

Understanding and enhancing Price fairness perceptions of value-based pricing

by Dominik Ebinger and Marc Wouters

Executive Summary

Value-based pricing uses the customer value that a product or service delivers to a predefined segment of customers as the main factor for setting sales prices. It is seen as a superior pricing mechanism for suppliers but it may be perceived as unfair by customers, particularly in fields where cost-based pricing is the established pricing norm. Customers compare value-based pricing with pricing mechanisms that are being used in reference transactions. This study shows that value-based pricing is not inherently perceived as less fair, but this may happen if using value-based pricing differs from the use of cost-based pricing in the reference transaction, so if customers are used to cost-based pricing. Thus, the introduction of value-based pricing is recommended for transactions without strongly established cost-based pricing practices, such as for highly innovative products, or for offerings that bundle manufactured products and services (“solutions”). Also, this study finds that value-based pricing is perceived as fairer if it is done a similar way as in the reference transaction—specifically if the same value-sharing rule is applied. This can work in two ways: using the same value-sharing rule as with other customers, or using the same value-sharing rule for the ex-post price (based on realized customer value) as for the ex-ante price (based on estimated customer value) with the focal customer. Thus, it is recommended to devote resources to the documentation of reference cases that show applications of value-based pricing with various companies and to make these cases available for potential other customers, to develop methods and data for value quantification with customers, and to invest in the documentation of the realized value with a specific offering used by a particular customer.
