Trust drives profitable pricing

In the Consumer, Travel & Hospitality Industry
Introduction

Pricing is often seen as one of the most powerful, yet frequently underutilized, drivers for margin improvement. As pricing professionals, we are often asked by our clients how to better understand the “willingness to pay” of customers to define what the optimal price point would be. Many apply principles based in behavioral economics, like using 0.09 price endings, deploying an anchor product, and using conjoint research to estimate customer response to price changes in tightly controlled test environments.

But today, through a wealth of customer data and modern Artificial Intelligence/Machine Learning (AI/ML) techniques, we can precisely model what a customer is willing to pay for a product or service under certain dynamic conditions (e.g., location, time of day, competitive dynamic). **The next frontier in price management is now how to influence willingness to pay.**

Trust is the foundation of the human experience; it is impossible to build successful relationships without it. And, trustworthy behavior garners loyalty among customers:

- **62%** of customers buy almost exclusively from trusted brands and
- **88%** of customers who highly trust a brand have bought from the brand again.

Building trust requires organizations to demonstrate Competence and Intent. This is the ability to deliver on promises to stakeholders, while acting from a place of authenticity. In short, live up to your promise and trust will follow.

Building trust further requires a deep understanding of the factors affecting human behavior and making targeted investments to garner the relationship with customers.

Trust becomes an influential pricing lever

**Trust is the foundation of the human experience; it is impossible to build successful relationships without it.** And, trustworthy behavior garners loyalty among customers:

After evaluating multiple factors that influence willingness to pay, we doubled down on trust as the key driver: We conducted a survey of 100K responses from customers across a wide range of customer product categories to uncover the elements of Competence and Intent. The survey responses were distilled to the actions that most highly correlate with trust, yielding four predominant signals that are important if organizations want to improve willingness to pay:

<table>
<thead>
<tr>
<th>INTENT</th>
<th>HUMANITY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TRANSPARENCY</td>
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</table>

<table>
<thead>
<tr>
<th>COMPETENCE</th>
<th>CAPABILITY</th>
</tr>
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<tbody>
<tr>
<td>RELIABILITY</td>
<td></td>
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</tbody>
</table>

We are able to illustrate the impact these factors have on customers’ willingness to pay via our proprietary HX Trust ID™ that quantifies these four signals.
Within our survey, the most salient question pertinent to pricing indicates that customers spend more when they trust the brand, despite knowing that cheaper options exist:

**What is the likelihood a customer will spend more on the brand compared to a similar product or service from a competitor?**

<table>
<thead>
<tr>
<th>Behavior</th>
<th>When <strong>HUMANITY</strong> is high... likelihood</th>
<th>When <strong>TRANSPARENCY</strong> is high... likelihood</th>
<th>When <strong>CAPABILITY</strong> is high... likelihood</th>
<th>When <strong>RELIABILITY</strong> is high... likelihood</th>
<th>Impact Delta within Sub-Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airlines</td>
<td>3.05X</td>
<td>3.07X</td>
<td>3.33X</td>
<td>3.45X</td>
<td>.40</td>
</tr>
<tr>
<td>Alcohol</td>
<td>3.30X</td>
<td>3.31X</td>
<td>3.73X</td>
<td>3.43X</td>
<td>.43</td>
</tr>
<tr>
<td>Apparel</td>
<td>3.06X</td>
<td>3.07X</td>
<td>3.31X</td>
<td>3.29X</td>
<td>.25</td>
</tr>
<tr>
<td>Automotive</td>
<td><strong>3.23X</strong></td>
<td>3.26X</td>
<td>3.55X</td>
<td>3.49X</td>
<td>.32</td>
</tr>
<tr>
<td>Hotels</td>
<td>2.68X</td>
<td>2.49X</td>
<td>2.96X</td>
<td><strong>2.86X</strong></td>
<td>.47</td>
</tr>
<tr>
<td>Restaurants</td>
<td>3.12X</td>
<td>3.05X</td>
<td>3.81X</td>
<td>3.47X</td>
<td>.76</td>
</tr>
<tr>
<td>Food &amp; Bev</td>
<td>3.00X</td>
<td>3.05X</td>
<td>3.35X</td>
<td>3.17X</td>
<td>.35</td>
</tr>
<tr>
<td>Retail</td>
<td>3.95X</td>
<td>3.87X</td>
<td>4.09X</td>
<td>4.10X</td>
<td>.15</td>
</tr>
<tr>
<td>Sports</td>
<td><strong>3.34X</strong></td>
<td>3.26X</td>
<td>3.58X</td>
<td>3.48X</td>
<td>.32</td>
</tr>
</tbody>
</table>

**Examples in the consumer, travel & hospitality industry**

Car buyers are **3.23X** more likely to purchase and pay more from a dealer (compared to its competitors) who is perceived as acting humanely; the dealership might consistently demonstrate respectful treatment of their customers and employees while walking around the dealership.

As an apparel company, shoppers are **3.31X** more likely to shop and pay more with you (compared to your competitors) if capability is high; the retailer might sell shirts or pants that customers find to be of exceptional value and quality, with a seamless experience in-store or online.

As an airline, travelers are **3.07X** more likely to book and pay more for a carrier (compared to its competitors) if transparency is high; the airline might be exceptionally clear about the ticket fair with no hidden fees.

As a hotel, guests are **2.86X** more likely to spend a night and pay more at a hotel (compared to its competitors) viewed as highly reliable; if it is a chain, the hotel might deliver an exact experience from check-in to check-out at each location for guests.
Building trust increases customers’ willingness to pay

The impact of each signal within trust varies by sector, sub-sector and each brand in unique ways. Based on (Figure A), trust has a large reliability multiplier in retail compared to other sectors: For example, when retailers are perceived to deliver consistently high quality (i.e., delivering products and environments that are of good quality, accessible, and safe) and demonstrate regular improvements (i.e., improving products and services), customers are 4.10X more likely to spend on the brand compared to one of its competitors.

Furthermore, the ability to quantify humanity, transparency, capability and reliability provides specific guidance as to where brands can improve and build more trust with customers.

For example, in the restaurant industry we see the biggest area for improvement is capability. Restaurant patrons are 3.81X more likely to increase spend at restaurants perceived as having good food quality and an inviting guest experience.

By contrast, when brands do not build trust, we see the opposite effect: low levels of trust lead to significant losses in perceived value. When an HX TrustID score is low, customers are 4.66X to think the brand would rip them off. (A figure that illustrates a greater negative impact than majority of all trust factors having a positive influence).

How to capture margin from elevated trust

Our research yields the quantitative evidence needed to drive home the simple fact: trust is a powerful currency. Our data illustrates that customers are willing to pay more for brands they trust; yet trust is a fragile currency that’s curated over long periods of time but can be lost with a single bad customer experience. So, how to do this right?

Understand your HX Trust ID

Deloitte’s human experience and pricing experts can help you identify your HX Trust ID, how your competitors score, identify where you have the largest gaps, and come up with an action plan. This can be done at a national brand level or more granularly. For instance, there are often systematic differences between store locations that can highlight localized improvement opportunities.

Reevaluate your pricing

Now imagine bringing this new trust data into your pricing strategy. Companies that are trusted can charge more for their services which ultimately drives more value for their organization and the people they serve. More sophisticated organizations are using AI/ML algorithms that leverage HX Trust ID to determine how to optimize prices to capture this value.

Become more dynamic

Trust changes over time. Therefore, the real magic happens when you develop the capability to monitor your HX Trust ID score and its influence on willingness to pay on an ongoing basis. You can do this by integrating your pricing engine with a live survey tool that collects customer responses to our four question survey. Customers can be invited to participate through a QR code on the receipt, after they purchased through the app or even through a pop-up on their phone when they physically leave the store.

Ultimately, investing in trust will lead to long term sustainable profits.
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Endnotes

1. “The pricing paradigm: Driving profitable growth through strategic revenue management,” 2018
3. “Effective Dynamic Pricing Starts With the Customer”, WSJ, April 2020
4. “We’re Only Human: Exploring and Quantifying the Human Experience,” August 2019
5. Deloitte HX TrustID™ Benchmarking Survey Fall 2020 (n=32,765)

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