

VAN WESTENDORP PRICE ANALYSIS: AN OVERVIEW

August 2005

Developed in 1976 by Peter van Westendorp, this form of price sensitivity measurement (PSM) relies on self-explicated (direct) responses to several questions about price. Van Westendorp's premise is that price and perceived value thresholds define the optimal price for a product or service and dictate buyer behavior. Specifically, buyers have a propensity to substitute products, rather than simply reducing consumption, as a result of price. Price thresholds that can lead to substitution are found at both the high and low ends of the pricing spectrum.

The main objective of PSM is to determine the price/quality thresholds for a given product or service. The following set of questions is posed to buyers (typically respondents in a survey):

- At what price would you consider the product to be so expensive that you would not consider purchasing?
- At what price would you consider the product to be priced so low that you would be concerned about quality?
- At what price would you consider the product to be starting to get expensive, but would still consider it?
- At what price would you consider the product to be a good value for the money?

A relatively simple analysis uses frequency distributions for each of the questions to yield a so-called Bargain Curve and a Premium Curve. The minimum viable price is the point at which the Bargain Curve attracts the maximum number of buyers. At this price, respondents still trust the quality of the product. The maximum viable price is the point at which the Premium Curve peaks. This is the maximum price respondents are willing to pay before purchase interest begins to decline sharply as a result of price. The point at which these 2 curves intersect is a point of equilibrium, sometimes called the Optimal Point, at which the proportion of respondents who perceive the product to be a bargain is about equal to the proportion who perceive the product to be priced at a premium.

As a pricing research approach, the Van Westendorp PSM method accommodates non-rational but very significant effects such as the tendency to mistrust quality of low-cost products based solely on price. In practical terms, the method has the advantages of being simple to implement, analyze and interpret. At the same time, however, this simplicity is also a shortcoming. Responses do not always show a logical progression or regression of price amounts at each question. Moreover, while the results can tell us much about what people consider the appropriate theoretical price for a product or service, they don't tell us much about whether or not people would buy at that price. This shortcoming is fairly easily dealt with by adding 2 questions to Van Westendorp's original proposal:

- At the “so low” price, how likely would you be to buy the product?
- At the “so expensive” price, how likely would you be to buy the product?

These questions capture intent to buy at specific price points on the Bargain and Premium Curves, which in turn allows the use of regression modeling to understand intent and demand as a function of price. While the original questions may still yield inconsistencies at the total sample or respondent level, our chance of explaining and rationalizing these inconsistencies increases dramatically.