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Pricing

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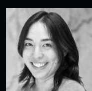

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This report is one of a series produced for faculty members. In each report we give a review of a topic within finance and management, offering both analysis of the relevant theory and a review of the practical application of appropriate management techniques.

If you have any comments or suggestions for future topics, please contact robert.russell@icaew.com

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FOREWORD

Pricing

'A cynic is the man who knows the price of everything and the value of nothing' according to Lord Darlington in *Lady Windermere's Fan*, and whilst clever and witty, the implication is that non-cynics fully understand the value of everything – an unlikely scenario. Value (utility) is so subjective and dependent on the financial and emotional circumstances of the individual and the market that any set price paid for goods and services will be seen as a bargain by some and terribly expensive by others.

The price of a good should equate to the value that individuals ascribe to it in a perfect market. This would necessitate individual pricing for goods and services, creating a chaotic market. Airlines have been operating this kind of system for a while with success, but thanks to internet shopping, any company is able to work with individualised pricing based on the customers' post codes and the buying patterns and other data gathered.

One big downside of this system is that customers do not like to discover that they have paid much more than someone else for the same product. Airlines and train companies, with time-sensitive products can operate this kind of pricing system without too much trouble. Businesses like Uber operate a transparent pricing system which they believe consumers welcome, with surge pricing being brought in to reflect peak demand (see article on page 19). Customers don't mind paying more if they understand the reasons behind the price rise. This model has proven so successful that in London, the number of Uber drivers exceeded 25,000 in 2015, after only three years of operation, overtaking the 22,500 black cab drivers.

Certainly Andreas Hinterhuber has argued in favour of pricing on perceived value in preference to the historic pricing methods, eg, cost plus and competitor pricing. He and Todd Snelgrove (both of whom have articles in this report – see pages 8 and 10) are both strong advocates of adding value and explaining this to the customer and to the sales force of your business. Components used in production that are initially cheaper may well end up being more expensive to your business in the long term.

We hope that you enjoy reading this report; please email stephen.ibbotson@icaew.com or robert.russell@icaew.com if you have any thoughts about the report, its contents or the faculty.

Robert Russell

Floating market in Thailand. © Manit Larpluechai, Dreamstime.com

PRICING

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Meeting the challenge of effective pricing

Setting prices that build profits while attracting customers is a goal that businesses have aimed at throughout history – but it is not easy. **Morgen Witzel** draws on the past to offer tips for success.

Pricing of goods and services is without doubt one of the most difficult and vexatious subjects with which managers have to contend. It goes without saying that pricing directly affects income; as marketing theorists often point out, pricing is the only one of the four Ps (product, place, price and promotion) that represents a revenue stream, the other three being cost centres. Get the price right, and the business will do well; get it wrong, too high or too low, and the business will suffer.

Various scientific theories of pricing have been advanced over the years, but the goal of a foolproof formula for pricing still eludes us. Some theories of pricing, like cost-plus pricing for example, take a production point of view, basing the price on the cost of production rather than the value of the product or service to the consumer. Other theories, such as dynamic pricing, much beloved of hotels, budget airlines and transport operators like Eurotunnel, base pricing in mathematical models, themselves based on underlying assumptions about economic behaviour that are sometimes right and sometimes wrong.

No matter how thoroughly researched, no matter how carefully modelled the price of a product or service is, it still must be acceptable to customers. A price only works if the customer is willing to pay it. Sometimes the customer has no choice but to pay – newspapers of late have been full of fury about the latest round of increases in passenger fares on the UK's railways – but these sorts of situations tend not to last for long, especially when the price is perceived as unfair. Customers have a way of getting even. They resort to substitutes, or even invent new categories to put you out of business. That, more or less, is what happened to the railways in the 1920s and 1930s when people switched en masse to the roads; the railway companies need to beware that it does not happen again now.

Customers do not concern themselves only with utility and value. They are also deeply concerned with fairness and equity. The idea of a 'fair price' or 'just price' has been around for centuries. The heart of the idea is a simple one: firms should charge customers a price which reflects what customers themselves believe to be a fair value for a product or service. Prices in excess of the range the customers perceive as fair will result in accusations of 'rip-off', even if the company is only making modest profits. Supermarkets in the UK have repeatedly been accused of colluding to fix prices, even though the average price of many foodstuffs has fallen over the last decade. Petrol retailers are accused of gouging customers when the price of petrol went up to £1.40 a litre, even though about 60% of that £1.40 went to the government in the form of taxation.

> ' The heart of the idea is a simple one: firms should charge customers a price which reflects what customers themselves believe to be a fair value for a product or service '

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The fair price

The first discussion of this phenomenon comes from an unlikely source; the thirteenth-century Catholic theologian St Thomas Aquinas, who died in 1274. Aquinas was a liberal thinker who rejected much of the church's earlier teachings suggesting that commerce was immoral and those who made their living from it were sinful. Aquinas argued, successfully, that business had an important role to play in society (in which view he was strongly influenced by early Muslim theologians, who were to a man passionate free-traders and capitalists; many of the early caliphs of Islam had been merchants).

Aquinas poured scorn on the contemporary view that products have an intrinsic value, which in turn determines their price. Which is more costly, he asked, a pearl or a mouse? If we use the intrinsic value debate, it would surely be a mouse, which is a living creature, whereas a pearl is inanimate and has very little functional use. But mice are commonplace, while pearls are rare, and we also desire pearls for their beauty and use them to adorn ourselves. We are willing to pay a higher price for pearls because they look attractive as earrings whereas, frankly, wearing a pair of mice dangling from one's earlobes would look a little silly. The point is, it is the value we place on an object that determines its price, not the intrinsic value of the thing itself.

As a result, said Aquinas, merchants are justified in charging higher prices so long as people are willing to pay them. He linked propensity to pay with need. For example, the inhabitants of a city might be willing to pay A for flour during ordinary times. When the city is under siege and food is scarce, they are then willing to

One of the largest livestock markets in the horn of Africa – Babile, Ethiopia. © Ilia Torlin, Dreamstime.com

pay a higher price, B. But is the merchant justified in charging B? Somewhat controversially, then as now, Aquinas said the answer is yes. The merchant is justified because the war increases their risk; smuggling flour into a besieged city is dangerous and incurs higher costs. (What the merchant is not justified in doing, said Aquinas, is keeping the additional profit for himself; he should pass this on to others in the form of charity.)

Aquinas was writing at a time when, in Europe, many prices were heavily regulated. Sometimes city governments set prices for staple commodities such as flour, meat and fish; in an other case, guilds regulated the price of bulk goods such as cloth, the aim being to ensure that no one producer could undercut his or her neighbours. Competition was restricted to the basis of quality, not price. Outside the regime of controlled prices were everyday products such as vegetables, butter, some household goods and very often livestock. Here there were no set prices, and buyer and seller reached agreement through haggling and bargaining (still common practice in Asian and African markets today).

However, as economists have shown in studies since, bargaining tends to benefit those with deeper pockets, who are able to leverage the bargain by offering to buy larger quantities of goods. A customer offering to buy a hundred cows will invariably get a better price per cow than one wishing only to buy a single cow. This means that the poor end up paying more. One of the first to realise this was the seventeenth-century Japanese shopkeeper Mitsui Takatoshi. His Tokyo dry-goods business, Echigo-ya – sometimes referred to as the first department store – set a policy of fixed prices which were clearly marked on every item for sale. The same price was charged to everyone, regardless of quantity demanded. This was seen as being an entirely fair system of pricing, and Echigo-ya became highly profitable and expanded rapidly. The modern-day Mitsui Group is its direct descendant.

‘ A high price might be a rip-off; equally, it might be an indication that the product or service is of high quality ’

Standardised pricing was employed by the first Western department store entrepreneurs, Aristide and Marguerite Boucicaut at Au Bon Marché in Paris in the 1850s. Again, consumers saw standard pricing and clearly indicated prices as being fair and equitable, and most succeeding department store businesses followed the same model: everyone pays the same. Indeed, standardised pricing became commonplace in most Western business models through the twentieth century. Not until the twentieth century did more dynamic pricing models – like the yield management system developed by EasyJet – come back into fashion. There is no doubt that yield management maximises revenue. There is equally little doubt that when you sit down in a seat and discover the person next to you has paid a third the price you did for an identical seat, your thoughts about EasyJet are not exactly kindly ones.

Price and quality

As businesses have known for centuries, price sends signals, particularly about quality. A high price might be a rip-off; equally, it might be an indication that the product or service is of high quality. Similarly, if the price is too low, customers may wonder if they are getting the real thing. If Rolls-Royce were to start selling Phantoms for £10,000, people might well wonder what they were buying – and other Rolls-Royce owners would

‘ Any overly rigid theory of pricing is bound to fail at least some of the time, thanks to the vagaries and whims of those stubbornly illogical creatures, the customers ’

be outraged at seeing their high-status cars suddenly devalued. If McKinsey suddenly started offering consultancy services at £50 an hour, questions would be asked about the quality of the service on offer. Fish and chips seems reasonably priced at £3.50, but if someone offered you a pot of caviare for the same price, would you touch it?

Charles Babbage, the nineteenth-century Cambridge mathematician better known as the pioneer of the modern computer, was one of the first to point this out. Earlier political economists such as Smith and Ricardo linked price to some form of intrinsic value, either the cost of raw materials or, in the case of Ricardo and later Karl Marx, the cost of the labour that went into making the product. Babbage realised that customers were often suspicious of products that seemed too cheap.

This was particularly true of foodstuffs. Before the advent of consumer protection legislation, goods such as flour, sugar, salt and tea were often adulterated, sometimes with quite dangerous substances. Seeing these goods on offer for very low prices, consumers were entitled to wonder whether they were genuine. A higher price, on the other hand, meant that the product was more likely to be authentic. We still use this same calculus when looking at cheap brand-name watches for sale in markets or online, or looking at half-price cuts of meat and wondering what exactly went into the animal and what were the conditions in which it lived.

Writing in the early twentieth century, the economist Alfred Marshall went further and made a distinction between products that were price-elastic – that is, moving the price by even a small amount up or down would have a marked impact on customer demand – or price-inelastic – meaning that even fairly large movements in price would not impact greatly on demand. Rolls-Royce is a prime example of a price-inelastic brand, while supermarket brands are often highly elastic and consumers will switch from one brand to another to save even a few pence.

It is important to know how elastic a product or category is before setting the price, and again, taking the consumer’s perceptions will be a useful guide. Where quality is important, the degree of elasticity is often less; people will pay more if they feel they are getting value. (There are exceptions to this rule, such as petrol and train tickets, where people have little choice except to consume; in this case, Aquinas’s rule about the fair price should apply.) Tins of baked beans, on the other hand, are much of a muchness (Heinz fans might not agree) and customers casting around for a point of difference might look at price rather than quality.

The right price

The point is this: the right price is the one the customer is willing to pay. The biggest mistake many businesses make is to set their own value on a product or service, usually based largely on the cost of producing it, and then to assume that the customer will share their view and be willing to pay that amount for it. That is rarely the case, and when it is, tends to be a matter of luck rather than good management.

Ultimately, as St Thomas Aquinas, Charles Babbage and Mitsui Takatoshi all knew, it is the consumer who determines the value of a product, for it is the consumer who uses it and derives value from it. Therein lies the fundamental difference; to the producer, the value is the cost of production and labour, while to the consumer value is the benefit of use. Price must always be based on benefit rather than cost. For only if the price reflects fairly and accurately the benefit received will the consumer be willing to pay. Price too high and the consumer will scent a rip-off; price too low, and they will wonder if they are getting value for money.

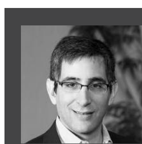
Any overly rigid theory of pricing is bound to fail at least some of the time, thanks to the vagaries and whims of those stubbornly illogical creatures, the customers. Customer behaviour can upset almost any pricing policy, quite simply because customers’ own ideas about value change over the course of time. Any pricing policy has to follow trends in consumer behaviour, and be prepared to adapt according to what consumers want.

Turning pricing power into profit

Companies often overlook pricing as a driver of earnings growth, instead defaulting to cost-cutting and other measures. **Jay Jubas**, **Dieter Kiewell**, and **Georg Winkler** suggest five steps to growth through pricing.

An international provider of technical gases had a problem. With a large, highly fragmented product portfolio of more than 500 stock keeping units (SKUs), customers in a range of industries, and a broad segmentation of customers by size, prices varied widely even for the same product. And while managers believed there was room to increase prices overall, they had no rational basis from which to challenge current pricing practices. The solution? An analytical tool to pinpoint new price drivers, redraw customer segments, and recommend updated prices. After piloting, the tool was rolled out in seven diverse markets. The company supported this new approach with intensive sales-force training and eventually reset up to 100,000 prices for 150 SKUs per country – resulting in an increase in return on sales of three to five percentage points, without significant changes in volume. The whole programme took just three months.

At a time when companies across all B2B sectors are finding it hard to maintain – let alone increase – profitability, the systematic improvement of pricing capabilities can have a lasting positive impact. In fact, our data, which cover more than 1,000 pricing-excellence and performance-improvement initiatives in a range of industries, clearly show that such efforts typically translate into an increase in return on sales of two to seven percentage points, depending on the sector. However, only companies that increase their level of analytical rigour and practical know-how will unlock pricing's full potential to drive both the top and bottom lines. We believe five steps are essential for turning pricing into a profit engine.



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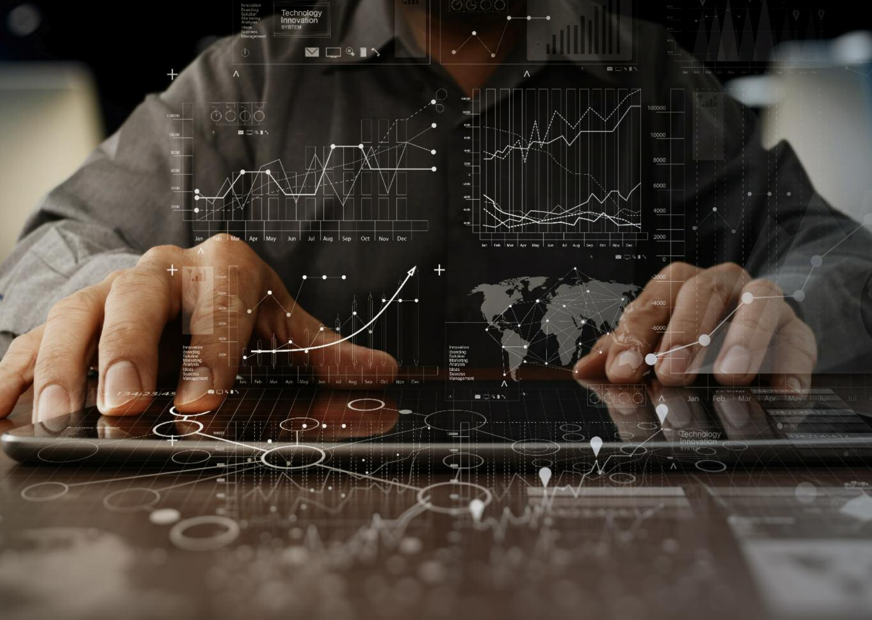
' Only companies that increase their level of analytical rigour and practical know-how will unlock pricing's full potential to drive both the top and bottom lines '

Provide meaningful transparency into pricing data

Pricing managers often lack a clear understanding of how profitability varies among regions and product lines, and they know even less about how it can vary among individual customers or transactions. Yet these all have an important influence on pricing and sales decisions. To take one example: volatile raw-material prices have caused headaches for companies selling products on contract periods longer than the company's own purchase contracts. When raw-material prices rise, sales reps don't know which prices should go up, by how much, and how quickly. Without that knowledge, profit opportunities evaporate. The front line needs meaningful transparency into price levels, discounts, and other leakages at different levels of granularity and over multiple time periods.

The key word is meaningful. The increased data availability and computing power provided by advanced analytics mean that, in theory at least, sales reps can make much better pricing decisions. But the very proliferation and complexity of data have more often than not overwhelmed rather than helped. As a consequence, advanced pricing analytics are often ignored in favour of pricing decisions based on gut feeling, a one-size-fits-all model, past experience, or outdated analysis. The result is that either companies price too low and leave money on the table, or they price too high and lose customers.

In B2B companies, existing analytics capabilities are often not sophisticated enough to create the right kind of pricing-opportunity algorithms to cope with the large amounts of data available. We often see managers make broad pricing decisions (such as proportional price increases) armed with little more than an Excel spreadsheet. About 75% of a typical company's revenue comes from its standard products, which often number in the thousands. Time-consuming, manual practices for setting prices make it virtually impossible to see the pricing patterns that can unlock value. It's simply too overwhelming for large companies to get granular and manage the complexity of these pricing variables, which change constantly, for thousands of products. At its core, this is a big data issue.



A European steel producer, for example, lacked a system to collect relevant data at the level that sales reps cared about – that is, at the level of their individual customers. To address this, the manufacturer decided to combine financial data from several internal IT systems: sales reps' systems, where orders were entered and invoices processed; the production teams' systems, which allowed them to plan capacity, typically at the machine level; and the finance department's systems, which aggregated all these data into financial reports, but typically at higher levels, such as at the level of a plant or a product line. It then set up dashboards to analyse the combined data on a weekly basis. The new system helped identify fresh and critical insights, such as customers who were frequently unprofitable but too small to be noticed.

The best pricing-analytics tools can help test and calibrate pricing drivers for each individual product-customer combination, as well as dig into customer-revenue profiles at the product-volume, industry, and sales-channel levels to unearth new pricing options. They can also derive pricing recommendations based on complex calculations of what drives price differences among customer segments (see Figure 1, below left). Companies with good analytics capabilities can use the data and teams already in place to find significant growth in a matter of months.

Understand what customers really value

For all the sophistication provided by advanced analytics to master a complex array of prices, the price of a product or service ultimately depends on how much a customer thinks it's worth – that is, 'value pricing'. The best companies augment pricing analytics with detailed customer insights to identify all the key buying factors that determine how much a product is worth to a given customer, understand how those factors compare with competitors' offers, and quantify the value created for the customer.

At one company, a team of pricing and sales managers was asked to list the factors it thought determined the prices that customers were paying. It then tested and refined these hypotheses. The analysis revealed 14 significant drivers of pricing sensitivity that the sales reps had not identified, many of them counterintuitive. In one case, for instance, it was the quality of the packaging rather than the quality of the product that was the single most important driver for customers' willingness to pay a premium.

While analytics can certainly help in determining value, developing insights often requires 'softer' and more traditional skills, such as talking with customers and observing their operations. One manufacturer of speciality tools, for example, was about to launch a series of products with much higher performance than its existing ones and those of its competitors. By first interviewing distributors and then launching targeted market research, the company linked the entire set of key buying factors to what buyers would be willing to pay for, which enabled it to set a price point far higher than marketers had expected.

A pragmatic approach to value pricing is 'next-best-alternative pricing'. This method involves researching what alternatives customers have to the company's product or service. Best-practice companies go further and make the next-best-alternative approach a mandatory team practice. Teams discuss the cases and role-play negotiations. Creating a database of next-best-alternative cases can also help disseminate the new pricing knowledge.

Move from sales reps to 'value negotiators'

Determining the best price means nothing if sales reps can't convince customers to accept it. For this reason, it's critical that sales reps have important pricing

Figure 1: IDENTIFYING OPPORTUNITIES WITH ANALYSIS

Analysis can identify opportunities for differentiated pricing based on a customer's willingness to pay.

- Product discount per customer (one dot represents one customer)
- Cluster of homogeneous customers

Source: Multinational energy company (disguised example); McKinsey analysis

> ‘ A pragmatic approach to value pricing is “next-best-alternative pricing.” This method involves researching what alternatives customers have to the company’s product or service ’

capabilities, such as sound judgment to manage time, negotiate thoughtfully, and adjust pricing guidelines in order to maximise value and minimise the risk of customers defecting.

Building negotiating skills is particularly critical. In practice, this often requires spending time understanding how price recommendations are made and what reasoning underpins them so that reps are confident the price makes sense and is defensible. Sales reps – often with the help of managers – also should develop a set of arguments to support the price, with a particular focus on those elements that customers value most. An important part of preparing for negotiation is identifying concessions, understanding starting and walk-away points, and practising to anticipate behavioural biases and develop sound skills. As one rep who took part in a pricing-excellence transformation explained: ‘It had become increasingly challenging to defend overall price increases to customers. After this program, it was much easier to understand and communicate the increases and to actually succeed in the negotiations.’

Provide on-the-job training to build confidence

While most companies understand it’s important to build the pricing skills of their people, few move beyond basic training in classes or online. Successful companies, however, use adult-learning techniques, such as experiential learning, to embed the new skills in the front line. The most effective programmes rely on a mixed model of education and implementation known as ‘field and forum’.

Forums consist of two- or three-day workshops. Participants learn theory and frameworks by reviewing case studies and using more interactive formats. After each forum, there is a ‘field’ stage, in which participants apply their knowledge to real-life situations, accompanied by experts or senior managers who can provide feedback and guidance. This not only sustainably upgrades the company’s pricing capabilities but also delivers sizable bottom-line impact throughout the programme. With one or two successful price negotiations, reps develop confidence in the new approach and often become advocates for it with their colleagues.

One company used coaches to help each person on the sales force understand the new pricing process, including how to get the most from the pricing tool. This one-on-one support was intensive, but it was also crucial in ensuring pricing insights translated into higher prices – and higher profit. ‘This is the first time we can truly benchmark and understand the performance of our sales force,’ said the company’s national sales manager. To reinforce the importance of building capabilities, employees need to see facts, not just anecdotes, about how ineffective pricing hurts the bottom line.

A global petrochemical company, for example, rolled out a pricing-excellence transformation programme that included several intense training sessions on how to use the new system, as well as group coaching sessions to analyse each sales manager’s portfolio with the new tool kit. In roughly five months, sales managers in the pilot division identified more than 400 transactional-pricing opportunities, contributing to a total bottom-line potential increase of €10 million.

Change the culture

In our experience, even the best pricing programmes will fail in the long term without a deliberate commitment to overcome the entrenched habits and shifting priorities that doom most change programmes. Ingraining pricing success over the long term requires putting in place an ‘influence model’ that includes role modelling, fostering understanding and conviction, developing talent and skills, and implementing reinforcement mechanisms.

While all aspects of the influence model are important, pricing leaders should pay particular attention to developing talent and skills by coaching their people. The other aspect to focus on is the reinforcement mechanism: key performance indicators across all commercial activities. While these performance-management systems can be detailed, the best ones automatically consolidate results into a single reporting system that allows management to monitor overall pricing performance, as well as individual sales reps’ performance against targets.

Conclusion

A pricing transformation that delivers the most impact is tightly integrated with a broader set of initiatives that improves commercial performance for the business overall. But at its core, pricing excellence is about combining effective analytics with relevant capabilities. Get that right, and pricing power can truly become a growth engine.

The authors wish to thank Philipp Hillenbrand and Jorge Postigo for their contributions to this article.

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Dealing with changing prices in the industrial sector

Manufacturers can also be service providers – by helping their customers become efficient and profitable. Pricing is just one part of this, as **Todd Snelgrove** sets out.

Enterprises need to adopt methodologies to allow customers to see and understand the value of their products over those of their competitors. I am very aware that many businesses and customers are going online to compare prices and do better than the listed price of any particular part that they need in their supply chain. You can always buy a component cheaper somewhere, and this may appear to generate a saving if you are only looking at one budget line, the cost, but the change of component may end up damaging the bottom line and your reputation if the end product loses its reliability.

Businesses may also find that the initial saving is wiped out by additional costs in other budget lines (repairs, maintenance, product, operating expence such as energy, or a recall) and so we can really say that although our product has an initial higher price than cheaper components, it is an investment in your business and will serve you well, and will overall cost you less. See how we have used the price and cost terms differently. Customers need to have lower costs which is not the same as a lower price.

Price setting is one matter, but 'price getting' is another altogether. It is the business which sets prices, but the sales team which makes sales, and businesses need to work closely with their sales to achieve this. CEOs have bonuses based on profits, but the sales force is often remote from company profitability and driven by volume. However the culture can be changed over time. B2B enterprises need to look at their existing incentives to change the sales force's attitudes to work with higher prices and in fact stop over-discounting.

Discounting

Discounting conditions customers to expect a reduction in price and also leads them to believe that the price advertised is not the 'real' price. Holding regular discounts, as the UK high street still does with regular Boxing Day sales, displaces purchases that may have been otherwise made in November or December to the date when the discounts are expected.

By dropping the price to compete with cheaper (and probably less reliable) alternatives, the turnover might not increase, so the discounts offered are good for the customer and the sales team, but not necessarily of benefit to the business. Moving from turnover volume to overall profitability is a culture change for sales, but we adopted this some time back. Sales people are crafty at making sales – they can offer discounts without finance realising, so when businesses are looking at incentivisation, the scheme has to be carefully designed – simple but effective.

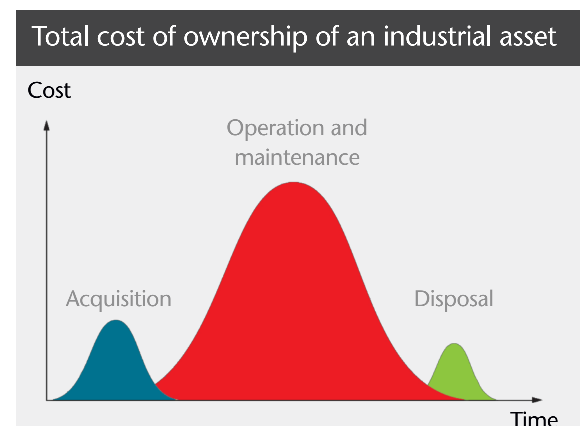
Differential pricing

Wholesale discounting is bad, but businesses can work with discounting with special conditions, eg, no cancellations allowed being cheaper than the one with the refund. Airlines, railway companies and hotels all operate on this basis, but transparency is key. We work with our customers so that they have regular orders and maintain supplies as agreed and then can offer discounts if needed. Customers who make variable orders with no notice can be charged a premium to those with regular agreed quantities.

The world of B2C and B2B is changing, so that we have variability and each person could have a different price especially made for them. Businesses can tell their customers and should tell their customers that different types of ordering behaviour will result in different prices – you should be willing to be open about this so that your customers trust your pricing structure. Look at Uber – they charge surcharges for taxis. Walt Disney is now charging different prices based on the day the visit is made to the park. Should a holiday be priced as weekday in off season?

Existing product pricing

When addressing your existing product lines – and I highly recommend Anderson, Narus and Kumar's book *Value Merchants: Demonstrating and Documenting Superior Value in Business Markets* and Neil Rackham's *SPIN Selling* – you need to show that the product has changed for your existing customers to justify the change in price for them. You can't just increase your price without spinning the issue to your existing customers or else you'll lose many of them. You would have to change it somehow so that it



> ' Businesses should tell their customers that different types of ordering behaviour will result in different prices '

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‘ Our job is to make our customers more profitable, by taking out wasted costs, or increasing their value to their customers ’

looks and maybe feels different and give it a new name or ‘version 2’ or ‘new and improved’, to make it a new product and thereby justify the new price.

Most customers are happy to be persuaded that a product is better, although you do have to be able to deliver. We spend a lot of time educating the customer – you should be looking at the accuracy and reliability of your output – this product is only one component of your output and we can assist you with your efficiency.

CASE STUDY: SKF

Enhancement of supply

As an example, SKF’s products are not just about the product itself, but rather about understanding our customers’ businesses. We essentially offer three levels of product support: a simple sale of our component; sale of the product with assistance to sell/promote the customers’ end product which uses our components; and going in and running the entire business for our customers.

The first level is easy and is a straightforward sale like any other supplier. The second one is half way; we will assist customers to deliver their product if they use our supplies. We will guarantee sales of an agreed amount, but customers have to follow some rules for us to guarantee their sales. Obviously we don’t offer this to every business, but will do for larger and established ones.

We offer this to a well-known soft drinks manufacturer. We are also developing agreements to guarantee cost savings of 5% and offering to cover the saving in full if we don’t achieve this. We send in management consultants to look at the company’s model and practice and identify where savings can be made and the customer can be run more efficiently. There is a risk in this, but we are confident about our products and ability.

The third level is a full operation of the customer’s business. You buy from us and we can run your business for you. We call this the Integrated Maintenance Service contract and we look at completely taking over the customer’s operations, using its existing staff, training them properly and using them where they are of benefit. We guarantee increased profitability by assessing every aspect of the operations and benchmarking energy usage, pricing, component care and servicing of machinery, supply chain management, etc. Do consider complete outsourcing when this is going to generate more profit. We have 50,000 people and so can offer this package.

Our job is to make our customers more profitable, by taking out wasted costs, or increasing their value to their customers.

For more information on buying and selling on best value see the new book from Andreas Hinterhuber and Todd Snelgrove this October. *Value First The Price. Quantifying value in Business to Business Markets from both a buyers and sellers perspective.*

COMPETITION

Memo to CEO: Price war? Let’s not join in

Just because your competitors are trying to grab market share by a price war, does not mean that you have to participate. **Alastair Dryburgh** explains why.

So our competitors are gearing up for a price war. This isn’t good news, but let’s not make it worse than it has to be. Let’s not join in. Selling this message is going to be hard work. We’ll need a wide range of arguments, so here are some.

According to one report, at least one of our competitors is raising a war chest to ‘invest’ in price cuts. That is absurd, and an abuse of language. An investment is something which produces an enduring return after all the money is spent, but we know what will happen in this case – price cuts will pull in a whole raft of price-sensitive customers, who will disappear as soon anyone tries to raise prices back to the point of profitability. The ‘investment’ has cost but no returns.

Fighting the right battle

Also consider some parallels with military strategy. As a general rule you try to fight battles where you have an advantage. If you have air superiority you don’t rush into trench warfare or guerilla actions in swamps or jungles. Our superiority is, and has always been, superior service. That’s where we need to fight.

It’s also important to remember the distinction between strategy and grand strategy. Strategy concerns itself with how you win the war, while grand strategy concerns itself with the peace that comes afterwards. Think of Britain, which famously won the second world war but ‘lost the peace’ – its efforts left it so depleted that it slipped a long way down the ranking of world powers. If we do decide to join in a price war, it will hardly matter who ‘wins’. We will all be seriously damaged.

‘ You can still be undercut if there is some idiot willing to go out of business faster than you ’

Corporate strategy, too, tells us that fighting price wars is usually a bad idea. The business academic Michael Porter reminds us that a lowest-cost strategy only works if you have designed the business in every detail to deliver the lowest cost. We haven’t; we have concentrated on service and quality, namely value. What Porter doesn’t say is that even if you are the lowest-cost producer that may still not protect you from price competition. Even if you can make money at lower price points than anyone else, you can still be undercut if there is some idiot willing to go out of business faster than you. Looking at our market, I think there is at least one such idiot.

Finally, the weakness of the price-cutting strategy is that it is too easy. It is too easy to copy. Any strategic move that might give you an advantage needs to be hard to copy, but anybody can cut prices. For that reason alone, it can’t work.

This is a dangerous moment. We are being invited into a battle which nobody can win, on terrain on which we have no advantage. Plenty of commentators will be shouting at us that we need to do it. We need to keep our nerve, which will need real leadership.

Alastair Dryburgh is a strategist who works with people impatient to do big things and frustrated with the usual ways of doing them.
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The six pricing myths that kill profits

Good pricing policy and practice are among the key factors in corporate success. Here **Andreas Hinterhuber** identifies six misconceptions about pricing – and offers advice.

Pricing is the most important driver of profits. Pricing is also, surprisingly, the area most executives overlook when implementing initiatives to increase profits. There is a reason; research presented in this article suggests that most executives implicitly hold on to a series of weakly held assumptions about pricing that ultimately are self-defeating. These pricing myths are that:

- costs are the basis for price setting;
- small price changes have little impact on profits;
- customers are highly price sensitive;
- products are difficult to differentiate;
- high market share leads to high profits; and
- managing price means changing prices.

This research shows how executives can overcome these misconceptions and thus implement sustainable profit improvements via pricing.

Pricing: guided by principles or driven by myths?

Pricing is, for better or worse, the most important driver of profitability. However, less than 5% of companies have a chief pricing officer. For every company that has a chief pricing officer, such as General Electric (GE), there are dozens of Fortune 500 companies – such as BASF, Volkswagen, Nestlé, Sony, Toshiba, Daimler, British American Tobacco, and others – that do not.

At the vast majority of companies, pricing falls between the cracks. Everybody, from sales (in negotiating prices with customers) to marketing (in setting list prices) to finance (in defining payment terms) to controlling (in setting discount levels) to supply chain (in determining which customers are eligible for free shipping) to key-account management (in price negotiations with large accounts), is responsible for pricing – so in the end, of course, nobody is.

How does this self-defeating behaviour persist? The extensive research I conducted over the past five years suggests that senior and middle managers unconsciously cling to six pricing myths that kill profits. Here I explore these and, conversely, I show that an increasing number of highly profitable companies that incorporate well-crafted pricing strategies in their executive agendas have found ways to overcome the myths and increase profits.

So the key question remains: is pricing guided by sound principles or driven by myths? There are abundant examples of companies that fail or merely limp along because they fall victim to the myths. One such dramatic case occurred at General Motors (GM).

> ‘ There are abundant examples of companies that fail or merely limp along because they fall victim to the myths ’

A tale of two companies in the automotive industry

At GM, market share was the number one goal of the company's executive suite. Legend has it that Rick Wagoner, the former CEO, wore cufflinks engraved with the number 29: the magical market share objective. Bob Lutz, then vice chairman, justified aggressive discounting thus: ‘We had to keep the plant going and pump out vehicles to meet the market plan.’[1]

Contrast this obsession with volume with the approach of another mass-market producer, Fiat. Sergio Marchionne, the CEO of Fiat Chrysler Automobiles, stated: ‘Unprofitable volume is not volume I want. We have a very good track record for how to destroy an industry – run the [plants] just for the hell of volume, and you're finished.’[2]

Historically dominated by engineers and finance wizards, pricing at GM was heavily cost based. Bribing customers to drive its vehicles off dealers' lots – in other words, discounting – became an integral part of the company's culture. In a press release following reports that some customers obtained more than $10,000 in discounts despite companywide attempts to cut back on the practice, a GM spokesperson commented: ‘It's to be competitive. You have to do something out there.’[3]

GM in the past simply assumed that the first purchase factor of customers was price, followed possibly again by price. Similarly, the company fatally – and fatalistically – assumed that cars were seen by customers as a commodity. As a result, GM stopped creating breakthrough customer value via innovation and made discounts from list prices the main selling point, inviting a series of profit meltdowns. Only recently did GM finally come to grips with the importance of pricing, and executives enthusiastically started by changing list prices and discount structures.

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> ‘ An increasing number of highly profitable companies that incorporate well-crafted pricing strategies have found ways to overcome the myths and increase profits ’

Figure 1 – THE SIX PRICING MYTHS: THE TRUTH AND KEY LEARNING

MYTH #1	MYTH #2	MYTH #3	MYTH #4	MYTH #5	MYTH #6
Costs are the basis for pricing	**Small price changes have little impact**	**Customers are highly price-sensitive**	**Products are difficult to differentiate**	**High market share = high profits**	**Managing price means changing prices**
TRUTH Pricing has to be based on customer value.	TRUTH Small price changes have an extremely significant effect on company profitability.	TRUTH Customers are frequently unaware of prices paid in business markets, and are more sensitive to total costs of ownership than to price.	TRUTH Even commodities can be differentiated.	TRUTH Market share and profitability are not correlated.	TRUTH Managing price includes improving systems, processes, skills, and to communicate customer value. This can be done without changing prices.
KEY LEARNING Strive to understand and create customer value as a basis for pricing	KEY LEARNING Fight for pennies! Successful pricing means getting many small details on many transactions right.	KEY LEARNING Segment customers based on their needs.	KEY LEARNING Treating products as a commodity is a self-fulfilling prophecy.	KEY LEARNING Strive for leadership in customer insight, not leadership in market share.	KEY LEARNING Managing prices is far more complex, and at the same time also simpler, than changing prices and requires a true organisational transformation.

Once again, contrast this approach with the principle-guided approach to pricing of yet another company in the automotive industry, Continental AG, one of the largest automotive tyre and parts suppliers globally, headquartered in Germany.

Executives at the company understand that changing prices is the last part of any pricing initiative; Continental AG first improves information systems, pricing processes and tools, incentive systems, and pricing capabilities.

Most important, it invests significantly in improving the abilities of its salesforce to practise value-based selling. Armed with relevant and resonating messages, the salesforce is thus superbly able to demonstrate to customers why high prices are more than justified by higher value. The difference in profitability between these two companies is staggering. Both GM and Continental AG are in the automotive industry. The former went bankrupt, largely as a result of ineffective pricing; the latter is among the most profitable and valuable automotive suppliers globally, largely as a result of its disciplined approach to price setting and price getting.

The six pricing myths

I contend, as a result of this research, that a significant reason for GM’s profitability problems – and, by extension, those of other companies lacking adequate pricing leadership – was a reliance on outmoded pricing myths that damage profitability; and, conversely, that an important reason for Continental AG’s success is its rigorous attention to pricing: guided by principles, not driven by myths. In the rest of this article, I look at these myths, state the reasons for discarding each myth, and provide insight on how to build a more viable pricing strategy after each myth is eliminated from practice (‘key learning’). Figure 1, above, provides an overview of this thesis.

The origins of these myths: About the academic research and the managerial practices underpinning these misconceptions

Myths are widely held and unquestioned beliefs that lack scientific basis. The following, counterintuitive observation is important: The actions resulting from an erroneous reliance on myths appear to produce desired outcomes. A scientific analysis, as opposed to a myth-

> ‘Studies across a number of industries show that differentiation is possible even in highly competitive industries’

driven analysis, will conclude that these outcomes are not optimal.

Consider the following example: An anthropologist visiting a remote tribe observes that each morning members of the tribe sacrifice a goat. This, so the tribe elders say, makes the sun rise. Because food is scarce in this poverty-stricken community, the anthropologist has a simple idea to alleviate the suffering – she proposes that the community refrain from sacrificing the goat for just one day to see if the sun will still rise. In response, tribe elders tell her, terrified: ‘In matters of life and death we cannot afford to experiment.’

This story illustrates the fundamental problem of misconceptions: Decision makers associate actions with a desired outcome and infer a causal relationship without attempting to understand whether alternative actions produce a superior outcome.

MYTH #1
Costs are the basis for pricing

Similar forces are at work in pricing. Take the first myth, concerning the role of costs in pricing decisions. Before the birth of cost accounting, let alone activity-based costing, establishing accurate costs of goods was a non-trivial problem for executives.

In an article in the *Harvard Business Review* published more than 75 years ago, Clarence B Nickerson quotes an executive stating that ‘not more than 15% of shoe manufacturing companies have anything approaching an accurate knowledge of their real costs’. Nickerson also quotes a management engineer – a consultant in today’s terms – suggesting that the true figure is at best 8% of companies. Nickerson attributes the high failure rates in the US shoe industry at that time – more than one in six firms ceased business in the decade spanning 1926 to 1935 – to a lack of understanding of costs. In those early days of business, understanding costs was an asset.

Today an obsession with costs is becoming a liability. There are clear parallels between the focus on costs and the sacrifice of the goat: In both cases, decision makers, unwilling to examine causalities, do not even attempt to explore whether an alternative action – setting prices based on customer willingness to pay (WTP) or doing nothing, respectively – will lead to improved outcomes.

Decision makers repeat past actions because of an implied past virtue without attempting to understand causal relationships and without attempting to examine whether alternative actions produce superior outcomes.

MYTH #2
Small price changes have little impact

The second myth concerns the erroneous belief that small changes in price affect profitability only minimally. This misconception has a simple origin: ignorance. In a widely cited article[4], Michael Marn and Robert Rosiello analysed the financials of nearly 2,500 companies and reported that a 1% change in price increased operating profits by 11% on average.

Subsequent studies confirm this finding – small changes in price have a far bigger impact on operating profitability than similar changes in other elements of the marketing mix. Nevertheless, despite robust evidence, managers seem to ignore this fact. More precisely, managers behave as if unaware of the impact of minute changes in price on profits. The result? Pricing receives too little attention by top management, salespeople are granted too much price negotiation authority, and profitability suffers.

MYTH #3
Customers are highly price-sensitive

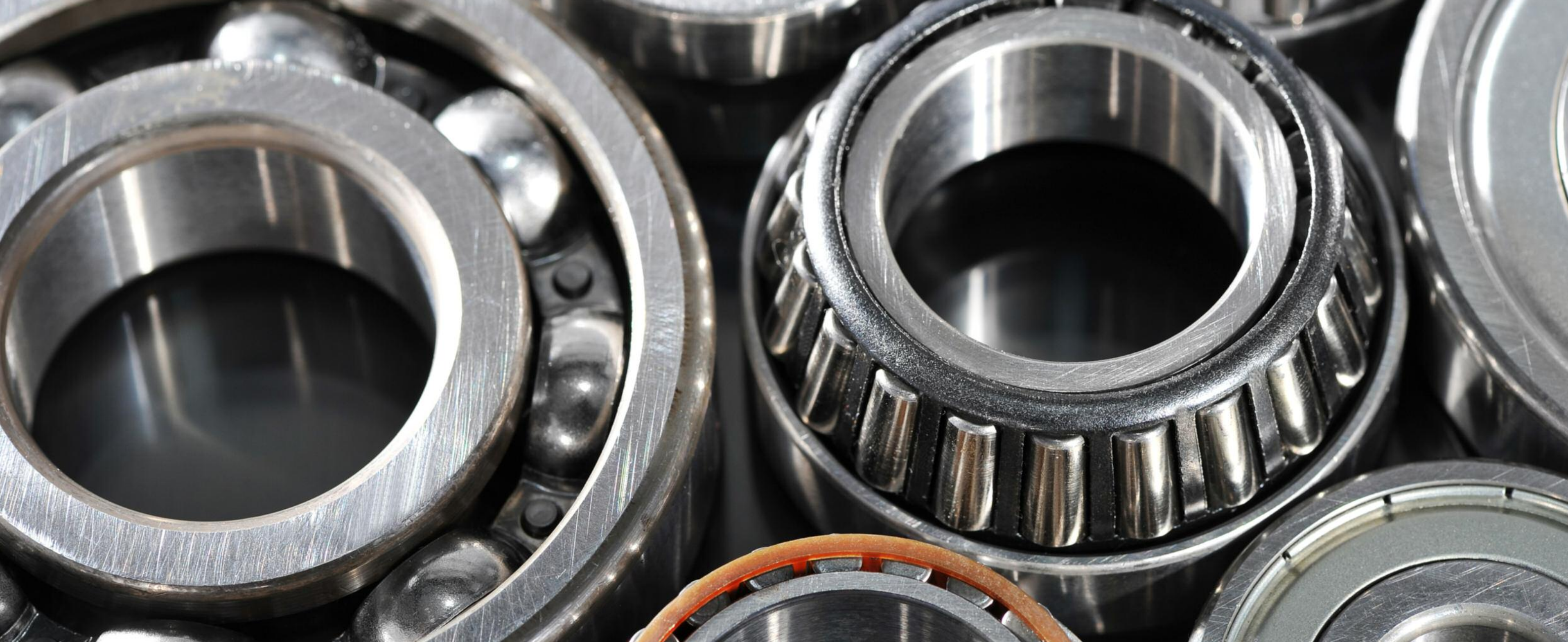
Myth 3 concerns the allegedly high price sensitivity of customers. This myth originates from a false overgeneralisation of personal experiences. Managers are intensely involved in all stages of pricing (ie, price setting, price getting) and know the prices of their own products inside out. Customers must be like themselves, or so the thinking goes. My own research, by contrast, shows that managers as price setters tend to overestimate the price sensitivity of actual and potential customers. Also contrary to managerial intuition, academic studies find that minor changes in price do not influence demand – and specifically, customers do not seem to notice price variances under 2%.[5]

MYTH #4
Products are difficult to differentiate

Myth 4 suggests that products are difficult to differentiate. This myth stems from the microeconomic notion of perfect competition whereby buyers and sellers are numerous, entry is free, information is complete, factors are mobile, transaction costs do not exist, buyers are rational, and, finally, products are homogenous.[6] All models are a simplification of reality. The model of perfect competition is a gross misrepresentation of reality. Managers should discard it. More specifically, studies across a number of industries show that differentiation is possible even in highly competitive industries.[7]

MYTH #5
High market share = high profits

Myth 5 is about the apparent benefits of market share. As elaborated in detail, this misconception stems from a dated research project of the 1960s advocating a causal link between market share and profitability. Subsequent academic research suggests



precisely the opposite: The pursuit of market share is detrimental to profitability.[8]

MYTH #6
Managing price means changing prices

Myth 6 concerns the misconception that managing prices means changing them. This misconception emanates from the notion that management is fundamentally about realising change – 'because business activity is economic it always attempts to bring about change'.[9] Successfully managing pricing, by contrast, is not necessarily about changing prices. Todd Snelgrove, the chief value officer of SKF (see article, page 8), a world market leader in industrial bearings, is adamant that the most important task in industrial selling is communicating value, not necessarily changing prices: 'If you can't quantify the value of what you're offering, how [can] you expect a procurement person to do so? If your company creates value then you need to communicate that value, and I have found that if you can quantify it, procurement is more willing and able to pay for it.'

To summarise, the six misconceptions discussed here have originated either from outdated academic research or from unquestioned managerial practices. These misconceptions – not unlike the myth of the goat sacrifice causing the sun to rise – produce results, but vastly inferior results than actions guided by scientific principles. This, of course, is true also for pricing. For pricing to act as a driver of superior performance, it has to be guided by scientific principles as opposed to being driven by myths.

Why executives cling to destructive myths

Underlying these myths is the assumption that any longstanding practice must have value, otherwise it would disappear. In the words of 1982 Nobel prize winner George Stigler: 'Every durable social institution or practice is efficient, or it would not persist over time.'

This is not true. Bad practices persist for centuries. Slavery, for example, was legal until the late 20th century in the United Arab Emirates. Human sacrifice to end periods of drought was common practice in India. I use these emotionally distressing examples to make one point: the fact that certain practices have been repeated, even for centuries, does not legitimise them. Only the use of moral, rational, scientific thought can answer the question of whether or not an activity is worth pursuing.

Executives have clung to these pricing myths simply because they have persisted over time. Rational, empirical analysis today suggests that the six practices described – implementing cost-based pricing, ignoring small variations in selling prices, deeming all customers as price sensitive, treating products like commodities, pursuing market share leadership, and equating price management with changing prices – are a recipe for low profitability.

Exploring guiding principles of pricing excellence

Pricing is problematic for most executives because it is often left in the hands of ill-prepared sales managers while senior executives concentrate on what they perceive as more important drivers of success. This need not be. Senior executives can and should champion pricing in their organisations. Quantitative empirical research suggests that CEO championing of pricing improves pricing capabilities and firm performance.[10] As a senior management function, CEOs should appoint a chief pricing officer that is capable of driving profits via pricing and capable of arbitrating between units that may hold conflicting views on pricing.

Once executives have liberated themselves from the six myths explained above, pricing will become a true driver of profits and customer satisfaction. Exploring guiding principles of pricing excellence requires that executives critically examine their own deeply held beliefs. This will lead executives to look at pricing in a radically different way. Michael Sandel, a political philosopher, says this about the study of his field, philosophy: '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.'

This is probably valid also for the study of my own field, pricing: the risk of this exploration is that we may find further unquestioned truths in need of examination. Take, for example, the concept of WTP, which traditional marketing theory depicts as the inherent, albeit unobservable, property of goods or

> ‘ Whether a price cut by a competitor requires a reaction depends, first and foremost, on willingness to pay ’

services, which should be measured with conjoint analysis and other approaches.[11] Traditional marketing theory invites us to take an essentially passive approach: to measure what is already there and to derive profitable pricing strategies from this analysis.

However, leading companies such as Apple, which clearly view the concept of willingness to pay as something that can be actively managed and influenced, do not subscribe to this theory. How does Apple create WTP so that customers preferentially purchase its most expensive products and shun its entry-level products? The company uses an understanding of consumer psychology: the decoy effect.

Table 1
APPLE PRICING AND THE DECOY EFFECT

Apple iPad mini 2: Product line pricing

Model	16GB	32GB	64GB	128GB
Price	$399	$499	$599	$699

The box ‘Apple pricing and the decoy effect’, above, shows the prices of different iPad mini 2 WiFi-only models in 2014. As memory size doubles, prices increase by an apparently much lower amount. Compared to the entry-level product, the most expensive product looks cheap. This is the decoy effect at work. Apple uses memory size to influence customer perception such that the most expensive product appears underpriced. The example suggests that an understanding of the psychological foundations of pricing allows companies to influence customer perceptions of value and price without actually lowering the price. Put differently, the assumption that WTP is inherent in a product or service is a further misconception. WTP can be created.

Another example of a pricing misconception that savvy marketers will question is the idea that a price drop by a direct competitor requires a corresponding price reduction so that the apparently disrupted equilibrium is restored. This idea is wrong. This notion originates from the hypothesised existence of a ‘value equivalence line’.[12] The only scientifically correct response to a price drop by a competitor is ‘it depends’: whether a price cut by a competitor requires a reaction depends, first and foremost, on willingness to pay (ie, customer value). Demand elasticity needs to be considered only for products with a high WTP (see Figure 2, opposite).

For highly differentiated products, the best answer to a competitor’s price drop may be to do nothing. This principle is illustrated in the upper part of Figure 2. A price cut by the competitor reduces customer WTP for the company’s own product by the same amount; WTP after the price cut is $700 as opposed to the previous $800. Since the price of the company’s own product, $600, continues to be below customer WTP, there is no immediate need to reduce the price. With an inelastic demand, the best reaction may be to do nothing. Value communication is, of course, key. This may explain why Apple does not react to a price drop by Samsung, its closest competitor.

For weakly differentiated products, the best answer to a price drop by a direct competitor is, conversely, a corresponding price drop. The lower part of Figure 2 illustrates the principle. A price cut by the competitor representing the customer’s best available alternative reduces customer WTP for the company’s own product; WTP after the price cut is $400 as opposed to the previous $500. Since the price of the company’s product, $450, is higher in this example than customer WTP, the product is now overpriced. The best reaction is to reduce the price – for example, from $450 to $350. This may explain why Samsung reacts to a price drop by HTC or LG, two competitors from which Samsung is perceived as being only weakly differentiated. Differentiation to increase WTP is, of course, a viable longer-term option.

Defining the guiding principles of pricing excellence is a journey. In this sense, this exploration of pricing myths should be considered a first puck on the ice at the beginning of a very long game.

AUTHOR’S NOTE

The research for this article came from two main sources. First, I analysed the pricing strategies of over 100 Fortune 500 companies by examining publicly available records including conference presentations, analyst reports, investor presentations, newspaper archives, and academic research. Second, I collected responses to a poll involving executives that attended open enrolment and in-house workshops I and my colleagues at Hinterhuber & Partners conducted over the past five years. Respondents in our sample are mostly from small, medium and large companies headquartered in Europe and the US, and from B2B companies in a range of industries; they work in marketing including pricing, sales, finance, and general management.

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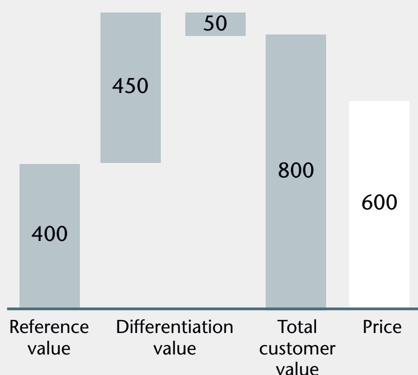
> ‘ This exploration of pricing myths should be considered a first puck on the ice at the beginning of a very long game ’

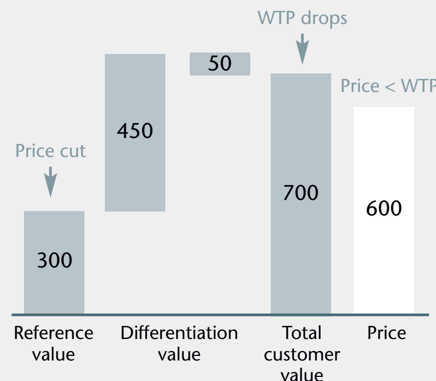
Figure 2 – TO FOLLOW OR NOT TO FOLLOW? THE EFFECT OF PRICE CUTS BY COMPETITORS

Highly differentiated products

Before



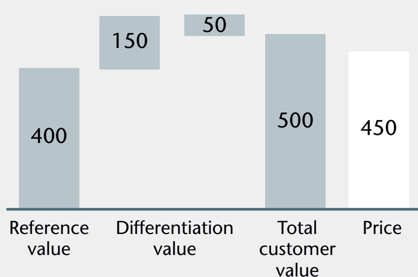
After price cut



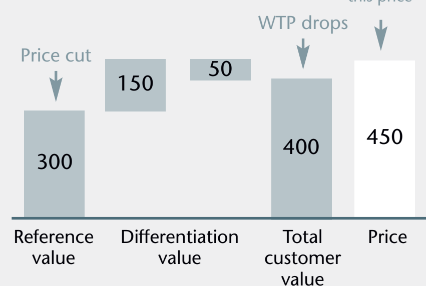
A price cut – 100 in the example – by the competitor representing the customer’s best available alternative reduces customer willingness to pay (WTP) for own product by the same amount: WTP after the price cut is 700, before 800. Since the price of own product – 600 – continues to be below customer WTP, there is no need to follow the price reduction. The best reaction may be doing nothing. Value communication is, of course, key.

Weakly differentiated products

Before



After price cut



A price cut – 100 in the example – by the competitor representing the customer’s best available alternative reduces customer willingness to pay (WTP) for own product by the same amount: WTP after the price cut is 400, before 500. Since the price of own product – 450 – is currently higher than customer WTP, the product is now overpriced. The best reaction is to reduce the price as well – from 450 to 350. Differentiation to increase WTP is, of course, a viable long-term option.

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Pricing psychology – 10 timeless strategies to increase sales

Successful selling requires a sound assessment of how customers react to price as well as a range of other factors. **Gregory Ciotti** offers some crucial tips to improve sales.

Pricing can be challenging, complex, and offers no shortcuts. This reality makes 'winging it' an enticing option when you don't know where to begin.

But that's the wrong move to make; smart pricing is deliberate. While intuition plays a role and you'll learn more from getting your hands dirty than armchair analysis, it can be helpful to review findings on pricing that have stood the test of time.

In that spirit, let's take a look at a few enduring studies from the behavioural sciences to provide inspiration and insight on how to effectively set your prices.

1 When similarity costs sales

Limiting choices helps combat 'analysis paralysis', as too many options can be demotivating. You might expect, then, that having identical price points for multiple products would be ideal, right? Not always, according to research from Yale: if two similar items are priced the same, consumers are often less likely to buy one than if their prices are even slightly different.

In one experiment, researchers gave users a choice of buying a pack of gum or keeping the money. When given a choice between two packs of gum, only 46% made a purchase when both were priced at 63 cents. Conversely, when the packs of gum were differently priced – at 62 cents and 64 cents – more than 77% of consumers chose to buy a pack. That's quite an increase over the first group.

The implication isn't to set your identical vintage T-shirts at variable prices. Rather, recognise the 'why' behind the inertia: when similar items have the same price, consumers are inclined to defer their decision instead of taking action.

2 Price anchoring

As the saying goes, the best way to sell a $2,000 watch is to put it right next to a $10,000 watch. But why? The culprit is a common cognitive bias called anchoring. Anchoring refers to the tendency to heavily rely on the first piece of information offered when making decisions.

In a study evaluating the effects of price anchors, researchers asked subjects to estimate the worth of a sample home. They provided pamphlets that included information about the surrounding houses; some had normal prices and others had artificially inflated prices. Both a group of undergraduate students and a selection of real-estate experts were swayed by the pamphlets with the higher prices. Anchoring even influenced the professionals!

Placing premium products and services near standard options may help create a clearer sense of value for potential customers, who will view the less expensive options as a bargain in comparison.

3 Weber's law

According to a principle known as Weber's law, the just noticeable difference between two stimuli is directly proportional to the magnitude of the stimuli. In other words, a change in something is affected by how big that something was beforehand. Weber's law is often applied to marketing, particularly to price increases for products and services. When it comes to price hikes, there is no magic number, but Weber's law shows that approximately 10% is the average point where customers are stirred to respond. As always, many variables have an effect on pricing. Weber's law serves as a testing threshold rather than as an ironclad rule.

4 Reducing pain points

The human brain is wired to 'spend 'til it hurts', according to the field of neuroeconomics. The limit is reached when perceived pain is greater than perceived gain. Research from Carnegie Mellon University (CMU) analysed a number of ways to reduce these pain points and, in turn, increase post-purchase satisfaction and retention.

Here are a few select methods:

Reframe the product's value

It's easier to evaluate how much you're getting out of an $84/month subscription than a $1,000/year subscription, even though they average out to around the same cost.

Bundle items purchased in tandem

Professor George Lowenstein notes that the LX version of car packages is a great example of successful bundling. It's easier to justify a single upgrade than it is to consider purchasing the heated leather seats, navigation, and roadside assistance individually.

'As the saying goes, the best way to sell a $2,000 watch is to put it right next to a $10,000 watch. But why? The culprit is a common cognitive bias called anchoring'

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> ‘ Consumers were given the following option: ‘was $60, now only $45!’ or ‘was $60, now only $49!’. The sale price ending in nine outsold the one ending in five, even though it was more expensive ’

Appeal to utility or pleasure

For conservative spenders, a message focusing on utility is more effective: ‘This back massage can ease back pain.’ More liberal spenders were persuaded by a focus on pleasure: ‘This back massage will help you relax.’

It’s either free or it isn’t

‘Free’ is a powerful word, as demonstrated in Dan Ariely’s book *Predictably Irrational*. In the example, Amazon’s sales in France were drastically lower than all other European countries. The problem was that French orders had a 20-cent shipping charge tacked on (versus free shipping elsewhere). Pricing well means extracting maximum value, but nickel-and-diming can cause more resistance in the long run.

Sweat the small stuff

In another CMU study, trial rates for a DVD subscription increased by 20% when the messaging was changed from ‘a $5 fee’ to ‘a small $5 fee,’ revealing that the devil sometimes is in the copy details.

5 Challenging a timeless tradition

Ending prices with the number nine is one of the oldest methods in the book, but does it actually work? The answer is a resounding yes, according to research from the journal *Quantitative Marketing and Economics*. Prices ending in nine were able to outsell even lower prices for the same product.

The study compared women’s clothing priced at $35 versus $39 and found that the prices ending in nine outperformed the lower prices by an average of 24%.

Sale prices – ‘Was $60, now only $45!’ – were able to beat out the number nine. But when the number nine was included with a slashed sales price, it again outperformed lower price points.

For example, consumers were given the following option: ‘was $60, now only $45!’ or ‘was $60, now only $49!’. The sale price ending in nine outsold the one ending in five, even though it was more expensive. Apparently, pricing with nines may be an old trick, but it’s still effective.

6 Time spent vs. money saved

Why would a bargain beer company like Miller Lite choose ‘It’s Miller Time!’ for its slogan? Shouldn’t they emphasise their lower prices? Stanford University’s Jennifer Aaker argues that in many product categories, customers recall more positive memories when asked to remember time spent with the product over the money saved.

‘Because a person’s experience with a product tends to foster feelings of personal connection with it, referring to time typically leads to more favourable attitudes – and to more purchases,’ Aaker says. In a discussion published by the Wharton Business School, Aaker notes that many purchases tend to fall in either the ‘experiential’ or ‘material’ categories. Purchases like concert tickets benefit more from ‘time spent’ messaging, whereas designer jean sales are aided by reminders of money and prestige.

7 Comparing prices

When done poorly, chest-thumping about low prices can grant you a one-way ticket to low sales. According to research from Stanford, the act of comparative pricing can cause unintended effects if there is no context for why prices should be compared. Asking customers to make explicit comparisons about the price of your product and a competitor’s can cause people to lose trust in your messaging. The lead researcher noted, ‘The mere fact that we had asked them to make a comparison caused them to fear that they were being tricked in some way.’

A classic example of price comparison done right can be seen in the early days of Esurance. They explained why bottom-line insurance isn’t always the best solution, and they positioned their messaging around how they lower prices the right way – by eliminating needless expenses through their online-only approach (‘Born online and built to save.’). The focus should be on why prices are cheaper, not just that they are.

8 The power of context

Is there ever a time when one Budweiser is worth more than another? Logic would dictate no, but bar hoppers know this just isn’t the case. Where you buy affects how much you spend. Economist Richard Thaler put this to the test years ago, and found that customers were willing to pay higher prices for a Budweiser if they knew it was coming from an upscale hotel versus a run-down grocery store. Thaler asserts that context was the simple explanation here: the perceived prestige of the upscale hotel allowed it to get away with charging higher prices.

This is why people will pay more for a ‘multimedia course’ over an eBook, even if the information offered is exactly the same. Perception goes a long way toward justifying whether or not a price is reasonable, so it’s beneficial to create a compelling narrative around a product. Head-slappingly obvious, yet so often forgotten by founders who neglect to position their products. As a comical contrast, there are many companies who drop the ball by letting their highfalutin messaging get out of hand:

‘ Researchers found that prices that contained more syllables seemed drastically higher to consumers ’

9 Different levels of pricing

Most of us are clueless about the concept of ‘value’, says professor William Poundstone, author of *Priceless: The Myth of Fair Value*. As such, we can be swayed in ways we wouldn’t believe possible. Poundstone discusses a study around the purchasing patterns of consumers over a selection of beer (yes, yet another study about beer!). In the first test, there were only two options available: a regular option and a premium option.

Test 1

Four out of five people chose the more popular premium option. Could adding a third item and price point increase revenue by targeting those looking for a cheaper option? The researchers tested this by adding a $1.60 beer to the menu.

Test 2

Oops. The cheap beer was ignored and it upended the ratio of standard to premium purchases. This was clearly the wrong choice, since anchoring was playing a negative role. If customers don’t want a cheaper beer, perhaps a more expensive beer might work?

Test 3

Much better. These examples show just how important it is to test out different pricing brackets, especially if you believe you may be undercharging. Some customers are always going to want the most expensive option. That doesn't make an enterprise plan right for every product, but it serves as a compelling reminder that you can almost always find a proper reason to charge more.

10 Keeping prices simple

In a paper published in the *Journal of Consumer Psychology*, researchers found that prices that contained more syllables seemed drastically higher to consumers. Odd, right?

Here are the pricing structures that were tested:

$1,499.00

$1,499

$1499

The top two prices seemed far higher than the third price. This effect occurs because of the way one would say the numbers out loud: ‘One thousand four hundred and ninety-nine,’ versus ‘fourteen ninety-nine.’ This effect even occurs when the number is evaluated internally, or not spoken aloud. As silly as it may seem, the implication is similar to editing prose – avoid all unnecessary additions, and prefer the simplest style possible.

Concluding thoughts

Great products and services are priced on purpose. They have prices that develop over time and are guided by debate, scrutiny, and, most importantly, feedback from paying customers. As with all looks at academic research, it’s easy to fall into the shallow trap of ‘The Science of Science, Backed by Science’. Instead, view research as another company’s case study: a fair jumping-off point for inspiration, but nowhere near the finish line.

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Dynamic pricing: the art and black magic of situational pricing

The online revolution has changed the way people and companies shop – and also the way that vendors of everything from airplane seats to groceries sell their wares. **Dan Virgillito** looks at dynamic pricing.

There's nothing better than haggling in a Sicily flea market. In fact, in this part of Italy, not haggling is rather considered unacceptable, a sign of arrogance, or even an insult. Being a Sicilian, I learned to haggle in my younger days. Watching vendors quote low as my grandma dragged me away from stalls taught me about the availability of 'better deals'.

Aware of the opportunity, I started conducting experiments when I visited these markets alone. For instance, when I saw an item of interest, I walked up to the stall, asked the price, and then walked away, pretending that it was merely something that caught my eye briefly. Just with this act I made hundreds of vendors say 'how much do you want to pay?' And that's how I really learned to 'play' with the street vendors in later years.

In communities where the village marketplace of days-gone-by is still the norm, and where prices are determined on-the-spot, a savvy merchant needs to be able to size up his patrons as they walk by. When someone approaches his booth and the haggling begins, he uses these observations to figure out how to get the best price for his goods.

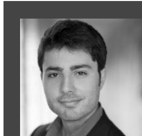
In the retail world, on the other hand, we are accustomed to a universal one-price-for-all style of marketing. We can't imagine paying a different price for an item – let's say a DVD or a Swingline Stapler – than the customer right in front of us. But history has a strange way of moving in circles, and the days of static pricing may die out as the market returns to the more fluid and more ancient model.

In ecommerce this model is called dynamic pricing, and in 2016 it just might come of age. If you aren't familiar with dynamic pricing, it was first popularised by the airline industry. Ticket prices would fluctuate depending on various factors including mostly the date of purchase combined with the date of the flight itself. Today it isn't unusual for two passengers sitting right next to each other on a flight to be holding tickets with different price tags.

How are things evolving for ecommerce businesses? Let's find out.

The emergence of dynamic pricing in ecommerce

The dynamic pricing practice has become so common in the transportation and hospitality industries that we now take it as a given. In other industries, however, this pricing strategy has not historically been so well received.



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' The days of static pricing may die out as the market returns to the more fluid and more ancient model '

This is unfortunate because dynamic pricing doesn't have to work against the customer, as it isn't always about making the most profit from each transaction.

We'll explain why in a minute, but first let's take a look at the different forms of dynamic pricing. There are quite a few varieties, but four common techniques are set out in the box below.

Depending on the industry, the pricing strategy will vary. Disney, for example, makes frequent use of peak pricing. Airlines use peak pricing in combination with time of purchase.

With the flexibility of online retail, however, the possible strategic combinations become almost endless.

FOUR COMMON DYNAMIC PRICING TECHNIQUES

Peak pricing

Peak user pricing is a strategy common in transportation businesses. For example, airlines and train companies often charge a higher price to travel during rush hour on Monday through Friday than at other times and on weekends. Utility companies also set prices based on peak times. For example, they may charge higher fees for phone calls made, or electricity used, between 9am and 6pm.

Time of purchase

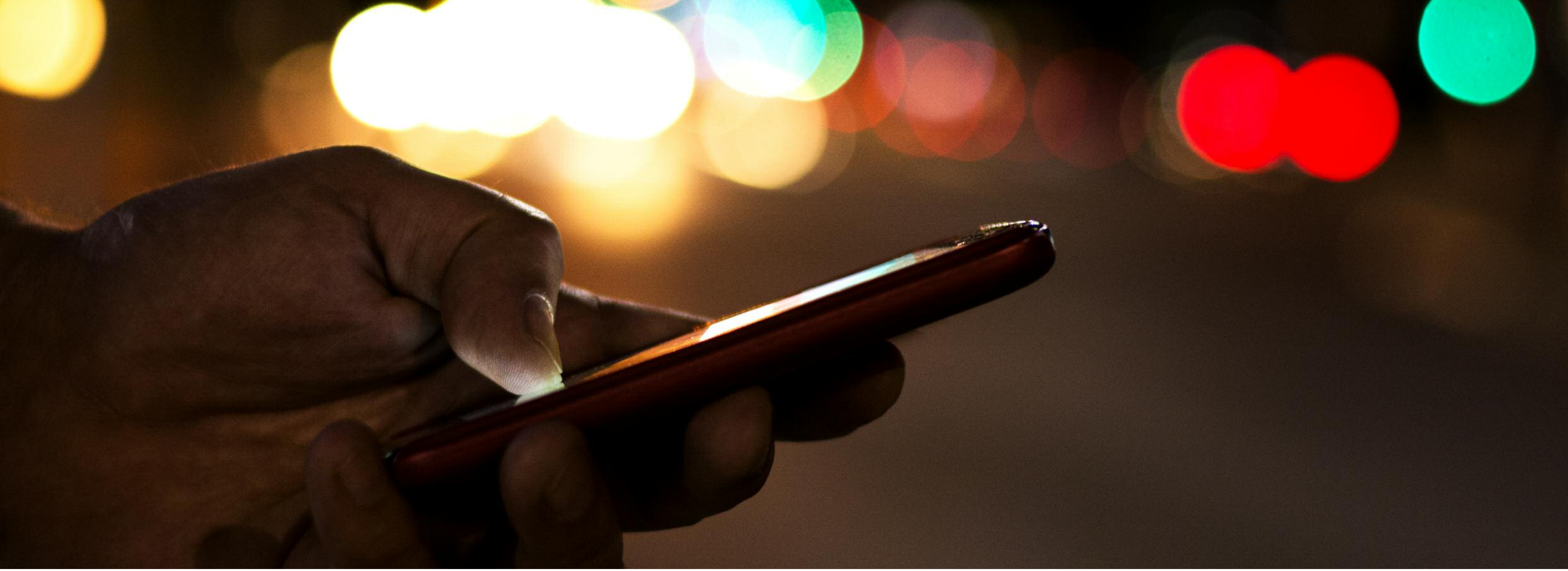
Some dynamic pricing strategies offer customers different prices based on when they buy. Again, airlines frequently use this strategy. The price of economy-class seats on a particular flight may fluctuate over time. For example, the airline may try to fill seats by lowering the price as the day of flight draws closer, or try to fill business-class seats first by raising prices on economy tickets.

Changing conditions

Using dynamic pricing strategies can boost profits more under certain market conditions. Pricing for products works best when there is a lot of uncertainty in the market. For example, when the product may have a very short life span, as in the case with movie tie-ins. Sellers can maximise profits by lowering prices as sales fall, then raising prices again as demand increases.

Segmented

In segmented pricing, some customers are charged more based on their willingness to pay more for a given service or product. For example, businesspeople may be willing to pay a higher price for an airline ticket that allows them to fly mid-week. Some customers may be willing to pay more for faster service, higher quality or more features.



The power of flexibility

Static vs dynamic pricing really boils down to a question of price points. With static pricing, you have one price and that remains the price until you recalculate it manually or adopt a new pricing scheme across the board.

Dynamic pricing changes this picture entirely. Essentially, it means multiple price points instead of one. And by 'multiple' we mean as many as you need (see Figure 1, below). This kind of pricing flexibility results in prices that can be responsive to a variety of market conditions, and this is good for you and your customers. To understand what this means for ecommerce, we need to address the 800 pound gorilla in the room – Amazon.

Figure 1 – STATIC PRICING AND DYNAMIC PRICING

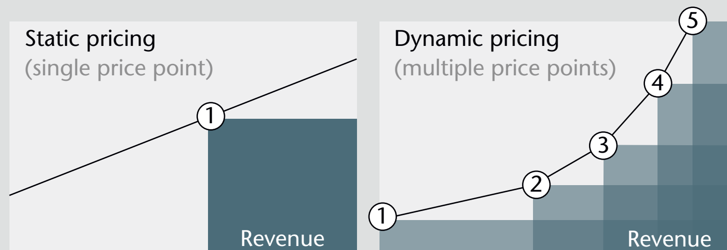
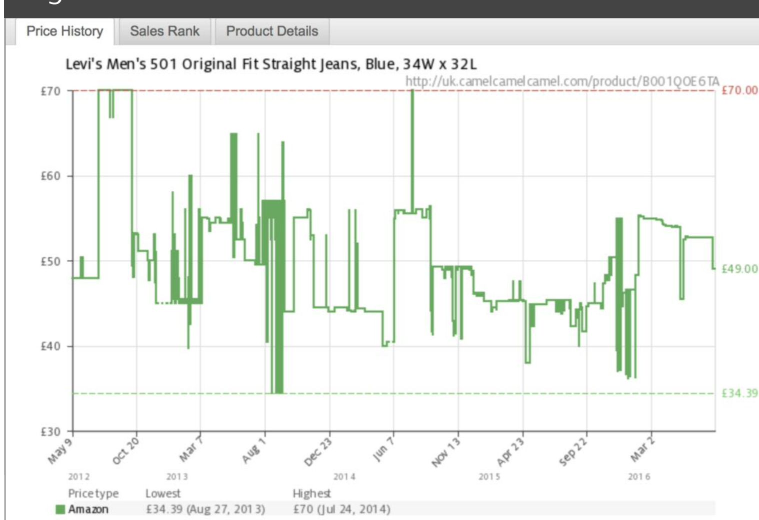


Figure 2 – TESTING AN AMAZON PRICE OVER TIME



CASE STUDY #1

Amazon's sliding prices

Back in 2000, Amazon began performing tests with dynamic pricing. These tests weren't applied across the board, but focused on specific products, namely DVDs. The sliding DVD prices reportedly affected over half of the company's top-100 best-sellers. Depending on the item, prices could vary as much as $15 from one customer to the next.

Customer anger was the result, partly because this test came only four months after a similar experiment Amazon had conducted on a popular MP3 player. Customers who paid the higher price felt hoodwinked, and they weren't pleased.

So what criteria was Amazon using to 'size up' its customers on the fly? We can't say exactly, but some of the techniques used by other retailers are suggestive.

A WSJ report on Staples found that two customers would often be shown different prices based on their zip codes. If they were near competitor brick-and-mortar outlets, such as OfficeMax or Office Depot, a discounted price was shown to the customer.

Amazon's pricing optimisation engine is obviously more complex than mere geo-targeting. That much is clear from the constant fluctuations in pricing for a single product and for a single customer over a period of time. Most Amazon customers who leave items in their cart for days will eventually see a notification about price fluctuations for those items.

Take advantage of the tools at camelcamelcamel.com to see this for yourself. Want to know if you're getting the best price on a pair of Levi's 501 jeans? See Figure 2, left.

CASE STUDY #2

Uber's surge pricing

Uber, a platform that connects independent drivers to nearby riders, is a more recent example of dynamic pricing innovation. Uber operates in a highly fluid market. The demand for rides each day sees huge fluctuations while the number of available drivers is an unknown, since drivers ('driver-partners') are free to work whenever they want.

In this sort of context, dynamic pricing is essential in order for the model to work. If prices are too low, driver-partners won't be incentivised to drive. If prices get too high, customers won't use the service. Uber

> ‘ If prices are too low, driver-partners won’t be incentivised to drive. If prices get too high, customers won’t use the service. Uber had to develop a way to close the gap between supply and demand under these chaotic conditions ’

had to develop a way to close the gap between supply and demand under these chaotic conditions.

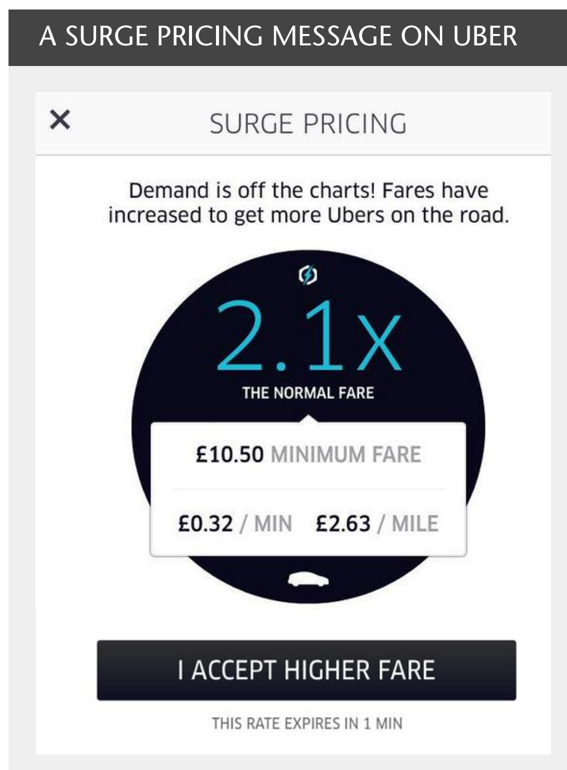
To achieve this, Uber came up with its ‘surge pricing’ algorithm, and it has worked wonders. That isn’t to say that things have gone off without a hitch. In 2014, during a hostage crisis at a café in Sydney, Uber prices for rides out of the area jumped to $100, four times the $25 minimum. As you can imagine, the general reaction was one of disgust. Uber released a tweet to explain the good intentions behind the mechanism:

> @Uber_Sydney
> We are all concerned with events in CBD. Fares have increased to encourage more drivers to come online & pick up passengers in the area.

In its efforts to build a positive reputation in the public eye, Uber has designed its system to inform the customer when surge pricing is in effect, so that, as far as is possible, the company can avoid any sense of foul play.

The customer then understands what he or she is paying for and why, so that they can appreciate the service they are paying for. A more in-depth analysis of surge pricing can be found by checking out one of the many case studies available on the subject. See www.tinyurl.com/SR54-Uber

A SURGE PRICING MESSAGE ON UBER



Working around the system

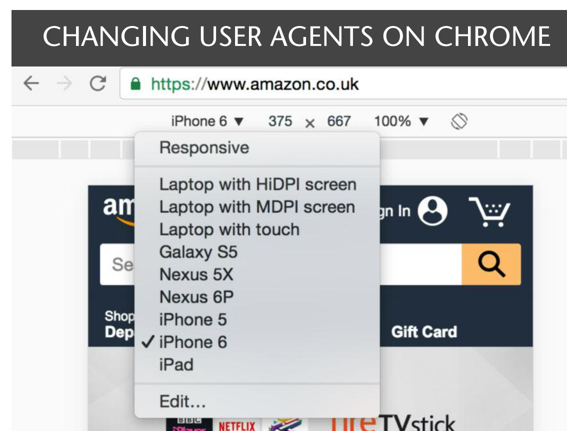
At this point, you’re probably curious about whether or not the retailers you shop with are using dynamic pricing. Here are a few measures you can take to find out:

1. Change your user agent

Every browser has a ‘user agent’ setting that it uses to identify itself to web servers. This tool conveys information about the device being used and aids in the proper delivery and display of content.

Most browsers give you the ability to override this setting. In Chrome, for example, you can bring up the Developer Tools screen and enter ‘device mode.’ This will allow you to alternate between different agents and check the results.

CHANGING USER AGENTS ON CHROME



2. Change devices

Another option, and a simpler one, is to check pricing on a different device. If you are browsing on a PC and have access to a Mac, check prices on both.

Since Mac users are known to have a higher average household income than PC users, some retailers have exploited this difference to vary pricing.

3. Change your zip/post code

If you are browsing a site that asks you to enter your zip/post code so that it can find your ‘Ship to’ store (to pull up prices related to that region), then just change your setting to a different location.

4. Shop around

Find some alternate sources like Google Shopping and compare. This won’t always indicate dynamic pricing, but it can help.

5. Change your IP address

Using a proxy server or a VPN, you can alter your IP address. This is a bit random in its effect, but is an interesting tactic nonetheless.

> ‘ The free WiFi actually serves as a proxy that determines how many smartphone users are in the physical store. Also, by being the router, it can monitor traffic, enabling retailers to see if price comparison apps are in use ’

Benefits for customers

If this is the first you’ve heard of dynamic pricing, it might appear to be nothing more than an underhanded way to make an extra buck. In reality, this approach has a wide variety of uses and they can each work as much for customers as they can for businesses.

Disney, for example, has been talking about its use of peak pricing for theme park ticket sales. Is this an example of profiteering, or is it something else?

If Yelp reviews can be treated as representative samples of customer satisfaction, it’s clear that customer complaints about overcrowding are just as common as those about high pricing.

When asked, Walt Disney Parks and Resorts Chairman Bob Chapek said: ‘We have to look at ways to spread out our attendance throughout the year so we can accommodate demand and avoid bursting at the seams.’

According to Robert Niles of Theme Park Insider: ‘Every time Disneyland raises its ticket prices, reporters ask if those higher prices will drive away fans. [But] Disneyland’s attendance keeps going up – year after year, price increase after price increase. So forgive me for not holding my breath, waiting for a fan revolt against Disney’s latest price increase.’

Dynamic pricing for Disney may mean a hike in price, but that hike may also lead to greater customer satisfaction overall.

What’s driving the change?

Wal-Mart changes its prices about 50,000 times per month for a number of reasons such as competition, traffic, time of year, and inventory.

But it’s also representative of the way customers shop and the data they have at their fingertips. While it seems like a customer service tool, the free WiFi actually serves as a proxy that determines how many smartphone users are in the physical store. Also, by being the router, it can monitor traffic, enabling retailers to see if price comparison apps are in use. That can greatly influence how you price in-store. Dynamic pricing may become an industry necessity because the big guys are doing it, but the big guys are doing it in response to changes in the way customers shop.

How to take your pricing to the next level

Titans like Amazon and Wal-Mart can develop proprietary price management engines for their enterprises. But that’s about to change. Here are a few suggested steps to help you ride the wave:

1. Choose your solution

Solutions fall into three categories:

- packaged software;
- proprietary software; and
- cloud or SaaS solutions.

SaaS is the most popular because it allows retailers to access powerful data management software without blowing their budget.

Third-party pricing intelligence services like Wiser, Digonex, and PROS are cropping up to make dynamic pricing available to companies that aren’t loss leader giants, essentially levelling the playing field and allowing you to stay competitive.

2. Get your data right

In this environment, you have to prioritise. According to an RIS survey, businesses listed the following as the most important elements in determining prices dynamically:

- Competitive pressure – 73.3%
- Average margin – 53.3%
- Geographic location – 50%
- Supply of product – 46.7%
- Time – 46.7%
- Basement price – 43.3%
- Ceiling price – 40%
- Sales channel – 36.7%
- Customer segment – 33.3%
- Market share – 33.3%
- Inventory turn – 26.7%
- Loss leader – 23.3%

As you can see, it’s not just turning a higher profit that would influence a dynamic pricing strategy. Factors such as gaining market share within a geographic location, inventory management, and need to move product more quickly through a specific channel can all make a significant impact.

3. Test

What works for others may not work for you, and a variety of factors will come into play when determining optimal price: brand value, shipping cost, reputation, etc.

This is where A/B testing becomes key, allowing you to analyse the impact of your dynamic pricing strategy on sales, conversion rates, and your bottom line.

Conclusion

Dynamic pricing might soon be one of the only constants in ecommerce. And even though the old ‘retail price tag’ style of pricing may be going extinct, your business doesn’t have to.

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Shopify Plus is a cloud based, fully hosted enterprise ecommerce platform for high volume merchants, with various options for dynamic pricing on its app store.

How much are services really worth?

How do you decide how much services are worth? By time spent? The professional skill required or by the weight of paperwork involved? **Peter Bartram** looks at the move away from billable hours.

When Lucy Cohen, commercial director at accountancy practice Mazuma, set up a new limited company accounts and tax returns service for small businesses, she decided to charge for it by the weight of the paperwork.

Who would have thought, even a few years ago, that an accountant would be selling her services in the same way a greengrocer sells bananas? Up to 1kg of paperwork costs a Mazuma client £199. As much as 10kg weighs in at £999. Cohen believes her approach is unique.

There are siren voices that suggest charging for accountancy services by time – traditional hourly billing – has had its day. Accountants, these voices purr, should assess the value the client puts on the service they receive and charge accordingly. The high priest of 'value pricing' is a Californian accountant turned think-tank guru and radio talk-show host called Ronald Baker. His mission, he says, is to 'bury the billable hour and timesheet' once and for all.

Baker, who founded the VeraSage Institute, says: 'Accountants' business model is fundamentally flawed because the world has changed.' He argues that accountancy clients don't buy time – they buy 'outcomes'. So accountants need to re-engineer their business model, including the way they price.

He says: 'Accountants are knowledge workers and you can't measure the value of knowledge work by the time it takes. Time is the wrong measuring rod. It's like plunging a ruler into the oven to determine its temperature.'

Value-based pricing

The key to understanding the concept of value pricing is that the value of an accountancy service is determined by the client who receives it. To take a simple example, a company whose tax affairs are in apple-pie order may put a lower value on tax advice than a company whose tax affairs are tangled and finds it has HMRC inspectors bearing down upon it.

Baker's argument is that if accountants understand the value the client puts on delivering the desired outcome, they can price their service to reflect that. He reckons that between 5% and 7% of accountancy practices in the English-speaking world have adopted some of the principles of value pricing as described in his books on the subject, the latest of which is Implementing Value Pricing.

Peter Bertram is an editor, author and journalist and has written 22 books and nearly 4,000 articles for newspapers and magazines.
www.peterbartram.co.uk

' Accountants are knowledge workers and you can't measure the value of knowledge work by the time it takes. Time is the wrong measuring rod. It's like plunging a ruler into the oven to determine its temperature '

Ronald Baker, VeraSage Institute

One of Baker's UK disciples is Mark Wickersham. He started his own accountancy practice in the 1990s. 'For the first couple of years, I never made much money,' he recalls. 'Clients thought the services were expensive and I got frustrated.'

Then he read one of Baker's books, was seduced by the arguments, and switched from billable hours to value pricing. 'I got significantly different and better results,' he says. 'I found it was easier for clients to say 'yes' and buy, even if the price was higher, because I was giving them the certainty of a fixed price upfront.'

Wickersham later sold his practice and now spends his time spreading the gospel of value pricing through consultancy work, motivational speaking and books such as Effective Pricing for Accountants. Last year, he conducted a survey of 725 accounting firms. He discovered around 10% of them were using value pricing principles.

Urgency based

One practice that has advanced some way down the value pricing road is ReesRussell, a 10-person practice in Witney, Oxfordshire, which is a member of the UK200Group. Partner Jonathan Russell says that because a large amount of their work is on compliance jobs, such as accounts or tax filings, there are market rates for much of it, so the firm's model is a hybrid of time and value pricing.

Clients receive a fixed price based on the amount of time to deliver the service. But, adds Russell: 'I may flex the price up and down depending on the need of the client.' For example, if a client appears in the middle of January urgently needing tax returns completed by the end of the month, then the price may be flexed above the standard rate. He draws a comparison with the Uber taxi app which adopts 'surge pricing' when demand is high.

‘ The idea of basing fees for a service on weight came when Cohen realised that the time taken to do the bookkeeping for a small company or contractor was usually proportional to the amount of paperwork ’

However, there are still plenty of accountancy practices that believe hourly billing has a future. One of them is Carter Backer Winter, a London-based firm with 18 partners and 120 staff. The firm uses a mixture of hourly and fixed price billing but managing partner Peter Winter admits: ‘The majority of my work is on hourly billing.’

Winter says that different kinds of work lend themselves to alternative billing methods. Hourly billing is fine for consultancy and ad hoc advisory work. Fixed-fee billing is good for compliance, such as tax returns and annual accounts filings, often a staple of smaller practices. Audits are increasingly the subject of competitive tenders.

He argues that hourly billing is far from dead, but that clients now more often look for certainty about what they will have to pay. And when the competition is hot, and the client is sensitive about fees, there is a tendency to undercharge. ‘Partners will undertake work and just not charge for it,’ he says.

One of the big drivers behind the soul-searching over billing methods is clients’ wary eye on fee rises and value for money – a tendency sharpened during the downturn. The halcyon days of the 1980s and 1990s, when clients took their bills and paid up without moaning, are long gone.

‘There is now quite a bit of resistance on the part of clients to fees and fee increases,’ says John O’Donnell, a practice consultant at ICAEW. ‘Many clients will now be looking for a fixed-fee quote for two or three years.’

But another driver is the way so much accountancy work – especially compliance – has become commoditised, a trend stimulated by more widespread use of technology. Turning accountancy services into a commodity also puts a premium on the processes that are used to deliver them.

‘We’ve spent years getting our processes right to make sure that we can deliver services profitably,’ says Mazuma’s Cohen. ‘It’s not as easy as it looks.’

Cohen keeps control by reviewing a set of tight key performance indicators that show how work is flowing through the firm. For example, every piece of client work that comes in has to be booked, processed and returned to the client within five working days. Any phone call or email from a client that arrives before 4pm must be answered the same day.

Paper weight

The idea of basing fees for a service on weight came when Cohen realised that the time taken to do the bookkeeping for a small company or contractor was usually proportional to the amount of paperwork. ‘We couldn’t ask people to count the pieces of paper they were sending us, so weight seemed the obvious way to do it,’ says Cohen. The service is for clients who don’t want advice and support – just a set of accounts and corporation tax return at the end of the year.

For clients who want a fuller service, Cohen offers a fixed-fee monthly service. She admits that taking on clients for a fixed fee is a risk when there is no certainty how difficult it will be to service their needs. But Mazuma now has more than 2,000 clients, mostly with turnovers under £250,000, and profit averages out over them.

‘We only market to people who are most likely to fit the structure we’ve got,’ says Cohen. ‘We basically train clients to give us clean paperwork on time so we don’t have to chase them. We discuss all this during the sales process and if we don’t think people are a good fit, we tell them that they won’t get the best out of our service.’

Darren Fell, managing director of Crunch Accounting, is another accountancy entrepreneur who believes the future in the small business and sole

> ‘ From their lofty height, the Big Four accountancy firms have begun to sniff the air and think about their future pricing policies ’

trader accountancy market lies in offering fixed-fee services.

Crunch has 6,500 clients for its online services, which harness the power of cloud computing, with a further 300 signing up every month. Typically, client turnovers are up to £500,000. ‘With a fixed price service, you’re looking to deliver volume – you need to offer all the features a client needs but be sure you can make a profit on the fixed price,’ says Fell. ‘Some clients can be an utter nightmare, but it’s our job to solve all the problems. It’s important that you can scale up the service as it grows.’ Crunch now has 140 staff including a specialist team of 30 software engineers.

Client focused

From their lofty height, the Big Four accountancy firms have begun to sniff the air and think about their future pricing policies. KPMG recently announced its small business accounting service – part of its Enterprise strategic investment scheme – which includes accounts preparation, bookkeeping, payroll, VAT and corporate tax returns from £150 a month – a price threshold way above the entry level pricing of £60 a month at Mazuma and £64.50 at Crunch Accounting for similar services.

‘We want to be the clear choice for all privately-owned businesses from formation through every stage of their development and growth,’ say Simon Collins, KPMG’s UK chairman.

O’Donnell believes there will be further changes to the profession’s pricing models in the years ahead. To a large extent, the change will be driven by what clients want, he says. What seems clear is that the historic one-size-fits-all hourly charging approach is giving way to a variety of different ways to price.

O’Donnell says accountancy firms need to consider pricing as part of their forward business strategy. ‘There are a lot of complex situations to consider,’ he says. ‘Different pricing models may work for different clients and different services.’

Pricing accountancy services like bananas may not be the only unusual innovation to come.

HOW OTHER PROFESSIONS PRICE

Other professions are also trying out alternatives to hourly billing. ‘Both clients and professionals are dissatisfied with the hourly billing model, but everyone is struggling to come up with something better,’ says Professor Laura Empson, director of the Centre for Professional Service Firms at Cass Business School.

It’s not easy because – as Empson points out – any kind of pricing structure for professional services needs to give at least a nod to the role of time in service delivery. ‘To divorce price from the time spent on a task would be nonsensical,’ says Empson.

But there is another problem – firms across many professions don’t always have an accurate grasp of the amount of time staff spend working on different projects. There is a ‘double distortion’, says Empson.

First, staff don’t acknowledge how much time they have spent on a job. Secondly, senior managers shave back the price when putting the final bill together in order to keep clients happy. It all happens because the spectre of tougher competition is hanging over most professions and they must change their charging structures to deal with it.

Consultants

Consider management consultancy, for example, where hourly billing used to reign supreme. A late 2014 survey showed that 71% of clients now prefer to be charged on a risk/reward basis – where the fee is linked to achieving pre-defined key performance indicators. But few consulting firms have switched entirely to this way of working, says Fiona Czerniawska, author of Buying Professional Services and co-founder of Source Information Services, which researches the consultancy industry.

‘Most firms use a mixture of risk/reward and more traditional fixed price, and time and materials contracts,’ she says. ‘It’s really only the big firms that can offer substantial risk/reward deals – where a high proportion of fees might be at stake – because they have the financial muscle to back it up.’

Architects are another group of professionals who have felt the stiff breeze of change in their charging structures. Traditionally, their fees would have been based on a percentage of construction costs – depending on the project, usually somewhere between 4% and 10%. But that’s now almost entirely abandoned, says Adrian Dobson, head of practice at the Royal Institute of British Architects.

Now architects are more likely to charge ‘resource-based fees’ calculated on the basis of a seven-stage ‘plan of work’, which takes a project from brief to client handover. The architect will look at the time and level of staff likely to be used at each of the seven stages to calculate costs, then add a mark-up and perhaps an uplift to reflect value added in the project.

It is a similar story in other professions ranging from law through advertising to investment banking. Clients used to sit back and accept hourly fees as part of the pain of doing the job. Not now.

‘Clients don’t understand why they have to pay so much money for work that seems to have taken an unnecessary amount of time,’ adds Empson.

Top tips on price communications for professionals

Consultants and business professionals face a dilemma in pricing their services – how do they avoid looking too expensive or too cheap? **Kim Tasso** offers tips on presenting price issues to clients.

When I talk to professionals about price communications there appears to be some confusion between two separate activities. First, there needs to be a pricing strategy which might include premium pricing for a skimming strategy or a lower price to achieve rapid penetration. Establishing a pricing strategy is typically a marketing activity – it is fundamental to profit – and draws on a variety of knowledge including finance, economics and buyer psychology.

Second, there needs to be guidance (and possibly training) for all professionals about how to communicate about price with clients on a day-to-day basis. Often, professionals confuse clients' desire for clarity and certainty about price as a demand for a low price. As professional service markets endure more commoditisation, the ability to differentiate and craft compelling value propositions increases.

So. I have summarised 10 tips on price communications for professionals from recent training sessions where we have discussed and role played various price communication scenarios in both consumer and commercial markets.

1 Understand that cost and price are two different things

The hours you record to complete a piece of work are, in the main, of no interest to the client (professional qualified clients such as in-house lawyers or finance directors may have a different view). This is your cost of completing the work and of little relevance to the client.

The client is interested in the value they receive – the solution to a problem, the end of a dispute, the protection of assets, the saving of money, the reduction of risk or the avoidance of threat. The less value that the client perceives then the more resistance there will be to price. If the client perceives a high value or the issue is of strategic importance, there will be less price resistance.

For example, if it costs you £100 to save the client £5,000 will you charge £100 or will you charge more? If it costs £5,000 to save the client £100 you are not going to be able to charge all the costs.

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2 Welcome price discussions

Many professionals fear questions about price from clients. It makes them defensive. But sometimes clients do not know what else to ask about if purchasing an unfamiliar professional service. So you should focus on developing rapport and demonstrating an interest in the client and their issue before rushing to answer an early price question.

Similarly, questions about price are often indicators of the clients' intention to buy. They are signalling to the professional adviser that they are interested in buying and are now focused on getting the right price.

3 Explore the clients' willingness to pay

Harvard Business School's strategy master, Michael Porter, wrote almost 30 years ago: 'Value is what buyers are willing to pay.' Willingness to pay is an economic concept that, qualitatively, measures a buyer's motivation to purchase and, quantitatively, measures a buyer's maximum purchase price. In both cases, the buyer's measurement correlates directly to his/her perception of value, which is directly influenced by branding and value propositions.

In order to understand the clients' willingness-to-pay you need to use empathy to understand their perspective and the context of their aims and requirements.

4 Ensure your pricing aligns with other communications

Many professionals will invest time, money and effort creating a reputation or profile that positions them as leading experts. This is effective at attracting the right sort of new clients. You then need to be consistent with your approach to pricing to avoid confusion or undermining or contradicting the value proposition that has been created.

So if you have promoted your service as top of the market and aimed at a particular high-value segment of the market, then your discussions about price must be consistent with that positioning.

5 Be alert for different types of buyers

Different types of buyers will adopt different strategies for price communications. Styles might include, for example, price busters, deal hunters or value buyers. Professional buyers may have different motivations such as achievement, influence, affiliation or security. Other research identifies: loyal buyers; opportunistic buyers; best deal buyers; creative buyers; advertising buyers; chisellers and nuts and bolts buyers.

Understanding these different types and styles and knowing how to deal with them will equip you for different types of price discussions.

6 Provide clarity and certainty

There are a large number of research studies that show that clients are interested in understanding the different components of price and want to have control, options and certainty. Thus we see the popularity in 'unbundling' services – especially using technology. Therefore you need to outline the price of different parts and combinations of work and provide clients with options about how they might reduce the cost by tackling some elements in a different way.

7 Increase the value perception

In order for clients to understand the value of the work you do, you will need to explain how the service you are providing is different and better to the available alternatives. You need to explain the benefits that they will receive. This again requires empathy skills.

One of the reasons that firms invest in brands is because brands increase the perceived value. One of the reasons why professionals strive to become known as the leading experts is because it increases the perceived value.

It is often helpful to use storytelling to convey the value that other clients received in relation to the price that they paid for your services. Stories are one of the most effective ways to communicate as they enable the client to connect emotionally with the information.

The psychology of persuasion is discussed in other blog posts (see, for example, www.kimtasso.com/book-review-small-big-small-changes-spark-big-influence-steve-j-martin-noah-j-goldstein-robert-b-cialdini-persuasion-science)

8 Be confident

Clients will detect from your non-verbal communication if you are nervous or uncomfortable about the price. And they will then be more likely to challenge you on price. Therefore, you need to either be confident or appear confident when talking about price.

If the client presses for a discount and you fold easily, it creates doubt in the client's mind. You need to remain calm, confident and firm in your price discussions. Whilst you may need to negotiate, there will be occasions where you will need to walk away if the client is not prepared to pay the price determined by your overall pricing strategy. There is more information on this here: www.kimtasso.com/be-more-t-rex-client-management-with-dinosaurs

9 Trade concessions when negotiating price

To avoid undermining trust and your perceived value, if the client persists in pressing for a reduction in price then you should trade concessions. For example, only reduce the offered price in exchange for narrowing the scope of work – for example, by suggesting that the client undertakes some aspect of the work themselves. Typically, unbundling services enables you to do this more easily.

It helps to remember lessons from the project management triangle where a change in price requires a change in either the timescale for delivery or for the quality or scope of the final product.

10 Provide early warning if the price looks like it might change

Ideally, the price you provide at the outset is the one that clients pay. Your estimating and project management systems should enable you to keep the cost of the work within the parameters enshrined in the fixed price quoted.

However, if the client requires changes to the original instructions or brief and/or issues arise that require additional work (manage scope creep carefully) then this must be discussed with the client in advance so that they are kept informed, can make choices about how to proceed and are not faced with nasty surprises.

Summary

There are several principles of pricing:

- pricing should be based on the value to the customer, not the cost to you;
- prices should be tangible, so your clients can see what they get for what they pay;
- prices should be comparable – on terms that you control;
- if you want to change your prices, you should reframe the service or products;
- price differentiation is the key enabler of profit;
- pricing communication shapes the client's perception of value; and
- you must be prepared to lose some sales to increase profits.

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The key points to consider when changing your pricing strategy

Sometimes a business needs to look at its prices in light of market conditions or competitor behaviour. Here **Moira McCormick** sets out the crucial points to take into account when making changes.

Need to change your pricing strategy? That's a pretty big deal and a decision not to be taken lightly. The best way to avoid having a heart attack whilst you ponder this knotty issue is to break down (not literally) all the things you need to consider into smaller 'compartments' and resolve each issue separately before you come to a final decision on your optimum pricing strategy and how you are going to achieve it.

Consider your costs

Naturally you need to ensure that the price of your product(s) generates sufficient revenue to cover your costs. Ask yourself 'how much does it cost to take my product from manufacture to purchase?' Do not forget to include the price of raw materials, assembly, labour, rent, delivery and any other overheads you incur. Add these up and divide by the number of products you produce in the given time period. Once you've pinpointed the average cost per product, you'll see precisely the revenue you need to cover all of your expenses.

You will be hoping to achieve rather more than just break even. A healthy profit would of course be most welcome. The percentage that you'd like to make from each item is called your gross profit margin target.

You need to decide just what profit margin you are aiming for. The target percentages vary based on the type of business and your circumstances. Manufacturers and retailers often set a target of 50% while distributors target something around 30%. However, if you are just setting your margin target based on your costs, you could be missing out on profits because the customer may actually be willing to pay much more than that.

' If your product clearly provides more value than the competition, a higher price point will help indicate to your customers that it's a superior product '

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Know your customers

The more you know about your customers the easier it will be for you to arrive at the best price. Conducting market research will outline the demographics and psychology of your target audience and reveal their purchasing behaviour. Basic databases, surveys and internet research should expose common traits among your customer base. If you want a more in-depth understanding consider hiring a third-party market research company. This type of research demonstrates trends like how crucial your product is to their lifestyle. If your product provides a function that they can't live without, a higher price point will not deter them. As an example, smartphones have become so essential that even a high price tag will not deter a new purchase every couple of years.

Consider the competition

How is your competition pricing their products? You want your price to be competitive, but also reflect your product's value. You will need to find out if their product has the same perceived value as yours. How do customers compare the products? What types of reviews is each product getting? Again, conducting market research and even performing your own internet searches will provide useful insight on this topic. If your product clearly provides more value than the competition, a higher price point will help indicate to your customers that it's a superior product. If the competition's product proves more valuable, try pricing your product just below theirs as a less expensive, but high-quality option.

Whatever you do, don't let what your competitors are doing control your pricing strategy because then things will disintegrate into a price-cutting war. There are no real winners in that war except for a customer who then expects everything for the lowest price possible – and they rarely remain loyal. When you let the competition control your pricing strategy, you are being completely reactive, which is never a position that will increase your profit margins.

If your competitors are bigger than you, especially in terms of volume, this allows them to lower the price lower than you can afford, which means you will lose out. Instead, focus on adding other types of incentives or features likely to add value.

Introduce tiered pricing

Does your product have options that vary in value? If so, you should consider adding a tiered pricing structure. Tiered pricing appeals to customers because it allows them to choose the price level that best fits their budget. If your product(s) can be differentiated through additional features, price them at points that reflect their individual values. Try using a pricing

> ‘ The massive amount of available data about customers and what they want or need has provided a way to look deep into the psychology of buying ’

structure that offers ‘good’, ‘better’, and ‘best’ options for products or services that have increasing levels of value. Applying this strategy can help you capture a larger portion of the market by offering multiple options for a larger range of shoppers.

Try psychological pricing

Odd-number pricing is a pricing strategy that's been around for decades and suggests that a product retailing at £39.99 is much more appealing than one at £40.00. This is psychological pricing in its simplest form. Studies have concluded that this pricing strategy is successful in most cases. Once you know that you're competitively priced and covering your costs, test out this pricing strategy to find which prices best fit your target audience.

The massive amount of available data about customers and what they want or need has provided a way to look deep into the psychology of buying. You need to use this information to shape a pricing psychology that speaks to your customers’ buying mindset.

Remember, one price does not fit all customers

What you think is value and how the customer perceives value may be two entirely different things. You need to think like your customers. As an example, street vendors know that customers will pay £3 or more for a bottle of water in the height of summer, but those same customers will not pay that price in a highstreet store in winter.

Not every customer sees the same level of value in a product or service, so they will place a different preferred price on what they think they should pay for that product or service. While you cannot charge an individual price for each customer, you can introduce different prices in various regional markets or create a product with multiple models.

Other strategies could involve offering some type of instalment payment plan or financing that provides more than one price dependent on how the customer is willing to pay.

Do not rush to offer a discount on a new product

You may be tempted to offer an introductory price on a new product or service to draw customers in. The discount is offered as an incentive meant to attract price-conscious buyers.

In reality, however, if a customer wants to try something new, they will try it regardless of whether or not you lower the price initially. When you are ready to sell it at the original price you had planned, your customers may not be prepared to fork out the extra amount – and consequently move on to another product.

It’s better therefore to introduce a product or service at the price you have decided on after researching what customers are actually willing to pay. Offer temporary discounts or promotional prices during specific seasons or periods, but don’t downplay the value of your product or service. If anything, set it higher so that your potential customers get the idea that it’s something special.

Conclusion

No pricing strategy is perfect but you can at least strive for the very best strategy to suit your business. Continue to focus on improving aspects of your pricing strategy as you see changes in your environment, including customers, prospects and the competition. It is imperative you keep abreast of market conditions – and what that market will allow in terms of price. Consider first making small, incremental changes and then you can spend time planning more dramatic alterations to your pricing strategy when you know with some degree of certainty that it’s the right time to change.

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Sacks of different types of rice on sale in Old Delhi, India.
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HOW TO PRICE YOUR PRODUCT OR SERVICE

This three-page guide to pricing sets out in list format the key pricing decisions that you will need to consider. It is kindly contributed by **Marketing Donut** (www.marketingdonut.co.uk).

How much are you going to charge your customers for your product or service? Getting your pricing right could double your profits at a stroke.

Many start-up businesses work out a cost figure for each product and add a modest mark-up – known as cost-plus pricing. While this method is common, it is not the only way to arrive at a price. Invest serious thought into your pricing methodology at an early stage – it can pay big dividends later.

Pricing is based on three critical points:

- what your product or service will be worth to your customers – its value;
- what it costs you to produce your product or provide your service; and
- the price your competitors charge.

1 Cost and price versus value

1.1 Successful businesses maximise their profits by matching their pricing with the value customers put on their products or services.

- The cost is the total outlay required to create a product or service.
- The price is your financial reward for providing the product or service.
- The value is what the customer thinks the product or service is worth. For a plumber to fix a burst pipe, it may be £5 for travel, £3 for materials and £10 for one hour's labour. But the value to the customer is far greater than the £18, so a plumber may charge up to £50. Computer printer ink cartridges can cost less than £5 to manufacture. However, to the user who can't print without them, their value is much higher – and so is the price.

1.2 Product pricing is often built on a 'cost-plus' basis (see 4), while service pricing is generally created on perceived value (see 6-8).

- Discount with care. Offering too many discounts can lead customers to question your full-rate pricing. But, used sparingly, discounting can work if it achieves one of the following objectives:
- Capture big orders with a bulk discount. It may cost you a little extra to process a much larger order.
- Persuade customers to buy during your quiet period with an off-peak discount.
- Encourage your customers to stick to one supplier through a cumulative discount (or retrospective discount). Your records should show a rolling total, indicating how much each major customer has bought.
- Match the competition, for example by offering the standard trade discounts.
- Get rid of old stock (and improve cashflow) with clearance discounts.
- Encourage early payment with discounts for cash or payment within 30 days.

2 Building a cost structure

Your cost structure provides a basis for what you need to charge. But it will not necessarily show you what you can – and should – charge.

2.1 Divide your costs under two headings: variable and fixed.

- Variable costs will increase when your sales increase (eg goods and materials).
- Fixed costs remain largely constant, regardless of how much or little you sell (eg rent, salaries, business rates).

2.2 As long as the price you sell at is higher than the variable cost, each sale will make a contribution towards covering fixed costs – and making profits.

- For example, a car dealership has variable costs of £9,000 per car sold and total fixed costs of £200,000 a year. The contribution required depends upon the volume of sales. If the company sells 80 cars each year, it needs a contribution of at least £2,500 per car (ie £200,000 divided by 80) to avoid making a loss.

2.3 Based on this cost structure, the company can assess the consequences of different price levels.

- Selling the cars at less than £9,000 (the variable cost per car) is suicidal. The more you sell, the more money you lose. Selling 80 cars at £9,000 will mean a loss of £200,000 per year, as none of the fixed costs will be paid for. Selling cars at £11,500 will result in breakeven, assuming the target 80 cars are sold. If more or fewer than 80 are sold, profits will be correspondingly higher or lower.

3 Checking the competition

It is certain that you will face competition in some form. This gives you an opportunity to benchmark your potential pricing.

3.1 Phone your rivals and ask for a price quote.

- If your competitors know you, get someone else to call.

3.2 Use this information as a framework. It is probably unwise to set your prices too much lower or higher without good reason.

- Too low and you will throw away profit.

‘ Higher prices can give you fat profits. But beware – they may also alienate customers and draw in new competitors who fancy a share of the spoils ’

- Too high and you will lose customers, unless you can offer them something not available elsewhere.

4 Marking up

4.1 Cost-plus pricing is a traditional method, usually based on two elements:
- The mark-up you must add to the cost to make the desired profit; and
- The mark-up used by competitors. (The mark-up is usually expressed as a percentage of the cost.)

4.2 Ensure all your costs (see 2) have been factored in before applying the mark-up.
- If the final price looks uncompetitive, review the size of the mark-up. Never obliterate the mark-up to make the price competitive. Try to change the cost base rather than give up potential profit.

4.3 Different products and businesses apply very different mark-ups – eg, retail mark-ups include:
- Fridges: cost plus 25%.
- Branded clothing: cost plus 135%.
- Jewellery: cost plus 250% or more.

5 Margins

5.1 Margins indicate the percentage profit a business makes after applying a mark-up.
- For example, if a business buys a product for £10 and marks it up by 50%, thus selling it for £15, the margin is 33% (the value of the mark-up, divided by the selling price x 100).

5.2 Margins are good barometers of how important particular products or services are to the profitability of your business.
- The higher the margin, the more lucrative it could be.
- Low-margin, low-volume products should not occupy large chunks of your time or storage space at the expense of higher-margin products.

6 Value-based pricing

The alternatives to cost-plus pricing focus on what customers are willing to pay.

6.1 Convenience – a late-night convenience store can charge much more than a supermarket for a pint of milk.

6.2 Brand – there may be little to choose in technical terms between a branded and an unbranded product, but big spenders will go straight for the expensive product if the brand is well marketed.

6.3 Fashion – some people will pay a premium for hot items (eg the latest trainers or cars).

6.4 Monopolies and cartels – if one company, or group of companies, exclusively supplies a product or service, it can set its own prices.

6.5 Pure perceived value – fine art is a good example. A sculpture is priced at £20,000 or £60,000 based on its estimated value to the purchaser, rather than simply the cost of its creation.

6.6 Supply and demand – tickets for top-level sports events can be highly priced as there will be more committed potential customers than available seats.
- Higher prices can give you fat profits. But beware – they may also alienate customers and draw in new competitors who fancy a share of the spoils.

7 Flexible pricing

7.1 Should you use different margins for different items, as department stores do?
- You may want higher margins on products with low unit costs or slow turnover, and on products that take up a lot of space.

7.2 Is demand seasonal?
- It costs more to go on holiday in the summer and over Christmas than in March.

7.3 Will some customers pay a premium? This strategy can be extremely profitable.
- For example, a plumber may offer low daytime prices (to ensure a full workload), but charge heavily for emergency call-outs (when customers will pay much more).

8 Vanishing opportunities

Some goods and services are valuable today and worthless tomorrow. Your pricing should reflect the situation.

8.1 Perishable goods are worthless after their sell-by date.
- If you sell off goods cheaply, ask yourself if the same customers would have bought full-price items.

8.2 Many products gradually become obsolete as improved models become available or as fashions change.

8.3 If you have to sell off goods cheaply, explain the reason for the special offer. If your story is plausible, your customers will still have faith in your everyday pricing.
- Offer the goods at special prices to regular customers first to generate goodwill.

‘ For a start-up, competing on price is often a mistake. Low pricing is more often a strategy of big companies that cannot compete on service ’

9 Aim high

9.1 It is easier to reduce prices than raise them.
- If in doubt, try higher prices first.
- Be prepared to lower prices if the required sales volume is not achieved and your cashflow is under pressure.

9.2 Low prices often go hand-in-hand with poor quality and service. Is this the image you want to create?
- Some companies can win more customers (as well as boosting their margins) by putting their prices up.

9.3 For a start-up, competing on price is often a mistake. Low pricing is more often a strategy of big companies that cannot compete on service.
- What you will be able to offer is a string of benefits such as convenience, speedy delivery and specialist skills.
- Many small firms underprice in order to 'build up sales'. Aim to build up profits instead – the buying decision is rarely made purely on price.

10 Special tactics

There may be times when the right price is dictated by factors other than cost or perceived value. Tactical pricing can be used to achieve many different objectives.

10.1 Odd value – the retailer's habit of selling something for £9.99 instead of £10.
- This signals price awareness and is useful in creating a favourable impression to cost-conscious customers.

10.2 Loss leaders – selling some products cheaply to win new customers.
- You may include a couple of zero mark-up products in your range for this purpose. Or you may offer lower prices to new customers, reverting later to normal prices.

10.3 Price war – deliberately undercutting rivals to win market share from them.
- Will it hurt you more than it hurts them? If you are a start-up, the competition may have deeper pockets than you.
- Will your new customers stay with you when the prices go back up?

10.4 Skimming – selling a unique product at a high price until all customers who need it have bought it.

10.5 Penetration – the opposite of skimming.
- This tactic involves starting a product at a low price and getting the market sewn up before competitors can catch up with you.
- With significant market share under your belt, you find ways to raise prices later.

11 Trading up

11.1 Work out realistically how your customers would react to higher prices.
- Would you lose volume – or customers? (Remember lower volumes at higher margins can still improve profit.)
- Discuss it with customers beforehand. The key to success is having a good relationship with them in the first place.

11.2 Sell yourself.
- Make sure customers know why they are buying from you rather than a competitor.

11.3 Explain the reasons behind your prices.
- Remember to attribute part of your price to the cost of providing high-quality back-up and after-sales service.

11.4 Unreasonably high prices can destroy goodwill, especially if the customer has no immediate alternative supplier.

12 Other considerations

12.1 Would more marketing muscle help?
- Would sales rise if you increased prices by 5% and spent the extra revenue on promotional activity?

12.2 Control your variable costs.
- Are there cheaper supplies elsewhere?
- Would the suppliers you have already lined up be prepared to drop their prices?

12.3 Can fixed costs be pared down?
- What could you negotiate?

12.4 Should you alter your product mix?
- If you cannot make enough profit on a product, consider dropping it.

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FURTHER READING ON PRICING

Books, journal articles and more ...

The ICAEW Library and Information Service offers further resources on pricing. The selection below is available to ICAEW members – for further information, see icaew.com/library

Online resources

eBooks – icaew.com/ebooks

- 'Pricing: segmentation and analytics', T Bodea, Business Expert Press, 2012
- 'Revenue management: a path to increased profits', R J Huefner, Business Expert Press, 2011
- 'Practical financial management', C Barrow, Kogan Page, 2011

Directors' Briefings – icaew.com/directorsbriefings
Directors' briefings are four-page guides written for the busy practitioner, director and entrepreneur, providing concise practical advice on core business issues.

- Pricing your product or service
- Pricing

Online articles – *economia*

- 'Make value your priority', Finance and Management, No. 236, October 2015. http://www.icaew.com/en/technical/finance-and-management-faculty/business-management-and-strategy/general-strategy/make-value-your-priority
- 'Positioning and pricing', Finance and Management, No. 235, Sept 2015. http://www.icaew.com/en/technical/finance-and-management-faculty/business-management-and-strategy/general-strategy/positioning-and-pricing
- 'Value-based pricing: the driver to increased short-term profits', Finance and Management, No. 221, May 2014. http://www.icaew.com/en/technical/finance-and-management-faculty/business-management-and-strategy/general-strategy/financial-strategy-value-based-pricing-the-driver-to-increased-short-term-profits

Printed resources

Please email library@icaew.com for book or article details or to request a postal loan or article copy.

Books and reports

- *'Innovation in pricing: contemporary theories and best practices'*, A Hinterhuber, Routledge, 2013
- *'The strategy and tactics of pricing: a guide to growing more profitably'*, T Nagle, Pearson Education, 2007

Articles

- 'Pricing for profit', *Accounting and Business*, Vol.5. No.7. July/August 2002. pp.36-37.

Please note some online resources can only be accessed by members logged into the website.

SPECIAL REPORTS

Previous F&M Faculty special reports

Financial strategy: forecasting issues June 2016 (SR53

FINANCIAL STRATEGY: FORECASTING ISSUES
Businesses consider the probable future to better enable themselves to cope with a changing marketplace and global environment. In this report, David Hatherly links boardroom targets with macro-economic policy; Carl Emmerson provides his top tips from the Institute of Fiscal Studies; and Matthew Leitch offers advice on dialling risk into your forecasts. Also in this report, Sarah Boyce highlights the benefits of cash forecasting; Michelle Russell shows how Primark built ethics into their business; and Christine Brogan and Sarah Lund introduce long-term social and environmental issues into the forecasting process.

People and skills March 2016 (SR52)

PEOPLE AND SKILLS
Human interactions are a cornerstone to working in business. This report assesses some of the factors involved and offers practical advice. Jo Faragher highlights the benefits of taking on apprentices; Jonathan Firth provides advice on the recruitment process; and Clare Murray and Susanne Foster outline the legal issues which are involved in the employment life-cycle. Also in the report, Carly Chynoweth demonstrates how data analytics can generate actionable insights; Sarah Lewis offers 10 tips for dealing with awkward conversations at work; and Alastair Dryburgh profiles some of the traits of poor management – and how to spot it.

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