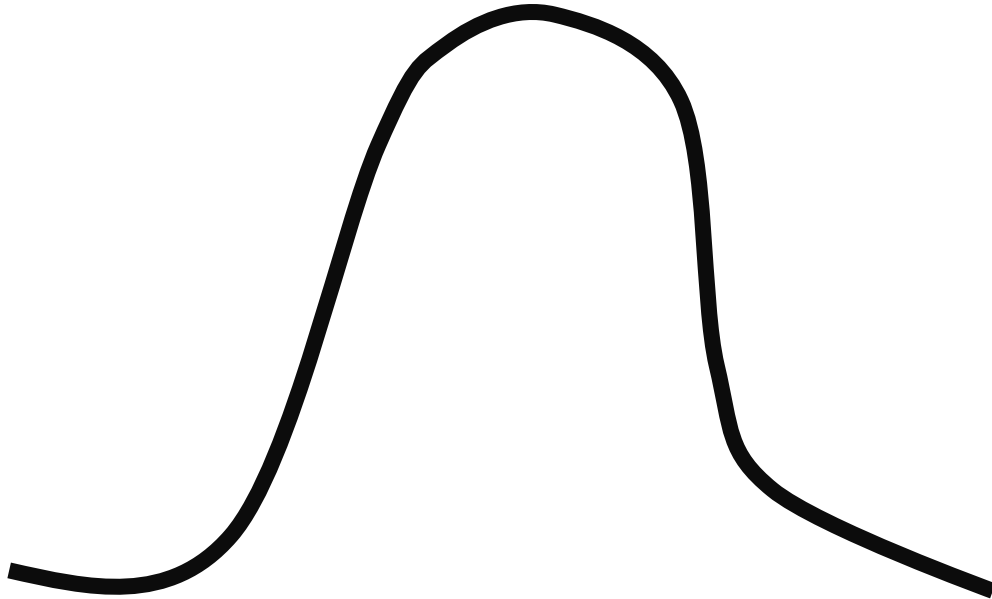
Eight steps to better pricing

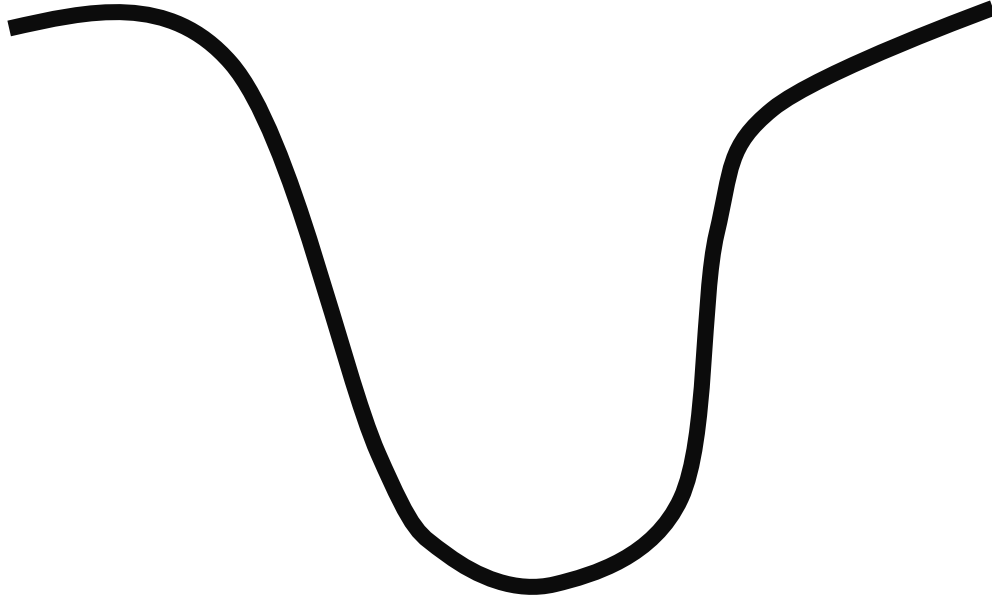
1. Assess what value your customers place on a product or service
2. Look for variation in the way customers value the product
3. Assess customers' price sensitivity
4. Identify an optimal pricing structure

Having the price right (Dolan)

Eight steps to better pricing

5. Consider competitors' reactions
6. Monitor prices realized at the transaction level
7. Assess customers' emotional response
8. Analyze whether the returns are worth cost to serve





Value elements

(Almqvist & Senior & Bloch)

The Elements of Value Pyramid

Products and services deliver fundamental elements of value that address four kinds of needs: functional, emotional, life changing, and social impact. In general, the more elements provided, the greater customers' loyalty and the higher the company's sustained revenue growth.

SOCIAL IMPACT



Self-transcendence

LIFE CHANGING



Provides hope



Self-actualization



Motivation



Heirloom



Affiliation/belonging

EMOTIONAL



Reduces anxiety



Rewards me



Nostalgia



Design/aesthetics



Badge value



Wellness



Therapeutic value



Fun/entertainment



Attractiveness



Provides access

FUNCTIONAL



Saves time



Simplifies



Makes money



Reduces risk



Organizes



Integrates



Connects



Reduces effort



Avoids hassles



Reduces cost



Quality



Variety



Sensory appeal



Informs

SOURCE: © 2015 BAIN & COMPANY INC.
FROM "THE ELEMENTS OF VALUE," SEPTEMBER 2016

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How customers perceive value

(Baker & BenMark & Chopra & Kohli)

The majority of people (59%) were comfortable with nonuniformity for a low-ticket item. Over two-thirds (68%) were comfortable with in-store being 5% more expensive for a \$3 toothbrush, and 51% were still comfortable when in-store was 20% more expensive

For higher-priced items, people were more tolerant of price differences when the item was cheaper online. For a \$30 sweater or a \$300 TV, 37% and 38%, respectively, were tolerant of a price difference when the item was 20% cheaper online. Few – only 18% and 17%, respectively – were willing to accept that same item being 20% cheaper in-store

How customers perceive value

(Baker & BenMark & Chopra & Kohli)

Broadly speaking, younger people were more accepting of price differences. Some 40% of those younger than 31 were comfortable with the differences, while just 20% of those older than 45 were

Women were more open to price differences in a mid-priced (\$30) item. About 30% of women were comfortable with differences in mid-priced items while only 20% were comfortable with price differentials for low-end (\$3) and high-end (\$300) items. Men in our survey tended to be more accepting of differences across the board

Willful overpricing can make customers pay attention

(Bertini & Wathieu 2010)

WHEN THE PRICE PREMIUM WAS...	10%	50%-80%	190%-250%
Recall of label information was...	DECENT	EXCELLENT	MINIMAL
Sense of personal relevance was...	NOTICED	PRONOUNCED	NOTICED
Willingness to pay was...	MODERATE	GREATEST	MODERATE+

Price discrimination – Price customization

By product line and brand

- Horizontal (lifestyles)
- Vertical (income tiers etc.)

By customer profile and characteristics (students)

By transaction and channel characteristics
(web vs. brick and mortar)

By controlled availability (movie releases)

Auctions

Price discrimination – Price customization

Perceived fairness is a key reference point

- Of two types: distributional and procedural
- Huge implications for our ability to customize prices
- Considering brand and reputation damages

The good-better-best approach to pricing (Mohammed)

The problem: Companies often crimp profits by using discounts to attract price-sensitive consumers and by failing to give high-end customers reasons to spend more

The good-better-best approach to pricing (Mohammed)

The solution: A multitiered offering (typically with three options) can use a stripped-down product to attract new customers, the existing product to keep current customers happy, and a feature-laden premium version to increase spending by customers who want more

The good-better-best approach to pricing (Mohammed)

The implementation: Key steps include identifying "fence" attributes that will prevent current customers from trading down from the existing offering; carefully choosing features and names to create clear differentiation and value; and setting prices using feedback from in-house experts and, when possible, drawing on market research

Magnetic middle

