Do Claims Really Make A difference To The Price Consumers Are Willing To Pay?

A Review Of The Price Sensitivity Meter With Orange Juices

Silvia Peleteiro, Alex Willey, Jennifer Arden
Leatherhead Food Research
E: speleteiro@leatherheadfood.com

Background and aims

Claims? Yes! But at what price? In today's competitive market, consumers are confronted with an overwhelming level of choice and availability of products. Products can be labelled with a number of different claims enticing consumers to buy one product over another.
The aim of this project was to evaluate and review the Van Westendorp Price Sensitivity Meter (PSM). The study had the following objectives:

Objective 1: To determine what impact organic and fairtrade claims have on the price consumers are willing to pay.
Objective 2: To determine if hall trial testing (concept and taste testing) elicits similar or different responses in terms of price to home testing (concept only, no taste testing).
Objective 3: To determine what impact organic and fairtrade claims have on overall liking and preference when consumers taste the same orange juice.

Study design and methodology

PSM was introduced in the 1970s by Dutch Economist, Peter Van Westendorp. It is a method for gauging consumers' perception of the value of a service or product and not how much they like it. It consists of asking respondents four specific questions about the price: **at what price is the product/service:**

- Cheap/good value
- Expensive, but worth considering
- Too expensive to consider
- Too cheap you would worry about the quality

The responses to these questions are presented in graphical plots (as shown in Figure 1) showing the points of intersection, for example, Optimal Price Point and Point of Marginal Expensiveness.

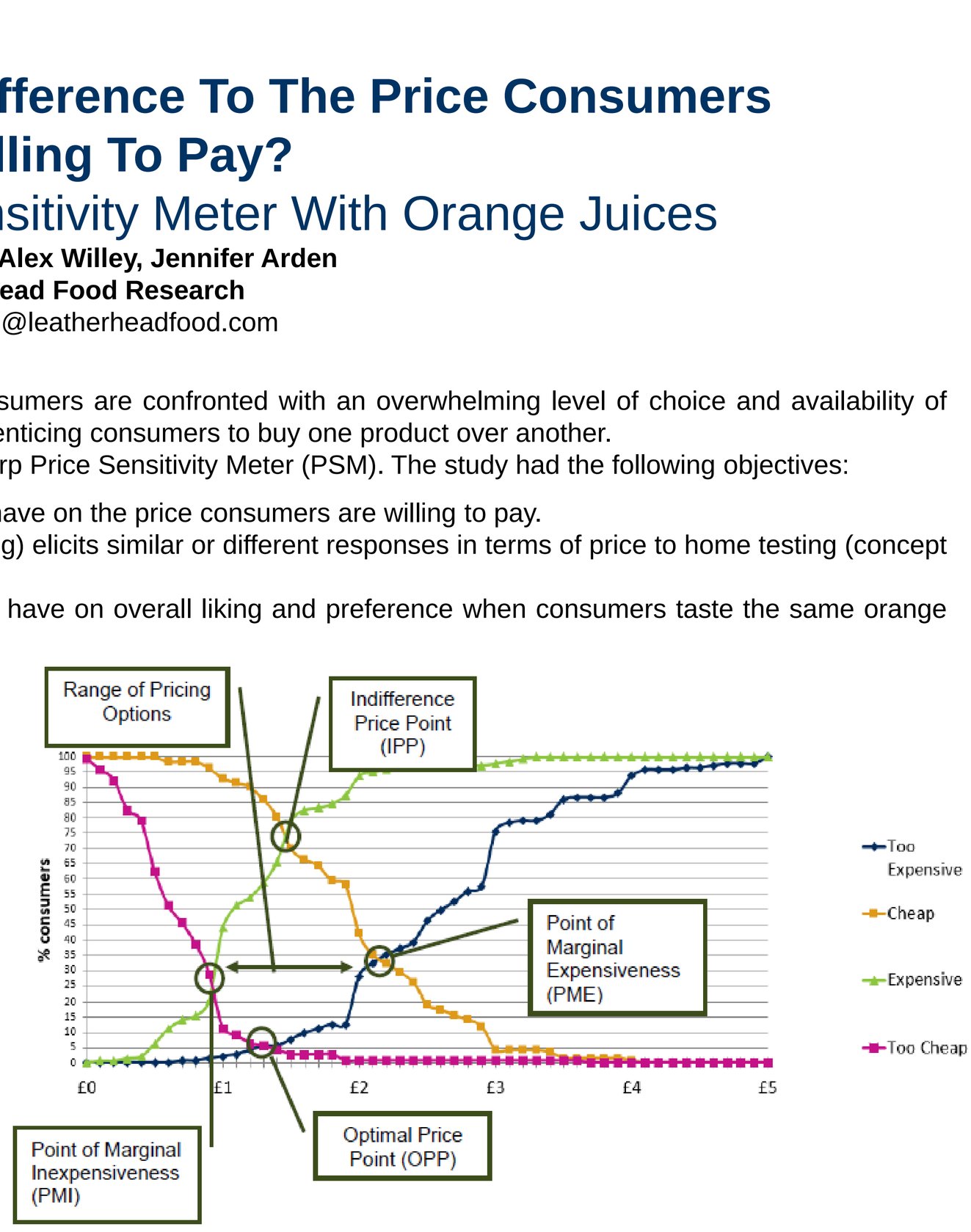

Figure 1: PSM graph

Four consumer tests were conducted as shown in Figure 2. Testing was carried out in a hall and in the home, where respondents were asked to rate two concepts of orange juices (as shown in Figure 3). Respondents who attended the hall test were also given a sample of orange juice to taste with each concept. The orange juice was the same for each concept but the respondents were unaware of this. The purpose was to isolate the claim as the main variable, to observe its influence on the price consumers are willing to pay.

- **Hall Tests: Leatherhead Food Research**

  Test 1: Control vs Organic Orange Juice
  Test 2: Control vs Fairtrade Orange Juice

- **Home Tests: Online survey**

  Test 3: Control vs Organic Orange Juice
  Test 4: Control vs Fairtrade Orange Juice

Figure 2: Consumer tests



Figure 3: Control, Organic and Fairtrade concepts of orange juices

Results

The cumulative distributions from the four price-related questions were calculated per each sample and plotted in the PSM graph.

- **Hall test** - There was no difference between the control (no claim) and the fairtrade claim in optimal price, PMI (Lowest Reasonable Price) or PME (Highest Reasonable Price). The only very slight difference was for IPP (Normal Price), where the control (no claim) was £0.03 more expensive than the fairtrade claim.

- **Home test** - The difference in optimal price of control (no claim) versus organic claim was £0.20 (in favour of the claim). Respondents were willing to pay more for the orange juices with the organic and fairtrade claims. They were willing to pay slightly higher for the organic orange juice with a normal price of £1.41 and an optimal price of £1.20.

- **Hall vs Home test** – Hall tests yields higher price points than testing at home (without the samples).

Conclusions

- Products with claims can really make a difference to the price consumers are willing to pay. However, each claim will have a different impact on the price.
- The claim 'organic' seems to provide some increase in optimal price, whereas the claim 'fairtrade' was less able to do this.
- Respondents in the hall, who tasted the samples and saw the concepts, gave higher Optimal Price Points than those who only saw the concepts.