

Mkt 210 Expectancy-Value Model for Price Setting

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Your Job is to Predict

- 1) Which Brand the customer will buy?
- 2) What is the Maximum Price the customer will pay for it?
- 3) What your relative Market share should be?
- 4) How can you improve the Probability of the Customer Buying your product?

RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE WEIGHT ?	?	?	?	?
POWER WEIGHT ?	?	?	?	?
Capacity WEIGHT ?	?	?	?	?
COMFORT WEIGHT ?	?	?	?	?

RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	?	?	?	?
POWER 20%	?	?	?	?
CAPACITY 15%	?	?	?	?
COMFORT 35%	?	?	?	?

Approach to Prediction

- Compensatory Models Seek an overall score for prediction of choice
- Non-compensatory Models assume a decision in the process of evaluation

All Models Start With The
Premise That if a product is
scored best on all attributes by a
customer then it will be
purchased by that customer

That is to say: The Dominance Model
Of Choice is Universal

Brand X is the dominant choice because it is best on all attributes.

	BRAND A	BRAND B	BRAND C	BRAND X
STYLE 30%	1	2	5	6
POWER 20%	6	3	4	7
Capacity 15%	3	4	2	5
COMFORT 35%	5	6	4	7

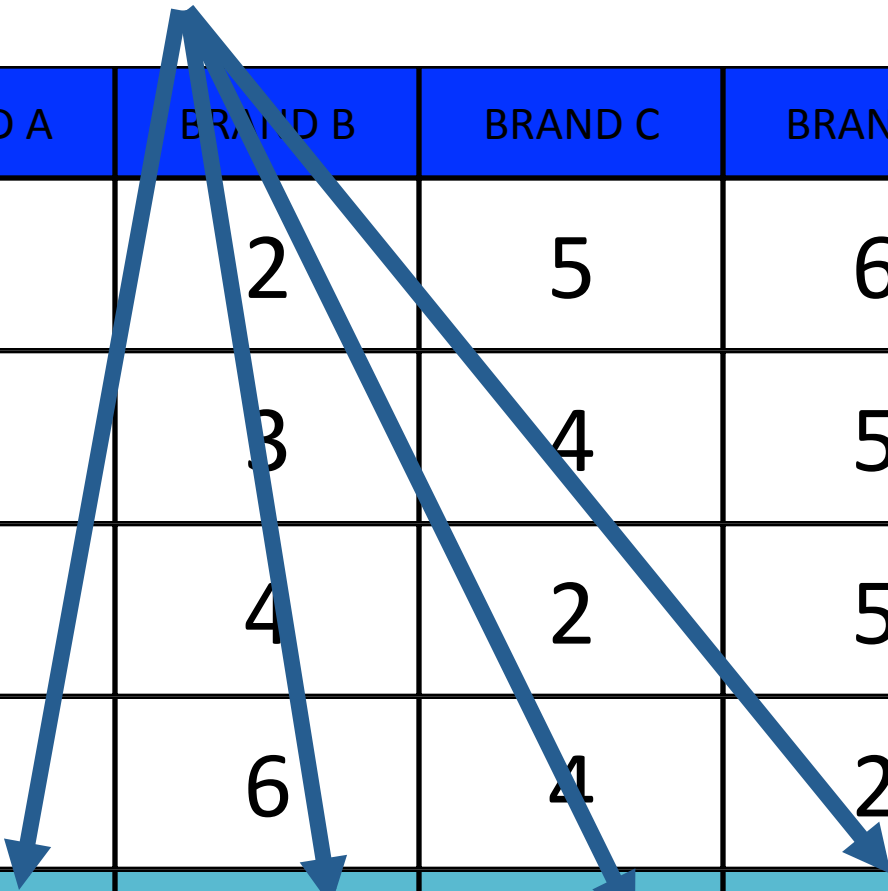
Compensatory: Expectancy Value Model



	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	1	2	5	6
POWER 20%	6	3	4	5
Capacity 15%	3	4	2	5
COMFORT 35%	5	6	4	2
OVERALL SCORE	?	?	?	?

Compensatory Looks For

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	1	2	5	6
POWER 20%	6	3	4	5
Capacity 15%	3	4	2	5
COMFORT 35%	5	6	4	2
OVERALL SCORE	?	?	?	?



RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	.3 (1) =.3	.3(2) = 0.6	.3(5) = 1.5	.3(6) = 1.8
POWER 20%	.2(6) =1.2	.2(3) = 0.6	.2(4) = 0.8	.2(5) = 1.0
Capacity 15%	.15(3) = .45	.15(4) = 0.6	.15(2) = 0.3	.15(5) =0.75
COMFORT 35%	.35(5) = 1.75	.35(6) = 2..1	.35(4) = 1.4	.35(2) = 0.7
OVERALL SCORE	?	?	?	?

RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	0.3	0.6	1.5	1.8
POWER 20%	1.2	0.6	0.8	1.0
Capacity 15%	.45	0.6	0.3	0.75
COMFORT 35%	1.75	2..1	1.4	0.7
OVERALL SCORE	?	?	?	?

RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	0.3	0.6	1.5	1.8
POWER 20%	1.2	0.6	0.8	1.0
Capacity 15%	.45	0.6	0.3	0.75
COMFORT 35%	1.75	2..1	1.4	0.7
OVERALL SCORE	$0.3 + 1.2 + .45 + 1.75 = 3.75$?	?	?

RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	0.3	0.6	1.5	1.8
POWER 20%	1.2	0.6	0.8	1.0
Capacity 15%	.45	0.6	0.3	0.75
COMFORT 35%	1.75	2.1	1.4	0.7
OVERALL SCORE	3.75	3.9	4.0	4.25

	BRAND D
STYLE 30%	1.8
POWER 20%	1.0
Capacity 15%	0.75
COMFORT 35%	0.7
OVERALL SCORE	4.25

RESULTS FROM
RESPONDENT 2135
IN A SIMPLE
EXPECTANCY VALUE
MODEL PREDICT HE
WILL PURCHASE
BRAND D


RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	1	2	5	6
POWER 20%	6	3	4	5
Capacity 15%	3	4	2	5
COMFORT 35%	5	6	4	2
OVERALL SCORE	3.75	3.9	4.0	4.25

Why Is this Basic Model so popular?

- Forces us to be explicit about advertising/product decisions
- It allows us to think about probabilities of purchase and using them as a measure of intention strength
- Use the probabilities in pricing and market share

Assume you are the manager of Brand B



	BRAND A	BRAND B	BRAND C	BRAND D
STYLE 30%	1	2	5	6
POWER 20%	6	3	4	5
Capacity 15%	3	4	2	5
COMFORT 35%	5	6	4	2
OVERALL SCORE	3.75	3.9	4.0	4.25

RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
OVERALL SCORE	3.75	3.9	4.0	4.25

$$\textit{TotalScores} = 3.75 + 3.9 + 4.0 + 4.25 = 15.9$$

- The Overall Scores reflect the PERCEIVED QUALITY that the customer(s) places on the 4 Brands

RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
OVERALL SCORE	3.75	3.9	4.0	4.25

$$\text{TotalScores} = 3.75 + 3.9 + 4.0 + 4.25 = 15.9$$

Total Score Reflects the Total Quality Score ASSIGNED The Brands

RESULTS FROM RESPONDENT 2135

	BRAND A	BRAND B	BRAND C	BRAND D
OVERALL SCORE	3.75	3.9	4.0	4.25

$$\textit{TotalScores} = 3.75 + 3.9 + 4.0 + 4.25 = 15.9$$

Percentage of
Total Quality
Score for
Brand A

$$\frac{3.75 \times 100}{15.9} = 23.58\%$$

Repeat for each brand

	BRAND A	BRAND B	BRAND C	BRAND D
OVERALL SCORE	3.75	3.9	4.0	4.25
% Share of Total Quality	23.6%	24.5%	25.2%	26.7%

Share of Total Quality Score for Each Brand

- The Average % Score for the Four brands is?
- $1/N = \frac{1}{4} = 25\%$

- Relative Quality Score = Brand Score/Average
- Relative Quality for Brand A = $24.58\%/25\%$
- Relative Quality for Brand A = 94.32%

Relative to Average Percent of Total Quality of 25%

	BRAND A	BRAND B	BRAND C	BRAND D
OVERALL SCORE	3.75	3.9	4.0	4.25
% Share of Total Quality	23.6%	24.5%	25.2%	26.7%
Relative Quality	94.32%	98%	101%	1.07%

The Maximum Price for Brand D

- The average price in the market for the four Brands is \$200 each
- IF the price is set to reflect relative quality, then what is the most that Brand D can charge
- Brand D has a 107% of the relative quality, It can charge a maximum of 107% of the average price!
- **Brand D's price = 107% x \$200 = \$214**

2 If everything in your marketing mix is identical to the competitor's mix

- There is a total of Five firms in the industry
- What is the average market share?
- **$1/N = 1/5 = 20\%$**
- What is you market share?
- **20%**

Participation Question

1 = worst and 5= best

Weight	Importance	Brand A	Brand B	Brand C
15%	Color	1	3	5
25%	Maintenance	4	2	3
45%	Handling	2	3	4
15%	Size	5	1	4
100%				

Which brand is perceived to have highest quality?

Participation Question

1 = worst and 5= best

Weight	Importance	Brand A	Brand B	Brand C
15%	Color	1 x .15	3 x .15	5 x .15
25%	Maintenance	4 x .25	2 x .25	3 x .25
45%	Handling	2 x .45	3 x .45	4 x .45
15%	Size	5 x .15	1 x .15	4 x .15
100%				

Which brand is perceived to have highest quality?
The one with the highest overall score?

Participation Question

1 = worst and 5= best

Weight	Importance	Brand A	Brand B	Brand C
15%	Color	$1 \times .15 = .15$	$3 \times .15 = .45$	$5 \times .15 = .75$
25%	Maintenance	$4 \times .25 = 1$	$2 \times .25 = .5$	$3 \times .25 = .75$
45%	Handling	$2 \times .45 = .9$	$3 \times .45 = 1.35$	$4 \times .45 = 1.8$
15%	Size	$5 \times .15 = .75$	$1 \times .15 = .15$	$4 \times .15 = .6$
100%	Overall	2.8	2.45	3.9

Which brand is perceived to have highest quality?
The one with the highest overall score? **Brand C**

Participation Question

1 = worst and 5= best

Weight	Importance	Brand A	Brand B	Brand C
15%	Color	1 x .15 = .15	3 x .15 = .45	5 x .15 = .75
25%	Maintenance	4 x .25 = 1	2 x .25 = .5	3 x .25 = .75
45%	Handling	2 x .45 = .9	3 x .45 = 1.35	4 x .45 = 1.8
15%	Size	5 x .15 = .75	1 x .15 = .15	4 x .15 = .6
100%	Overall	2.8	2.45	3.9

What is the average perceived quality?

$$(2.8 + 2.45 + 3.9)/3 = 9.15/3 = \mathbf{3.05}$$

Participation Question

1 = worst and 5= best

Weight	Importance	Brand A	Brand B	Brand C
15%	Color	1 x .15 = .15	3 x .15 = .45	5 x .15 = .75
25%	Maintenance	4 x .25 = 1	2 x .25 = .5	3 x .25 = .75
45%	Handling	2 x .45 = .9	3 x .45 = 1.35	4 x .45 = 1.8
15%	Size	5 x .15 = .75	1 x .15 = .15	4 x .15 = .6
100%	Overall	2.8	2.45	3.9

What is the average perceived quality?

$$(2.8 + 2.45 + 3.9)/3 = 9.15/3 = \mathbf{3.05}$$

The average price for the three Brands is \$20.

What is the most that you can charge for Brand C based on perceived value?

Participation Question

1 = worst and 5= best

Weight	Importance	Brand A	Brand B	Brand C
15%	Color	1 x .15 = .15	3 x .15 = .45	5 x .15 = .75
25%	Maintenance	4 x .25 = 1	2 x .25 = .5	3 x .25 = .75
45%	Handling	2 x .45 = .9	3 x .45 = 1.35	4 x .45 = 1.8
15%	Size	5 x .15 = .75	1 x .15 = .15	4 x .15 = .6
100%	Overall	2.8	2.45	3.9

What is the average perceived quality?

$$(2.8 + 2.45 + 3.9)/3 = 9.15/3 = \mathbf{3.05}$$

The average price for the three Brands is \$20.

What is the most that you can charge for Brand C based on perceived value?

Brand C is $3.9/3.05$ or **127.87% of average value**

Brand C can charge a maximum 127.87% of the average Price

or $127.87\% \times \$20 = \mathbf{\$25.57}$

Sample Question

- Your brand has 120% of the average perceived value of other brands and the average selling price of the brands is \$40
- What is the most you can charge for your Brand?
- The most you can charge is 120% of the average price or $1.20 \text{ of } 40 = \$48$