Book Review

The Oxford handbook of pricing management

Özalp Özer and Robert Phillips (eds.)
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The best books, it seems, enable us to see familiar phenomena under a new light. This is a point Sandel (2011), a political philosopher, makes about the study of his own field: 'Philosophy estranges us from the familiar, not by supplying new information, but by inviting and provoking a new way of seeing. But, and here is the risk, once the familiar turns strange, it is never quite the same again'. Does this book live up to this tall order? After reading the chapter 'Why are prices set the way they are?' by Robert Phillips the answer is 'Yes'. It will be difficult to look at the myriads of posted prices – say in supermarkets, catalogs and product brochures – in the same way as before. The fixed price revolution of the 18th century, Phillips argues, changed the world of pricing probably more than any other pricing practice. But let us proceed in order.

The editors, Özalp Özer and Robert Phillips, have backgrounds in both academia and consultancy. Özer is professor of management at the University of Texas at Dallas; Phillips is a founder of Nomis Solutions, a price optimization consultancy and professor of management practice at Columbia University, New York City. Both have achieved no small feat in assembling 52 authors contributing to 34 chapters spanning a wide set of topics in the area of pricing. This resulting book is one of the most voluminous pricing books. This is not a disadvantage.

The book is divided into six parts: Part 1 contains the introduction; the first chapter in Part 2 – pricing in selected industries – is the chapter cited above, arguably a highlight. Phillips illustrates the dramatic improvements in efficiency resulting from fixed price policies: under negotiated pricing, a retailer selling 100 items to 1000 customers requires sales clerks to perform at least 100 000 pricing decisions – more if mark-ups are allowed to vary over time. Under fixed pricing, the number of pricing decisions falls to 100. Only as a result of fixed pricing, Phillips argues, could retailers such as Macy's so rapidly expand in the second half of the 18th century. Fixed pricing, we now know, comes at a cost – the inability to capture differences in individual willingness to pay. There is thus a sense of familiarity in current discussions about individualized pricing: Pricing started as personalized and negotiable, it became impersonal and fixed and is currently evolving towards personalized and fixed pricing. Phillips observes thoughtfully: The fact that some pricing practices persist for a very long time (for example, TV advertising, health-care pricing) does not make these practices efficient, neither for customers, nor for the companies involved, nor for society at large. This makes innovation in pricing so difficult, but also so rewarding.

The other chapters in part two cover pricing in a variety of industries (airlines, restaurants, on-line display advertising and so on). These chapters vary in quality, many can be skipped, with one exception: The chapter by Lieberman on pricing in the cruise line industry contains an anecdote worthy of being quoted. When a new cruise ship was launched, cabins with balconies were initially priced lower than cabins without. They were smaller – the balconies were cut into the cabin space – and an engineering perspective dictated that prices reflect square meters of cabin space. This example vividly illustrates the differences between cost-based pricing and customer value-based pricing.

Part 3 – pricing fundamentals – discusses microeconomic aspects of pricing. Noteworthy here is the discussion of behavioral issues in pricing by Özer and Zheng. Hinterhuber (2015) provides a complementary and more recent perspective on this topic which, among other questions, aims to understand how managers can favorably influence customer perceptions of value and price without actually changing the price. This emerging stream of research is bound to attract substantial further and fascinating research.

In Part 4 – pricing tactics – Phillips returns to a development sketched out before: individualized pricing. Individualized pricing rests also upon the construction of bid-response functions aiding sales and managers to identify profit optimizing price points based on historical win/loss data. Applications are widespread: insurance pricing, consumer credit pricing and other instances where offers can be made to segments of one. This chapter will be especially beneficial to executives working in industrial markets where prices are customer-specific and negotiable, for the most part. The other chapters in this part deal with an arbitrary selection of other pricing tactics, such as non-linear pricing, dynamic pricing, revenue management and markdown management. The latter chapter by Ramakrishnan is worth a close read – there are few good papers on this topic.

Part 5 – organization and processes – examines how to organize the pricing function and how to implement pricing decisions. This part contains contributions from consultants which will satisfy the practitioner. The final part six – current challenges and future prospects – contains a brief chapter by the editors highlighting areas where pricing would benefit from future research which the authors suggest lie in empirical studies.

The editors and authors have succeeded in presenting current research in pricing from a number of different angles: the historical perspective on pricing, pricing across industries, microeconomic aspects, pricing tactics and the organization of pricing. Conspicuous by their absence are chapters on understanding and creating customer willingness to pay, chapters on customer value-based pricing strategies, on discount management and, lastly, on the organizational implications of implementing changes in pricing strategies. Furthermore, a systematic overview of the many current studies in B2B and B2C pricing would have been beneficial. With the inevitable gaps which all books will carry, this book is a required reading for academics and practitioners interested in pricing, alongside *The Strategy and Tactics of Pricing* by Tom Nagle *et al* and alongside *Pricing and Revenue Optimization* by Robert Phillips, co-editor of the present volume.

REFERENCES

Hinterhuber, A. (2015) Violations of rational choice principles in pricing decisions. *Industrial Marketing Management* 47: 600–612.

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