

HOW TO PRICE

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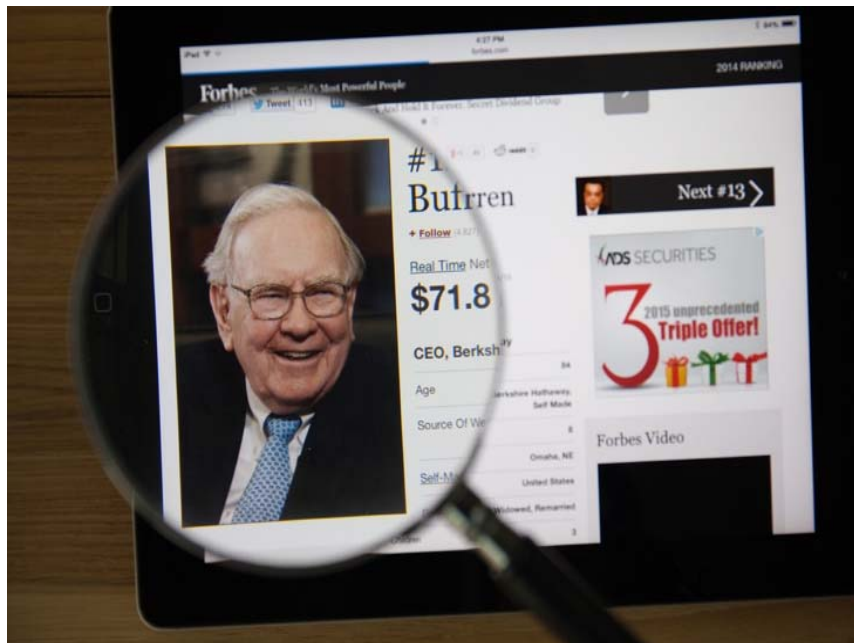


How To Price: Overview

- A framework for value extraction
 - The 4Cs of pricing
 - Price discrimination
- Measurement, principles, and examples
 - Four ways to measure price sensitivity
 - Principles from psychology
 - New innovations in pricing: “Freemium” and customized

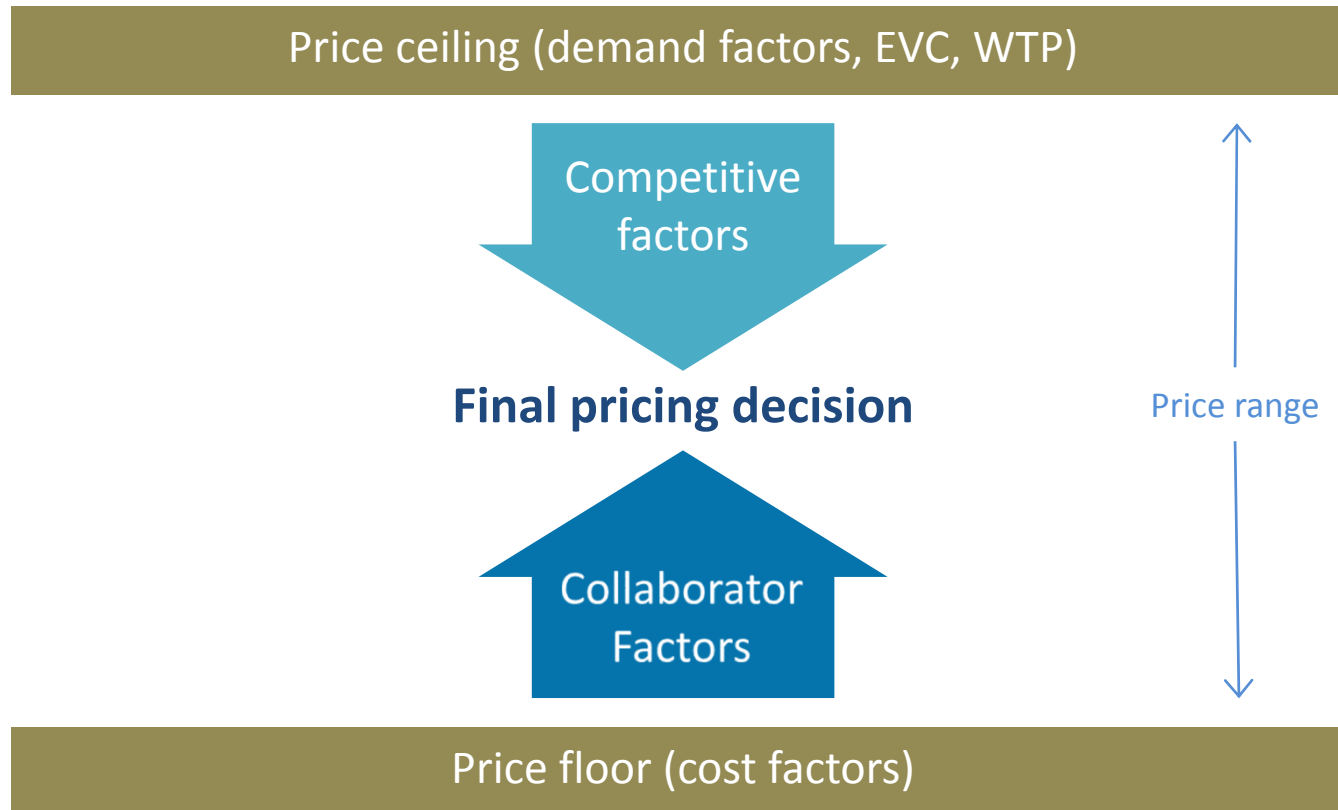


Pricing Wisdom



The **single most important decision in evaluating a business is pricing power.** If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business.
— *Warren Buffett*

The Four Cs of Pricing



The Four Cs of Pricing

- Let's focus on the ceiling as determined by EVC / WTP
 - EVC / WTP is the **monetary value** placed on benefits (and cost savings) provided by a new product or service
 - Relative to the status quo
 - For a specific customer or segment
 - Monetary value is a combination of the functional value **and** the psychological value
- The challenge
 - Customers might not believe, competitors might undermine!

Price Discrimination Laws



Price discrimination “works” when you can

- Identify individuals or segments according to their price sensitivity
- “Enforce” the price discrimination scheme

The challenge

- Figuring out who is who and / or designing a mechanism that gets customers to reveal their price sensitivity

Price Discrimination

- First degree (unique per customer)
 - Negotiated prices (e.g., car sales, B2B contracts)
- Second degree
 - Sellers can't tell who is who
 - Use schemes like non-linear pricing or extend product line
- Third degree
 - Sellers can figure out (directly or by proxy)
 - Charge different prices by location, identity, context, etc.

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Four Ways to Measure Price Sensitivity

		Conditions of measurement	
		Observational	Experimental
Variable measured	Actual purchase	Sales data	Field Experiments Laboratory Experiments
	Preferences/ intentions	<u>Surveys</u>	<u>Trade-off analysis</u> <u>(Conjoint)</u>

Hypothetical Conjoint: Apple vs. Samsung

Option	Price	Brand	Score
A	\$80	Apple	70
B	\$100	Samsung	90
C	\$120	Apple	50
D	\$80	Samsung	100
E	\$100	Apple	60
F	\$120	Samsung	80



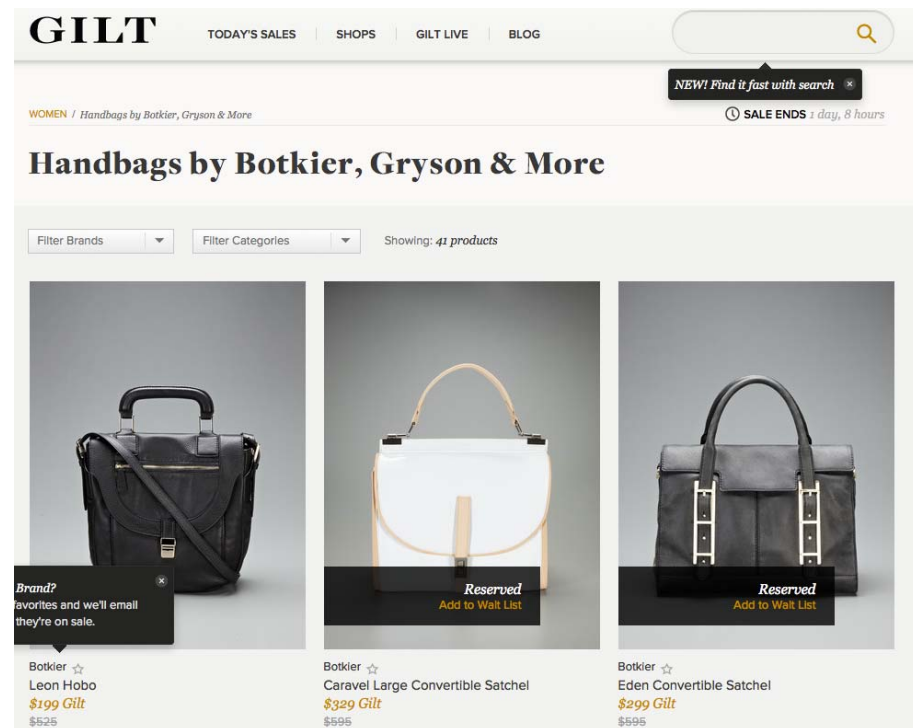
- Assign a score between 0 to 100, with higher scores to more preferred options.
- Averages: (Apple) = 60 and (Samsung) = 90
- Averages (\$80) = 85, (\$100) = 75, (\$120) = 65
- So, Samsung is worth 30 more rating points. Every 10 rating points is worth \$20.
So, Samsung is worth \$60 more than Apple, all else equal.

Conjoint and Survey Analysis Gets to \$95



WARBY PARKER
eyewear

Principle: Reduce Incentives for Search



Principle: Increase Ease of Comparison

The screenshot shows the Amazon product page for '2001: A Space Odyssey' by Arthur C. Clarke. The page includes a search bar, navigation links, and a product image. A PriceBlink comparison tool is overlaid on the right side, displaying prices from various retailers. The tool shows the current Amazon price of \$7.99 and compares it to prices from Barnes & Noble, Alibria, eCampus.com, Target, Half.com, and eBay. The PriceBlink logo is visible in the bottom right corner of the overlay.

PriceBlink Savings Found! This item costs \$1.15 (plus \$3.99 Shipping) at Barnes and Noble

Compare Prices Reviews + Wish

USED from \$4.67 (Click to view)
NEW from \$5.14 (Click to view)

Retailer	Price	Shipping	Payment Method
BARNES & NOBLE	\$5.14	\$1.15 + \$3.99 shipping	PayPal
alibria	\$5.68	plus shipping	PayPal
eCampus.com	\$5.78	plus shipping	PayPal
TARGET	\$7.99	plus shipping	
half.com	\$7.39	\$3.60 + \$3.49 shipping	PayPal
eBay	Check New & Used Prices		PayPal

2001: A Space Odyssey [t]
Arthur C. Clarke (Author)
★ ★ ★ ★ ★ (302 customer reviews)
Price: \$7.99 & eligible for FREE Special Offers Available
In Stock.
Ships from and sold by Amazon.com.
Want it delivered Tuesday, August
45 new from \$7.90 \$9 used from \$

Formats

- School & Library Binding
- Paperback
- Mass Market Paperback
- Audio, CD, Audiobook, CD, Unabridged \$11.24 \$8.28 \$8.50
- Audible Audio Edition, Unabridged \$9.95 or Free with Audible 30-day free trial

See all 2 customer images

PriceBlink

Principle: Increase Sunk Costs or Switching Costs



Principle: Highlight Total Expenditures

College Prerequisites

Buy a Mac for college between June 11 and September 21 and receive a \$100 Back to School Gift Card to use on apps, books, music, and movies. Or buy the new iPad and get a \$50 Back to School Gift Card.* And if you choose a Mac, save even more with Apple Education Pricing.

[Shop now](#)



Principle: Reference Pricing



Principle: Compromise Effect



ALT. A (MINOLTA X-370)

PRICE: \$169.99

12 Minolta X-370 35mm SLR Camera Body. Compact quartz controlled aperture priority plus fully automatic/manual metering. LED viewfinder. 1/8000 to 4 sec. shutter speed. Minolta 2-yr. ltd. warranty. Self-timer. Self film-load signal. 3 lbs. A.172405 Your Price \$169.99



ALT. B (MINOLTA - MAXXUM 3000i)

PRICE: \$239.99

15 Minolta Maxxum 3000i 35mm SLR Camera Body. Predictive auto-focus camera. High-speed program mode. Integrated dual area metering. Advanced auto multi program selector. Minolta 2-yr. ltd. warranty. 1 lb. A.283073 Your Price \$239.99



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ALT. C (MINOLTA - MAXXUM 7000i)

PRICE: \$469.99

18 Minolta Maxxum 7000i 35mm SLR Camera Body. Predictive auto focus adjusts for moving subjects up to the instant of exposure. Auto film handling and advance up to 3 frames per second with auto-focus control. 1 lb. A.283014 Your Price \$469.99

	Choice set 1	Choice set 2
\$469.99	—	13%
\$239.99	43%	60%
\$169.99	57%	27%

Principle: Compromise Effect



New Innovation: “Freemium”

By the end of the campaign, it was estimated that a full 4 million of the 13 million addresses in the campaign’s email list, and some \$75 million in money raised, resulted from Siroker’s careful experiments.

- *The A/B Test: Inside the Technology That’s Changing the Rules of Business*

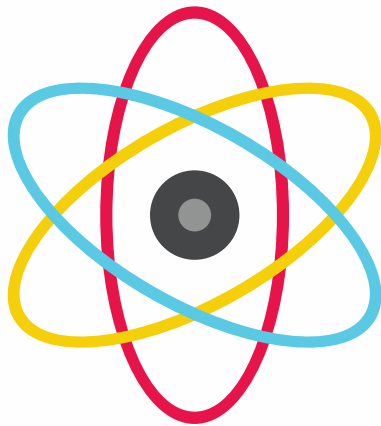
“Even with these revenues (\$400m annually), an estimated 96 to 98% of customers were using the product for free, without paying Dropbox a dime.”



Freemium Rationale

- It offers the following benefits ...
 - "Free" is a powerful message
 - Acquisition costs are lower
 - It amplifies businesses with "network effects"
 - Avoids "tricking" customers with a cancelation requirement

New Innovation: Customized Pricing



[Atom Tickets](#) and dynamic pricing ...

<http://wharton/1QAwdEN>





ONLINE