

Price Psychology

For those selling wholesale to retail outlets, I suggest considering some psychological factors in pricing.

PRICE POINTS

Every individual has an “attitude” about different prices and for most of us that attitude has set points – usually coinciding with bill denominations.

- \$10 is too cheap to be concerned about. .
- \$20 is still cheap but begins to bring in the considerations of need and value.
- \$50 is beginning to get serious and requires some consideration before buying.
- \$100 is definitely serious and should always be decided carefully.

Because we’re accustomed to doing it with bill sizes, many of us carry that attitude beyond to \$100 to \$200, \$500, and \$1000.

MID POINT PRICING

None of us any longer thinks \$19.95 is less than \$20.00. In fact, we know that when tax is added, it’ll be well over \$20.00. We usually psychologically “round up” prices to the next highest bill denomination. If something is \$15.00, we think of it as just about \$20.00. If it’s \$35.00, we think it’s just about \$50.00. Because we think that way, something that might sell for \$35.00 might sell just as easily for \$45.00.

RETAILER MARKUP

Retailers usually want to markup to what is called “keystone”. That is, they will retail for double their wholesale cost. Increasingly, retailers are hoping to get slightly more than keystone. If you set your prices so that they can hit important price points and get slightly better than keystone markup they’re more likely to buy from you than someone else. For example, if you wholesale for \$25, they will retail it for \$49.95 – or might try for \$59.95. That creates a problem because psychologically \$60 is a LOT more than \$50. It’s over \$50. It’s change from \$100. Starting to get serious. If you wholesale for \$23.50, the shop can retail for \$49.95 and hit that important price point while getting a markup slightly more than keystone. They’ll like doing business with you.