

Funding My Startup

Module 6: Pricing Strategy + Perceived Value (Why People Say "Worth It")

Module 6 Overview + Checklist

Module Overview

Price is never just a number. It's a signal—and customers read it like a shortcut for what to expect. A higher price can suggest better materials, better service, higher status, or lower risk (“this will actually work”). A lower price can signal affordability and accessibility—but it can also raise questions about quality, durability, or reliability. Before customers even experience the product, price sets the story in their head: Is this premium or basic? A smart value or a gamble? For people like me or not for me?

Price also shapes expectations and satisfaction. When customers pay more, they expect more—faster service, better performance, fewer hassles, stronger support. If the experience doesn't match the price, disappointment hits harder. When customers pay less, they may accept trade-offs (slower shipping, fewer features), but they still want to feel they made a smart decision. In other words, pricing doesn't just influence whether someone buys—it influences whether they feel good about buying after the purchase.

$$\text{Perceived Value} = (\text{Total Benefits Received}) / (\text{Total Costs Given Up})$$

And “worth it” is rarely about money alone. Customers weigh the full trade-off:

Benefits (What I Get)

- Results
- Convenience
- Enjoyment
- Confidence
- Status
- Peace of mind

Costs (What I Give Up)

- Money (\$)
- Time
- Effort
- Risk
- Switching routines
- Uncertainty

That's why two people can look at the same price and react completely differently. One sees it as a bargain because it saves time and reduces stress; another sees it as overpriced because they don't value the same benefits.

In Module 6, you'll learn how marketers set prices strategically—not randomly and not just by “adding a markup.” You'll explore how price connects to a company's goals (profit, growth, market share, survival), how it reflects costs and competitors, and how it supports positioning (budget, value, premium). You'll also examine the psychology behind pricing—why some prices feel fair, why certain numbers feel “right,” and how pricing choices can increase demand, reduce hesitation, or build trust. By the end, you'll be able to explain pricing as a positioning decision: the price you choose tells customers exactly who you are, who you're for, and what kind of value you promise to deliver.

Learning Objectives

By the end of this module, you will be able to:

- Explain pricing as a strategic tool (not just covering costs)
- Compare common pricing approaches (cost-based, value-based, competition-based)
- Describe psychological pricing factors (anchors, bundles, fairness)
- Explain how pricing affects brand perception and behavior
- Recommend pricing strategies that match a target market and positioning

ESTIMATED TIME

Total: 45–75 minutes

- Reading: 45–60 minutes
- Mini-lecture: 12–18 minutes (if assigned)

MODULE TO-DO LIST

1. Read: Module 6 Reading (Part A, Part B, Part C)
2. Watch: Mini-lecture — Pricing = Positioning (if assigned)

KEY TERMS

Price elasticity

Cost-based pricing

Value-based pricing

Competition-based pricing

Perceived value

Bundling

Anchoring

Psychological pricing

Price fairness

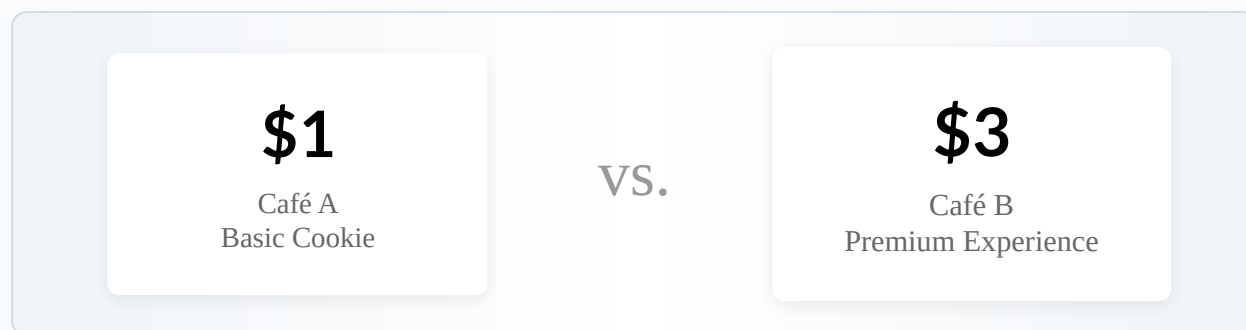
Pricing Is a Message

Core Concept: Price sends signals.

- Higher price can suggest higher quality
- Lower price can suggest affordability or lower risk
- A “free” offer can increase trial but may reduce perceived value

Story: The \$3 Cookie vs. the \$1 Cookie

Two campus cafés sell cookies.



Café A: The \$1 Cookie

It's simple: you grab it, you eat it, you move on. It's a quick add-on—something you might toss into your order without thinking too hard.

Value Proposition: Price + Convenience.

Message: "Cheap, easy, good enough."

Café B: The \$3 Cookie

Described as “fresh-baked, warm, locally made.” Café B isn't really selling “a cookie for \$3.” They're selling a *mini-experience*.

Value Proposition: Premium Quality + Experience.

Message: "Crafted, special, indulgent."

Some students still choose Café B because the “product” they're buying includes more than ingredients:

- **It feels like a treat.** A warm cookie can be comfort food. It's a reward after class, a stress-break, or a small celebration. Students aren't only paying for taste—they're paying for the feeling.
- **It signals quality (and reduces uncertainty).** “Locally made” and “fresh-baked” reduce the risk that it'll be stale or disappointing. The higher price can act like a shortcut: this one is probably better.
- **The experience is better.** Warmth, smell, presentation, friendly service, and even the café atmosphere can make it feel more satisfying. Sometimes people are paying for the moment, not just the snack.
- **It fits identity and lifestyle.** For some students, premium choices reflect who they are (or who they want to be): someone who values craft, local businesses, quality ingredients, or “little luxuries.” The cookie becomes a signal: I choose nicer things when I can.

Bottom line: Café A competes on affordability and utility. Café B competes on premium value and meaning. Pricing doesn't just set what customers pay—it shapes what customers believe they're getting.

Three Common Pricing Approaches

Businesses generally use one of three methods to determine the sticker price.

Cost-Based Cost + Markup Simple but ignores customer value	Competition-Based Match Competitors Useful benchmark but risks price wars	Value-Based Customer Perceived Value Best for positioning & profit
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1. Cost-Based Pricing	Price = Cost + Markup (e.g., Cost \$10 + 20% markup = \$12)	✓ Simple to calculate. ✗ Ignores what customers are actually willing to pay.
2. Competition-Based Pricing	Price based on competitors (e.g., Competitor is \$15, so we charge \$14.50)	✓ Useful benchmark. ✗ Can lead to "price wars" where everyone loses profit.
3. Value-Based Pricing	Price based on perceived value (e.g., It saves the customer \$100 in time, so we charge \$20)	✓ Strongest for positioning & profit. ✗ Harder to estimate accurately.

Mini Case: The Tutoring Center Pricing Debate

Imagine tutoring is free on campus. Great—more access. But the center struggles with no-shows and low commitment.

They experiment with:




- A small refundable deposit to reserve a slot
- Or a loyalty reward for attending consistently

Insight: The goal isn't to "charge students." The goal is to shape behavior and increase follow-through. Pricing can influence commitment.

Psychology of Pricing: How "Worth It" Works

Customers don't calculate value like a spreadsheet. They use mental shortcuts (heuristics):

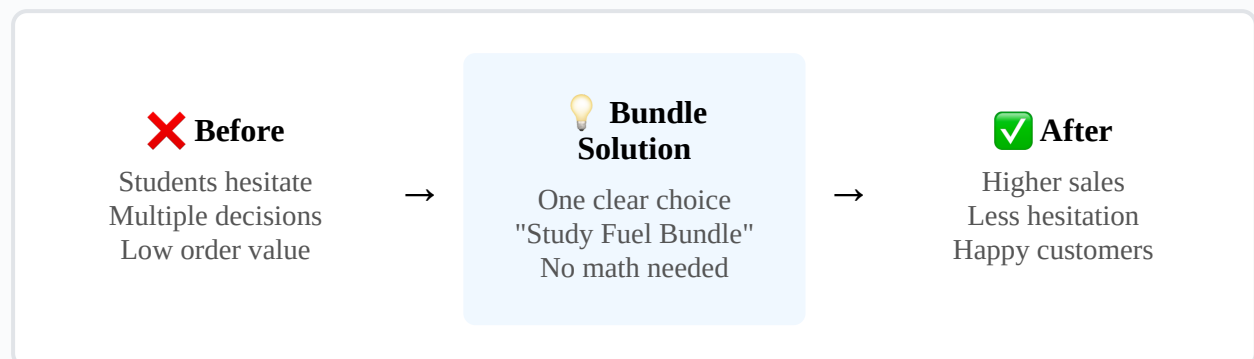
Psychological Triggers

-  **Anchoring:** The first price you see becomes the reference point. (e.g., “Premium combo \$12” makes the \$9 combo feel reasonable.)
-  **Bundling:** Bundles feel like savings and simplify decisions. (e.g., “Meal + drink + snack” is easier than choosing items separately.)
-  **Fairness:** If customers think a price is unfair, they react strongly. (e.g., raising prices during finals week can feel exploitative.)

Story: The Campus Sandwich Wrap Shop Bundle

The Problem: The shop owner, Tanya, notices average order size is low. Students buy one wrap (\$6) but hesitate to buy drinks (\$2) or chips (\$1.50). They stand at the register debating: “*Is it worth the extra money?*” They are suffering from **decision fatigue**.

The Solution: Tanya stops selling “items” and starts selling a “solution.”



The "Study Fuel Bundle"
2 Wraps + 2 Chips + 2 Drinks
One clear price. No math required.

Why It Works (The Psychology):

1. **Reduces Decision Fatigue:** Instead of making 3 separate decisions (wrap? chips? drink?), the student makes one decision: *Bundle yes or no*.
2. **Removes Pain of Paying:** Bundling hides the individual cost of the “expensive” chips or drink.
3. **Social Proof:** Naming it “Study Fuel” signals “this is what students like you buy for this situation.”
4. **Increases Confidence:** Students feel prepared (“we’re set for the night”).

Result: Sales go up. Not because the food changed, but because the *decision* became easier.

- **Price is a signal:** It tells customers about quality, brand identity, and who the product is for.
- **Value is subjective:** It's a balance of Benefits vs. Costs (including time and effort).
- **Pricing reflects strategy:** You can price based on cost, competition, or value. Value-based is usually strongest for branding.
- **Psychology matters:** Tactics like bundling and anchoring help customers overcome hesitation and feel good about the purchase.