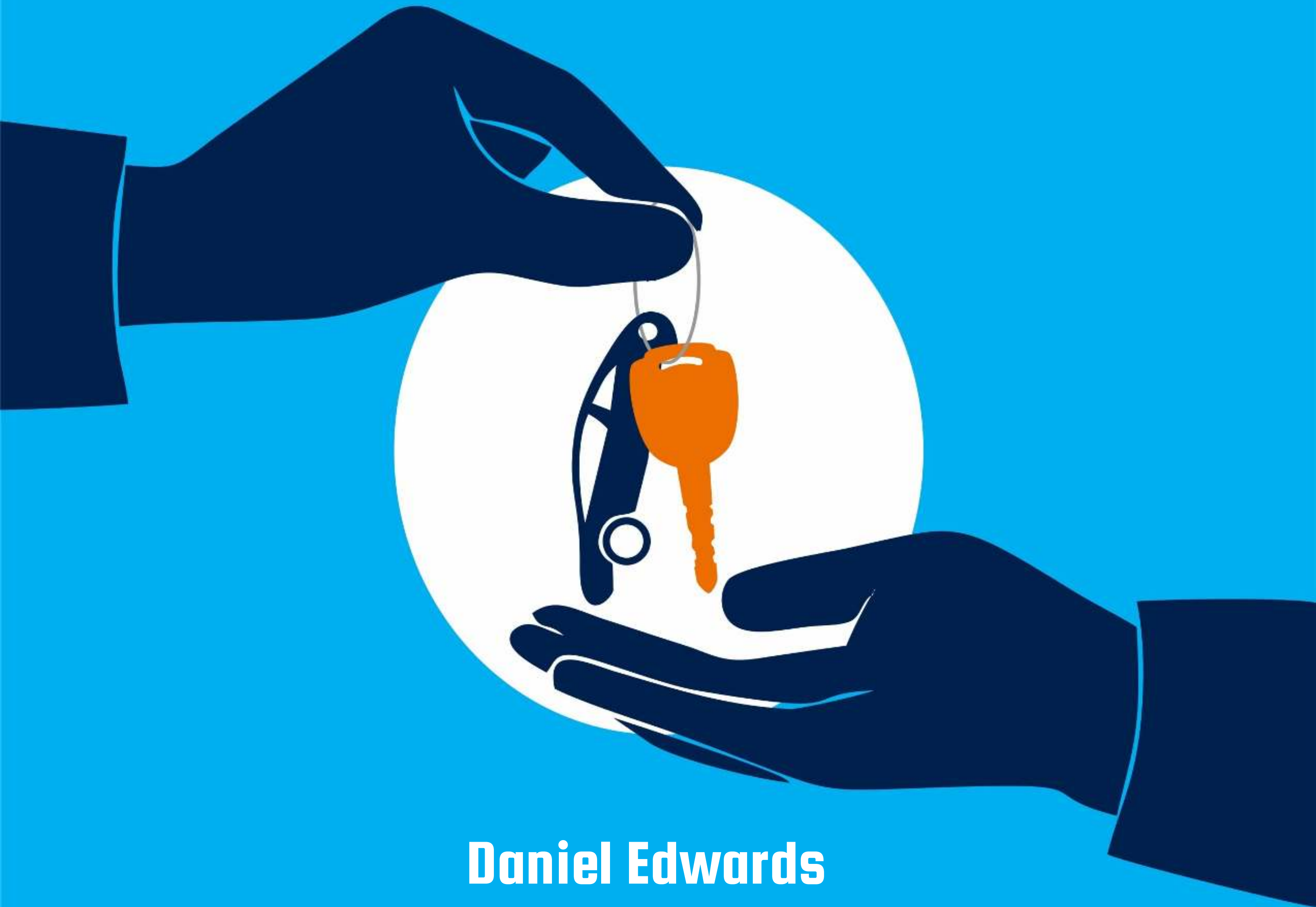
Sell More Cars With Print

Ten Proven Strategies to Increase ROI with Print Marketing



Daniel Edwards

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Introduction

In the competitive landscape of automotive sales, capturing the attention of potential buyers and converting interest into sales is more crucial than ever. While digital marketing has become a staple in the auto industry, the enduring power of print collateral remains a vital component of a comprehensive marketing strategy because the car buyer still likes to touch and feel.

Choosing a new vehicle is an important choice that often demands a tactile experience of the vehicle before a purchasing decision is made. Will the surfboard/instrument/driver fit? How do the seats feel? How is the step out of the car? All tactile choices that can only be answered by visiting a dealership and touching steel.

Face to face communication is where digital marketing advertising channels flounder, and print comes into its greatest power. Print is the always present and available silent salesman that answers questions without intruding. It is the brightly coloured message that can speak to potential buyers across the highway, or across the yard. It is the glossy magazine that patiently goes into depth about the latest model, the optional extras and finance options. It is the business card that sits next to the cup of coffee as people discuss the cars they saw today, keeping you specifically in mind.

The beauty of print in today's digitally distracted world is its focus on message and physical presence. A flyer or brochure will stay in a household for an average of 17 days, while an opened browser tab has only moments of relevance, even if it is bookmarked. A flyer will not suddenly change content to that of your direct competitor, or another app competing for your buyers attention.

However, not all print materials are created equal. The key to success lies in the strategic application of graphic design methodologies that are scientifically proven to enhance performance and drive results.

This book is your guide to unlocking the full potential of print collateral through the art and science of graphic design, tailored specifically for car dealers. It offers actionable advice and insights that can significantly improve the return on investment of your print marketing efforts. By integrating evidence-based design principles, you can create compelling brochures, eye-catching flyers, and persuasive posters that not only capture attention but also influence purchasing decisions.

Science has identified a number of small adjustments to visual price presentation that can unconsciously increase a customer's perception of the value of an offering.

While this approach won't allow you to sell a product for twice as much as your competitors, it can reasonably aim for a single percentage-digit increase in pricing without affecting sales volume.

This might not sound like much, but small increases in sale prices have an outsized impact on business profitability. As highlighted in a Harvard Business School article by Robert J. Dolan and John T. Gourville,

if Coca-Cola could increase its prices by an average of 1% without affecting demand, it would increase its net income by 6.4%. Similar 1% price increases, if they did not negatively impact demand, would lead to increases in net income of 16.7% for Fuji Photo, 17.5% for Nestlé, and 26% for the Ford Motor Company. In fact, an average price increase of 1% would boost the net income of the typical large U.S. corporation by about 12%.

In this book, our aim is to present an assortment of concepts that can be effortlessly implemented while crafting your next print campaign. By doing so, we will increase a customer's willingness to pay and buy. You will be able to exercise refined judgement when it comes to graphic design and print production, amplifying your return on investment in print marketing.

Join us on this journey to transform your print marketing into a powerful engine for growth. By embracing these proven design techniques, you can enhance your brand's visibility, engage your audience more effectively, and ultimately drive more sales. Welcome to a new era of graphic design for car dealerships—where science meets creativity to deliver exceptional results.

1

Just Below or Charm Pricing

Charm pricing, a widely used strategy, involves setting prices just below a round number, such as ending in .99 instead of .00. This approach is prevalent in retail and has been shown to influence consumer behaviour positively. For instance, e-commerce platform Gumroad reported higher conversion rates for products priced at .99 compared to those with whole numbers.

Gumroad Sales Conversions

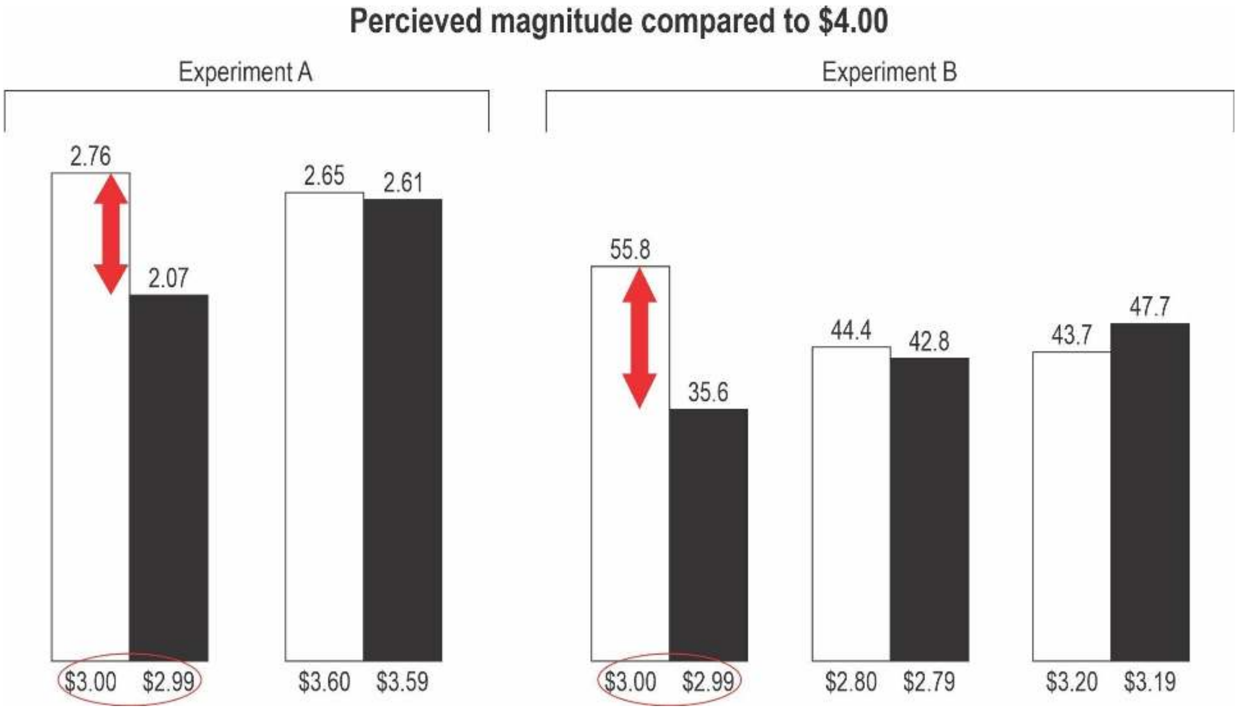
Price	Conversion Rate	Price	Conversion Rate
0.99	3.06%	1.99	5.2%
1.00	1.88%	2.00	2.39%
2.99	3.44%	3.99	3.21%
3.00	2.11%	4.00	2.39%
4.99	4.67%	5.99	1.56%
5.00	3.84%	6.00	1.42%

Research Findings

Researchers have estimated that a $1 increase from a just-below to a round-ending auto loan is equivalent to a $2.05 increase (Jiang 2021), and a 1-cent increase from a just-below price to a round-ending price in the grocery store is equivalent to a 15–25 cent increase (Strulov-Shlain 2021). Thus, there is a compelling reason for managers to use just-below pricing, particularly when competing on price.

The Nuances of Charm Pricing

However, the effectiveness of charm pricing is nuanced. Research by Thomas and Morwitz (2005) highlights that this strategy is most effective when the leftmost digit of the price changes. This is because consumers read numbers from left to right, and their perception of a number's magnitude is heavily influenced by the first digit they see. In their study, participants were presented with prices for two fictitious pens: one priced at a round number ending in .00 and another ending in .99. When the leftmost digit changed (e.g., $3.00 to $2.99), participants perceived the price as significantly lower, even though the difference was only one cent.



The results from their experiments clearly show that while $3.60 and $3.59 are perceived similarly, $2.99 is seen as much less than $3.00. This indicates that the impact of charm pricing is primarily due to the change in the leftmost digit, not merely the presence of a nine at the end.

Practical Applications

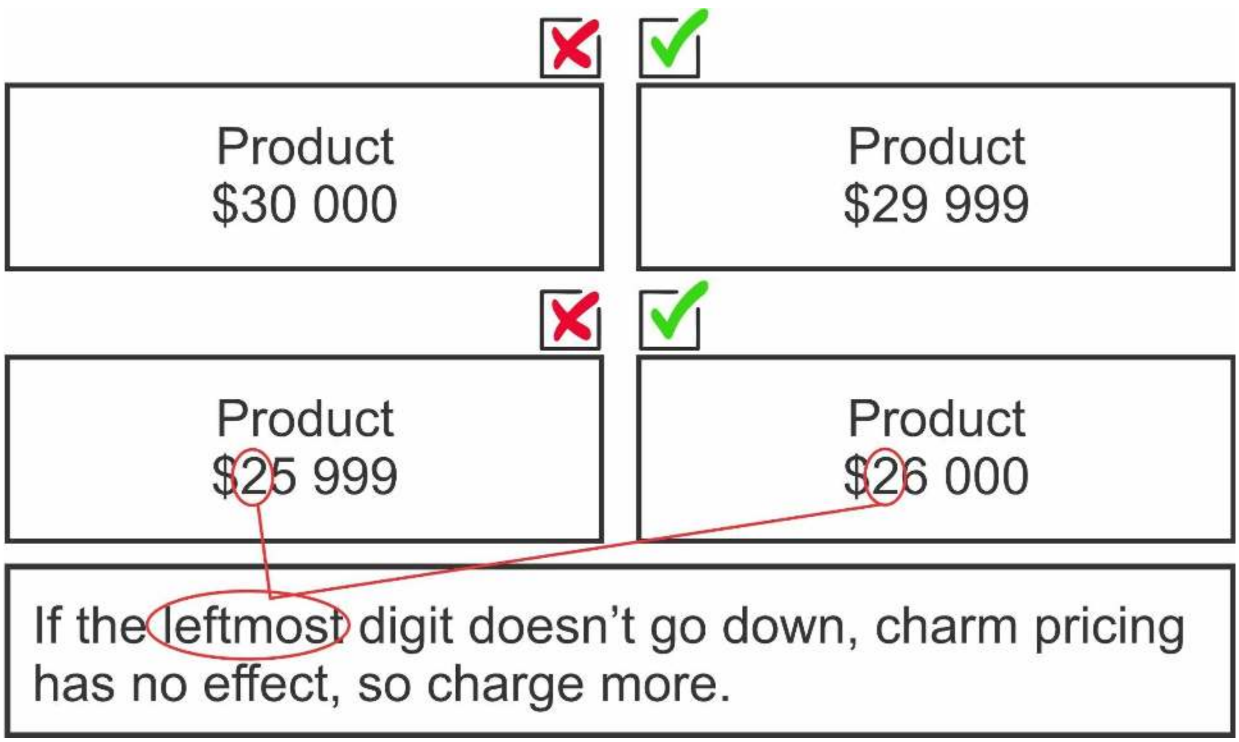
For practical application, consider a product priced at $2,000. Repricing it to $1,999 can create a perception of better value and potentially increase sales volume. However, for a product priced at $2,500, changing it to $2,499 is unlikely to have the same effect, as the leftmost digit remains unchanged, and the only result may be a reduction in profit by $1.

Limitations and Considerations.

It is worth noting that a a handful of separate studies (Dodds, Monroe, and Grewal 1991; Lichtenstein,Ridgway, and Netemeyer 1993; Zeithaml 1988) into just below pricing found that it can signal low quality goods, and have a negative impact on customer perceptions. As such this approach to pricing is less appropriate for luxury items. As such this pricing should be approached with caution when used on higher end car brands, and luxury models. In these cases pricing on a round number will communicate quality, and may be preferable.

Summary

Charm pricing can be a powerful tool, its effectiveness depends on the context and the specific price points involved. By understanding the psychological principles behind this strategy, businesses can make more informed pricing decisions that enhance perceived value and drive sales.



2

Optimising Sales with Right-Digit Pricing Strategies

In the realm of pricing strategies, the subtle art of number placement can significantly influence consumer perception. When consumers evaluate a sale price, they often compare it to the regular price, either calculating the percentage discount or considering the actual dollar savings to assess the value of the offer. Interestingly, when both the regular and discounted prices share the same leftmost digit, consumers tend to focus on the rightmost digits to judge the discount's value. Discounts are perceived as more substantial when the rightmost digit of the discounted price is less than 5.

Research Findings

Research by Coulter and Coulter demonstrated this phenomenon through a series of experiments. They presented students with six sets of prices and asked them to estimate the approximate percentage discount. The results consistently showed that students overestimated the discount when the right digit was a low number. This pattern was observed across four experiments, all yielding nearly identical results.

Low Right Number Perception of Magnitude Data

Price Sets	Actual Discount	Participants Perceived Discount	Participants Perceived Discount Value	Purchase Likelihood
944/933	1.17%	3.30%	3.70	2.85
933/922	1.18%	4.15%	4.80	4.00
922/911	1.19%	4.76%	4.90	4.15
899/888	1.22%	3.30%	3.20	3.85
888/877	1.24%	2.6%	3.30	3.55
877/866	1.25%	2.35%	4.20	3.90

Correlation with Purchase Likelihood

An intriguing aspect of this data is the correlation between perceived sale value and purchase likelihood. There is a distinct relationship between the likelihood to buy and the perception of product value, influenced by the magnitude of the right digit.

Practical Application

To leverage this insight, when presenting customers with a discounted price, avoid disclosing the actual discount percentage. Instead, display the regular and discounted prices together, ensuring the discounted price ends with a digit below 5—the lower, the better. This subtle adjustment can enhance the perceived value of the discount and increase the likelihood of purchase.

Summary

Applying the psychological principles behind right-digit pricing, businesses can craft more compelling offers that enhance perceived value and drive sales. This strategy, while simple, can be a powerful tool in optimising pricing tactics and maximising consumer engagement.

3

Display Reduced Prices in Small Font Size

In the realm of pricing strategies, the visual presentation of prices can significantly influence consumer perception. The human brain often associates visual size with numerical magnitude, meaning that large numbers are encoded similarly to large physical objects. This cognitive tendency suggests that displaying prices in a smaller font size can make them seem less significant.

Research Findings

A study published in the Journal of Consumer Psychology in 2006 by Coulter and Coulter explored how font size affects price perception. The researchers found that manipulating font size in advertisements influenced participants' willingness to buy. In their experiment, participants were divided into two groups and shown ads for inline skates on sale. The first group (congruent) saw ads where the sale price was in a smaller font than the original price (e.g., $12 reduced to $10). The second group (incongruent) saw the sale price in a larger font than the original price.

Congruent	Incongruent
$12 on sale at $10	$12 on sale at **$10**

Experiment Results

After viewing the ads, participants were asked if they noticed the font size differences. Surprisingly, 91% did not notice, and of those who did, half were incorrect about which price was larger. Despite claiming that font size did not influence them, the results indicated otherwise.

Participants rated their perceptions on a 1 to 7 Likert scale regarding the original price's expensiveness, the sale price's value, their likelihood to buy, and their inclination to search for a cheaper price. The congruent group, who saw the sale price in a smaller font, perceived the deal as better and were more likely to buy. In contrast, the incongruent group viewed the deal as less favourable and were more likely to shop around.

Congruent Graphic Design Data

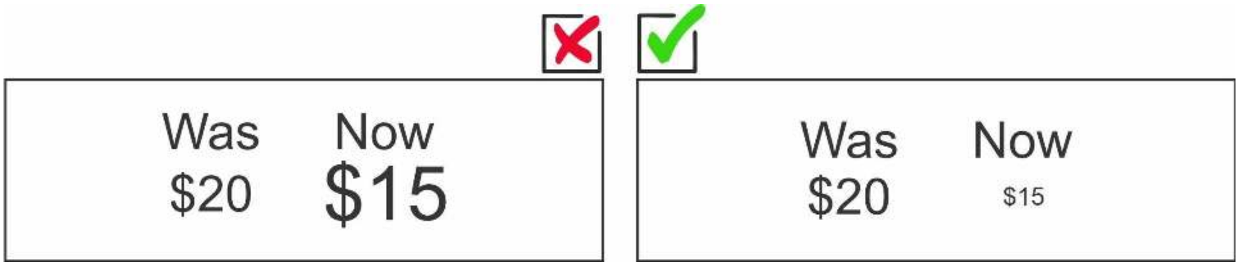
	Congruent **$12** on sale at $10	Incongruent $12 on sale at **$10**
Thought the original price was expensive.	4.65 *Thought the original price(in larger text) was a larger amount.*	3.28 *Thought the original price(in smaller text) was a smaller amount.*
Thought the sale price was good value.	4.31 *Thought the sale price(in small text) was a low amount.*	3.31 *Thought the sale price(in large text) was a large amount.*
Likelihood to buy the product.	4.54 *More likely to buy.*	3.63 *Less likely to buy.*
Would search for a cheaper price elsewhere.	3.12 *Less likely to shop around.*	4.19 *More likely to shop around.*

Practical Implications

This study highlights that graphic design can unconsciously influence consumer perception. Presenting a sale price in a smaller font reinforces the idea that it is a better deal. Therefore, when designing sales materials, ensure that the reduced price is visually smaller than the original price to enhance the perceived value of the discount.

Summary

By applying the psychological principles behind font size in pricing, businesses can craft more compelling offers that enhance perceived value and drive sales. This strategy, while subtle, can be a powerful tool in optimising pricing tactics and maximising consumer engagement. By understanding and leveraging these visual cues, businesses can influence consumer behaviour more effectively, leading to increased sales and customer satisfaction. When designing a flyer or poster promoting a reduced price, use a smaller size font to show the reduced price.



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The Power of Language in Marketing: The Semantic Gradient Effect

In the realm of marketing and consumer psychology, the language used in advertisements can significantly influence consumer perceptions and purchasing decisions. One intriguing concept in this field is the 'Semantic Gradient Effect,' which suggests that the use of certain words can alter how consumers perceive the value and quality of a product. This effect highlights the power of subtle linguistic cues in shaping consumer behaviour, making it a valuable tool for marketers aiming to optimise their advertising strategies.

Research Findings

Coulter and Coulter explored the 'Semantic Gradient Effect,' a phenomenon where the use of lower magnitude words around a price can lead people to perceive the price as lower. This effect plays a significant role in consumer perception and decision-making. In their study, participants were divided into two groups and presented with slightly different versions of the same advertisement for rollerblades. One version featured the words “Low Friction” in bold letters, while the other used “High Performance.”

The Cycle of Distrust

Despite participants claiming not to be influenced by the wording, the results were distinctly different. Participants rated their perceptions on a 1 to 7 Likert scale regarding the original price's expensiveness, the sale price's value, their likelihood to buy, and their inclination to search for a cheaper price. The "Low Friction" group perceived the product as expensive but also as good value, making them more likely to buy and less likely to shop around. In contrast, the "High Performance" group, despite associating the product with high quality, perceived it as overpriced and were more likely to seek alternatives.

Low Magnitude Words Data

	Low Friction	High Performance
Thought the original price was expensive.	4.05 *Thought the original price was high.*	3.48 *Thought the original price was low.*
Thought the sale price was good value.	4.00 *Thought the sale price was good value.*	3.38 *Thought the sale price was bad value.*
Likelihood to buy the product.	4.38 *More likely to buy.*	3.67 *Less likely to buy.*
Would search for a cheaper price elsewhere.	3.57 *Less likely to shop around.*	4.48 *More likely to shop around.*

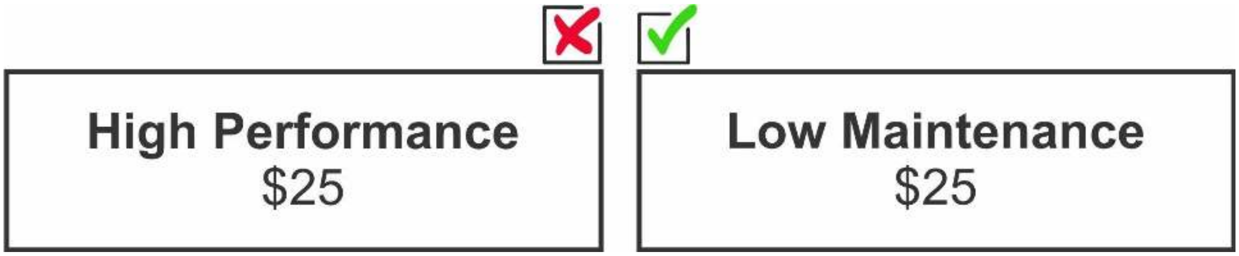
This difference in perception can be linked to Dan Ariely's concept of the "Cycle of Distrust," discussed in "Predictably Irrational." Ariely suggests that frequent deception by businesses and governments leads people to question and devalue claims. In his experiments, even unambiguous statements were doubted when attributed to organisations, demonstrating a baseline of mistrust. Similarly, the "High Performance" claim invoked suspicion, suggesting the seller might be disguising a low-quality product, while the "Low Friction" claim did not trigger such alarm.

Practical Implications

When designing marketing materials, consider promoting features with low magnitude values, such as low maintenance, cool air conditioning, low fuel consumption, and low mileage. Avoid high-magnitude words like high, hot, big, gigantic, massive, and unbeatable. Note that these recommendations apply to product promotions, not general store-wide promotions. For storewide sales, using large-magnitude words can be beneficial, as people perceive discounts at a "HOT sale" to be larger than those at a "COOL sale." Thus, for storewide promotions, use high-magnitude words, reserving low-magnitude words for specific product signage.

Summary

Applying the Semantic Gradient Effect can enhance the effectiveness of marketing strategies by aligning linguistic cues with consumer perceptions. By carefully choosing words that convey the desired magnitude, marketers can influence how consumers perceive value and quality, ultimately driving purchasing decisions.



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Optimising Price Lists: The Impact of Order on Consumer Choices

Price lists are a common feature for many businesses, serving as an efficient way to inform customers about available products and their pricing. However, the order in which products are presented can significantly influence customer choices, a detail often overlooked by managers who may default to alphabetical ordering or leave the decision to graphic designers. Research suggests that arranging products in descending price order—from most expensive to least expensive—can have a real impact on consumer behaviour and sales.

Consumer Perception of Price and Quality

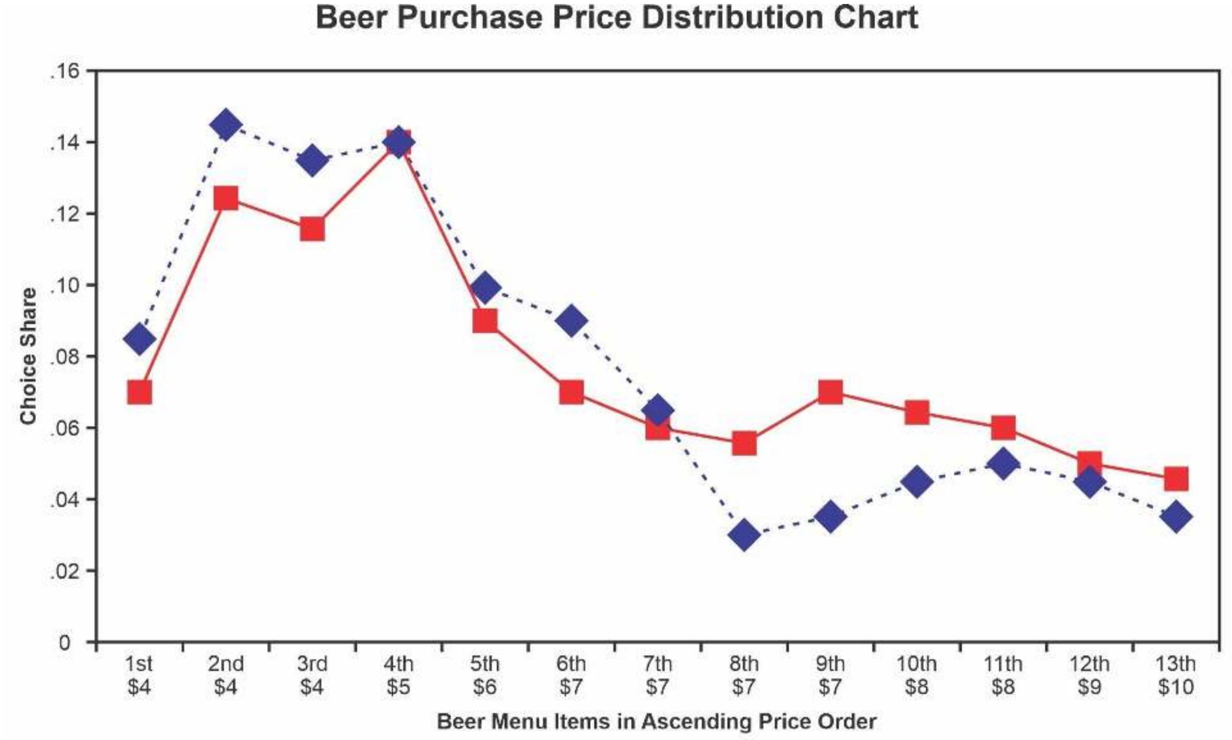
Consumers often associate price with quality, believing that more expensive items are of higher quality due to better materials, craftsmanship, or warranties. This perception ties into the concept of "The Asymmetry of Gains and Losses," proposed by Suk, Lee, and Lichtenstein (2012). Their hypothesis suggests that when consumers see the most expensive item first, they subconsciously prioritise quality over price. Conversely, when the cheapest item is listed first, price becomes the priority, and quality is less of a concern.

Research Findings

To test this theory, the researchers conducted an 8-week experiment in a bar using 13 different brands of beer, with 1,185 beer sales recorded. They alternated between two menu versions: one listed beers in ascending order (low to high), and the other in descending order (high to low). The results showed that the average sale from the descending order menu was approximately 5% higher than from the ascending order menu.

Beer Price List

Ascending - Low to High	Descending High to Low
Beer 1 $4	Beer 1 $10
Beer 2 $4	Beer 2 $9
Beer 3 $4	Beer 3 $8
Beer 4 $5	Beer 4 $8
Beer 5 $6	Beer 5 $7
Beer 6 $7	Beer 6 $7
Beer 7 $7	Beer 7 $7
Beer 8 $7	Beer 8 $8
Beer 9 $7	Beer 9 $6
Beer 10 $8	Beer 10 $5
Beer 11 $8	Beer 11 $4
Beer 12 $9	Beer 12 $4
Beer 13 $10	Beer 13 $4
Average Sale $5.78	*Average Sale $6.02*



Purchase Distribution Analysis

The purchase distribution revealed a subtle shift: fewer customers chose the cheapest options from the descending menu, while more opted for upper mid-range options. Interestingly, there was little change in the most expensive options, suggesting that customers were seeking a balance between price and quality.

Replication and Broader Implications

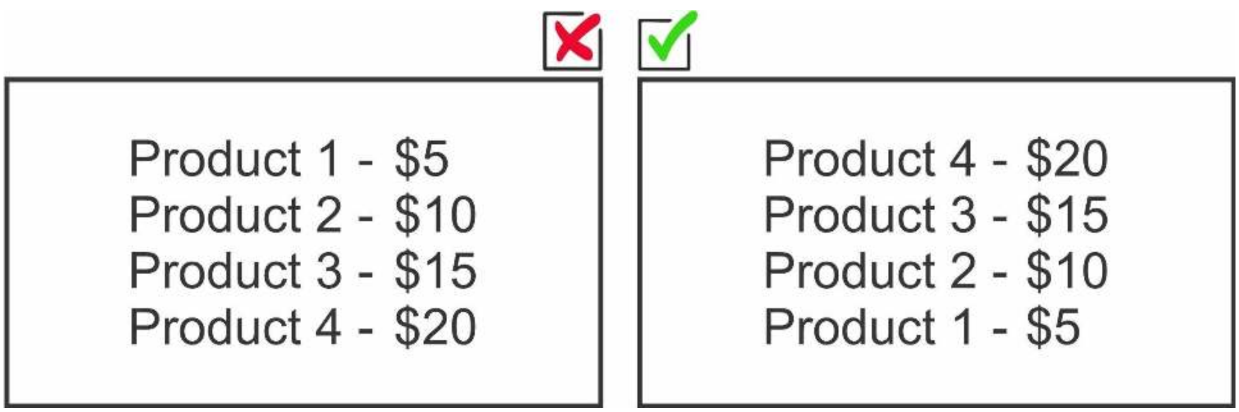
The researchers replicated these findings in follow-up experiments with different products. In one experiment, participants chose from pens priced between $0.15 and $0.90, with the descending order group spending more on average. Another experiment with a fictitious restaurant menu showed similar results, with the descending order menu leading to higher average sales.

Practical Implications

These studies suggest that when designing a price list, ordering items by price and starting with the most expensive can increase the average sale by around 5%. By leveraging this insight, businesses can subtly influence consumer perceptions and enhance sales through strategic graphic design.

Summary

The psychological impact of price list order can help businesses optimise their pricing strategies and improve sales outcomes. By prioritising quality through strategic presentation, companies can effectively guide consumer choices and increase revenue.



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The Precision Effect: Pricing High-Value Products with Specific Numbers

When selling high-value products, such as those priced in the tens of thousands and above, using specific, down-to-the-dollar numbers can be more effective than rounded numbers ending in zeros. This approach leverages the human tendency to round off large numbers in verbal discussions, while smaller numbers are often expressed with precision. For instance, a car priced at $59,999 might be casually referred to as "60k," whereas a chocolate bar priced at $0.99 is typically stated as "ninety-nine cents." This behaviour reflects a broader expectation that large numbers are rounded, while precise numbers are reserved for smaller values.

Consumer Perception of Precision

This expectation can create a sense of uncertainty when precise numbers are used for high-value items. Consumers may wonder why the number is so exact, leading them to perceive it as potentially smaller or more carefully calculated. This perception is supported by research conducted by Thomas, Simon, and Kadiyali (2007), who explored whether the roundness or precision of prices biases magnitude judgments and affects buyer behaviour.

Research Findings

Their study, which included five experiments, revealed that buyers tend to underestimate the magnitude of precise prices, a phenomenon they termed "The Precision Effect." For example, participants perceived $395,425 to be smaller than $395,000. Additionally, precise prices were seen as more carefully calculated and fair, increasing consumers' willingness to pay.

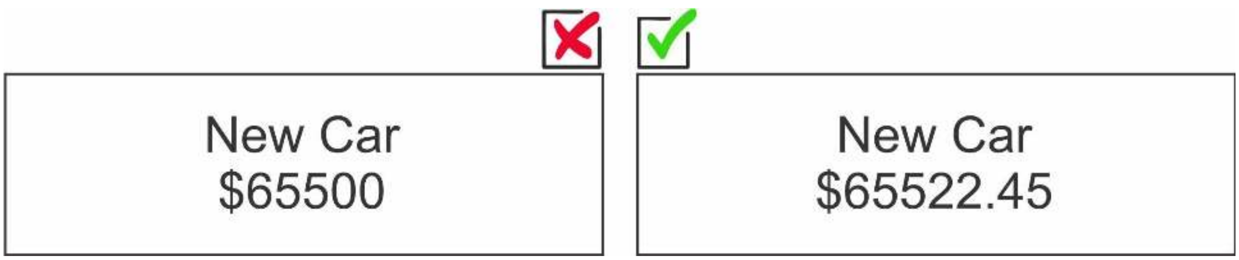
While four of the experiments were conducted in a laboratory setting, the fifth experiment utilised real-world data from the real estate industry. Analysing 27,000 house sales, the researchers found that homes with specific prices (defined as those without zeros at the end) sold closer to their list price and for 0.02% more than those with rounded numbers. Although this difference may seem modest, it is significant in the context of high-value transactions.

Practical Implications

When pricing a product, especially those with high sale values, consider avoiding prices that end in zeros. Instead, use specific numbers to convey precision and fairness. Additionally, apply strategies related to the leftmost and rightmost digits to further enhance the perceived value of your pricing.

Summary

Understanding and applying the Precision Effect can help businesses optimise their pricing strategies for high-value products. By using specific numbers, companies can influence consumer perceptions, enhance the perceived fairness of prices, and ultimately drive sales.



7

Decoy Pricing: Influencing Consumer Choices with Strategic Options

Decoy pricing is a powerful strategy that can significantly influence consumer decision-making by introducing a third option that makes other choices more appealing. This concept is well-illustrated in Dan Ariely's book, "Predictably Irrational," where he describes an intriguing offer from The Economist magazine. The magazine's print subscription and the web plus print subscription were offered at the same price, which initially appeared to be a typo.

Economist Subscription Pricing

Web Only	$59
Print Only	$125
Web & Print	$125

Intrigued by this pricing anomaly, Ariely conducted experiments with his students at MIT. In the first study, he presented them with the same offer he had seen. The results were striking: students overwhelmingly chose the Web & Print option, with none opting for Print Only. In a second experiment, Ariely removed the decoy option, presenting students with just two choices. This time, the decisions were more evenly split, though still leaning towards the cheaper option.

MIT Student Test 1

Subscription	% who chose it	Revenue
Web only - $59	16%	$944
Print Only - $125	0%	$0
Web & Print - $125	84%	$10,500
	Total Revenue	$11,444

MIT Student Test 2

Subscription	% who chose it	Revenue
Web only - $59	68%	$4,012
Web & Print - $125	32%	$4,000
	Total Revenue	$8,012

Case Study: Williams-Sonoma Bread-Making Machine

Ariely cites a case study of the Williams-Sonoma Bread-making machine. The bread-making machine entered the market In the 1990s at $275 and didn't sell. They consulted a marketing company and on their advice, they produced a larger breadmaker with more options and priced it at around 50% more. Sales of the cheaper unit began to skyrocket. The takeaway is that buyers were thinking "Well, I don't know much about bread makers, but I do know that if I were to buy one, I'd rather have the smaller one for less money". Having a second option in the market, they were no longer making a decision in a vacuum, they had something to compare it to.

The Concept of Pricing Anchors

Economists refer to this as a "Pricing Anchor". The higher price becomes the anchor to which we compare the other option. The first unit at $275 in a vacuum seemed expensive, but when compared to the second unit at $429, suddenly $275 was a good deal.

Application in the Car Industry

The car industry has been using this strategy for many years offering different versions of the same car at different price points, and the research suggests it should keep doing so. If you find yourself in a situation where you don't have different versions of the car, find a way to create a new version with dealer-installed accessories, or reference similar car models at a different price point.

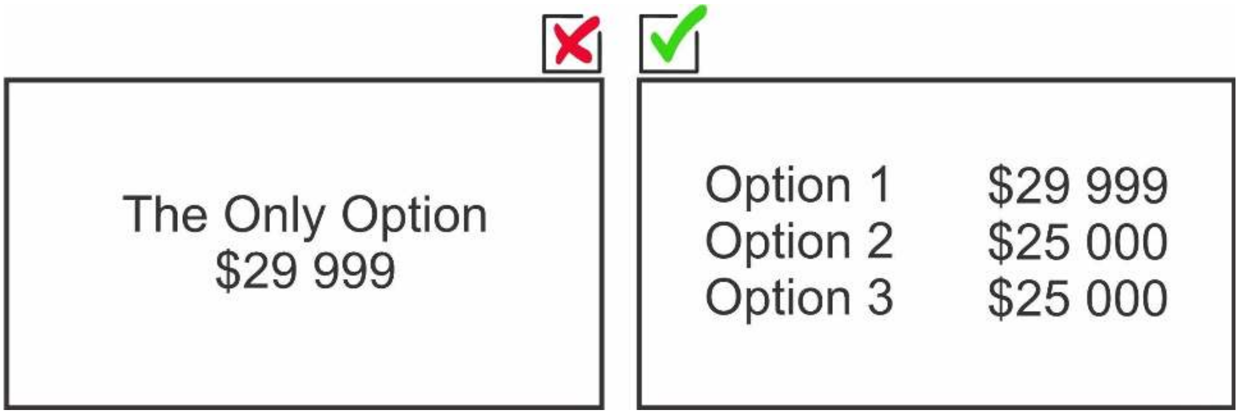
The idea here is that people don't know their preferences that well. By providing a frame of reference you are helping your customer figure out what they want.

Practical Implications

When developing graphic design for a product, include multiple versions of it at different price points, or if that isn't possible, give them comparable alternatives at different price points. It will give the customer a frame of reference and help them to make a purchase decision. If you craft it properly you can direct them towards the most expensive option and increase your sales.

Summary

Decoy pricing leverages consumer psychology to enhance perceived value and guide purchasing decisions. By strategically presenting options, businesses can influence consumer behaviour and increase revenue.



8

Utilitarian vs. Hedonic Purchases: Strategic Discounting to Influence Consumer Behavior

Understanding the distinction between utilitarian and hedonic purchases is crucial for businesses aiming to optimise their sales strategies. Utilitarian purchases fulfil functional or necessary roles in our lives, such as a plumber needing a new utility vehicle (ute) to perform work duties. In contrast, hedonic or luxury purchases are driven by pleasure, enjoyment, or indulgence, like installing a high-quality sound system in the ute for personal enjoyment.

Strategic Discounting to Mitigate Guilt

A 2005 study by Khan and Dhar at Yale University demonstrated that luxury purchases often lead to feelings of guilt, whereas utilitarian purchases do not typically evoke such emotions. This is because utilitarian items are seen as necessary, while luxury items are viewed as indulgent. However, when a utilitarian item is bundled with a luxury item, the way discounts are framed can influence the buyer's perception and feelings of guilt. Specifically, offering a discount on the luxury item can help mitigate the guilt associated with its purchase, thereby justifying the decision to buy it. Conversely, applying a discount to the utilitarian item, which already carries no guilt, does not significantly alter the buyer's emotional response.

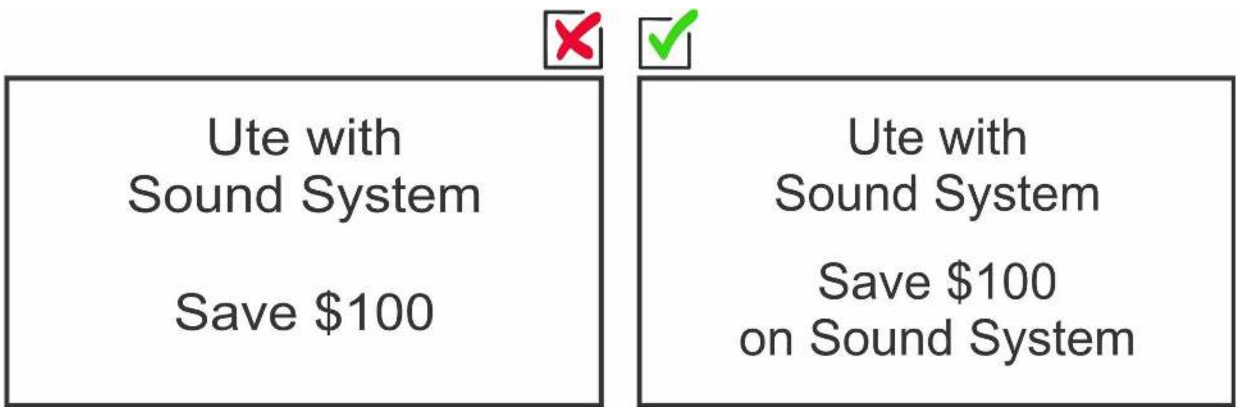
Practical Examples

To illustrate, consider a plumber who needs a new ute. If the goal is to encourage the plumber to upgrade to a premium sound system, it would be more effective to offer a discount specifically on the sound system rather than on the entire purchase. This approach targets the source of potential guilt—the luxury item—making the purchase more appealing and justifiable.

Similarly, imagine a family in the market for a new vehicle. Their primary need is a reliable and spacious car for daily commutes, school runs, and family trips, making this a utilitarian purchase. They might choose a practical SUV that offers fuel efficiency, ample space, and essential safety features to meet these functional needs. However, they might also be tempted by luxury features such as a premium leather interior, a high-end entertainment system, or a panoramic sunroof. To encourage the family to opt for these upgrades, a dealership could offer discounts specifically on these luxury items. By reducing the perceived cost of these non-essential features, the dealership can alleviate any guilt associated with indulging in them, making the purchase more appealing.

Summary

Understanding the distinction between utilitarian and hedonic purchases can significantly influence consumer behaviour and purchasing decisions. By strategically framing discounts on luxury items, businesses can effectively reduce the guilt associated with indulgent purchases, making them more attractive to consumers. For businesses looking to increase sales of luxury upgrades, the key is to focus on offering targeted discounts on these hedonic features rather than on the overall purchase. This approach not only enhances the perceived value of the luxury items but also aligns with consumer psychology, ultimately leading to more successful sales strategies.



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End Sales By Gradually Phasing Out Discounts

The traditional approach to running a sale is with a binary on/off approach. The sale goes from Monday through to Wednesday with normal pricing returning on Thursday. This is known as Hi-Lo discounting. However, this is not the best way to structure sales. An approach known as Steadily Decreasing Discounts (SDD) tapers the discount off over the sale period. For example, Day One is 50% off, Day Two is 40% off, Day Three is 30% off, and so on. The SDD structure has been shown to produce increased sales and profit levels compared to the Hi-Lo structure.

Comparison with Dynamic Pricing

This will appear familiar to anyone who has shopped for airline tickets. Airlines typically start with low prices in advance of the flight, and as the date approaches, ticket prices go up. However, these airline prices fluctuate under other influences. Reservations can cancel, lowering the price, and last-minute discount tickets to reach capacity are also used. The airline's tactic is known as dynamic pricing, and while similar to SDD, it is different in some important ways.

Psychological Insights

Tsios and Hardesty (2010) investigated SDD and discussed two psychological issues created by the Hi-Lo pricing strategy. People tend to compare today's prices with projected future prices. If you expect a product will be more expensive tomorrow, you are more likely to buy it today. Prior research and practical experience have shown that deep discounts will lower future expected prices. Seeing a product on a 50% sale tells people that it is overpriced, and they will think, "If it was on sale for 50% yesterday, I'm not going to pay 100% today, I'll wait until next time it is on sale for 50%."

People expecting higher prices tomorrow are encouraged to purchase today, while those waiting for low prices to return are more likely to wait. Using graphic design and print to tell people that prices are going up tomorrow and that prices were cheaper yesterday, they see the trajectory of the pricing and are more likely to make a purchase today.

Waiting for the next sale is known as inaction inertia. If a person misses out on a large sale (e.g., 40% off), they are less likely to purchase a product at a small sale (e.g., 10% off) in the future. When the difference between the two sales (the missed sale and the current one) is small (e.g., 40% off vs. 30% off), they are just as likely to make a purchase as those who didn't miss the first sale. The SDD structure makes small steps from day to day in the discount, and the chance of creating inaction inertia in customers is lower.

Empirical Evidence

The scientists' first field study was in an upscale kitchen appliance store, where they were given pricing control over a specific product, a wine bottle stopper. They used three different pricing tactics. Each variant was run as a 3-day campaign within a 30-day period before alternating to another variant, for a total of 30 weeks.

Wine Stopper Discount Variants

Steadily Decreasing Discount	Hi-Lo 20% off	Hi-Lo 30% off
Day 1 30% off @$17.95	Day 1 @$19.95	Day 1 @$19.95
Day 2 20% off @$19.95	Day 2 @$19.95	Day 2 @$19.95
Day 3 10% off @$22.95	Day 3 @$19.95	Day 3 No Discount @$24.95

Transactions made on the third day of the Hi-Lo 30% off special were structured so the unit price average was the same across all the specials. The wine stopper, which sold for $24.95 and cost the store $12.475, typically sold 8 units in a month with no promotions.

The table below shows the sales data for a normal month (8 units sold) and the sales data for the three promotion variants. It also compares the profit made by each sales strategy compared to the typical week.

Wine Stopper Sales Data

	Units Sold	Unit Price	Turn Over	Profit
Typical Month	8	$24.95	$199.6	$99.8
Hi-lo 20% (3 days)	14 +75%	$19.95	$279.30 +40%	$104.65 +5%
Hi-lo 30% Day 1 + Day 2	10	$17.45	$174.50	$49.75
Hi-lo 30% Day 3 (no discount)	3	$24.95	$74.85	$37.425
Hi-lo 30% Total	13 +63%	X	$249.35 +25%	$87.175 -13%
SDD Day 1 30% off	14	$17.45	$244.30	$69.65
SDD Day 2 20% off	6	$19.95	$119.70	$44.85
SDD Day 3 10% off	4	$22.95	$89.80	$39.90
SDD Totals	24 +200%	X	$453.80 +128%	$154.40 +55%

All percentages are in comparison to the Typical Month numbers

Analysis of Results

There are a few interesting conclusions we can draw from the sales data. Comparing sales volume and profit against the benchmark, there is a significant increase in sales volumes for both the 30% Off and the 20% Off, but the Hi-Lo 20% promotion increased sales volume by 50% but only increased profit by 5%. The Hi-Lo 30% promotion increased sales volume by 50% and decreased profit by 10%. The SDD promotion increased sales volume by 200% and increased profit by 55%.

They performed another study of sales data sets from a large grocery store, Dominick's Finer Foods, in the Chicago area. The data sets included weekly sales volume, price, and profit at the product (SKU) level. They focused on 2-liter Diet Pepsi sales. While they were unable to control sales or promotional activity, they were able to sift through the data to find instances where SDD and Hi-Lo pricing patterns were used.

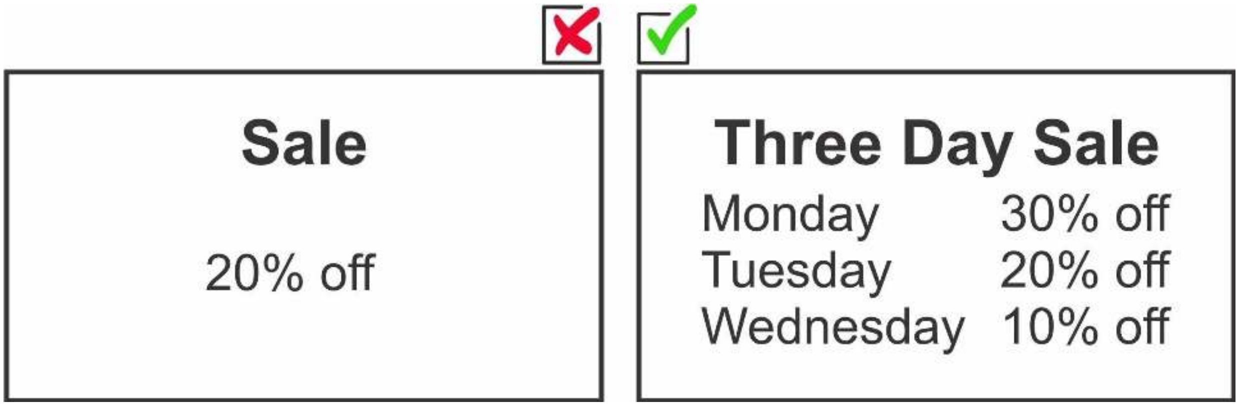
2 Litre Diet Pepsi Sales Data

Promotion	Price			Turn Over
Normal Price	$1.59			Not Given
Hi-lo 30% (3 days)	$1.09			$12,471
SDD (3 days)	Day 1 $1.09	Day 2 $1.29	Day 3 $1.49	$14,847

These sales represent a 19% increase in sales and a 25% increase in profit from SDD versus Hi-Lo. The sales volume for a normal non-promotion period was not given.

Summary

Artwork for an SDD structure must clearly communicate the changes in price in all executions of the artwork. It is the customers' awareness of the momentum of the price that makes the strategy work. No matter what stage of the promotion people encounter the artwork, they must be aware of the changes in price.



10

Pricing Upgrade Options – Just Over Pricing

In many purchase situations, customers are faced with an upgrade decision between the base model and an upgraded option. An easy example is airfares, which typically have Economy, Business Class, and First Class options. The auto industry is another sector with many upgrade options, featuring base model cars and feature-rich models, such as the Toyota RAV4, which at the time of writing has five models, starting at the base model, the RAV4 GX, up to the luxury model, the RAV4 Edge.

Pricing Strategy Considerations

The pricing of the upgraded models is an important consideration, and car dealers may not want to increase the price of the base model as customers tend to weigh the base price more closely than each subsequent upgrade. Just Over Pricing puts forward the case that increasing the price of the base model will increase the number of upgrades by taking advantage of psychological thresholds.

Psychological Thresholds

Psychological thresholds are mental lines in the sand, where, when crossed, the change is perceived to be greater than it objectively is. Forty feels older than thirty-nine. In my subjective experience, 31 degrees Celsius is much hotter than 29 degrees, while 29 degrees feels the same as 27 degrees, even though I know the difference is only 2 degrees Celsius between each. Multiple studies back up these psychological thresholds. For example, people perceive cities that are outside their state, but objectively closer, to be further away than cities in their own state. For example, Melbourne is closer to Antarctica than it is to Darwin.

Just Under Pricing vs. Just Over Pricing

We see this played out with Just Under Pricing, where prices just under whole numbers are perceived to be much cheaper than prices just over the whole number. Just Under Pricing tells us to price just under the threshold to make items feel cheaper. This is a good strategy for a single purchase, but in a case where there are upgrade choices to make, Just Under Pricing is not the best strategy.

This brings us to the 'Threshold Crossing Effect'. This is where, once we have crossed the threshold, the two prices seem more similar. We are less worried about turning 41 than we were about turning 40. This is important when customers are facing an upgrade choice. Because the price of the base model and the upgrade will appear more similar, the customer is more likely to choose the upgrade. The emotional step from a $20,000 car to a $23,000 upgrade feels smaller than from $19,999 to $23,000.

Analysis of the Just Over Pricing Strategy

The reason the "Just Over Pricing" strategy leads to more upgrades can be attributed to the way consumers perceive value and price differences. When the base price crosses a psychological threshold, such as moving from $19,999 to $20,000, the perceived difference between the base model and the upgraded model diminishes. This is because the consumer has already mentally adjusted to the higher price category, making the additional cost of the upgrade seem less significant. This effect is compounded by the fact that consumers often use the base price as a reference point. Once this reference point shifts to a higher category, the relative cost of upgrading appears smaller, thus encouraging more consumers to opt for the upgrade.

Coffee Field Test

Researchers from the Journal of Consumer Research, Kim, Malkoc, & Goodman (2022), investigated this with six lab studies and one field study. In the field study, the researchers set up a coffee cart at a university for two days. They handed out free cookies to attract people and offered them the opportunity to purchase a coffee. The two pricing options tested the Just Below strategy against the Just Above strategy. Just Below pricing was Small $0.95 and Large $1.20, and Just Above pricing was Small $1.00 and Large $1.25. The difference between the two prices is $0.25. The result was that they sold a similar amount of coffees on the two days. Just Below had 29% upgrades, while Just Above had 56% upgrades, almost double the upgrade rate.

Just Below	
Small Coffee	$0.95
Large Coffee	$1.20
Total Sales	38
Upgrades	29%

Just Above	
Small Coffee	$1.05
Large Coffee	$1.25
Total Sales	36
Upgrades	56%

Car Upgrade Lab Test

They ran six lab experiments offering participants upgrade options, comparing the Just Above strategy against other pricing strategies, including Just Below pricing. In one experiment, 313 undergraduate students were presented with a car purchasing scenario with one base product and three upgrade options. The study did not disclose the details of the car or the upgrades. The participants were split into two groups: one saw Just Under Pricing, and the other saw Just Over Pricing.

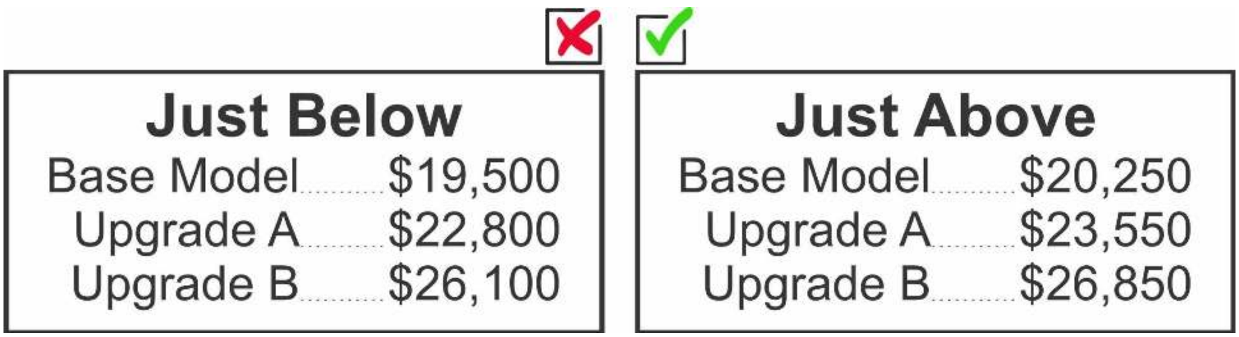
Just Below	
Base Model	$19,500
Upgrade A	$22,800
Upgrade B	$26,100
Upgrade C	$28,600
Upgrades	76.9%

Just Above	
Base Model	$20,250
Upgrade A	$23,550
Upgrade B	$26,850
Upgrade C	$29,350
Upgrades	85.4%

The Just Above pricing led to an upgrade about 10% more than the Just Below pricing. These results were mirrored in further lab experiments using four different products with upgrade options: apartments, blenders, face masks, and streaming services. This consistent pattern across various products suggests that the psychological impact of crossing a price threshold is a significant factor in consumer decision-making, making the Just Over Pricing strategy a potentially powerful tool for businesses looking to increase sales of upgraded products.

Summary

Just Under pricing has been shown to increase sales, however this strategy is not the best decision when pricing products with upgrade options. When working with product upgrades, Just Over pricing for the base option will increase the chances that customers will choose the upgrade. Just Under pricing for the base model will decrease the chance that they will not choose to upgrade.



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Contact Us

1800 652 242

vmgautomotive.com.au

Monday to Thursday 7:30am – 4.30pm

Friday 7:00am – 2.30pm

sales@vmgprintgroup.com.au