Pricing For Profits

2106 SAF Annual Convention

Introduction

The flower business is tough. For most consumers flowers are a discretionary purchase, something they don't have to buy. Competition is fierce and deception is rampant. It's easy to think that this might be the toughest business of all.

But there are others, some of them quite similar to the flower business. Travel for example – like florists airlines and hotels face insanely busy peak periods they need to capitalize on. Like florists they deal with perishable products and face stiff competition. And they created the science of revenue management as a result – a variable pricing strategy, based on understanding, anticipating and influencing consumer behavior in order to maximize profits from a fixed, perishable resource such as airline seats or hotel room reservations.

Hollywood too…. ever since VCRs first became popular in the 1980s people have been talking about the end of the movie business. But today, even when anyone with a little determination and an internet connection can have their product for free, they keep making money.

And other companies like Apple make record profits. A big part of that is because they applied the principles of revenue management. They also looked to behaviour economists and psychologists to go beyond the cost plus formula and look at pricing based not on their costs but on our willingness to pay. The goal is greater profitability by charging each customer the most they are willing to pay.

This session looks at how at how all this can be applied to the flower business.

1.0 Pricing Basics

The terms, concepts and tactics that are the foundation of a more profitable pricing strategy.

The larger goal of a pricing strategy is to have a price, *the most profitable possible price,* for every customer. That means higher and more profitable prices for customers that are willing to spend more, with lower and less (but still) profitable prices for customers not currently buying from you.

This section looks at the basics – the terms, concepts and tactics that will become the building blocks of a more profitable pricing strategy. It addresses some of the most important pricing questions & considerations and how they relate to retail floral sales. It ends by looking at how they would all work together in the production of a Valentine's Day marketing postcard.

1.01 There Is No One Size Fits All

Just like different flowers, colors and design styles appeal to different customers, different pricing models stimulate them into buying, often more profitably.

Florists understand that different people are attracted to different flowers, colors and design styles. There is no one-size-fits-all when it comes to floral design, because tastes are so different. A shop that offered only a single design, even a perennial favorite like a rose dozens, would not succeed.

Pricing is much the same. Different models and approaches appeal to different customers. We need to respect that and offer a variety of pricing models and options to motivate them into buying at the most profitable possible price.

If you get emails from a company like Lands' End you have seen this in action. They don't just let you know about new designs and styles – they're constantly hitting you with different pricing models, discounting schemes, etc.

One day it might be a blanket 20% off, which appeals to the customer that loves a discount. The next day it might be free shipping for orders over a certain dollar amount, which appeals to the kind of customer that hates paying for delivery.

It's much like they are fishing – going through a variety of lures until they find the one that draws a strike and lands a fish.

As we go on it is important to keep this in mind. You may see a pricing model that would not appeal to you as a customer, but that doesn't mean it won't appeal to others. You will in fact see models that likely appeal to only a small percentage of customers…. but if that model is profitable and almost irresistible to any customers we can't ignore it.

In Your Flower Shop

Hopefully you are reaching out to your customers and marketing your shop through email, social media, mailers, etc. Now, just like Lands' End, you're going to start dangling different pricing models in front of them, stimulating more (and more profitable) sales.

1.02 Charm Pricing

Just like different flowers, colors and design styles appeal to different customers, different pricing models stimulate them into buying, often more profitably.

Charm pricing is the practice of ending prices with the number nine. It is not essential to use 99 cents, it only matters that the right-most digit is a nine. Though there is debate about the origin of the practice it has been in place for over one hundred years and is, overwhelmingly, the most common approach to retail pricing.

It is also true that most people don't "like" it, and this is confirmed by research. Nobody filling their car tries to round it off at $19.99, they try and get it to $20. When a consumer is given the chance to set prices, as is the case when a florist opens a shop, they often eschew charm pricing in favor of round pricing.

In doing so they forfeit the power of charm pricing The law of demand says that as price goes up demand goes down, but the effect of charm pricing is so powerful as to overcome this. Study after study shows that people will spend more on an item with a charm price than one without. In one study people bought an item more at $49 than $45, at $59 than $55. No matter what people think they feel about charm pricing it works and they respond to it. Almost any retailer that ignores charm pricing does so at their peril.

> *Use of a $9 price ending increased demand in all three experiments…$9 endings convey favorable information that increases demand for an item.*
>
> **Effects of $9 Price Endings on Retail Sales: Evidence from Field Experiments**
>
> Author(s): Eric T. Anderson, University of Chicago, Graduate School of Business
> Duncan I. Simester, Sloan School of Management, MIT,
> Source: Quantitative Marketing and Economics, 1, 93–110, 2003. # 2003

For more evidence look at the websites of the largest and most successful order-gatherers. They continue to exist because they are so good at getting orders, and they have the resources and traffic to do extensive testing on what works better. Almost universally they choose round pricing. It is sad to think that the typical consumer would rather pay an order gatherer $49.99 than a real florist $45, but that is what happens.

It is however worth noting that there can be another consequence to charm pricing.

> *The 99 ending increases the likelihood that viewers judge an advertised price as relatively low and as representing a discount. However, in addition to these price-image effects, the 99 ending has negative effects on quality image in the ads sponsored by higher quality retailers.*
>
> **Image Communicated by the Use of 99 Endings in Advertised Prices**
>
> Author(s): Robert M. Schindler & Thomas M. Kibarian
> Source: Journal of Advertising, Vol. 30, Issue. 4 (2001), pp. 95-99

There is also research that shows that items with charm prices are more attractive to people that are making a considered and dispassionate purchase, and that those people will regard (prior to purchase) and remember (after purchase) the charm price as being better value. Meanwhile items with round prices are more attractive to people that are making an emotional purchase, and that they will regard (prior to purchase) and remember (after purchase) the product as being higher quality.

That information can vex florists, who typically want their product to be seen as high quality and high value, but there are a few things to keep in mind.

The second study ("Image Communicated…") looked specifically at prices like $49.99, not $49. The research mentioned earlier ("Effects of $9 Price Endings…") looked at prices like $49. A charm price like $49 is proven to increase demand, likely without all of the negative implications that come with adding .99. There is additional research (discussed later) that shows the benefit of omitting the cents anyway, so charm prices like $49 may offer much of the best of both worlds.

Another thing to consider is that being remembered as high quality only matters if you can compete in the initial price comparison. Look around in your daily life. Round prices are relatively uncommon and there are only a few Tiffany brands – brands that really don't have to worry about comparison shopping – that can afford to make them the norm.

Most important is the fact that, again, there is no one-size-fits-all approach. The best approach is to offer charm prices for people that are focussed on price/value and round prices (maybe a special signature or premium line) for people that are more interested in quality.

The key is finding the balance. If you truly are the Tiffany of your local market you should use primarily round pricing. If you are worried about comparison shoppers or perceived value use mostly charm pricing.

It is often asked at what amount round pricing should replace charm pricing – what is the magic number, the dividing line between value and prestige, at which round pricing becomes more effective? Should all products over say $200 use round pricing?

It doesn’t work like that because it’s about the buyer, not the amount. The customer that is drawn to round pricing on a $300 sympathy piece is also likely to be drawn to a $30 price on a boutonniere. And the customer that is drawn to charm pricing on a $29 corsage is likely to prefer a $299 sympathy piece.

In Your Flower Shop

- Whenever you are trying to prove value or savings use charm pricing. Even the most exclusive high end retailers that would never normally use charm pricing love it when they are having sales.
- If you truly are the Tiffany of your market concentrate on round pricing, using charm pricing only for sales, specials and gateway-drug type offers used to recruit new customers. If you are the least bit worried about comparison shoppers or lower-priced competitors you aren’t Tiffany yet, and should focus more on charm pricing.
- If you are focussed on price/value shoppers concentrate on charm pricing, with a few round prices (in the form of “signature” or premium lines) to reinforce your brand and provide a more attractive option for shoppers focussed on quality.
- If you are in the middle you should use both, with the mix depending on where on the spectrum you fall. If you are closer to the high end you should have more round prices, if you are at the other end and competing on price you should have more charm prices.

1.03 Expressing Prices – Less Is More

There are many ways to express prices and slight differences in the approach can make a big difference in sales and profits.

Consider some of the different ways that you might verbally express a price of $149.99:

One hundred and forty-nine dollars and ninety-nine cents	14 syllables
One hundred forty-nine dollars and ninety-nine cents	13 syllables
One hundred and forty-nine ninety-nine	10 syllables
One hundred forty-nine ninety-nine	9 syllables
One forty-nine ninety-nine	7 syllables

The last option gets the same information across in half the syllables. Why does that matter?

> *When price information is presented and encoded in verbal format, then increasing the syllabic length of the price information will (a) increase the amount of time required to process that information, and (b) increase consumers' perceptions of its numerical magnitude.*
>
> **Comma N' Cents in Pricing:**
> The effects of auditory representation encoding on price magnitude perceptions
>
> Author(s): Keith S. Coulter, Pilsik Choi and Kent B. Monroe
> Source: Journal of Consumer Psychology – Volume 22, Issue 3, July 2012, Pages 395–407

More syllables sound more expensive. Florists are constantly quoting prices over the phone and this is an easy way to make larger prices more palatable.

Combined With Charm Pricing

The charm pricing research mentioned earlier (involving the mail order catalog) used prices like $49, not $49.99. It's not the cents that determine charm pricing, but the right-most digit, and $49 still benefits from the charm pricing effect.

We can express $49 with just three syllables while $49.99 takes twice as many. Research shows that $49.99 is perceived as being a higher price, and that makes selling at the price harder.

Giving up 1% of your revenue by changing a price from $99.99 doesn't seem like a big deal but the change costs you more as you move down in price. Going from $39.99 to $39 means giving up 2.5% of your revenue. Nobody likes to give that up but:

- a product will sell better at $39 than $34 – hopefully you are raising many of your prices
- getting rid of the extra syllables in .99 should increase sales by 10%-12%

In Your Flower Shop

Always use the fewest possibles syllables when expressing any price, and consider skipping the cents and staying with whole dollar amounts, especially as prices climb higher.

1.04 Always Let Them Spend More

They may be less common than we'd like but there are always customers willing to pay more. We just have to give them the chance.

It's easy to get obsessed with the customers that don't like to spend money because they make the most noise and cause the most headaches. The ones that want a "make it nice" centerpiece for $20… the ones that think you should match supermarket prices on your higher quality poinsettias… the ones that call and want the unrealistic product photo/price combination found on ordergatherer.com. They infect our thinking and lead us to believe all customers are focussed on price.

But there are customers that don't mind paying more, and they do it without us realizing it. Too often we leave money on the table by undercharging them when they would happily pay more. In some cases they may choose to go elsewhere because they prefer paying more to a shop whose higher prices better align with the way they value flowers and perceive quality.

The solution? Always give them a chance to spend more money.

Organic ketchup isn't on the shelf because it has health benefits. Whole Foods doesn't open stores because they're trying to save the world. Both exist because of the realization that some people will happily pay more, a lot more, for food.

Hollywood is great at this. Casual movie-goers can watch the standard version of a new movie for one price. Enthusiasts can pay progressively more for enhanced versions – 3D, AVX, IMAX, IMAX 3D, motion seating, etc.

And it doesn't stop there. Blockbuster movies are frequently released simultaneously in as many as seven (sometimes even more) different versions (DVD, Blu-Ray, Blu-Ray 3D, Collectors Edition, etc.), with prices ranging from $14 to $40. All are essentially the same thing, the movie in optical disk format, but they're happy to provide more expensive options to enthusiasts that will cheerfully pay the higher price.

In Your Flower Shop

Always have a more expensive option and don't be shy about offering it. Yes, there are a lot of customers that are focussed on price and most won't jump at the chance to spend more, but it will happen. Even when you don't make the bigger sale you will be invoking the anchor effect and sending a powerful message about the quality of your shop – topics we'll discuss later.

And the Attributes section looks at how you can create more expensive (and more profitable versions) using attributes and offering the IMAX 3D version of your products.

1.05 Understand How Customers Value Your Product

A better understanding of how your customers value various attributes of your products can unlock new profits.

A great example is ebooks. They are much less expensive to produce than their printed equivalents (no printing, binding, shipping, etc.) and if they were priced using a cost-plus formula they would be cheaper. Instead e-books are almost always more expensive than paperbacks and often even more expensive than hardcovers.

The reason is that the publisher understands that ebooks offer other benefits that some customers value more than a physical book – convenience, less clutter, syncing across multiple devices, immediate gratification in the form of instant delivery (download). By understanding the values of these attributes they know they can charge more and realize much higher profits. Their costs have nothing to do with it.

Another example is professional sports. Teams used to insist that all games were of equal value – that fans were only interested in seeing the home team – and charged the same price for all games.

The truth of course is that some games are more valuable than others. Fans will pay more to see a popular team like the Yankees, and more for games on a Saturday afternoon in July than a Monday night in April.

With that understanding teams realized they could charge more for some games, and recovered profits they had previously been giving away to scalpers.

In Your Flower Shop

One florist was married to a graphic designer who had created a unique line of enclosure cards for her store. They were inexpensive to produce and the store did not charge for them. Once the store realized how much some clients did value the cards they started charging for them, unlocking additional profits.

Another store had an owner that was very visible in the community, frequently appearing on television etc. They realized that they could charge more for work that she prepared personally.

What do your customers value about your operation? Do you have a celebrity or well-known designer? A unique style, special containers, or exclusive line of giftware? The ability to offer timed delivery? Is there something customers value for which you are not currently charging? Can you charge more money for more of it? Or can you remove it to create a less expensive version that will appeal to only bargain hunters?

When it's time to reward, motivate or incentivize your customers it's best to try and reward, motivate or incentivize them with the things they value about your operation. If someone loves your value and low prices use a discount. If they love your service use more service – like an in-home consultation. If they love your product send them a free arrangement.

Understanding how customers value your product is an important first step towards greater profits.

1.06 Price Sensitivity

The degree to which the price of a product affects purchasing behavior.

Any discussion of strategic pricing involves references to "price sensitivity" which in this context means the degree to which pricing affects purchasing behavior. A customer that is highly sensitive to price is deterred by higher prices and motivated by lower prices – this the bargain hunter, the customer we hope to motivate with selective discounting and lower priced options. A customer with lower sensitivity to price is one that is less deterred by higher prices. We want to avoid giving them discounts they don't care about, and also more expensive options that allow them to spend more money.

It is important to understand that different customers display different degrees of price sensitivity. Someone might spend a lot of money on their car and their clothes (less price sensitive) but that doesn't mean that they will not still be price sensitive when it comes to flowers.

It changes from situation to situation too. A customer may be more sensitive to price when buying for a client than when buying for a loved one.

Decreasing Price Sensitivity

There are a number of ways to make people less sensitive to price and more willing to spend money on your product. This is typically addressed through branding and marketing rather than pricing. Some of the areas most relevant to the flower business appear below.

Unique Value Effect / Substitute Awareness Effect / Difficult Comparison Effect

Customers are less sensitive to products that are seen as unique and have fewer acceptable substitutes and/or are difficult to compare on price. Tiffany can sell diamonds for two or three times more than their competition because only they have the Tiffany box. In the flower business, where so many websites are using the same product images, names and descriptions, it is easy for products to become commodified and for customers to focus on the lowest price. Original product photography, names and descriptions make your offerings appear unique, and it also becomes harder for customers to compare pricing. All of this makes the customer less sensitive to price.

Price Quality Effect

Brands and products perceived as being high quality, prestigious or exclusive lower price sensitivity. It is beneficial to promote these attributes.

Sunk Cost Effect / End Benefit Effect

This is what makes it relatively easy to sell inexpensive (but high margin) items like enclosure cards as part of of a delivery order. Price sensitivity decreases when the price of a component or related product (like a card) is low relative to the total order cost.

This is also why customers are less likely to object to a delivery charge introduced late in the order process – they already have a sunk cost (in both money and the time spent placing the order) making them less sensitive to the price of delivery. The Sunk Cost Effect is also harnessed by the high-low pricing model discussed later.

1.07 High-Low Pricing

In high-low pricing the customer pays an up-front fee to secure future discounts.

The best known example are Costco (upfront annual membership fee to get discounts and sometimes cash rebates) and Amazon Prime (upfront annual fee to get free shipping and other benefits)

The idea is that the upfront fee, in addition to generating revenue and profit directly, assures loyalty and increases purchase size and frequency. Committed to making the most of their investment the customer will spend more. This is sometimes referred to as the Sunk Cost Effect.

In Your Flower Shop

A florist may choose to offer year-long discounts or free local delivery in exchange for an up-front fee, with the intention of securing loyalty and generating more sales.

In either case the offer should be targeted very specifically, and only to customers with spending patterns, or predicted spending patterns, that will benefit your store.

Florists are typically very kind and generous people, and that can be a problem. If for example a store implements a policy that provides free local delivery in exchange for a $99 annual membership fee the temptation is to then think of which customers this most benefits.

> *Mrs. Smith orders flowers every other week – I can't wait to tell her about this. She'll save a fortune!*

Saving money for your customers is not your goal. Any money your customers save is money you lose.

You also need to be careful that you don't open up any loopholes that could cost you a fortune. For example you don't want a customer that purchases a package for free delivery then sending his girlfriend a single rose every day for a month.

Order minimums work well for this. Let's say you have a customer that typically spends $75 on an order four times a year, and that includes $15 for delivery. This means total annual revenue of $300.

A good high-low package might offer free delivery on any order over $75 for an annual fee of $99. Customers that like this kind of deal typically over-estimate how much they will take advantage of it (health clubs make most of their money from people that would be much better off purchasing day passes) and there is a good chance that the customer won't actually purchase any more frequently.

In that case you have now increased revenues by at least 33% – four orders of $75 (flowers only) plus the $99 membership fee. Even if your $15 delivery really costs you that much you were able to clear $39 on the membership fee ($99 - four $15 delivery fees). As a result margin and profit are both higher, and you were able to fill four larger orders.

If the customer orders 50% more frequently with this plan you increase revenue by more than 80% and generate at least $549 in revenue (six orders of $75 + $99 membership fee). You are still $10 ahead on your delivery fees, meaning both margin and profit are still up.

If the customer orders more aggressively than that you will start to lose delivery revenue/profit, but it is likely a good tradeoff. If the customer were to order twice as frequently, eight times a year, you would increase revenue by more than 130% and generate at least $699 in revenue (eight orders of $75 each + $99 membership fee)… and you have lost only $20 in delivery revenue. You have more than doubled sales by providing an effective discount of just under 3%.

Important Note Avoid the temptation to offer longer-term or "lifetime" deals. Abuse of lifetime memberships in the health club industry led to the introduction of legislation that can apply to such deals and cause more trouble than it's worth.

1.08 Anchoring

Consumers tend place too much importance on a single piece of information. Manipulating that piece of information can be very profitable.

Anchoring is a cognitive bias, a kind of mental shortcut, frequently exploited in pricing strategies. It's hard to truly understand the value of most items, so we tend to assign a lot of importance to one piece of information and base subsequent evaluations and decisions on that. This is referred to as anchoring, and carefully controlling that piece of information can be very profitable.

The best example is the price tag on a "sale" item that shows both the regular and sale price. The regular price acts as the anchor, establishing the value of the product, making the sale price more attractive.

Another tactic, very popular with luxury brands, is to attach an extraordinarily high price to special or limited editions, and much lower prices to very similar versions. The "much lower" prices are still of course very high by any other standard, but because of the anchor effect they seem like a great value. There is an additional benefit in that the expensive limited edition price adds credibility to the brand.

But just as important as the possibility of using anchoring to deliberately raise spending you need to avoid having anchoring accidentally lower spending. Introducing low prices can set the bar lower, but this can be a good thing. Lower priced options typically represent absolutely terrible value and act as anchors that push people up to the next tier because it seems like a relatively good deal (even though it might be far more than what the consumer ever intended to pay.

Consider an electronic device offered with three storage configurations: 16GB/$499, 32GB/$599 and 64GB/$699.

For $100 (20%) more you get twice the storage. $100 more for an extra 16GB seems like a good deal when you consider the first 16GB cost $499. Sounds tempting…

For 20% more than that you get your storage cost down even more. The first 16 GB cost you $499. The second 16GB cost you just $100. Then next 16GBs cost you just $50 each. Each price serves to reinforcee the great value offered by the next price,

In Your Flower Shop

- Sale prices should almost always reference the regular price, since the regular price is the anchor that makes the sale price more appealing.
- High prices can act as anchors that make lower prices look more attractive and make your brand seem more prestigious.
- Lower priced items can act as anchors that drive customers to more expensive products as long as those more expensive items clearly offer greater value.
- Avoid accidentally introducing prices that will act as anchors in the wrong direction. If you see that a customer usually spends $75 don't start by mentioning something at $40.
- Always avoid questions like "how much do you want to spend?" and "what is your budget?". As soon as the answer is spoken the anchor has been set, and because it was spoken aloud by the customer it will be even harder to change.

1.09 Competing To Be The Most Expensive

Prices send a powerful message about the quality of your product and your brand.

It's easy to get focussed on competing on price but there are benefits to offering high prices. One is the anchoring effect covered earlier, but perceived quality is even more important.

Price is the single most powerful indicator of quality. Higher prices indicate higher quality, and with more authority than any marketing tagline. And high prices have even more authority when a product is not well understood by customers – a product like flowers.

The research is incredible. Studies have repeatedly shown that testers will give lower quality wines higher ratings if told they are expensive, and higher quality wines lower ratings when told they are inexpensive,

One remarkable experiment went even further and monitored brain activity as participants drank the wines. Regardless of actual quality the wines they were told were more expensive generated much more activity in the pleasure centers of the brain. They didn't just think the more expensive wine was better, their brains truly experienced it as being better – all because the price.

Most of us would be concerned about a lower priced competitor opening up nearby. Upscale vendors, the ones perceived as being the best in their respective categories, are more anxious about a competitor that charges more. Being the most expensive can be the most credible evidence for being the best.

Some luxury brands promote $22,000 purses to promote the sell of similar products at $2500. The $20K purses don't just act as anchors, they make a compelling argument about brand quality. Most people assume that if a company offers $20K handbags they must sell $20K handbags, and that means those handbags must be something special.

In Your Flower Shop

Adding expensive products serves a few purposes:

- they provide an anchoring effect, making other lower prices seem like better value
- they give the customer that wants to spend more an opportunity to do just that
- they provide credible evidence you are really good at what you do

It's the last one we're focussed on here.

The trick is finding the balance. If you are a family shop that depends on orders from less affluent clients you can't afford to scare them off by concentrating too heavily on expensive designs. A few expensive designs however can add cachet to your brand and make customers more excited about dealing with you, a shop that is so good they can sell that kind of work.

Jeans in the 70's, ads in Rolling Stone. When we didn't know what jeans were "the best" the price settled it for us.

Cristal story: https://www.quora.com/What-is-the-biggest-mistake-that-a-big-company-has-made

1.10 Cheap Doesn't Have To Mean Low Margin

Price-sensitive customers are often focussed on price, not value. Don't assume inexpensive products have to mean lower margins.

One of our goals is to have a product for almost every customer no matter how they value your product. In some cases that means having lower priced products for people who are not prepared to spend much on flowers. That can be discouraging…

> *Great! A small sale with even lower margins. Why even bother?*

But who said the margins had to be smaller? This key is understanding what the price-sensitive customer is looking for.

If they were focussed on outstanding value then yes, it might mean you needed a inexpensive product that offered the customer great value at razor-thin margins.

But these customers are typically not focussed on value. Instead they are fixated on price. That is a very different thing. These customers want something cheap.

Everywhere else we recognize that the cheapest is rarely the best value. The smallest pack size typically comes with the highest per-unit price. Why should flowers be any different?

In Your Flower Shop

Build good margins into your least expensive products. A great example is single roses, especially at Valentine's Day.

If you are a value shop and your cheapest dozen is priced at $39.99 that doesn't mean a singe should cost 1/12 of that. Instead your single might be priced at $19.99. This means much higher margin for you (and less value for the customer) and that is fine. They're focussed on that low price, not the value.

1.11 Multiple Options: Avoiding The Paradox of Choice

Ask and you'll hear that people want choice, but the way they spend gives a very different answer. How to avoid the paradox of choice.

People think that they love choice, and research shows that it does capture their attention. Whether more choice translates to more (or less) sales is a much tougher question to answer. There are some studies that clearly show that too much choice – despite generating more interest – generates far fewer sales. Other studies have not been able to replicate those results.

What does seem true is that people might like the idea of choice, but they absolutely love easy choices. Starbucks might boast about having 87,000 varieties of drinks but they don't present them all in a list – they present them as a series of smaller, simpler choices. Car manufacturers too now start with fewer bundles of options, and then allow you choose more as you go on.

Choice at the cost of complexity is bad. And with something like flowers, that most consumers don't really understand, complexity is a real threat that must be avoided at all costs. Confronted with complexity the customer is likely to become anxious and go to a vendor that makes the choice easier.

Simple choices, ones that frame one particular option as being clearly the best for each customer, are ideal. The consumer is happy, having had the freedom to choose, and you're happy having guided them to the most profitable option.

Another important consideration is that "similarly costs sales" and you should avoid presenting multiple products at the same price at the same time. Price plays a crucial part in decision making – some people are price sensitive and always want the cheapest. Some people assume the most expensive is the best and always go to the high end.

If prices are the same these customers are effectively blinded. They're lacking information as if you gave them only prices and no descriptions.

In Your Flower Shop

Remember that most customers don't know nearly as much as you about flowers, varieties, design styles, etc. Too many choices can confuse them and send them in search of an easier choice. They're looking for guidance.

When presenting multiple products at once – on the phone, a mailer, an email, etc. – avoid presenting products at the same price. Even arbitrary differences are better than no difference.

• Use attributes to help make the decision easier – things like "best value", "best-seller", "most popular", "signature" etc. These are important clues that make decision making faster and easier.

1.12 Pricing/Presenting Multiple Options

Understanding how (and taking advantage of) the way people gravitate towards prices on a spectrum.

We know that different products at the same price is bad, so that means offering prices on a spectrum. Consumers tend to approach pricing spectrums in predictable ways, and an understanding of that can help maximize profits and avoid costly mistakes.

General Rules

People Like The Middle

When presented with three choices (especially with a product they don't truly understand) most people choose the safety of the middle – not the cheapest, not the most expensive. Take advantage of this – understand in advance that the middle option will likely be the most popular and make sure it is something you want to sell.

People Generally Avoid The Cheapest Option

Most people avoid the cheapest option and go to the second cheapest. This is seen, and exploited, by restauranteurs. The second cheapest bottle of wine on the menu tends to be the most popular and restaurants take advantage of this by making that bottle more profitable – it has a higher margin. With three options people tend to favor the middle, with more than three options people tend favor the second-cheapest.

Take advantage of this by making sure that your second-cheapest option is profitable. And be careful about introducing new prices at the lower end of the spectrum because they can shift everything down – what was formerly your cheapest option becomes your second-cheapest (and likely most popular) option. The former middle-of-the-road option, which was likely very popular, now appears as more expensive and becomes less profitable.

People That Want The Cheapest Are Focussed On Price Not Value

There is a tendency to assume that inexpensive products have to offer great value and razor thin margins but that is not always the case. People that favor the cheapest option are more usually focussed on price than value. Inexpensive products should be designed and priced to be profitable – don't assume they have to be loss leaders.

Some People Will Always Go High

We all wish there were more customers like these but they are out there – customers that place a lot of stock in the idea that more is better and spend accordingly. A high priced option provides them with an assurance of quality and brings you a larger sale.

In Your Flower Shop

- Cheap doesn't have to mean low margin
- People will naturally be drawn to the middle or second-cheapest option so make sure it is profitable
- Make sure you have high priced products for the people that want to spend mone

Exercise: Valentine's Day Postcard

Putting what has been covered so far into context with the design of a Valentine's Day postcard.

It’s coming up on Valentine's Day and you want to send a postcard to all of your customers. Let’s take a look at how what has been covered so far applies.

Three, Maybe Four Items – All With Different Prices

We want to avoid the paradox of choice so we limit ourselves to three or four options, which still lets us target different customers and introduce things like the anchoring effect. This also makes it essential to use different prices. And we’re going to use the shortest possible expression of price (fewest syllables).

At The Low End

The least expensive product should be introduced first and accomplishes two things. First it is the “starting from” price that catches the attention of anyone that is not a high roller, providing a low-cost option to the customer that is focussed on price.

That is a very important distinction. Too often we think that low priced products have to offer razor thin margins but the buyer that is attracted to the cheapest price is focussed on just that – price, not value. How often is the cheapest the best value? Is a small tube of toothpaste better value than the large? Don’t sacrifice margin at the low end.

Because this product offers less value it also serves to highlight the better value of the middle product, where we want to coax buyers that were initially attracted to the low price.

Unless you really are the Tiffany of your local market you should probably use charm pricing – prices that end in the number 9. Don’t let ego get in the way – if you worry at all about comparison shoppers or competition from order gatherers and drop shippers you need to be using charm pricing at this end. If you are the rare shop that worries more about a competitor that charges more than you it’s OK to use round pricing (prices like $150).

In The Middle

The middle of the road just feels safe and this is where most consumers will go. Take advantage of that. Restaurants know that most diners will choose the second-cheapest bottle of wine and price accordingly – it’s usually among the most profitable items on the list.

We’re also trying to drive the bargain hunters here – you got them “in the door” with the lower priced option, now you want to move them up to the middle. Since we still want good margins here, on what will likely be the most popular option, we can’t really demonstrate outstanding value – better than at the low end, but nothing to write home about. Social proof, in the form of a “Most Popular” tag, can be a big help.

The decision on charm vs round pricing will really depend on your shop and where you fit in to your local market. If you are firmly established at the high end you might go with rounded pricing, if however you are sometimes concerned about online competition and comparison shopping you should stick with nines.

At The High End

Expensive high price products give the “high roller”, the customer that wants to spend more money, the chance to do just that. Those customers are out there, but often we’re so focussed on everyone else we miss them. This end of the spectrum also allows us to introduce the anchor effect, making everything else seem less expensive by comparison.

There are two ways to approach the most expensive product. One is to follow the lead of the movie theater that aggressively discounts the medium and large bags of popcorns to increase sales and incremental revenue. They make a smaller profit on the additional popcorn, but it's profit they would not have made otherwise.

If you decide to go this route you need to show the value – the offer has to be compelling enough to make the buyer leave the safety of the middle. It's a good idea to add a visual indicator like "Best Value", and you should definitely use charm pricing – it is the most convnincing way to convey value and savings. Even the most exclusive retailers use charm pricing on sales and specials.

Another option is to swing for the fences. Price is the biggest indicator of quality, especially when customers don't really understand a product. High priced versions add cachet and credibility to your brand by authoritatively telling the world you sell high end work. If you show expensive products people will assume you can sell them. They might not buy those products themselves, but they'll be impressed that other people must.

If you choose this option you should consider round pricing, unless you are absolutely committed to being seen as the "value" florist in your market. In either case naming the product or using a tag like "signature" "spectacular" or "premium" will help reinforce the message.

If you go with four products you can use both approaches. The third product offers better value (almost a kind of volume discount) to entice the average buyer (who would otherwise be attracted to the second-cheapest option) to spend more, and the fourth option enhances your brand and gives high rollers something to jump at.