

PRICE SENSITIVITY METER



In the 1970s, Dutch economist Peter H. van Westendorp introduced a simple method to assess consumers' price perception. It is based on the premise that there is a range of prices bounded by a maximum that a consumer is prepared to spend and a minimum below which credibility is in doubt. The Price Sensitivity Meter (sometimes called the Price Sensitivity Measurement) is based on respondents' answers to four price-related questions.

This document will present the following information with regards to the van Westendorp Price Sensitivity Meter (PSM).

-  Possible applications of the method
-  Steps necessary for its execution.
-  Traditional interpretation of results.
-  Concerns and recommendations for limited use of the method.

APPLICATIONS

The PSM is often thought of as a tool for selecting the "Optimal Price Point" for a product. As we address in detail later in this paper, this application is neither theoretically nor practically appropriate. Despite this, we have found that the questions can provide useful diagnostics. For example, upon

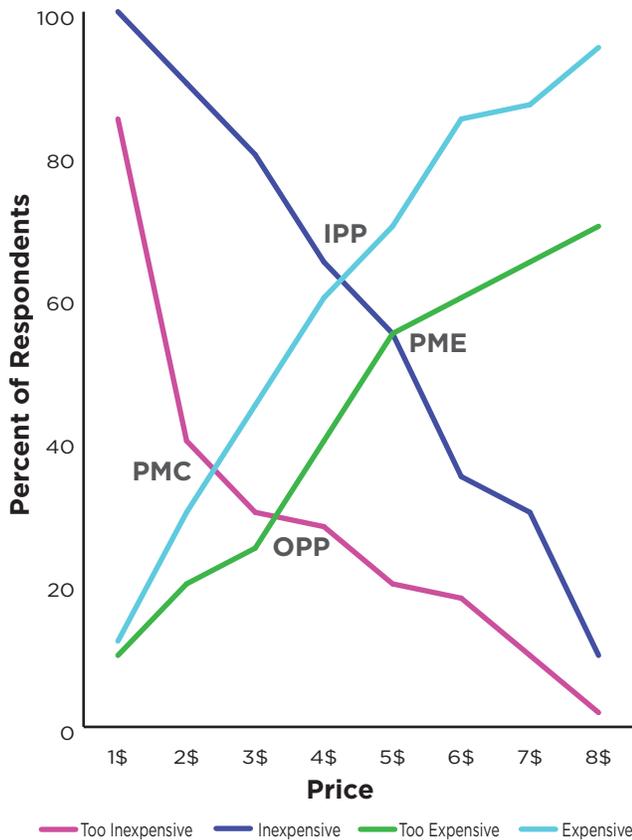
entering a new market, the PSM could provide a picture of the price perceptions of consumers already in the market.

EXECUTION OF THE METHOD

A simple and easily executable method, the first step in the PSM is to ask respondents the following four price-related questions:

- 1** At what price do you begin to perceive the product as so expensive that you would not consider buying it?
(Too expensive)
- 2** At what price do you begin to perceive the product as so inexpensive that you would feel that the quality cannot be very good?
(Too inexpensive)
- 3** At what price do you perceive that the product is beginning to get expensive, so that it is not out of the question, but you would have to give some thought to buying it?
(Expensive)
- 4** At what price do you perceive the product to be a bargain - a great buy for the money?
(Inexpensive)

Note that these questions are not worded precisely as Van Westendorp originally proposed, but reflect the general format currently used by many researchers. From responses to these questions, cumulative frequency distributions are derived and plotted.



The chart above is a typical depiction of the curves created by the frequency distribution plot. It is expected that the “Too Expensive” and “Too Inexpensive” curves will fall below their “Expensive” and “Inexpensive” counterparts.

This relationship is intuitive; more people will respond that \$8 is just “Expensive” than will respond that \$8 is “Too Expensive.” The key intersections on the curves, which are used to interpret price perceptions, are then plotted. These key intersections are described in the following chart. The intersections are illustrated on the chart above.

	Inexpensive	Too Inexpensive
Expensive	The Indifference price point (IPP) is the point at which an equal number of respondents believe the test product is expensive as believe it is inexpensive.	The point of marginal cheapness (PMC) is the point at which an equal number of respondents believe the product is expensive as believe it is too expensive.
Too Expensive	The point of marginal expensiveness (PME) is the point at which an equal number of respondents believe the test product is too expensive as believe it is inexpensive.	The optimal price point (OPP) is the point at which an equal number of respondents believe the product is too expensive as believe it is too inexpensive.

INTERPRETATION OF RESULTS

distribution plot. It is expected that the “Too Expensive” and “Too Inexpensive” curves will fall below their “relationship is intuitive; more people will respond that \$8 is \$8 is “Too Expensive.”



According to van Westendorp, the IPP generally reflects either the median price actually paid by consumers already in the market or the price of the product of a market leader.



The range of prices between the PMC and PME is considered the range of acceptable prices. Van Westendorp claims that in markets that are already well established, few competitive products will be priced outside of this range.



The OPP, according to this method, is the point at which the same number of respondents indicate that the price is too expensive as indicate that the price is too inexpensive. Many pricing researchers question whether this is the definitive optimal price for a product. The questions asked by the van Westendorp PSM, itself, force respondents to choose a range of prices (as opposed to just one) that they consider to be acceptable.

CONCERNS AND RECOMMENDATIONS

Unlike discrete choice methods, the PSM does not replicate the actual shopping process. Instead, it tests respondents' knowledge of a product's price levels. The consequence of this reliance on consumer reference prices is twofold. First, results will vary depending on respondents' experience with price levels in the market. If respondents do not have a good reference price, this method often causes the underestimation of a product's ability to command a premium price. Second, results will vary as the market itself changes.

Underlying the entire method is the concern that the questions directly ask respondents what they would be willing to pay for a product. Several researchers believe, however, that in order to be more effective, questions should focus on behavior rather

than price. Additionally, these consumer defined prices may not correspond with the actual range of acceptable product prices.

Answers to questions used in the PSM do not reflect purchase intent. van Westendorp himself notes:

A word of caution is in order: price consciousness of this nature should never be equated with propensity to buy. One can be fully conscious that a product is "expensive" and yet prefer it over a cheaper alternative.

Some researchers have attempted to address several of these concerns by modifying the Price Sensitivity Meter. In our opinion, however, none have succeeded in rectifying the basic flaws of the method.

Despite the concerns, the PSM remains a simple method; it is both easy to execute and easy to understand. Although we rarely propose its use and never recommend the PSM as a method for definitively selecting the price for a product, it can be used as a tool for gauging consumers' price perceptions and expectations.

