HARVARD BUSINESS REVIEW

September 2007

Charge What Your Products Are Worth

BYLINE: Venkatesh Bala, **Jason Green**.

Venkatesh Bala (vbala@thecambridgegroup.com) is the director of the Economic Center at The Cambridge Group in Chicago.

Jason Green (jgreen@thecambridgegroup.com) is a principal at The Cambridge Group.

SECTION: FORETHOUGHT HOW THEY DID IT No. BR0709

In a world with too many choices, aligning a product's price with its perceived benefits is critical, but many companies seem to miss this simple point. A good question for any company to ask itself is "What would Goldilocks think?" Instead of offering too few benefits, or too many, for a stated price, they must perfectly align benefits and price across the product category and the brand portfolio, finding the combination that is "just right."

To do this, companies must assess how customers accord value to products and brands within a category. From the customer's perspective, value has two components: the benefits received and the price paid. Value increases as benefits are added at the same price point or as price is reduced for the same benefits. After gauging customers' perceptions of value, managers can plot a simple chart that reveals any misalignment and use it to balance the benefit-price equation. This approach reaped huge dividends for Swingline, one of the most recognizable brands in office products. (See the exhibit "Aligning Value.")

Several years ago Swingline was growing only modestly and was on the verge of losing retail distribution for the category with the greatest growth opportunity: electric staplers. After extensive research, the company concluded that price and perceived benefits were poorly aligned across its products: Customers thought that some of its products were too expensive and others were too cheap.

Swingline's research identified a top segment of customers who were highly demanding and very much involved with paper tools. These "stapler aficionados" were willing, even eager, to pay a premium for a stapler that could handle constant heavy-duty use without ever breaking down. Yet until Swingline came to fully understand their perceptions of value, it failed to communicate why its electric staplers, priced up to ten times as high as a basic manual stapler, represented good value.

Working with similar insights along the entire product line, Swingline altered its strategy; it persuaded retailers, for example, to reorganize the layout and signage of stapler shelves to reflect customers' underlying value equation: product benefits by price tier. And the company shifted its communications to focus on the specific benefits, such as "no jamming", that resonated most with each customer segment, rather than on basic product features that customers found less motivating. The cheapest staplers were promoted as delivering basic functionality at the lowest cost, mid-tier products as durable and reliable, and deluxe electrics as superior performers for "elite" users. Within months the sales of electric staplers had doubled, while premium manual staplers, whose sales had been flat, experienced strong double-digit growth. The new marketing model encouraged many customers to trade up, turning Swingline's own performance around by increasing sales and margins.

By charting perceived benefits relative to price across a product line, a company may discover significant misalignment (left chart). Aligning price with benefits (right chart) can result in increased sales and margins.