# Psychological Price Points??

## How Unfashionable, Says Dollar Tree

- *Pricing Strategy*
- *Pricing Execution*

December 2021


Dollar Tree, Inc (DLTR), the giant chain of "Everything's $1" stores, has just delivered a stunning reminder that not even iconic price points, in the consumer goods space, can stay the same forever. In a move that stirred everyone from politicians to value-shoppers to Trump family members to protest, Dollar Tree has done the unthinkable: it is raising prices on many items to $1.25. If even the price that's in the name, on the wall, on the corporate letterhead and was seemingly *the brand* won't stand, what next?

Consumer brands, and even B2B sellers, usually have a variety of "psychological price points", especially for items sold through retail, where competitors' offerings tempt all consumers to "switch" at any time. **All things equal**, building purchasing habits may rely on the consistent experience of brand, quality, value, and, the thinking goes, price. If the customer gets used to seeing a beloved sku from brand A at, say $9.99, should brand A be concerned about "jolting" the consumer with a $10.39 price? How about going from $4.99 to $5.29?

The answer, as Dollar Tree seems to resoundingly declare, is "up to a point only". While in most business-as-usual environments psychological price points have a role to play, it is usually a small role. Messaging the customer's psyche through this particular medium (price digits) about "good value", consistent brand experience, price leadership, etc, can reinforce the impact of other value elements **as long as it can be done profitably, and the value to the consumer is in fact "as promised" by that messaging.**

The current environment is anything but business-as-usual. More than at any time in recent decades, inflation and supply-chain shortages have added velocity in the rate of change to what many consumer goods are "worth" in the marketplace. A price tag is challenged to present a mutually acceptable offer, with value sharing compelling enough for consumers to buy, and for seller to achieve acceptable profit. Dollar Tree is banking that consumers were not as much coming in for the joy of spending exactly $1/item, but for the joy of leaving with the items they wanted, at a combined price tag that seemed unbeatable overall, regardless if some cents must be thrown in with the dollars. *The brand, they're betting, is value, not gimmicks and contortions around an amount that's worth less in real terms every week.*

Because the cost of making, packaging, shipping and selling most of its items is going up, Dollar Tree would be increasingly having to cut down the lineup of items it can still afford to offer at $1 and make a profit. Would most consumers pay $1.25 and find all the items they're used to, or keep paying $1 and have to go to a second store on the same trip because 2/3 of those items are no longer available? This reinforces a message I share with clients these days: in this environment, the value (as measured in pricing power) of your mere ability to reliably deliver product has gone up in a supply-constrained marketplace.

Traditional psychological pricing theory says certain price points perform better than others. But nearly all such theories are developed in experimental settings, with "all other things being equal" (and stable over the experiment period) between consumer control groups and actively tested groups. No such experiments prime the consumer to "expect the (pricing) unexpected", as we see in today's relentless broadcasting of inflation-related stories in the media and at the store.

Further, most experiments deal with one specific price/item, while consumer brands and retailers have the complex realities of portfolios and price-pack architectures where not every single price can be round or end in .99 ... For them, it is not a question of if they will depart from some/all psychological price points, but of when / which ones.

In the end, psychological price points are "small guys" in the lineup of drivers of pricing power and consumer willingness to pay. While worth using strategically as "incremental" optimizers, they're easily outweighed when the relationship between the "big guys" has changed. Inflation, inability to deliver product by you or your competitors, and evidence that you have unutilized pricing power (for example, a big gap between your prices and the next-best alternative), are really what should drive the conversation. If the resulting path forward requires leaving psychological price point(s) behind, most consumer brands still have it much easier than Dollar Tree. They may need very real new store signs and corporate letterhead soon, but if they're right they'll be able to afford them (and their competitors may follow suit).


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