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## Book Review

# Innovation in pricing: Contemporary theories and best practices

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The editors define ‘innovation in pricing’ as ‘instances in which companies innovate their pricing strategies, tactics, or organisation, or where companies use an understanding of consumer psychology to change customer perceptions of value and price’. This compendium of 26 pricing innovation articles from leading global companies, leading universities and specialist pricing consultancies, illustrate the concepts related to this definition. The book’s *raison d’être* is to raise the importance of pricing innovation and to partially redress the editors’ perception of incongruences between the importance of pricing to profitability, and the lack of attention that pricing receives currently from the business strategy world, compared with other strategic considerations. This is an important endeavour and the editors have successfully arranged the book into logical parts that are both readable and easy to refer. The five parts of the book are as follows:

- Part I: Introduction
- Part II: Innovation in organising the pricing function
- Part III: Innovation in pricing strategy
- Part IV: Innovation in pricing tactics
- Part V: Psychological aspects of pricing and innovation

It ends with a paper dealing with the next frontier in pricing.

In Part I, ‘Introduction’, the editors set the scene with some of their own key research

around senior executives’ responses to pricing innovation. From interviews with 44 senior executives where pricing was a part of their role, they found that although innovation in pricing was considered an interesting topic, there was limited knowledge on the subject and indeed there was only one case in which an innovative pricing strategy was actually implemented. The introduction also outlined the key concepts tackled by the book, and concluded with direct synopses of the articles in the body of the book.

Part II, ‘Innovation in organising the pricing function’, comprises five articles on pricing innovations from an organisational perspective. In *The Organizational Design of the Pricing Function in Firms*, Liozu and Ecker propose four designs of the pricing function in an organisation: centralised, decentralised, centre supported and centre-led. The article outlines examples of the successful use of centre-led orientations: using some centralised concepts (for example, having a centralised pricing department) alongside some decentralised techniques (for example, using inputs from the sales force). In *Organizational Barriers and the Implementation of Customer Value Map Analysis*, Hallberg and Andersson explain how customer value map analysis (CVMA), as a tool to implement value-based pricing (VBI), has had positive bottom-line effects at a global manufacturing company. They explain that the purpose of CVMA is

to set prices that match customer value and position products relative to competition, but that organisational barriers can negate the effectiveness of the CVMA. In the case studies, a more centralised pricing function (while still allowing some input from the sales force) allowed the CVMA benefits to be realised most effectively. In *CEO Championing on Pricing and the Impact of Price Performance*, Liozu and colleagues outline a study, administered to 557 CEOs and business owners, of pricing perceptions, level of pricing championing and how they organise for pricing. The results suggest that significantly higher returns can be achieved by higher levels of championing by CEOs and business owners. In *Who is in Charge of Value (the emerging role of the Chief Value Officer)* Baker and Liozu seek to define value, look at a definition of a Chief Value Officer role and how it may look in an organisation as well as explore the benefits that this role can drive. In *B2B Pricing Systems - Proving ROI*, Stiving looks at the key area of determining return on investment (ROI) for pricing systems. He explains that a key reason why pricing systems are under-utilized and under-valued is the difficulty in assessing ROI. He outlines the capabilities of these systems (execution, analytics, science), the types of data used by the systems (customer data, transaction data, competitor pricing) and shows a process to prove ROI by identifying the key ROI areas: increased margin, increased conversion, increased opportunities, lower costs and reduced liabilities. He also provides a 'how to' on incorporating these measures into an ROI study.

Part III, 'Innovation in pricing strategy', contains 10 articles that chiefly look at value-based pricing strategies. In *Innovation in B2B pricing*, Farres outlines his research, concentrating on industrial companies, and recommends that different pricing strategies should be used across different product and service portfolios; outlining conditions for cost and competitive pricing, as well as value-based pricing. The author presents a series of tools that can help implement value-based pricing strategies,

including price waterfalls, price-value map, turnover build up, terms and conditions analyzer, the pricing explorer and the price-volume scatter plot. In *Why Segmentation Matters*, Trevenen describes effective customer segmentation as the key to value-based pricing. She describes traditional segmentation (demographic, geographic) as being too broad stroke and outlines methodologies for deeper analysis to yield better results. Drews discusses where value-based pricing should be considered in the product life cycle in his article: *The five Fundamental Value Factors*. He argues that while only 17 per cent of companies apply value-based pricing, an even smaller percentage seek to use a consumer-centric pricing approach early in the product R&D process. He reasons that value-based pricing should be applied early in the design and development process and should be embedded in the overall company strategy. In *The Journey to Pricing Excellence – The case of a mid size manufacturing firm*, Couch and Hunsicker go through a case study of a change of pricing orientation from a cost-based approach to a value-based approach. The authors outline the key steps involved: senior management commitment, resource dedication, building a knowledge base and a common language, establish a pricing council and build the right tools and deploy the right systems. In *Pricing Processes in B2B settings*, Johansson looks at pricing in highly dynamic environments. He looks at internal price setting versus customer-based pricing and how pricing capability in-house, as well as external value-based pricing inputs, can be used together to achieve results in a dynamic environment such as the semi-conductor industry. *Pricing Due Diligence in the Mergers and Acquisition Process* looks at the assessment of pricing capability during the M&A process. Dvorin, Haedt and Lennon provide a pricing capability assessment framework to follow based upon the following areas: strategic pricing clarity, market pricing intelligence, transactional pricing management, price performance measurement, pricing organisational alignment. The authors also provide some

interesting approaches, for buyers and sellers, to using the pricing capability information most effectively. Nelson Hyde, in *Busting the Four Fatal Myths in Pricing*, outlines four key traps in pricing. Trap 1 ‘if we lower our price, we will gain market share’ discusses the ‘race to the bottom’; Trap 2 ‘at the end of the day, customers only buy on price’ outlines effective segmentation; Trap 3 ‘we have to set our prices at the market price’ talks about product differentiation; and Trap 4 ‘we should drop our prices to win this deal’ deals with training salespeople to mitigate against margin erosion. In *Creating and Communicating Customer Value*, Snelgrove looks at combining customer value-based pricing principles with total cost of ownership models, and the related importance of communicating the price and value premium. Resende, in *Pricing Strategies for Recessionary Times*, discusses the challenge of being profitable in a ‘price war’-type environment. The author discusses low price entry into markets and the recovering of the profit later in the product life cycle. He also provides a checklist for smart pricing. In a *Zero Based Approach to the Pricing Strategy*, Bedotto outlines a three-step method to align pricing strategy to overall company strategy. This involves executive strategic guidance, data gathering and review.

Part IV, ‘Innovation in pricing tactics’, provides articles outlining actions and implementation ideas for innovative pricing, again with a concentration on value-based pricing. In *Using Economic Value Communication to Bend B2B buyers’ Value Perceptions*, Provines explores the buyer process, outlines economic value communication tools, including economic benefit claims, decision analytics models and business model studies. He also discusses economic value communication strategies and includes a framework around this. MacDavitt, in *Value – Distilling the Essence*, explores ways to determine customer value. He outlines the triad drivers: cost reduction, revenue gain and emotional contribution, and explores these in detail via examples and case studies. In *Innovations in Determining Willingness to Pay for B2B Companies*,

Biehn and Zawada look at B2B pricing models and Willingness to Pay (WTP) analysis techniques. They include various data sources in their article. Forth, in *Cross Functional Collaboration in Value Based Pricing*, looks at how pricing integrates into other business functions most effectively. He suggests discussion across and within business functions; about value drivers across the business, about understanding the pricing boundaries and controls within the business structure, about transparency and sharing of data and about distilling data refined to purpose. Coppoolse, in *Implementing Effective Pricing Strategies – Tools for Tracking Prices*, suggests that detailed price tracking and analysis is imperative for effective price management. He suggests various price reports, at a basic and advanced level, as well as price key performance indicators (KPI’s). Insights into critical components to build world class value-based pricing capabilities is the subject of *Winning on the Margin – The B2B Value Imperative*. The insights are gained from 40 global companies across 13 industries and Moorman focuses on 4 success factors: a comprehensive and systematic approach across the full sales and marketing functions, a collaborative approach between sales and marketing, the use of value based selling as a go-to-market strategy rather than a sales discipline and change management processes across all levels of the organisation rather than purely a top-down approach. Huxol, in *The Thick and Thin Tails of Pricing*, looks at pricing with outcome uncertainty, and outlines risk-sharing agreements and performance-based pricing to align buyers’ and sellers’ interests during these times.

Part V, ‘Psychological aspects of pricing’, looks at the psychological utility of the WTP concept. This part includes three chapters: Behavioural Aspects of Pricing, Research on Odd Prices and Consumer Psychology and software pricing. In *Behavioural Aspects of Pricing*, Lowe and colleagues provide a general overview of this area and touch on: perspectives on consumer response to price, perceived value, reference prices, fairness aspects, increasing and



decreasing prices, price endings, price-quality perceptions and consumer price knowledge. Balan, in *Research on Odd Prices*, provides an overview of odd pricing and research into this area. The author concludes that there are not always conclusive results on the effects of odd prices and then digs into the 4 areas of salience of odd prices: visual salience, semantic salience, computational salience and magnitude salience. Economic, Geographic and customer segments are also touched upon in the context of odd pricing. In *Applying Consumer Psychology to Software Pricing*, Jalora looks at the use of decoy pricing in mass market software selling. He finds that the use of decoy pricing increases sales to the 'dominant' (non-decoy) product.

The final chapter, *The Next Frontier of the Pricing Profession*, takes a broad brush to effective pricing in the near future. Mitchell looks at the increasing recognition of pricing, recent changes in the pricing discipline (tactical, strategic) and then looks at key areas to focus on now: technological changes, co-ordination and collaboration within pricing, recognition of pricing

at senior levels within firms and the use of effective pricing in the mid-market.

This book is a great resource for pricing professionals and interested others in industry and academia. While it is comprehensive, logical and highly insightful it is also accessible to a non-academic audience. The editors, based upon large amounts of experience and expertise in the field, have managed to outline strategies and tactics around pricing innovations and value-based pricing concepts that are very relevant to the current pricing climate. As a reader I felt enlightened, informed and excited around pricing innovations and how they are going to manifest themselves in the near future. As a pricing consultant, I feel that the knowledge and some of the key insights gained from this book will benefit my clients and me. Overall, I wholeheartedly recommend this book.

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