WHAT'S YOUR cup of tea?

HOW EMOTIONOMICS – NOT JUST ECONOMICS – DRIVES BRAND CHOICE

One of the least understood things about ourselves is why we pay the price we do for a cup of coffee. Aficionados are automatically selective in their choice, based on an intricate (and very personal) mix of perception, brand and price. In the third of this series of branding articles, **Neil Osborne** explains how the delicate balance of price and position can be a powerful force behind your brand.

At first glance, your fickle coffee tastes may seem irrelevant to the pricing decisions for a product or brand, but it's really a microcosm of the selection and weighing process you go through when purchasing … well, anything.

How and when is price most real to you? For the majority of us, it's in the context of our retail therapy sessions. In that environment, your consumption is rationed by prices. They guide you in allocating your resources — money, time and toil — and help you set priorities amongst your growing list of wants.

At every crossroad, prices nudge us to take one course of action or another. Every decision, whether it's personal or business, is a choice amongst options to which you've assigned different values and the subsequent benefits gained from that purchase.

Let's dig in further…

PART Three: Price & Positioning

As the third of the 7 P's of salon industry brand building, pricing influences two very powerful areas of a brand:

1. How profitable it is
2. How it's perceived in the marketplace

The trick is to set prices that balance both.

However, as with anything powerful, prices must be handled with care. Tinkering can produce unintended results — success, failure, profit or loss. All are possible with every move. That's because prices actually have dual power. They not only steer your personal purchasing patterns, they also define certain business decisions — what to make or sell.

How are prices set?

Historically, prices were set through the process of buyers and sellers bargaining with each other. Sellers would ask for a higher price than they expected to get, buyers would offer less than they expected to pay. Through bargaining, they'd arrive at an acceptable price.

On a practical level, supply and demand influenced the rise and fall of prices, as did the emotional desirability (or exclusivity) of the item. In today's market, while the underlying principles and equation is still the same, times have changed.

Counting the beans

Today, pricing is often the most critical decision for a brand. Many launch with the nagging feeling they haven't covered every cost — especially those OSIF ones — and it's not the right way the start.

Price decisions must balance business goals, customer desires and current market forces. The right pricing formula is needed for the right situation. Here are just four:

1. *The cost-plus formula:*
   Take the manufacture or landed cost and add a fixed profit margin to set the selling price.
2. *The copy-cat option:*
   A competitive product is identified and a retail price is set at the same level or just below them.
3. *The overseas model:*
   Research the product's selling price in the parent country, or a similar product from overseas, then convert that price into local currency.
4. *The modest approach:*
   This is overly popular with start-ups. However, generally speaking, most brands leave insufficient margin in the initial pricing calculation to cover the extra costs needed to bring on a sales team or distributor to boost volume as the brand grows.

[Note: A simplistic product pricing worksheet/template is included with the download of my free Killer Launches eBook — details are listed at the end of the article.]

Remember … when calculating product prices, there's only one certainty: lost revenue and profit can't ever be recovered once you've hit the marketplace at a certain price.

Latte or cappuccino?

Let's be honest; your coffee preferences aren't totally based on price or flavour. As an example, take the worldwide behemoth, Starbucks (see sidebar). In its heyday, and at a wildly (for the time) premium price point, it purposefully became part of its customers' lives, connecting with them on a level beyond a simple transaction. It became a necessity.

Customers trusted the brand wherever they went across the world. They'd connected emotionally with Starbucks and were willing to pay more for the feeling they got when their coffee was made there.

Does your brand do that for your customers?

More than a cup

Emotions drive our purchases more than you would think. Every minute you are unconsciously (and most often, emotionally) evaluating the cost and perceived benefit of every purchase. It's tough road to navigate.

So how do some brands and businesses manage to attract premium prices (and likely profitability) while others struggle to get sales at any price? The answer is a combination of branding and positioning … to create customer value.

Research has shown that customers will pay more for the feeling they get from buying a product, than for just its performance. Sure, there may be an aspect of exclusivity, social proof or even conspicuous consumption that's attractive to them, but it's often more than that — customers are willing to pay extra for the unique value the brand offers.

Therefore businesses that invest in creating and delivering a brand experience (versus just a product) are generally able to attract high prices.

Espresso, filtered or instant?

Each distinct market position requires a different pricing calculation and strategy. There are three market segments available for salon market positioning:

1. *Upmarket*
   This customer is often image conscious, has high expectations of the product performance, its uniqueness, ingredients, packaging functionality and or appearance. From a business perspective, generally speaking this market positioning requires a generous marketing budget with a laser vision on the brand's image.
   Alternatively if the brand is totally unique or delivers outstanding performance, that may be enough to support a heady retail price.
2. *Midmarket*
   These are customers who are open to trying a new product based on a solid mix of performance or ingredients. Business wise, this market segment is generally where profit meets volume.
   While product performance is important, some of the lavish costs of the upmarket arena can be saved and passed on to other areas that could lead to increased market leverage and sales volumes — such as offering salon owners increased salon mark-up.
   Sometimes marketing costs can be slightly reduced in this segment and other devices employed to stimulate more-push-than-pull in your marketing efforts (more on that in article number five - Promotions & Proof).
3. *Volume*
   This segment is no longer about price, price and price. This customer is looking for value. For business, generally profit margins per sale are lower and profit through volume becomes the primary focus.

Brands can cleverly pursue this customer with product sizing and pricing that represents value. Unfortunately though, client loyalty is unstable because the value relationship is the highest buying influence.

Generally speaking we have a tenuous grasp on why we pay what we do for a given object of desire — be it coffee, a must-have little black dress or a pair of Jimmy Choo shoes. Sometimes we don't even know why we desire the object in the first! Despite that we continue to make buying choices, every minute of every day.

That's what I call, powerful branding. ■

Neil Osborne has devoted more than 30 years of his working life to making a difference to businesses in the Salon Industry. As a sales performance consultant, trainer and business mentor he helps businesses launch, grow and change their sales results. Contact him at The SALES CATALYST, 1300 302 859 or go to www.thesalescatalyst.com.au.

Download his FREE eBook, The 11 Launch-Killer Mistakes and BONUS Planning & Costing templates at www.howtolaunchanewproduct.com.au

POUR YOUR HEART INTO IT: THREE PRICING LESSONS FROM STARBUCKS

The chairman and CEO of Starbucks, Howard Schultz, never concealed his passion for good coffee. He set out to bring really good coffee and the Italian coffeehouse experience to the American market and provide people with a 'third place' (after home and work) to gather.

An exemplary brand success story, Starbucks is identified with innovative marketing and pricing strategies that can be distilled into a 'short black' of three things:

1. *An experience and community*
   Starbucks were the first to give you more than a cup of coffee: they gave you an experience in a cup. It was the place for locals to meet up. From aroma to couches, people gladly paid for the experience of hanging out there and it was one of the first places you could use your laptop and the internet.
2. *Quality and consistency*
   Most people don't want any surprises when it comes to their caffeine hit. Starbucks delivers that, at a premium price. No matter where you are in the world there is predictability in their quality and consistency. From the surroundings, comfort, cleanliness, atmosphere and coffee, to the banter of their baristas, they deliver much more than coffee.
3. *Create a story and your own language*
   People 'buy into' the way they feel about a brand and the story it tells. Back in the late '80s Starbucks invented new words — grande and venti (medium and large) — to describe their coffee sizes. These added to the allure of the then 'new' Italian coffee experience and it made customers feel they were part of something very special.