

Bargains and Luxuries

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Like all of us (I hope), I have survived the annual splurge that is Christmas. Quite apart from the huge quantities of food and drink that have been consumed, any retailer will tell you that Christmas is a key selling point in the year. It sets a benchmark that helps analysts to predict the state of the nation or at least of the economy. Are we buying enough? Have the sales tempted us sufficiently? The sales now even appear to precede the Christmas event rather than just be the postscript to it that they once were. And all in the cause of greater consumption, higher retail targets and more consumer satisfaction.

Following Christmas, I managed a week away for a bit of a break. And during the week managed to lose my watch. So back home again and back to the sales, to see if I can find a really nice replacement for the missing timepiece.

With the combination of Christmas buying and the subsequent search for an attractive replacement watch, I have become aware of an interesting phenomenon concerning the price of goods. Actually it's not the price itself that is important, but the difference between the cheapest version of any given object and the most expensive. Suppose that the cheapest version is x . Will the most expensive be $2x$, or $10x$, or $50x$, or $200x$, or $1000x$? And why? Is there a way to explain (a theory even) the price variation of products?

Some interesting examples spring to mind. A new car can be purchased for something in the order of £5,000. But a new Aston Martin, Ferrari or Rolls-Royce (with all the trimmings) could set you back something like £100,000. So the x factor is about 20: i.e the most expensive is about 20 times the price of the cheapest. But what about my new watch? I can get one very easily at my local garage. It's a monstrous macho (and repulsive) digital job with enough dials and knobs to make it look like the basic training model for the SAS; except that it would probably fall apart in ten minutes. But still I suppose £4.99 isn't much to ask for a working watch. Or I can

go to Harrods and pick up a Rolex for £65,000 (I kid you not: platinum, with black mother of pearl dial and diamond encrusted bezel!) So the "x factor" is suddenly huge: a whopping 13,000.

Now consider the reverse of these cases. Which products have the smallest "x factor" and why?

Being midwinter, my thoughts occasionally turn to heating, and my local coal merchant has, over the years, been a reliable source of "good" coal. But is there a cheap coal and an expensive one? Of course there is, with differences like more dust, less lump consistency (i.e the size of the pieces), and "dirtier" burning (i.e more unburnt residue at the end) being characteristic of the cheap stuff. But what about the "x factor"? Well, the cheapest coal around here is £5.00 for a 25kg bag and the most expensive is £6.20. So the "x factor" is a mere 1.2. Isn't that interesting?

So what is it about products that determines the "x factor"? Aha, you say, the coal example is easy to explain. It's just a matter of it being a raw material: effectively unprocessed. Nothing is being "made" in the true sense of that word. Rather the raw material is merely put through a finer set of filters to separate the "good" stuff from the dross. So there is very little involved in producing high quality coal over low quality coal. So there is no need for a big price difference. Hence a low "x factor".

That's all very well, but it tends to assume that there are good rational reasons for the cost of products. Moreover, it assumes that the cost of a product bears some direct relationship to the amount of work (or the quality of the work) that is involved in producing it. But think about the following case.

We all know the impact that Dyson had on the vacuum-cleaner market. But what about his new, radical, washing machine, with that typically clever, counter-rotating drum that squeezed and pummelled the washing far more effectively than a

conventional washer/dryer. That at least was the essence of the marketing blurb, and certainly it appealed to my sense of product quality. It makes sense that a movement that stretches and twists and pummels will do a better cleaning job than one that doesn't. It did make me wonder about how long the clothes would stand up to the treatment, but that's another matter.

Concerning product cost however, the Dyson washing machine was, by a very large margin, the most expensive washing machine in the market. When you could get a washing machine for about £120, the new counter-rotating Dyson was launched for about £1200. The "x factor" was about 10. But the point of bringing up here this second round of the Dyson story is the effect it had on the other products in the same market. Immediately prior to the launch of the new Dyson, there were some washing machine companies that saw themselves at the leading edge of the market with some claims to being technologically superior. And they were accordingly expensive by pre-Dyson standards. But they were still only selling for about half the launch price of the Dyson. But not for long. In order to be seen as leading-edge quality products, they had to adapt to the price challenge of the Dyson and put their prices up, even though they had no Dyson-like claim to radical new design or technology. It was simply a marketing response by the supposed 'brand-leaders' of the day.

And here is the clue to the real engine of pricing. Branding.

People don't buy a Rolex because they need to be able to know the time of day. They buy one because it says something about them. It enables them to present their personal identity. They want to be seen as able and willing to acquire the very best that money can buy. So too with cars, and clothes and all the trappings of the high life.

So, according to this theory, there is at least a partial explanation of the "x

factor". Products that exist in a market (like cars) with conspicuous branding (like Aston Martin) will have a big "x factor". But products that exist in a market (like coal) without conspicuous branding will have a small "x factor".

But this will not do as a total explanation, for interestingly, when I was inquiring about this matter with my coal merchant in preparation for writing this piece, he assured me that I should ask for "Lionheart" coal, which is the badge (brand) of real quality coal. It's Nottinghamshire deep-mined coal and, I have it on good authority, is consistently the best. But this quality brand only generates a 1.2 "x factor" over low quality coal. There are other markets such as toothpaste that are much more heavily branded than coal, but that still have a small "x factor". It's difficult to spend a lot of money on toothpaste, even if you wanted to. So how can our theory cope with these anomalies?

The answer perhaps, lies in the combination of words I used earlier. It's not about branding or not branding. It's about conspicuous branding and non-conspicuous branding.

Who knows what toothpaste you use? Or what coal you burn? But we all know what car you buy and whether "Louis Vuitton" is stamped subtly (but conspicuously) on your sumptuous suitcase.

And how does this bear upon the hottest political topic of the day? I refer of course not to the Iraq war and the mysteriously disappearing WMD, but to the issue of university finance, that is presenting the current administration with its most serious challenge to date. I suspect that the horse trading that is currently going on behind half-closed doors will eventually result in some compromise deal that will allow the government to pass its "top-up" fees policy, enabling universities to charge higher fees. I also suspect they will get away with some version of the "variable fees" clause, allowing essentially a free market in university degree courses at least

up to the maximum of £3000. And it doesn't take much of a leap of imagination to see that figure extended upwards in the years ahead. If this does turn out to be the case, you can be sure that the big players will be expanding their communications and marketing departments. Ever more clever ways will be found for making brand identities more and more conspicuous. And all this will be pressed onto a relatively unaccustomed market. In particular the summer period of "clearing" will become even more interesting than it already is. I suspect that our current practice of juggling applicant qualifications with available courses will seem (in retrospect) quite simple when set against the newly emerging reality. Universities will be in the market place; offering special deals, loss leaders, economy and prestige packages.

And what will the "x factor" be for a university degree? In ten years time I wouldn't bet against it being 10.

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