Marketing Munchies Podcast Transcript

Episode #17: Signpost Items

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Announcer: Welcome to the Marketing Munchies Podcast series hosted by Dr. Bridget Behe. Each week Bridget and her guests will share information, insights, research-based findings, and her 30 years of experience to help your horticultural business connect better with current and future customers. Now, let's join our host, Dr. Bridget Behe.

Dr. Bridget Behe: Hi, and welcome to the Marketing Munchies Podcast. I'm your host, Dr. Bridget Behe. This week I want to follow up and continue our discussion about pricing, specifically talking about some strategic decisions in the pricing process. Last week I talked about the five dimensions of perceived value. Those were functional value, epistemic value, conditional value, and social value. But how do you translate that into a real price?

Obviously, you need to understand you costs of production. Input costs have to be the fundamental building block of any pricing strategy. But, once you identify what your costs are, in particularly your cost per container, now it's time to move on and think about some of the strategy. All too often, the strategy that I see in a lot of retailers is pricing containers at the same price depending upon the volume of the container. For example, all quart containers are "x" price. All 4 1/2 inch containers are "x" price. What we've done, is we've completely forgotten all of the elements of perceived value that we talked about last week. We've forgotten about the novelty factor. We've forgotten about fragrance. We've forgotten about the symbolism. What we need to do is to take the cost and then add to it the dimensions of perceived value, and think about what would some consumers be willing to pay for that product? What percentage of consumers might be willing to pay more than a traditional price for that particular product?

When I ask retailers why they price containers of the same size all at the same price, they often will tell me that it's much easier for their cashiers. They're trying to speed up the checkout process. While I think it's important to speed things up at the cash register, I'm going to have to disagree that it is a good idea to price all containers of the same size at the same price, because we are forgetting about those elements of perceived value. We have to think about a reasonably high price for that product and test it out and see what's going to happen.

When I ask retailers on my visits how they increased prices this year or how much they increased prices, they always express a great deal of reluctance, because they are concerned about getting push-back. I agree with that, but if you're not thinking about nudging prices forward, it's going to be very difficult for you to remain profitable. You have to expect some push-back. There's always going to be a segment of the customer base that is very very price sensitive. What you don't want to have is a substantial part of your customer base pushing back, but I would say, if you have a couple of percent pushing back or complaining about prices, that's probably a reasonable price increase. If no one noticed—if no one complained—you maybe didn't go up high enough on the price, and that’s usually not the case. You can always come down on a price, but if you don’t have somebody complaining, you probably haven’t gone up enough on the price.

Which items do you try to nudge up a little bit in perceived value and attach a slightly higher price to? I want to talk for a moment about the products that you don’t want to have a price war with. We would call those signpost items. I first read about this in an article in *Harvard Business Review* back in 2003, by Eric Anderson and Duncan Simester. They entitled their article, *Pricing Cues.* In it they introduced the concept of a signpost item. This is the type of item (like a 4-inch geranium or a 6-inch poinsettia) that customers would call around to different retailers to identify the price. It’s a very easy product to shop, because a lot of retailers offer that. ‘

The interesting thing about signpost items is that customers will develop generalizations about the overall prices of that particular retailer by the price of the signpost item. For example, if a retailer were high on a 4-inch geranium, if they were advertising that or if customers became aware of that by calling or talking to their friends, they would imply or infer that other prices at that retail outlet were high. Conversely, if signpost items are priced competitively, what customers imply or understand from that, the assumption that they make, is that other products at that particular retailer are going to be priced competitively.

You want to think about product differentiation. Take the products that others are not selling and those are the first products that you should be able to increase the price for. Often this is larger mixed containers. There’s not a homogenous container size for many of these mixed containers. Or, identify products and container sizes that not everyone is using and cultivars that are relatively new or have a high score on some of these other elements of perceived value. Those are the first ones to target for the price increase.

Think about your product portfolio. Think about the items that are new, that might have other dimensions of perceived value. You want to target those as first candidates for a price increase. You also want to identify and understand what your signpost items are. Those are the products that you want to keep priced competitively, so that consumers will understand or imply that your prices are competitive on other products. (6:47-9:56 & 10:21-21:19 omit)

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Announcer: Thank you for joining us on this week's Marketing Munchies Podcast. For more information or to download the transcript of this podcast, please visit, connect-2-consumer.org. That's C-O-N-N-E-C-T, dash, the number two, dash, C-O-N-S-U-M-E-R, dot, C-O-M.