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## Book Review

# The ROI of pricing: Measuring the impact and making the business case

Stephan M. Liozu Andreas Hinterhuber (ed.)

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Following on from their successful compendium of articles in ‘Innovation in Pricing: Contemporary theories and best practices’, Liozu and Hinterhuber have put together a further selection of articles that specifically focus on the ROI of pricing.

In the introduction, the editors outline the importance of being able to measure the impact of pricing endeavours, and outline the fact that, until recently, pricing (and marketing in general) have suffered from an inability to accurately measure effectiveness and impact on the bottom line. The purpose of the book is to advance theory, discussion and practice of understanding how pricing activities, or the pricing function, affects performance. The specific objectives of the book are:

- To provide a summary of current research of the topic.
- To report on the editors own research on tools being used to measure Pricing ROI.
- To highlight how to calculate pricing ROI.
- To illustrate the calculation of pricing ROI through case studies.

The 15 chapters within the book are all focused on Pricing ROI and are split into three sections:

- Pricing Strategy.
- Pricing Tactics.
- Pricing Organization.

Section One, Pricing Strategy, consists of 5 chapters. In Chapter One, *Value Based Pricing*

*ROI*, Best and Vomocil look at how value-based pricing improves pricing ROI. They explore three value based pricing methods: price performance, total cost of ownership and trade-off analysis, and explore some of the steps and the ROI of each method. Hinterhuber explores the key area of Cannibalization in Chapter 2: *Cannibalization – Five Easy Pieces*. This exploration looks at Cannibalization in a flat market, cannibalization with market expansion, cannibalization with market expansion and a changing baseline, price promotions and cannibalization – specifically looking at the Coca Cola case, as well as a look at general findings around price promotions and cannibalization. Within this chapter, Hinterhuber offers clear suggestions to manage cannibalization in the context of new product launches and price promotions. In Chapter 3, *Is there a Long Term Return on Price Promotions?*, Balan looks to summarize approaches to modelling long-term effects of price promotion including varying parameter models and vector auto regressive models, as well as looking at the impact of price promotions on performance as well as the implications for the marketing practice, including strategic, tactical effects as well as the impact on channel partners. *Pricing Modelling as a strategic leverage for knowledge-intensive start-ups* is the title of Chapter 4. In this chapter, Denicolai and Merli provide an explorative case study in the luxury fashion industry. They cover some theoretical foundations around pricing models and

start-ups, before focusing on the case study of 'Moi Multiple', a start-up in the luxury fashion industry. The authors outlined the business model and made some analyses and conclusions on the pricing strategy and tactics of 'Moi Multiple'. The authors conclude and assess the idea of value-based pricing within start-ups in this sector. In chapter 5, *Making the Case for Value-Based Pricing Investments*, Liozu looks at: difficulties in making the case for value-based pricing, the pains and gains in value-based pricing, practical recommendations for making the value-based pricing business case, and implications for the measurement of pricing ROI. This chapter is full of key issues and practical guidelines to make effective business cases for pricing investments, clearly a useful and highly important area for pricing practitioners.

Section Two looks at Pricing Tactics. In Chapter 6, Ruggiero and Haedt look at *Evaluating the impact of pricing actions to drive further actions*. The authors show how business intelligence and business analytics, along with reporting, can provide the tools to evaluate and report on pricing actions. The article provides a clear case study to show how these tools can be used effectively. Trevenen presents chapter 7, *Using VOC to ensure product launch success*. This chapter is a case study showing how one firm prevented a launch misfire using VOC (Voice of Customer) work in the form of conjoint analysis. The case study shows how the firm was able to measure the real impact of pricing research investment via these analysis methods. Liozu and Chenal outline *The Power and Impact of Quick Wins* in Chapter 8. Specifically, the authors propose a way to calculate quick wins using a new pricing methodology based on a 'before and after' experiment. The design of this experiment was to show business leaders that they need to embrace the value estimation process, and dollarize performance improvements to capture the value of their innovation. In Chapter 9, *Illuminating Value capture with return on pricing investment*, Sodhi provides an approach to avoid measurement roadblocks for pricing ROI, and looks at Pricing ROI at an

airline and at a manufacturing company. Sodhi also makes a case for ROPI (return on pricing investment) to be an essential company metric. A further case study is presented in Chapter 10, *Case Study on Break Even Analysis*. Indounas looks at the case of a Greek Shipyard to illustrate the advantages of break-even analysis over cost-plus pricing. Indounas summarises that cost-plus pricing has the key disadvantage of not taking market conditions into account.

Section Three concentrates on Pricing Organization. In Chapter 11, Dvorin and Lennon propose a framework to prioritize pricing projects across multiple divisions using a shared services pricing team across an organization, as well as the pricing ROI calculation. This work provides additional insight into the pricing impact assessment discussion. In Chapter 12, *Making the Case for Value-based pricing software in B2B markets*, Ed Arnold uses his own personal experience to summarize the experiences of four large B2B enterprises that have quickly deployed a cloud/SaaS application to help value-based pricing programs. Arnold shares four key findings in this area, and provides an ROI methodology using EVE (Economic Value Estimation). In Chapter 13, Zawada, Collins and Fuehne seek to provide specific guidance on what metrics managers should use to assess pricing software investments. The authors look at five key areas. Pricing improvement, Sales effectiveness, Pricing efficiency, Implementation Success, and Benchmarking and Reporting. They bring these areas together to provide a guide on calculating Return on Investment. In Chapter 14, Stephan Liozu interviews Robert Smith, a recognized pricing leader. Liozu focuses on pricing impact measurement and ROI and Smith provides interesting responses based a large base of experience and expertise. The final chapter in this section, *ROI and the Impact of Pricing: The State of the Profession*, seeks to outline the current state of knowledge about what the impact of pricing is reported to be and to show the results of a dedicated survey on the ROI of pricing, in order to provide a foundation for further

discussions and research. A key outtake from this chapter is that the profession seems to struggle to effectively measure ROI of pricing, as well as ROI of marketing and social media.

Kevin Mitchell bookends this article compendium with some interesting closing thoughts on pricing including the evolution and current state of pricing as a discipline.

The editors of this book have sought to advance the pricing profession by providing a foundation to create a dialogue and bring to attention the tools required to show the substantial impact that pricing has on an organization's bottom line. Their key objective was to provide a holistic approach to the calculation of pricing ROI, to help make the case for pricing investments. I feel they have been very successful, and I have loved what this book has to offer. The overriding reason for this is the importance of the topic, and the clarity and intelligence that is brought to the subject of pricing ROI. It is likely that all Pricing practitioners have scratched their heads at the realization of the

significant (and obvious to us!) profit generation potential of effective pricing, and the difficulty of relaying this to the key decision makers. The profession as a whole, I feel, is undervaluing itself because of its difficulty in measuring ROI effectively. This book is an important piece of work in addressing this issue.

Importantly, for a pricing practitioner this book is easy to understand and very practical. It is also very digestible, the chapters are easy to follow and logical, and the book as a whole is less than 200 pages long which is an effective length for a book of this type. It can easily be used to read through in a few sittings as well as being an effective resource for future reference.

I felt motivated after reading this book, and I will be using the ideas within it immediately. I whole-heartedly encourage other pricing practitioners to read this work.

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