3 Great Lessons On How Price, Perception, and Positioning Influence Each Other In Online Retail

Pricing correctly is one of the most important and most difficult aspects of any business, and for online retail even more so. With ever more transparency, customer perceptions will affect what kind of prices you can set, while, at the same time, your pricing will affect your customer’s perception and trust of you -- and their ultimate buying decision. Here’s how to factor in the customer’s reactions and perceptions when you set your prices:

Lesson 1. Every Day Low Pricing vs. Promotional Pricing

A recent Stanford Business School study found that everyday Low Pricing (EDLP) was not always the best strategy for stores vying with Walmart (when Walmart came onto the competitive market); and that promotional (PROMO) pricing that attracts consumers through periodic sales on specific items results in higher revenues.

Also, that switching marketing approaches from EDLP to PROMO or vice versa can be quite costly, the study found. In fact, switching from PROMO to EDLP is six times more expensive than the other way around, according to study co-author, Harikesh Nair, pricing strategist and associate professor of marketing at the Stanford Business School.

Nair and his colleagues found that for the median store, PROMO pricing strategy yielded $6.2 million more per year in revenues than an EDLP strategy. Moreover, changing from an EDLP to a PROMO strategy required only $2.6 million in costs over 4 years, while switching from a PROMO to an EDLP approach required outlays 6 times as large. In other words, PROMO pricing earns more revenues and is too expensive to change," says Nair.

With regard to perceptions, costs involved in changing pricing strategies included investments to educate (and advertise to) consumers about the legitimacy of the new
positioning, explaining to customers the benefits of the switch, and also in reeducating and convincing their own staff and business channels about the value of the new strategy.

Buried in the study was the interesting point that Walmart did better (both in sales and customer trust) when thought of as lowest priced, but when Walmart began doing price promotions, it was no longer perceived as having the lowest price -- and lost market share and customer confidence, both important elements to the image and positioning they worked so hard to achieve.

So price perception as well as position perception is really important. Customers' sense of how you price merchandise will drive traffic to you, but it takes a long time to build up, and you don’t want to betray this trust by changing your positioning.

**Lesson 2. Perception of Pricing of the Concorde**

I know that most of you aren’t selling airplanes online. Yet, the example of the Concorde pricing is a good one regarding perceptions and what the market will bear.

When profits started to slip drastically, Captain Brian Walpole was brought on board to
get prices in line, i.e. save the company, or close it down. When he studied the perceptions of their target audience, he found the Concorde was perceived as very special, high value, and worth it. Concluding that the company had been pricing too low unnecessarily, they raised their prices to meet that perception, and enjoyed successful sales for a long time to come. Know how your pricing is perceived by your customers and make sure you price accordingly. Otherwise you may be leaving money on the table.

Lesson 3. Savvy consumers Influence Sales

Many retailers place a high price on a new product to meet high initial demand, planning to lower that price later, after initial sales cool down. This is a mistake, because the savvy consumer knows this and waits for the lower prices. However, statistics prove that if there were a low price right away, there would be more sales. So ask yourself if you’d rather sell fewer products at the beginning at a higher price, or charge a lower price right away, and enjoy MORE sales in total.

Conclusion:

There are many examples that show how important customer perception of position and pricing are to the online retailer. Pricing correctly is a rocky road that must be navigated to be successful; you have to be sure-footed and confident (justified) in what you are doing. Make sure you’ve figured this out before making any costly investments or miscalculations about your price, perceptions, and positioning.