

What is Customer Price Perception and why it is important

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BY OSHEEN

Finding the right price often requires a trade-off between margin and price perception. Brands may want to defeat competitors' prices on all their products, but that can often lead to losses because sales directly link to price perception. Instead of trying to stay competitive across the board on all products, brands must identify key value categories (KVCs) and key-value items (KPIs) whose prices buyers tend to remember and price those products competitively. In this scenario, they can make up for lowered prices on key products by fixing higher prices on other products.

Consumers' perception of price fairness largely determines their experience with a brand. Brands selling online can often have a disconnect between their prices and what customers expect their prices to be. However, that does not mean spiraling downwards by getting trapped in discounting cycles and heavy promotions that can harm your bottom line. Instead, **brands require real-time monitoring across thousands of stock-keeping units** (SKUs) to identify key categories and items they need to price with care. In this blog, you'll learn about price perception and the factors that influence it.

What is Price Perception?

Price perception is the perceived worth of a product or service in the consumer's mind. It is one of the leading variables in the consumer's buying process. Buyers are unaware of the true cost of production for the products they buy. Instead, they make buying decisions based on an internal feeling



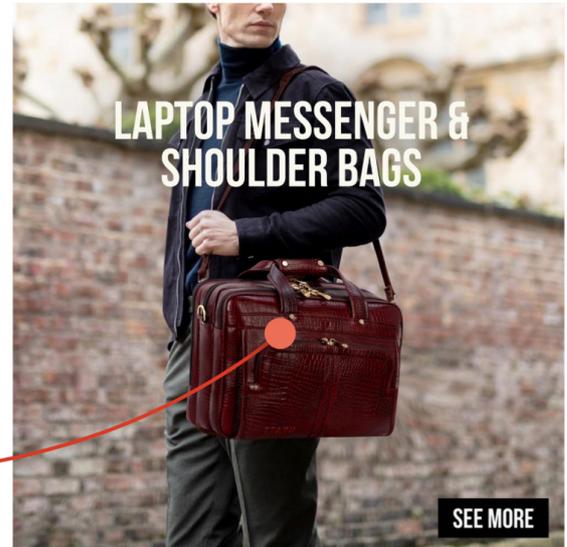
about how much certain products are worth and which brand offers them the **best value**. To offer competitive prices and yet obtain a higher price for products, brands often pursue marketing strategies to improve the price perception of their brand and products.



Source: amazon.in

The high fashion shot of this product makes it look more luxurious and expensive than it really is.

The way the photograph is shot makes the product look more affordable than it really is.



Source: amazon.in

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Price Perception

However, brands should not fall into the trap of assuming that price perception is a competitor's price index. It's not about offering the lowest price on certain SKUs. Not every brand strives to offer the lowest prices. Some brands take a slightly different approach to ensure the right value for their products. For example, take a look at Trader Joe's, a grocery chain that has never claimed low costs. They've always taken a holistic approach to their pricing and customers to build a loyal following. And it worked well for them. Trader Joe's can boast one of a high-value perception score, despite not having rock-bottom prices.

Marketplaces such as **Walmart** and **Amazon** may not have the best prices on every item. Still, customer perception is that they will have the lowest prices and will often shift the share of sales towards such platforms over businesses that offer the same or even lower prices.

Some things to consider:

- What do your customers think of your brand?
- What are the key factors that are driving your customers' price perceptions?

- Is your **product mix** properly aligned with your brand perception?
- Are you communicating the most important and relevant information to your customers?
- Is your message being received and understood?
- Who do your customers see as your competitors, and why?

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What is Price Positioning?

Price positioning is pricing products or services within a certain price range. It indicates where certain services or products lie in relation to competitors' pricing and in the mind of different customers. A brand's price positioning has a huge impact on whether the products are seen as priced low or not. The following is a great way to understand the price-value matrix:



Price Positioning

Your brand's position in this matrix will depend on your pricing objectives, competition, and customer loyalty. Price positioning helps the marketing and operating teams understand customers' perceptions of your brand and convince customers to buy your products. Brands need a holistic approach toward setting prices for their products in order to **drive conversions through intelligent pricing and competitive insights.**

Factors that influence Price Perception

Price-Quality Relationship

Price is often an indicator of product quality. The general rule is that the higher-priced products are perceived to have better quality, implying that brands should consider a rational quality-price relationship in their pricing or promo strategy. For example, it might not be best practice to have similar prices for both good and low-quality products because customers will perceive low-quality products as overpriced and might not purchase from you.

Price-Consciousness

Customers aren't price conscious about every product. Instead, they are only price conscious about certain products under the best price guarantee or BGP. For instance, if buyers find your BGP products more expensive than your

competitors, the cheaper products in your assortment will still be perceived as expensive.

Value-Consciousness

During markdown periods, ensure that you are not undermining the efforts to **shape and maintain price perception by offering extreme or complex discounts**. In an attempt to clear stocks, promotions simply confuse the shopping experience for customers and further deteriorate trust in your brand. Your promotional offers should keep price perception during the holiday season or clearance sales by offering a simplified promotional program. Start by understanding which price mechanics and SKUs work best for your target customer segment.

You should also reduce over-communication on hero deals else buyers will assume that you incorrectly price products during new seasonal launches.



Prestige Sensitivity

Gerald Zaltman, a Harvard professor, argues that **95% of all purchasing decisions are subconscious**. Luxury brands are a great example of how psychology directly links to price perception. Customers buy **premium or luxury products** to demonstrate their social status. In this scenario, buyers don't hesitate to buy expensive products from certain brands even if they are explicitly overpriced. Thus, brands selling premium products will have to ensure pricing is coherent with buyers' expectations.

Every customer wants to know they're getting the best value. They use the highest and lowest prices in a range to understand how expensive a product or brand is. So, by removing high price point lines with low volume, customers will see more minor price points around the store. Brands must merchandise entry price points to help customers identify the lowest prices and improve the perception of their product ranges.

Where do you want to place your product?



Product Range

How to adjust Price Perception

Here are three ways for brands to improve **price parity**:

→ Marketing to influence Price Perception

An efficient pricing management strategy will focus on competitiveness and establishing the right price perception among your customers. You can influence customers' price perception by improving the look and feel of your online stores since simpler designs are often reflections of lower prices. Another great way to influence price perception is to offer **loyalty and reward programs** that also improve brand loyalty and reinforces the vision of an economy store irrespective of the prices of your products.

→ Competitive Analysis

Brands can understand price differences after a competitive analysis. Customers often search for similar products across brands to find the best deals, and you will be able to understand customer opinion through competitor analysis.

→ Price Management Automation

A price monitoring platform can help brands to stay on top of promotions and discounts offered by their competitors. A price intelligence software will help brands associate products by similarity criteria and compare the pricing of their products with those of competitors. It offers a detailed view of the market and ensures that brands take care of their bottom line.

Conclusion

When a consumer comes across a similar low-priced product or service from a different brand, they may see it as a good deal or might perceive it not worthy of their time or money. **What consumers think about your brand's price is just as important as the actual price of that product.** A buyer may sense a company as “upscale” and assume that they have high prices, or they may see a brand as a discount retailer whose prices are too high for its reputation. At times, consumers might also see cheaper alternatives as inferior. It's not easy for a brand to understand its customers' perception of price vs. value it offers. Brands need a **long-term, dynamic pricing strategy** that matches the demands and trends of a global, competitive market. And in order to drive sustainable growth, they need to make smarter pricing and promotion decisions with insights into competitive pricing.

Learn how DataWeave can help make sense of your and your competitor's pricing & promotional strategies and help your brand build the right Price Perception. [Sign up for a demo](#) with our team to know more.

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