

Price Elasticity Models, a Particular Approach

There are various appropriate applications that address *price elasticity*, these include conjoint and its special case trade-off analysis. There also is the **van Westendorp Price Sensitivity Model**.

In this model, price sensitivity relates not to absolute price, but rather to perceived value of the product or service. Consumer price expectations and tolerances are measured by asking a set of price perception questions. These questions are the key to the model - the price at which the product or service is ...

- So *cheap* that product quality/value is questionable (*Too Inexpensive*)
- A *bargain* (*Inexpensive*)
- Beginning to seem too expensive (*Expensive*)
- Too expensive to consider (*Too Expensive*)

In addition to these "required" points of interest, it is common to append questions as to purchase intent and perception of value. This might involve either an unaided [no price point defined, based solely on the concept] or aided question set measured at the highest and lowest prices in the range of pricing options. The optimal price (i.e., the price at which market share and revenue are optimized) can then be computed.

The responses to the above four questions are graphed. The point at which the *Inexpensive* and *Expensive* responses intersect is considered the *Indifference Price Point* (IDP); the point at which the *Too Inexpensive* and *Too Expensive* responses intersect is considered the *Optimal Price Point* (OPP).

The intersection of "not cheap" and "too cheap" yields the *Point of Marginal Cheapness* (PMC). At this price point, the number of people considering the product to be too cheap is the same as the number considering it to be expensive, or "not cheap."

The intersection of "not expensive" and "too expensive" yields the *Point of Marginal Expensiveness* (PME). At this price point, the same number of people regard the product to be too expensive as regard it as not expensive.

The range from PMC to PME is the *Range of Acceptable Prices* (RAP), or the *Optimal Price Band*.

Key points are illustrated in the following graphic.

