

SMART PRICING

How Google, Priceline, and Leading Businesses Use Pricing Innovation for Profitability

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MAIN IDEA

It's amazing how many companies fail to have a deliberate pricing strategy – even though this is an absolutely critical and fundamental business element. In fact, many managers rarely give pricing much serious thought at all.

This is unfortunate because pricing offers great opportunities to move ahead for those who are astute and nimble. Instead of pricing your products or services using simplistic methods like cost-plus, match-your-competitors or figure out what people will pay and go with that as a price, there is a rich variety of other pricing strategies to try. For example, you might:

- Figure out how to make money other ways by providing your product or service for free.
- Allow your customers to name their own price – pay whatever they think your product or service is worth.
- Build automatic price markdowns into your pricing model – so you can serve customers at both ends of the spectrum.
- Set up subscription plans which allow people to save – even for items like their weekly grocery shop.
- Develop performance-based pricing systems – where people pay only if what you have to offer works.

“Getting the price right is, in the end, both art and science. Like most business practices, the best pricing decision is grounded not only in theory, but experience and instinct. Ultimately, smart pricing demands not only deep customer knowledge and good economic intuition, but a healthy dose of street smarts. Our experience has taught us that pulling the price lever demands courage and confidence, the kind best built on your knowledge about what pricing can do, how you can price your goods and services, and how consumers and your competition might react to your pricing decisions.”

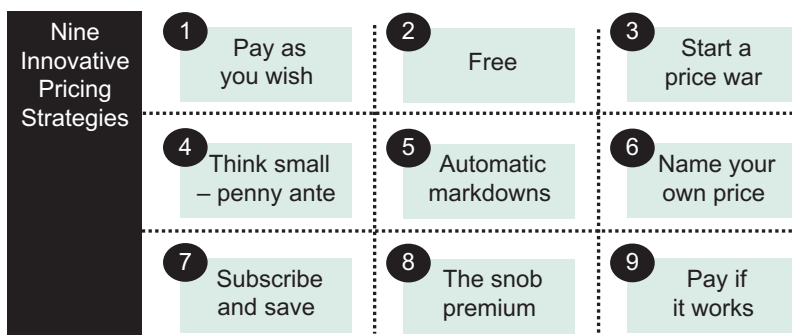
– Jagmohan Raju and Z. John Zhang

1. Price – the forgotten business lever Page 2

It's amazing how many companies work hard to grow their markets and fine-tune their operations but then pay little if any attention to how to price their products and services for maximum profitability. There's a perception prices are beyond the control of managers. This is incorrect. Pricing is an important business lever and more time and energy needs to be devoted to developing a pricing strategy and doing the underlying research which will make it happen.

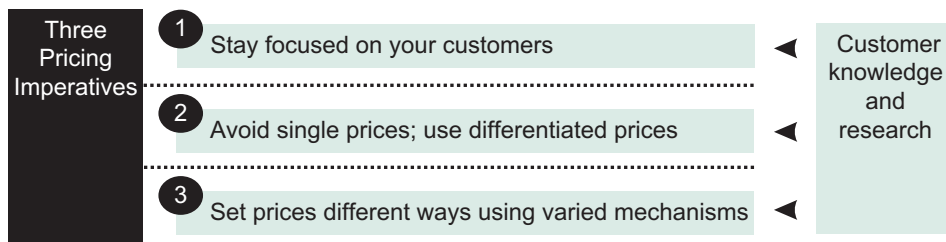
2. Nine innovative pricing strategies. Pages 3 - 7

The ad-hoc and perhaps overly simplistic mechanisms most companies use to set prices are cost-plus, competition-based or consumer-based pricing. There are nine other pricing mechanisms which offer businesses alternative ways to pull the price lever. All of these strategies are worth considering and using if applicable. These nine strategies are:



3. How to use these mechanisms to maximum effect Page 8

Although current marketing conditions and the existing pricing environment is certainly challenging, companies have gained more than they have lost. It is possible today to gather and process much more information about customer preferences and to factor this into your pricing decisions. What's needed is more flexibility and experimentation to get this right. In particular, there are three imperatives which lie at the heart of success in using price as a competitive lever:



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