

THE ETHICAL PRICING PROJECT

FINDINGS FROM AN ONLINE SURVEY INTO CONSUMER PERCEPTIONS TOWARDS ETHICAL PRICING PRACTICES

By Alan Cooper (Managing Change SIM Ltd) & Jon Manning (Sans Prix Pty Ltd)

INTRODUCTION

On the 1st October 2004, Managing Change SIM and Sans Prix launched the Ethical Pricing Project, an online survey into consumer attitudes towards ethical pricing practices.

Since then, over a thousand people have visited the website (www.ethicalpricing.info) and just over 300 people completed the online survey, yielding over 250 usable responses.

The response to the survey has been extremely positive and clearly touched a nerve or sparked the interest of many respondents. Here are just a few of the comments respondents had to say about the survey:

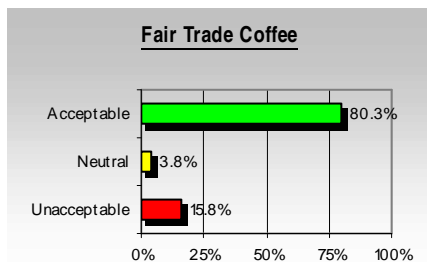
- ✓ *"Interesting survey"*
- Respondent # 86
- ✓ *"Very enjoyable survey – thought provoking"*
- Respondent # 164
- ✓ *"A wonderful survey"*
Respondent # 184
- ✓ *"Good Idea. Hope you are able to do something with it"*
Respondent # 223
- ✓ *"This is a very good and thought-provoking survey"*
- Respondent # 230
- ✓ *"Thought-provoking scenarios"*
- Respondent # 262
- ✓ *"Interesting stuff. Will be very keen to see the results"*
- Respondent # 266
- ✓ *"Good topic"*
- Respondent # 288
- ✓ *"Good project – when will you publish [your] findings"*
- Respondent # 304

This paper summarises the preliminary findings of the research that so many respondents expressed an interest in. Below, we focus on the key findings to the 10 ethical pricing scenarios.

SCENARIO 1

A new coffee shop chain is about to be launched, selling only "fair-trade" coffee. Fair-trade coffee guarantees third world coffee bean growers a fair price for their coffee beans. However, to do so, the new coffee shop chain will charge prices 10% - 25% higher than other coffee shops.

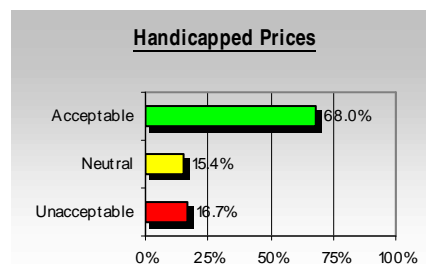
Just over 80% of respondents viewed this scenario as acceptable, second only to Scenario 3 on early-bird pricing by restaurants:



SCENARIO 2

Often, the only thing handicapped people want is to be treated the same way as able-bodied people. If a company decided to extend this thinking to its pricing policy, and charge handicapped people the same prices as able-bodied people, what is your view on this initiative?

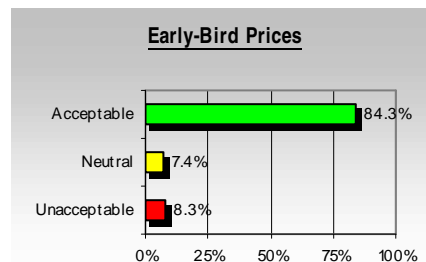
This scenario also had a high level of acceptability (68%) among respondents:



SCENARIO 3

Your favourite restaurant has just launched an early-bird special: dine between 11:00am and 12:00 noon, and for \$50 a head you get your choice of entrée, main course, desert and coffee. If you dine between 12:00 noon and 2:00pm, the choices are identical but the price is \$75 per head.

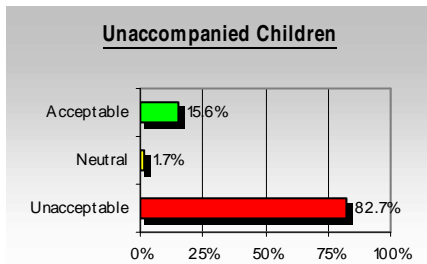
With 84.3% of respondents indicating some level of acceptability on this scenario, it was the most acceptable of all the ten scenarios put to respondents:



SCENARIO 4

You want to send your 13 year old daughter to her grandparents for the summer holidays. You ring your favourite airline, who tell you your daughter, being over 12 years of age, is no longer entitled to a children's fare and must pay an adult fair, which you book. The reservation agent then tells you that, because your daughter is traveling on her own, there is a \$300 surcharge for unaccompanied minors.

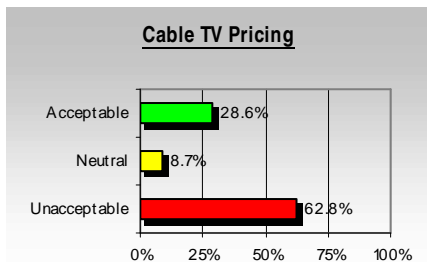
An overwhelming majority (82.7%) of respondents expressed a degree of unacceptability with this scenario, second only to Scenario 10:



SCENARIO 5

You're a big sports and movies fan and decide finally to subscribe to a cable/satellite television service. You are only after two of each type of channel, but you are forced to choose between packages that contain 25, 50 and 75 channels for \$50, \$70 and \$95 per month respectively.

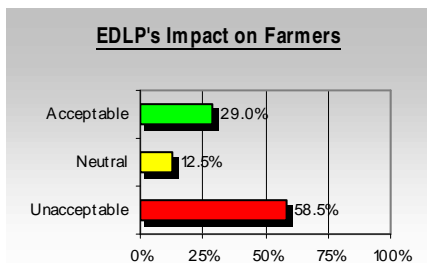
At the time of launching the Ethical Pricing Project, there was much discussion in America on this very topic. Although it would be hard to draw any conclusion from the finding below (due to the small number of North American respondents who had completed the survey at the time of writing), clearly a large majority (62.8%) don't like the practice:



SCENARIO 6

Your local supermarket operates an 'Everyday Low Pricing' policy, where its prices are discounted day-in, day-out. You've recently read that farmers supplying this supermarket chain are getting less and less money for the milk they are supplying this supermarket chain.

This was one of only four Scenarios where over 10% of respondents were neutral. The Scenario was acceptable to almost 30% of respondents, but unacceptable to 58.5%:

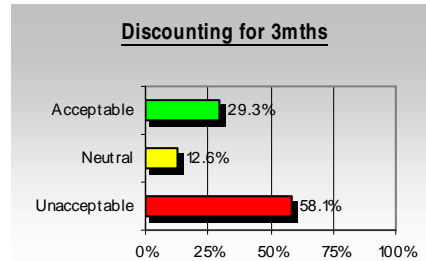


SCENARIO 7

Fair trading laws in your country say that a company can offer a discount (e.g. 25% off) on its products for up to 28 days, after which time product is deemed not to be discounted and the discounted price becomes the full price of the product. You notice that your

local pharmacy has been advertising your favourite perfume at 10% off for the past 3 months.

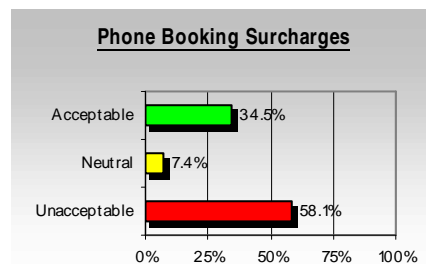
This Scenario shared similar results to the foregoing Everyday Low Pricing Scenario. Respondents expressed the highest degree of neutrality towards this question (12.6%), with the remaining 29.3% suggesting it was acceptable, and 58.1% finding it unacceptable:



SCENARIO 8

You're booking flights for your summer holiday. You are going to fly from London to New York, catch the train to Washington, and then return to London from Dulles International Airport in DC. You know the cheapest fares are on the internet, but when you try to book, you can only book a return flight to New York or Washington. You ring the airline and are told that they can book the flights over the phone, but it will cost an extra \$55 to do so.

The practice of surcharging has proliferated rapidly over the past couple of years, in many industries and parts of the world. The differential between acceptable and unacceptable responses may suggest that consumers are accepting the fact the internet-based transaction are more cost effective for a company than those conducted face-to-face or over the phone:

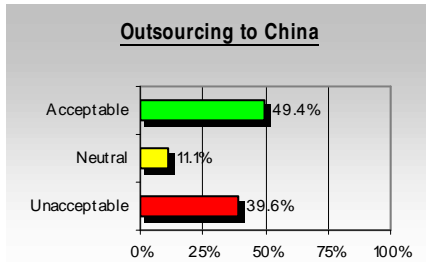


SCENARIO 9

A tailor in Savile Row (London's exclusive street of men's tailors) sells the highest quality, hand-crafted and made-to-measure suits at prices typically 200% above off-the-hangar suites from other retailers and department stores. It decides to outsource production to China, where costs are 10% of those in London. The quality of the suits does not change, and neither does the price.

Again, the topic of outsourcing production to low-cost countries, such as China and India, was often in the press during the survey period (particularly during the first month, which coincided with the last month of the US Presidential election campaign, one candidate having particularly strong views on the topic). In the UK, a number of financial services companies announced that thousands of jobs would be moving offshore, predominantly to India.

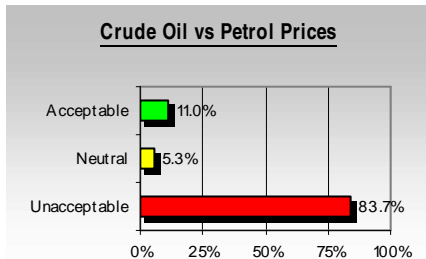
The gap between acceptability and unacceptability was the narrowest of all 10 scenarios, with 49.4% saying this practice was acceptable, and 39.6% finding the practice unacceptable:



SCENARIO 10

When the price of crude oil increases, most petrol/gas stations immediately increase the retail price of petrol/gasoline, even though the supply chain has many weeks of older and cheaper priced fuel in the system. However, when the price of crude oil decreases, petrol/gas stations take much longer to pass these cheaper prices on to consumers.

Once again, this scenario was highly topical during the period the survey was run, with oil prices coming off an all-time high just two months prior to the launch of the survey. This scenario was clearly the most unacceptable of the 10, with 83.7% of respondents finding the practice unacceptable:



FURTHER ANALYSIS

For reasons of brevity, we have limited this summary to the key finding (to date) from the Ethical Pricing Project. Further analysis is currently being conducted, exploring such avenues of enquiry as:

- ✓ The differences in responses across various regions of the world;
- ✓ How the responses of those who have responsibility for setting prices and pricing policy differ from those who do not;
- ✓ Respondents views on the principle of dual entitlement, and the three related questions (on whether it is fair for companies to raise price to maintain profits, whether it is unfair for companies to raise prices to increase profits and whether, if costs decrease, it is fair for a company to maintain prices) and;
- ✓ The learnings and implications of the research.

ACKNOWLEDGEMENTS

Managing Change SIM Ltd and Sans Prix Pty Ltd would like to thank all the people who took the time to complete the Ethical Pricing Project and share their views on this interesting and largely un-researched area of pricing and corporate strategy.

The survey is still live on the Ethical Pricing website (www.ethicalpricing.info) and we welcome more responses, particularly from North America.

FOR FURTHER INFORMATION

If you would like further information on:

- ✓ This paper and forthcoming updates;
- ✓ Any other aspect of the Ethical Pricing Project;
- ✓ Speaking Engagements;
- ✓ Press Enquiries, or;
- ✓ Details of the services offered by Managing Change and Sans Prix.

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About the Respondents (100% = 251)**By Industry Sector**

Retail - Food	0.8%
Retail - Other	2.8%
Financial Services	5.2%
Business Services	8.8%
Technology Services	11.2%
Consultancy Services	17.9%
Personal Services	1.2%
Media	8.0%
Health/Pharmaceuticals	2.4%
Manufacturing - FMCG	0.8%
Manufacturing - Other	1.6%
Distribution/Transport	2.0%
Construction	0.4%
Chemical	0.0%
Government	2.4%
Not for Profit / NGOs	0.4%
Academia including Student	5.2%
Not Employed	2.0%
Other	6.0%
Skipped	21.1%

With/Without Pricing Responsibilities

With Pricing Responsibilities	45.8%
Without Pricing Responsibilities	33.1%
Skipped	21.1%

By Region

Europe - EU	29.5%
Europe - Other	2.4%
Russia/CIS	0.0%
Middle East	0.8%
Africa	2.0%
Asia	5.2%
Central America/Caribbean	0.0%
South America	0.8%
North America	6.8%
Australasia/South Pacific	30.3%
Other	1.2%
Skipped	21.1%

By Age Bracket

Less than 12 years	0.4%
13-19 years	0.8%
20-29 years	11.6%
30-39 years	26.3%
40-49 years	18.7%
50-59 years	15.5%
60 years and over	5.6%
Skipped	21.1%

About the Authors

Alan Cooper

Managing Change SIM Ltd (UK)

Managing Change SIM Ltd, is an independent strategic consultancy established by Alan Cooper and based in Wiltshire (UK). Managing Change provides services such as Feasibility and Business Development Studies, Process Management, and Market Research. For 10 years, it has been helping organisations to make sense of the opportunities and challenges in the new, interactive and often chaotic world of e-business.

Alan has authored:

- "The New Alchemy", published in *The Consultants Advisory* (March 2002);
- "Tuning into Lifestyles, published in *usable iTV*, (October 2001);
- "Turned on, Tuned In" and "Customer Knowledge Management and Mass Customisation", both published in *Internet Business Magazine* (November 1998 and April 1999 respectively), and;
- "Welcome to the Personalised and Interactive Age", published in *WOT (Web and Open Technologies) Ezine*, August 1998.

In addition, Alan is a contributor to the eZine of *Through the Loop*, while his 400+ page *Strategic Interactive Marketing* website, frequently receives over 10,000 visitors per month. See www.managingchange.com

Highlights from Alan's public speaking engagements include presentation on:

- *BPR in Customer Service Administration* to Wiltshire County Council (27 January 2004)
- *Developing an E-Business Strategy*, a presentation to Electronic Business Europe 2000 (London, 21st – 23rd June 2000);
- *One to One Marketing*, a presentation given in May 2000 to e-women, a group of over 500 women working in new media and e-commerce;
- *New Advertising Models and Opportunities in the Interactive Age*, presentation to the annual Norwegian Association of Advertisers' conference (24 November 1999, Vika Atrium Conference Centre, Oslo);

Alan has an MBA from the Henley Management College, England where he is a co-founder of their Alumni e-Business Group, a learning and networking group for Alumnus. He is a member of the Chartered Marketing Institute, Chartered Management Institute and Institute of Management Consultancy, being active on the IMC committee.

Jon Manning

Sans Prix Pty Ltd (Australia)

Sans Prix is an independent Strategic Pricing Consultancy established by Jon Manning. Sans Prix is one of the few independent consultancies that is focused exclusively on pricing, and helping businesses achieve corporate objectives such as revenue or market share growth.

Sans Prix specialises in price benchmarking studies, pricing strategies for new products and start-up companies, education and training in pricing, the establishment of new or auditing of existing pricing departments and pricing methodology evaluation and change management.

Jon Manning (Principal Consultant and Director) is experienced in all the major pricing methodologies, with unique expertise in dynamic and value-based pricing. He has been involved in the pricing of a wide variety of products and services, in numerous countries and industries, for almost two decades. He has generated almost \$A7mill in incremental revenue since January 2003 for clients he has consulted to.

Increasingly in demand as both a speaker and educator, Jon spoke to audiences at pricing conferences and educational institutions in five cities across the Asia-Pacific region during 2004.

Jon holds a Bachelor of Business (Applied Economics) degree from Deakin University (Australia), a Graduate Diploma of Business (Management) from Monash University (Australia) and a Master of Arts (European Studies) from Thames Valley University in London. He is also member of the Australian Institute of Management (AIMM), the US-based Professional Pricing Society and the Economic Society of Australia.

Jon is the author of:

- "Dynamic Pricing and Revenue Management for Start-Up Companies" published in the *Journal of Professional Pricing*, Vol 11, Nbr 2, Q2/2002;
- "The Proliferation of Surcharging", published in the *Journal of Revenue and Pricing Management*, Vol 2, Nbr 3, October 2003, and;
- "Pricing 101 for Small Businesses", published in *Work from Home* magazine, March 2004.

He was also recently interviewed by the ANZ Bank's *In Business* Magazine, "Is the Price Right: What Factors should Businesses look at When Setting Prices" (Issue 42, Summer, 2004-05, circulation 270,000).