Un-stuffing Mattress Pricing

By Megan Moore, Consultant at Pearson Ham

Sitting on the tube at 06.30am, my eyes bore into the thoroughly unsurprising and all too familiar adverts plastered around the carriage walls. Invest in Krypto currency? Not for me thanks. Rent a Mac? I'm content with my PC. Order Viagra through an online pharmacy? Erm… definitely not!

However, there is one regular that has caught my eye. I have noticed him lingering throughout the tube for quite some time now, preying on any vulnerable, sleep-deprived commuters that will dare to sneak a glance. He is called "Casper" and apparently, he is the perfect mattress for me. Simba, Eve, Casper, Leesa, Made… There has been an explosion in growth of the online mattress market in recent years.

They market themselves as being meticulously engineered, ordered online, delivered direct to your door, and backed with a 100-day guarantee just in case their three layers of ingeniously crafted, premium quality, futuristic foam does not quite meet your high standards. It is a great proposition: for the customer, it removes the complexity of choice, inconvenience of browsing, risk of dissatisfaction and various other purchase barriers. For the manufacturer, they can have a small share of a large, high mark-up market, save forking out on costly showrooms and have the perks of dealing with their customers directly. Unsurprisingly, these businesses are doing well.

Nevertheless, as a senior pricing consultant at Pearson Ham, it led me to question what they could be doing better. A quick scout around the internet shows that a good mattress is priced upward of £500. A fair chunk of money for an object that is essentially a couple of springs and a bit of stuffing bound by some material, right? Or is it? Let's assume that we all adhere to the guidelines and replace our mattress every 8 years. A £1,000 mattress equates to approximately 34p per night. That no longer sounds quite so expensive when you compare it to the £3.05 hazelnut latte I buy each morning for its warmth and a much-needed caffeine hit. I would even go so far as to say that, given how much value I place on feeling well rested, the mattress seems like a relative bargain. So how can the mattress industry adapt their pricing to better capture this opportunity?

When working with clients to help them alter and adapt their commercial models, Pearson Ham recommends that they consider four key questions:

1) What are you charging for?
2) How are you charging for it?
3) When are you charging for it?
4) Who is it that you are charging?

These four areas can help the business understand how they can better align value capture to value realisation, and how they can expand their value capture potential to ultimately improve their performance.

WHAT ARE YOU CHARGING FOR?

As with all these questions, there isn't necessarily a "right" or "wrong"- it all depends on your business objectives, your competitive environment and the nature of your customers.

A common trend observed across a variety of markets is the movement from charging for a product to charging for a service. Selling the "end-goal" that a service can provide for a customer is often a much more powerful form of communication than describing the functional product benefits. We have seen this with the emergence of companies such as Hello Fresh where they not only provide the ingredients, but also provide recipes, quantities, and delivery to help you consume a nutritionally balanced diet.

> "Companies should seek to provide a solution that addresses the customer's root need"

Within the mattress market, the question of selling a product vs a service may be of particular interest. I do not buy a mattress because I enjoy its decorative beauty: my demand for a mattress is derived from my demand to have a good night sleep. By seeking to provide a solution that addresses the customer's root need, a company can become much more successful at capturing value pools. A service would assume that the mattress company sells a more holistic range of products and services. For example, they may take some responsibility to ensure that the mattress condition is maintained and upgraded when appropriate. They could offer a quarterly mattress turning service, an app to help you keep track of how much sleep you have been getting and maybe even some whale music to help you achieve a relaxed state! Providing customers with these additional or associated products/means that customers are more likely to receive what they intend to purchase: comfortable, good quality sleep.

HOW ARE YOU CHARGING FOR IT?

The question of how you choose to charge for something can also have significant ramifications. To reduce purchase barriers, that may result from customer uncertainty and reluctance to take risk, how you charge for something should be as closely aligned to the value the customer ultimately receives.

In most common purchases, we pay a price in exchange for ownership of a product. If I go into M&S, I pay for a chicken wrap and diet coke, and then it is mine to do with as I please. We make transactions like these multiple times a day and probably don't think twice about them. But charging in this way assumes that the value I derive from my wrap and drink is from ownership. The reality is, I derive value in a variety of different ways: taste, energy and the ability to eat it quickly and without spilling any of it down me. The way in which I am being charged does not reflect any of these factors and, as a result, may influence the choices I make. In other words, by charging ex-ante rather than ex-post, opportunities may be missed. To illustrate: perhaps I would have been willing to pay twice as much for the sushi selection but refrained out of concern that it may not fill me up. If I had certainty that the sushi would be just as filling, I would have happily paid more for this option. Payment that is based upon the metrics and outcomes that matter to me (eg how long it takes before I feel hungry again) should help to overcome purchase barriers that arise through uncertainty. Obviously, this is quite an extreme example. However, the message is clear: the closer you can align how you charge for something to how value is derived, the better.

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In the case of mattresses, the introduction of a 100-day guarantee essentially tries to tackle this issue. You will be charged for the mattress if you enjoy sleeping on it enough to want to keep it after 100 days. As a result, there has been a slight movement away from the "customer pays, customer owns" way of charging towards a method of charging that is slightly closer to reflecting the thing that matters to the customer: whether they prefer this new mattress to their old one. This guarantee provides them with the reassurance that they will, in the worst-case scenario where they decide to send the mattress back, be no better off and no worse off than they are with their current mattress. However, there is room to go one step further, if we believe that the metric that a customer truly values is the quality of their sleep, why not measure the quality of sleep a customer has before and after purchasing the mattress, and charge according to the size of the improvement? Reducing risk for customers in this way can significantly lower purchase hurdles and is particularly effective if you genuinely believe in the quality of the product or service you provide.

WHEN ARE YOU CHARGING FOR IT?

The point in time that you choose to charge for a product will impact a customer's value perception and willingness to pay.

Again, the optimal solution aligns when you charge to when the customer derives value. It seems bizarre, then, that mattresses are sold for an up-front lump sum payment even though a customer derives value every night they use that mattress over the eight or more years that they keep it. The movement from paying for something-up front to having the payments spread over time, or even paying via subscription (the key difference being that you will never own the mattress and could in theory upgrade/switch brands at any time) is a well-known, widely-observed and non-radical phenomenon. Dreams already offer 30 months interest free credit to help customers overcome initial purchase hurdles and spread payments over time. However, this is very much a finance option as opposed to a subscription offering.

> “Willingness to pay may increase purely due to shifts in value perception”

Changing the point in time that you charge for something can have multiple benefits. Firstly, charging £1,000 for a mattress vs 34p per night (approx. £10.40 per month) sound like totally different propositions even though they are principally equivalent. Consequently, willingness to pay may increase purely due to shifts in value perception. In addition, spreading the cost of a big-ticket item over time can help increase the affordability for cash-strapped customers who are willing to pay, thereby reducing financial constraint inefficiency. Furthermore, if a customer is paying for something in regular instalments and can directly equate this to the utility they receive (i.e. they are still using the mattress each night), the likelihood that they will renew their contract through the same company when their term is complete is increased. Hence, the potential benefits of shifting from up-front to subscription payments are numerous and is an option that should be seriously considered.

WHO IS IT THAT YOU ARE CHARGING?

The final point to consider is who it is that you are choosing to charge.

Whilst it often does make sense to charge the person who is purchasing the item, businesses should always reflect whether they are leaving revenue on the table by not charging other parties who may also benefit through the purchase. This concept can be understood when we think about online aggregators and market-makers that, by definition, provide benefits for both sides of the market. Sites such as Airbnb provide benefits both for the person looking to find a property (they have a large list of choices presented in one place with an easy way to check credibility and ratings) and for the person looking to rent their property (Airbnb provides a large customer base and removes the stresses and responsibilities associated with renting to strangers). Therefore, in such a situation, it makes perfect sense for Airbnb to levy fees on both sides of the market to reflect the value that they create for each.

So how do we extrapolate this concept to mattresses, I hear you ask? Be it your husband, wife, kids, friends or colleagues, there are an assortment of stakeholders who have a vested interest in the quality of your sleep, purely and selfishly because it impacts them. This means that there is an opportunity, albeit ambitious, to capitalise on these additional revenue streams. Whilst it may feel a little far-fetched, when you think of the benefits that some employers do already offer (eg private health care, learning and development, gym membership etc) because it enhances both your well-being and their utility, perhaps it is no longer as extreme to envisage a world in which employers contribute towards their employees' mattresses...

> "There is an assortment of stakeholders who have a vested interest in the quality of your sleep"

CONCLUSION

In summary, there are three key take-aways that we can learn from the mattress industry:

1) Just because your business is doing well, doesn't mean there isn't room to do much better
2) Don't be afraid to break the boundaries and deviate from transactional norms
3) An effective value proposition tackles What, How, When and Who you charge

Whilst we would always advocate taking a highly structured and rigorous approach when reviewing or considering a change in your commercial model, it is also valuable to remember that where there is risk, there can also be significant reward.

ABOUT PEARSON HAM

Pearson Ham is a specialist pricing consultancy. We offer a bespoke service, tailored to your business strategy. We take great pride in our collaborative approach and are passionate about finding and unlocking value where you didn't know it existed.

Our approach is insight-led and influenced by your industry, market and customers. Our experience, our commercial knowledge and our key analytical skills help you better understand the world in which you are pricing, for both your business and your sector.

As trusted experts, we use our insight, analysis, implementation and monitoring framework to design tailored pricing strategies that optimise your profits, margins and overall business performance.

Our award-winning team is a mixture of consultants and industry practitioners, but ultimately, we are all pricing specialists. We have broad experience across a wide range of sectors, so not only can we apply our same-sector intelligence, we can also bring our knowledge of other sectors to your business.

CONTACT US

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