The Leading Reference for technology-based products

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Welcome

Leading the way for product managers/marketers

We're exposed to prices every day of our lives but how much time do we spend thinking about the pricing of our products?

In this issue we cover the basics of pricing structures, how to price, and approaches to software pricing, as well as the fascinating psychological tactics of price setting. Pricing can be an expert discipline and some high-powered consultancies offer specialist advice on how to structure and present pricing to maximise your returns. We can't all afford to pay for that sort of help, but our introduction to the main topics is a great place to start.

This is the fifth edition of our Journal. We publish 1 a year and our goal continues to be to provide a handy and usefully short introduction to key areas of product management and product marketing. With insights and comments from experts in the industry we think you'll find them interesting and worth hanging on to.

Who's who?

The *Product Management Journal* is published by Product Focus as an independent publication for product managers with technology-based products. Product Focus was founded and is run by Ian Lunn (top) and Andrew Dickenson.

The founders continue to deliver many of Product Focus's training courses and reviews alongside their team of senior consultants.

To get all our previous journals, and receive the latest copy, sign-up at **www.productfocus.com**

How to price

Strategies for setting prices effectively

This article gives you guidelines on how to price your products and the typical process used in most companies. At a basic level the main constraints on pricing are the costs associated with your offer, customers' willingness to pay and your competition (see Fig. 1). Product costs set a lower limit below which prices are not viable in the long term. The upper limit is a combination of affordability for your target customers, how they perceive the value of your product and how it compares to the alternatives, e.g. your competition.

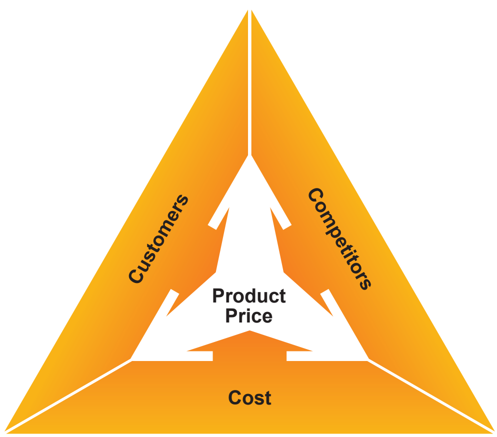


Fig. 1 The main constraints on pricing

The pricing cycle

When launching a product for the first time, pricing is one of many topics that has to be addressed. However the majority of pricing changes are for products that are already in-life and Fig. 2 shows the typical pricing cycle that takes place in most businesses. In some markets this cycle is spread over many years and in very competitive markets sometimes it can all happen in a single day.

At the start of the pricing cycle an initial audit should pull together all the available data and insights. The pricing objectives should be relatively straightforward and flow from your company strategy. The next challenge is to select one or more pricing

"One of the things I've seen quite often is a perfectly good new pricing scheme fail because not enough attention is paid to how to market it. You need to be able to summarise your pricing in 1 or 2 sentences that can be easily communicated by your channels and understood by busy customers with a short attention span."

**James Harvey-Samuel,
Pricing Manager, Cable & Wireless**

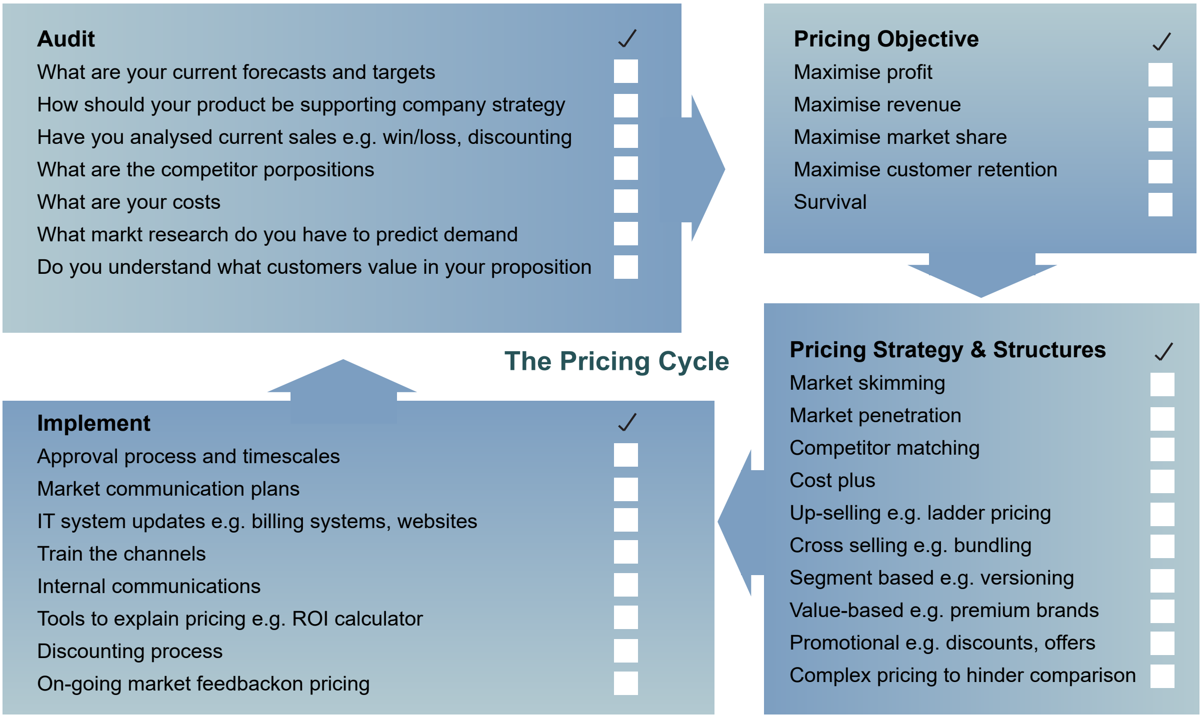


Fig. 2 The Pricing Cycle

strategies and then the appropriate pricing structures and price levels to meet the objectives. In many instances these will already be well understood and what's required is just a tweak to the current pricing levels. Finally once the pricing has been approved by the business it must be implemented and the cycle can begin again.

Choosing a pricing strategy

There are 3 basic pricing strategies. Market skimming is setting your pricing high relative to major competitors and is often used if the pricing objective is to maximise profitability. Market penetration is setting your pricing low relative to major competitors and is often used to maximise market share. Finally competitor matching is setting your pricing at a similar level to the competition and is often used to maximise customer retention.

Wise Words
"Free advice is worth the price."
Robert Half

Market skimming

If you're the only product in the market or have a highly differentiated proposition but can only supply a small proportion of the market, then a market skimming strategy is often best. This allows you to maximise profitability and use your high pricing to limit demand. However, over time, competitors will enter the market and undercut you. One strategy to defend a high-end proposition is to broaden your portfolio to include offers that also address the lower end of the market. Versioning, discussed in the Pricing Structures article below is a great example of this.

Market penetration pricing

Companies usually adopt a penetration pricing approach because they want to grab market share. However, penetration pricing requires an iron grip on costs and efficiency as it is often only with economies of scale that the product becomes profitable.

Another challenge with penetration pricing is its sustainability; customers buying on price are the most fickle. If a lower-priced competitor with a better operational model comes along (or one that is more desperate) your customers may rapidly turn to them. Japanese companies, in the 1980s, took a penetration pricing approach in hi-tech electronics until they were undercut by Korean and Chinese businesses. At this point their business model had to change to focus on quality, differentiation and brand development.

"In my experience when it comes to pricing for corporates it's much more about deal pricing than product pricing. Products are bundled in, contract terms are flexed, prices are discounted – anything to get the customer to sign. The challenge for the sales guys is getting past the internal approval committee for these deals. The challenge for product managers is to ensure that these committees clearly understand their underlying product costs and margins so that the business actually makes some long-term profit."

James Harvey-Samuel,
Pricing Manager, Cable & Wireless

Competitor matching

This pricing strategy results in propositions that are priced at similar levels to the competition. This strategy can be most appropriate where markets are only growing slowly or not at all. In these mature markets any change to pricing can be easily matched by competitors resulting in minor shifts in market share and profit reduction for all. A competitor matching pricing strategy is said to result in a more stable market for everyone. This pricing strategy may also be best for

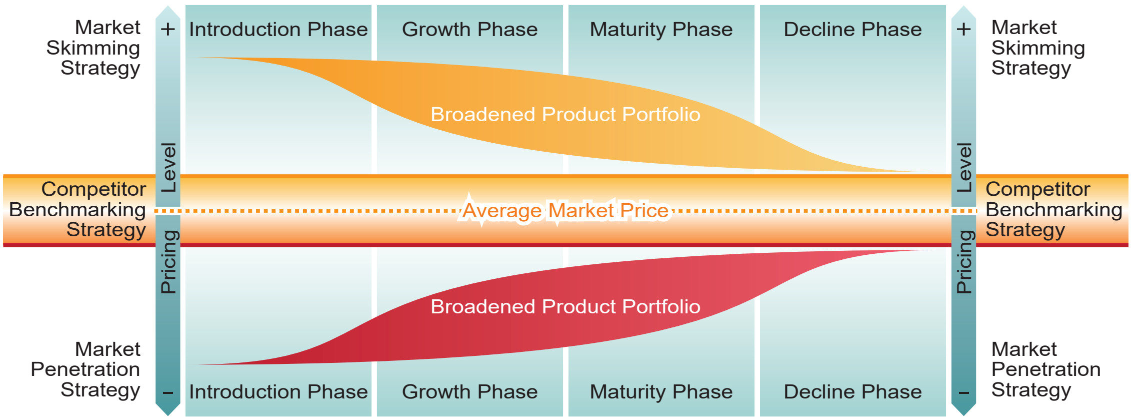


Fig. 3 Evolving pricing strategy

second tier competitors who can align with a strong market leader; for example, second tier competitors without a significantly differentiated offer will price slightly below the leader.

Each of these 3 pricing strategies has their merits and choosing the appropriate one depends on your pricing objectives, where your product is in its lifecycle and how differentiated your proposition is. Pricing strategy usually evolves during the lifecycle of a product category with a tendency towards the average price as markets mature and move into decline (see Fig. 3).

Other pricing strategies and structures

These include, up-selling where customers are persuaded to buy a more advanced option, cross-selling where customers are persuaded to buy additional products in the portfolio (e.g. bundling) and segment-based pricing where pricing is varied based on different customer segments (e.g. students, employed, people over 60).

Telecoms operators in mature markets often use price complexity to make it difficult for customers to compare offerings with the competition. Supermarkets often use a promotional pricing strategy with a constant set of special offers and discounts.

Cost plus pricing is where an 'open-book' approach reveals a supplier's costs, and a fixed profit margin is agreed with the customer. Although rare, it is seen in some professional services and government contracts.

Wise Words

"The cynic knows the price of everything and the value of nothing."

Oscar Wilde, Irish poet

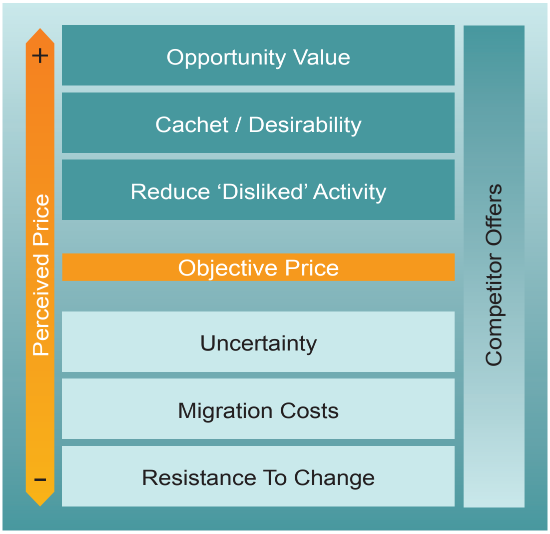


Fig. 4 Influencing the perceived value of your product

Value-based pricing

The ultimate pricing strategy is often considered to be value-based pricing. Here the goal is to maximise sales based on the value customers get from your proposition. The challenge however is understanding what customers value and how much they value it. Let's take a simple example of customer value. Your proposition enables a customer to save 10 hours per month. They are paid £10 per hour giving an annual saving of £1,200. Call this the 'Objective Price' for your proposition. The value that customers perceive is affected not only by the objective price but by several other factors as shown in Fig. 4.

Within your product category, customers will view your price relative to competitor offers. They will take into account relative market position as well as the value of features included or excluded from each alternative to get to a price they perceive as fair.

Factors that can allow you to charge more are the opportunity value your solution creates, e.g. a solution that frees up valuable time. The brand image of a product might carry desirability that allows pricing far beyond the intrinsic value of what is being purchased, e.g. designer clothes in the fashion market.

There are also significant downward pressures that will affect customers' perception of your price. Migration and set up costs have to be added in by the user, which may make them want to pay less. People also have to overcome their uncertainty and inertia before they'll consider buying, and companies typically use price promotions to encourage customers to make a quick decision, e.g. 'buy while stocks last'. Many companies also offer free trials of products so customers can experience the value before they make a decision to buy.

"It's important that we do our due diligence and don't rush in. Once we go to market with a price we have to stick with it. In some of our key markets customers know each other and will soon find out if we vary our pricing."

Lawrence Poynter, Product Management Director, Infonic

Implementing the pricing strategy

Having a good understanding of what customers value in your proposition and establishing a price is only half the battle. It can be easily undermined by ineffective implementation.

By this we don't just mean implementation on IT systems, but ensuring adequate training and tools to support all touch points where pricing is discussed with customers. This not only means your direct and indirect sales channels, but also getting buy-in from senior executives that might get pulled into pricing negotiations. Establishing and holding a pricing strategy requires a consistent understanding and communication of the pricing and proposition delivered by these key staff to customers.

As a product manager, you need to ensure regular feedback from the market to monitor the effectiveness of your propositions and pricing. Pricing strategies need to change during a product's lifecycle, and key indicators that a review is needed include declining market share, discounts failing to drive growth (or becoming the norm) and competitors introducing new offers or aggressive new pricing.

If you work with a pricing specialist, ensure you have a good working relationship and regular communications so you can share pricing issues and ensure they understand what customers value in your product.

What to do if you find your product sucks

Having a strongly differentiated product that customers really value is a great position to be in, but so often it isn't the case. What if you complete your audit and conclude you don't have any important positive differentiators?

If you are on a par with the market from a customer value perspective and are the market leader by size, your market position and reputation may justify a small premium on the market average. For non-market leaders a small discount on average market pricing might be more appropriate.

If your evaluation reveals you are seriously disadvantaged in the value you deliver to your customers then a low-cost penetration pricing strategy may be the only viable approach. However, if your business cannot support this strategy, a better alternate to a failed launch or pricing re-vamp might be to delay and re-work your proposition to enhance customer value.

Conclusion

As with many aspects of product management, understanding your competitors, your real customer needs, your position in the market and your company's strategy are the fundamentals on which your price should be built. You should not underestimate the importance of optimising pricing and accept that the pricing cycle with regular pricing reviews and adjustments are an important part of your role. Good luck!

Wise Words

"There is nothing in the world that some men cannot make a little worse and sell a little cheaper, and he who considers price only is that man's lawful prey."

John Ruskin, British art critic and social thinker

The psychology

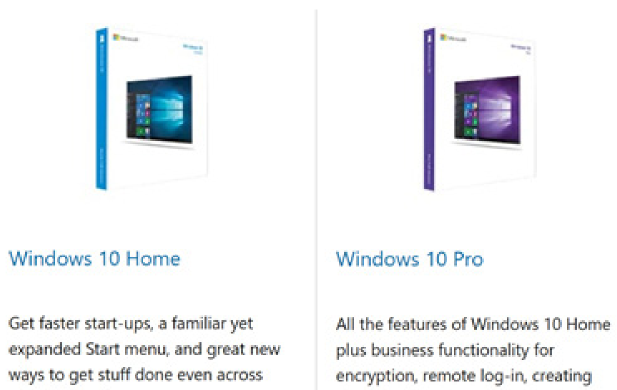
Making prices tick

Whatever product or service you are selling, you should spend some time thinking about the psychological aspects of your pricing. The range of offers you have, how you present your pricing and the pricing structures you choose, can all have a big impact on your sales.

Magic numbers

Nine is a magic number when it comes to people's perception of value. The image below shows a 99p store in the UK offering 'quality' products under a pound. You see this in supermarkets every day. Why is it that people think they're getting a bargain when this pricing tactic is used?

It's not just supermarkets that use this tactic....



A screenshot from Microsoft's Windows 7 purchasing options

The 'free' suicide curry

Everybody likes something for free. There are a small number of Indian restaurants that offer what is known as a 'free' suicide curry. This is a curry with a sauce so hot that few people can stomach it. The sauce is generously ladled over a gigantic plate of rice. The catch is that the suicide curry is only free if you manage to eat it all within a specified period, otherwise you pay the full price. Most people don't succeed, but the fact that it exists and that it's free, is a major pull of customers to the restaurant.

# of pricing

Offering something for free is a very common pricing approach, e.g. free texts with a particular voice price bundle, reward points from airlines and supermarkets. However the reality is that the cost of the 'free' service is recouped in other ways by the supplier.

Flat-rate schemes

With flat-rate schemes the amount a customer pays is restricted to a standard fee each month. This removes the fear of 'bill shock' which is where customers receive an incredibly high bill at the end of the month because they're not aware how much the service is costing them day-to-day.

These 'unlimited' or 'all-you-can-eat' options are commonplace in Telecoms. Customers like flat-rate even when they cost more. The theory goes that since the cost of any product is a loss it's best to have it all at once (at the start of the billing cycle) rather than each time you make a call.

How to discount

Have a look at Fig. 5 and decide whether according to psychologists, the left or right option is best for each product. Of course, in the first and second examples both the discounts are the same. However, according to pricing psychologists a 50% discount is more attractive than £5 discount as '50' is a bigger number than '5'. Similarly £20 off a £200 item seems better than a 10% reduction.

Fig.5 How to discount

The third example is from an experiment in a retail store in the USA, reported in The Psychologist, Issue 1, 2010. The first offer of 20% discount for 3 days caused a 70% increase in sales. However the second offer of a tapering discount resulted in a staggering 200% increase in sales! The rationale was that customers were keen to avoid losing out on the discount, so were prompted into taking action and made an immediate decision to buy.

"One of our biggest challenges when selling B2B software is understanding what the real 'street' price is. No one publishes their prices, but you pick up things from customers and contacts. However, it's not until you get into detailed discussions with a customer that you find out whether your pricing is competitive or not."

Chris Goswami, Director, Product Management, Openwave Systems Ltd

How do you choose your beer?

In William Poundstone's book Priceless: The Myth of Fair Value the following experiments are analysed. The experiments were based on how students chose beers. The first experiment gave students a choice of two beers, a bargain beer and a premium beer (see Fig. 6).

The bargain beer was $1.80 and the premium beer $2.60, however the premium beer was rated 70/100 in quality vs 50/100 for the bargain beer. In this situation, the students preferred the premium beer by a margin of 2 to 1. In the second experiment a bargain decoy was added and students were asked to choose between all 3. No one chose the bargain decoy, but the number choosing the bargain beer jumped by 14%. In the third experiment a premium decoy was added and students were asked to choose between the decoy, the premium and bargain beer. An astonishing 90% chose the premium beer and no one chose the bargain beer. When asked to justify their decisions, students said they chose the middle option as a 'safe', compromise choice. The cheapest beer might taste terrible and the most expensive was probably a rip-off, but the one in the middle ought to be OK. This is shown in Fig.7. In order to raise sales of bargain brand A you only need offer a cheaper option C – a bargain decoy. Similarly in order to boost sales of premium brand B you need only offer a high premium decoy D.

			Experiment 1		Experiment 2		Experiment 3	
	Price	Quality	Beer offered	Beer chosen	Beer offered	Beer chosen	Beer offered	Beer chosen
Premium Decoy	$3.40	75 out of 100					√	10%
Premium Beer	$2.60	70 out of 100	√	67%	√	53%	√	90%
Bargain Beer	$1.80	50 out of 100	√	33%	√	47%	√	
Bargain Decoy	$1.60	40 out of 100			√			

Fig.6 Choosing beer by price

This technique is often used in expensive fashion stores such as Prada where some very high priced items are placed next to some seemingly reasonably priced items. They are reasonably priced in comparison, but perhaps not so much of a bargain when compared with cheaper options elsewhere.

IT retailers highlight bargain and premium products in their store windows, email adverts and web homepages to entice customers in and help boost sales of other products in their portfolio. However, this tactic only works if products can be easily compared. If it is difficult to compare 'like-for-like' then customers may defer their decision or go for something else (maybe a competitor) that they can easily understand.

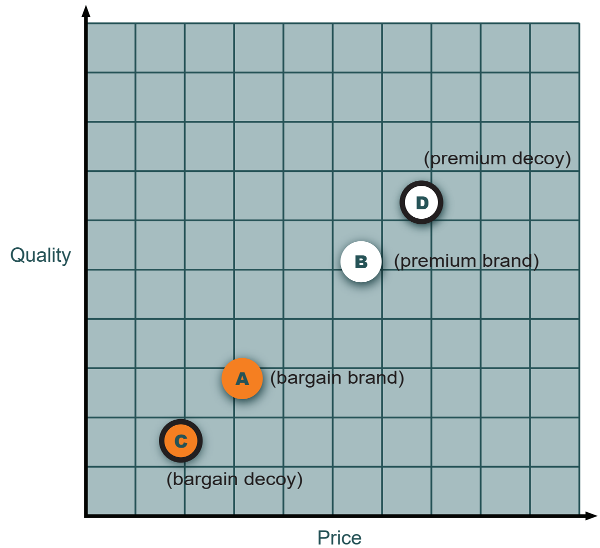


Fig.7 Price decoys

The importance of proxies

If you've ever travelled abroad to countries like India or Morocco, you'll be very familiar with the following scenario. You arrive at a local market and something takes your fancy. You ask "How much is that?" and quick as a flash the experienced salesman will come back with "Make me an offer". As a tourist you don't have a clue about the appropriate price for the item and more often than not will offer a very generous amount based on what you would expect to pay for something similar (a proxy) back home.

The salesman will then purse his lips, take a sharp intake of breath and ask for 50% more. You finally agree on a price which is 10 times more than they expected to get in the first place! In your promotional materials and sales process, helping customers find the right proxies when they are thinking about buying your product can influence how much they are willing to pay.

Wise Words

"There are two fools in any market: one that does not charge enough and the other that charges too much."

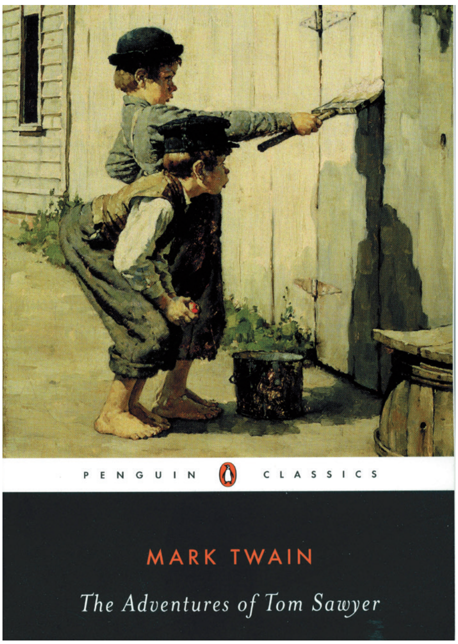
Old Russian proverb

Do we really know what we value?

The holy grail of pricing is to base price on what customers value. The theory is that the more someone values something the more they will pay.

However, it also seems to be the case that people don't really know what they value or perhaps can be easily manipulated.

A famous academic paper in 2006 by Dan Ariely, George Loewenstein and Drazen Prelec was called 'Tom Sawyer and the Construction of Value'. It starts with a famous episode from Mark Twain's book about Tom Sawyer.



In Mark Twain's classic tale, the impish Tom Sawyer devises a scheme to get his friends to pay to do his chore

As a punishment, Tom's aunt gives him the chore of painting a fence. Tom doesn't want to do it and knows his friends will laugh at him when they pass by and see him working. However, Tom has a plan. When his friends show up Tom applies himself to the task with real zeal and presents this tedious chore as a rare opportunity. His friends then decide that they 'want in' on some of the fun. At first Tom refuses then finally he gives in on the condition that they pay him. They do and are happy to have the opportunity – a win/win for all and a fine example of how to construct value.

Some of the seemingly most successful business models today are based on user-generated content, e.g. Twitter, Facebook. Someone has made a lot of money out of these services, but it's certainly not the users that provided the content. Is this the equivalent of paying to paint fences on the Internet?

In conclusion

All these examples show how difficult it is to price something. People are good at assessing relative values – whether something is worth more or less than something else but struggle when trying to decide on absolute values. People are also swayed by how things are presented to them. Whether this is at a subconscious or conscious level, their choices are affected by how we present our pricing. Therefore, it pays to study the psychological aspects of pricing and exploit them to your advantage.

Pricing structures

How to optimise your pricing structures

As product managers we rarely set a single price for our propositions. Instead a pricing structure is established for a portfolio of offers. This article describes some of the common pricing structures used in Telecoms and IT.

No-frills offer

As a first step, this price structure can help generate customer excitement. How? Simply by delivering a 'no-frills' offer at an attractive headline price. Having this offer in the market serves several purposes. It sets a competitive price point that stops competitors undercutting your pricing, it positions you for inclusion in competitive bids and delivers the 'no-frills' solution that value-minded customers look for.

Bundling

Another common approach in IT and Telecoms industries is 'bundling'. This is where a range of products are sold as a single indivisible package. One of the key aims is to provide 'sticky' solutions, i.e. ones that make it less likely (or more difficult) for customers to leave. Whilst 'bundling' is a common technique there are pitfalls to beware. The contents must all be relevant to your target customers or else they'll either try to unpick the bundle or believe they are paying for unwanted elements. Also the total price of the bundle must be less than buying each separate element – there's no fixed rule but a 10–15% discount is a good starting point.

The Perfect Price Structure?

You're probably aware that the price you pay for an airline seat or a hotel room varies depending on when you book.

These industries are expert in an area called yield management. Complex pricing structures are manipulated by automated systems to maxmise occupancy and profitability depending on how many days there are to go, bookings so far, competitive offers, etc...

Their aim is to sell each and every seat or room at the highest price that can be charged without driving the consumer elsewhere, i.e. the perfect price structure.

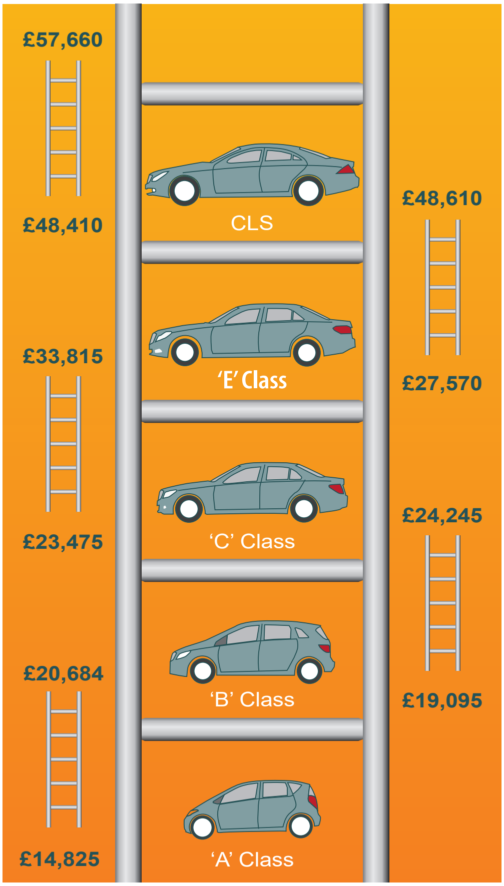


Fig. 8 Ladder pricing for Mercedes-Benz in April 2010

Ladder pricing

Pricing structure can be used in conjunction with a well-aligned range of propositions to encourage up-selling. In this case, the price structure delivers a ladder of propositions at overlapping price points to encourage customers to migrate up to a higher value solution on the next rung of the ladder.

A simple example is the car industry. Every car vendor supplies a range of vehicles and each vehicle has many optional extras such as a sun roof, alloy wheels or leather seats. Taking all the optional extras from a vehicle low down the range will result in the customer spending more than it costs to buy the next model up. Generally, customers are easily persuaded to move to the next model up, as they've already mentally committed to spending the money and there is a prestige value in moving up the range. Telecoms services can also use ladder pricing through well-designed voice, messaging and data packages to create overlapping propositions.

Pricing complexity

In today's Internet age, web searches, comparison shopping sites and online auctions (like eBay) make it increasingly easy for buyers to compare their options when considering a purchase decision. As product managers we usually want to shift the focus away from like-for-like comparisons to a discussion on what makes our product different.

Your pricing structure can help facilitate this discussion by having a range of different options with lots of variables, all affecting the price in different ways. Phone services are a great example with lots of different variables to play with, including one-off charges, monthly fees, per minute charges (peak, off-peak, weekend) and different billing intervals. By starting with a headline grabbing, no-frills price and introducing price complexity, you can attract customers while at the same time making it difficult for them to compare your offers with the competition.

Discounts

Few product managers have control over discounting and the damage this does to their profits. See Fig. 9. What product managers can do is provide discounting recommendations and a process to be followed. Proactively doing this work enables product management to highlight the damage to profitability of uncontrolled discounting, whilst providing a ready-made structure which, in the absence of alternatives, is adopted.

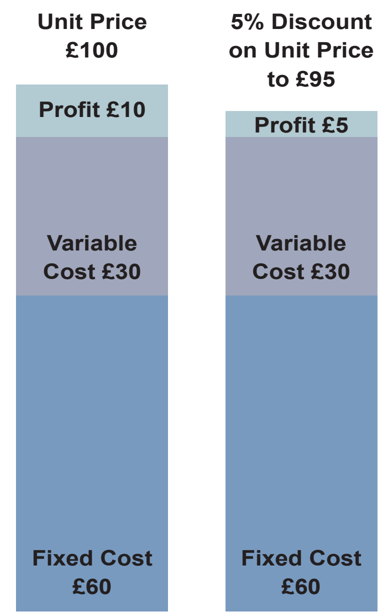


Fig. 9 A 5% discount means a 50% decrease in profit for each product sold – will any increase in sales volumes compensate for this?

Versioning

As products mature, one of the issues many customers face is increasing product complexity. This creates training and support headaches for the customer and may create resentment at having to pay for unwanted features. One solution is to implement multiple product versions. Based on an understanding of different market segments, a feature-rich, mature product, can be offered in multiple 'feature-limited' versions. The customer chooses the version most suited to their needs, the vendor is able to keep their high-end product pricing for the fully-featured solutions, whilst also delivering versions for users with less sophisticated needs.

Conclusion

Your pricing structure can make a massive difference to your product profitability– make sure you give sufficient time to thinking it through and making things difficult for your competition.

"When segmenting your market for pricing you have to consider the purchasing style of each segment. For example, large corporates will have a purchasing manager whose job it is to drive the best deal for their company. For these guys, the best way is often to make the price of each cost element relatively transparent. Conversely, the purchasing style of Small to Medium-sized Enterprises (SMEs), where a manager has buying telecoms as one small part of their role, is done on more of a whim. Giving a good deal through bundling can be more successful."

James Harvey-Samuel,
Pricing Manager, Cable & Wireless

Software pricing

The complexities of pricing software revealed

When it comes to deciding on the best price structure for your software products there are lots of different options. The trick is to make sure it has a logical structure and can be easily explained to your customers. One interesting model for pricing software is known as Freemium. This involves providing free versions of your software for some of your customers and a 'premium' paid version for others.

An example is Flickr where today a free account allows you to upload 2 videos and 100MB worth of photos each month. However, if you want to go above these limits you need a Pro Account costing $24.95 a year.

It's a closely guarded secret what percentage of paying customers Freemium businesses have, but industry estimates vary between 0.5% and 5%. Whatever the percentage, the Freemium model is a high-risk strategy. You have to be sure paying customers will cover the cost of everyone else and enough people migrate to the premium version.

Example Price Levels	Effort to Buy	Indicative buying thresholds for software
Up to £50	Very Low	User will pay with PayPal, from an established online account or personal credit card.
At £500	Low	User will pay on personal credit card and, if for business use, claim back from company as expenses.
At £5,000	Medium	Business-user will need to raise a PO after seeking approval from boss.
At £50,000	High	IT manager will need to go through internal process involving the purchasing or finance departments. Sign-off against the IT budget by a director or senior manager is likely.
At £500,000	Very High	Major investment will require rigorous and lengthy appraisal with a detailed business case. Sign-off by FD or CEO.

Fig.10 What are the buying thresholds for your customers? Raise your prices above a threshold and expect sales to drop off as the effort to buy increases

One other approach to software pricing is to sell the initial product cheaply and recoup the cost in on-going services. For 'big-ticket' software products the initial software may be sold at a loss because future profits will be made on on-going support and upgrades, plus the costs to the customer of ripping it out and starting again with another supplier are so high.

How software is priced

Site licence	Customers pay one-off fee to cover all users at a site. No need to track who's using the software. Site licence can be time limited, e.g. a year, rather than a 'perpetual' licence. Vendor can miss out on revenue if no. of users grows rapidly.
Subscription or rental	Regular monthly charge. Typically used by Software as a Service (SaaS) applications run over the web. Brings regular revenue stream to the vendor and customers like small, regular, predictable bills.
Per user (or per seat)	Price is determined by the number of users that are allowed to use the software – often the users must be named in advance.
Number of concurrent users	Price determined by no. of users accessing the application at the same time. Typically used for server-based applications such as databases.
Per unit of software infrastructure	Price determined by no. of servers or Central Processing Unit (CPU) cores the software uses. Often used in large enterprise software applications.
Per usage	Customers pay based on the no. of times or extent of usage. Standard price model used in Telecoms for voice and data services, e.g. call duration or megabytes transmitted. Can also be applied to SaaS, e.g. megabytes of storage.
Revenue or profit share	Customer pays share of revenue or profit achieved when using the software. Works best when vendor collects the revenue, e.g. if running the billing for a retail website, the billing provider deducts a percentage of revenue as payment. For big B2B software sales there is likely to be a price floor (the minimum customers pay) and a price cap (the maximum they can pay).
Free open-source	Software that is often available free of charge and permits users to study, change and improve the source code. It's free and the quality can be very good, however many businesses are uncomfortable basing their IT systems on software which is not supported by a specific vendor.
Freemium model	Providing free versions of software for some customers and a 'premium' paid version for others. Paying customers cover all the costs of providing the service.

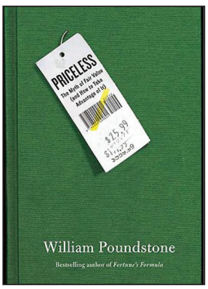
Add-on services

Training	Typically an option with Enterprise software. This is where vendors often claw back any discounts from initial sales. Different types offered, e.g. to technical staff, to the admin staff who run the application and to end-users.
Professional services	Consulting, customisation, implementation and optimisation services. May be sold by the day or offered as a free service with the aim of up-selling.
Maintenance	Typically vendors provide regular 'maintenance' or 'patch' releases to fix bugs.
Documentation	May be provided in hard copy, but more often online or on a CD.
Support	Various options to consider, e.g. 24hrs a day (24/7) or business hours only, end-user or 'help-desk to help-desk', internet, phone and online.

The Review

Reviews and feedback for product managers

Book Review



Priceless: The Myth of Fair Value (and How To Take Advantage of It) by William Poundstone (Hill and Wang, 2011)

This book traces the development of behavioural decision theory and reveals the hidden psychology of how we react to pricing. It's packed with the results of interesting experiments and familiar pricing examples. It becomes very obvious how easily manipulated we are when it comes to prices and there are consultants who use this to make a good living advising companies on how to design price tags, mobile phone tariffs, pricing in supermarket aisles and restaurant menus.

William Poundstone claims a great example is the pricing of text messages. The average retail price of mobile data in the US is around $1/Mb so the price of a 160 byte message should be about 1/100th of 1 cent. The market price of a text message has nothing to do with bandwidth or any technological reality – it's based on how much consumers (or their parents) can be persuaded to pay.

Another insight is that people tend to judge things by comparison rather than in absolute terms. For example, a £100 gift on your birthday from your favourite aunt feels great but it doesn't feel so good if you were expecting £200, which is what she gave your brother last year. This concept also applies to pricing – you might be happy to pay £500 for a PC until you find one with exactly the same spec for half that price in the shop next door.

The key insight that emerges from a whole series of psychological experiments is that people are unable to estimate 'fair' prices accurately and are strongly influenced by comparisons, unconscious reasoning and seemingly irrational thinking.

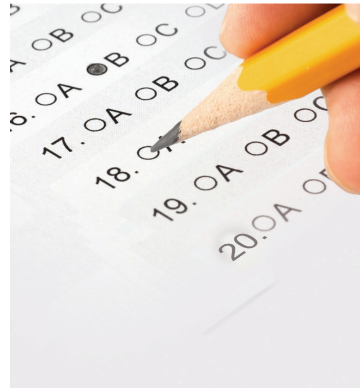
At times it's a bit heavy on the historical aspects of who came up with what theory and when, but the chapters are small and there are always new topics of interest popping up. It's frightening how many pricing tricks and tactics you will recognise as you read through the book – all good stuff to have in your kit-bag as a product manager if you work on pricing.

Wise Words

"It's no good lying about the price; your purse always knows better."

Miguel Cervantes, Spanish writer

Have your view



In the last year we've seen an increase in the number of queries about out product management and product marketing training, which we hope is a sign of the growing recognition of the importance of this function to the business. Larger companies are tending to look at either a programme of training for all their product managers and product marketers, or specialist workshops to focus on particular topics such as business cases or proposition development.

Here are some of the quotes from delegates who have attended our courses in the last couple of months.

"All great, exactly what I was expecting, and all very useful and relevant to my role."
Christian Bick, Product Manager, OLM Systems Ltd

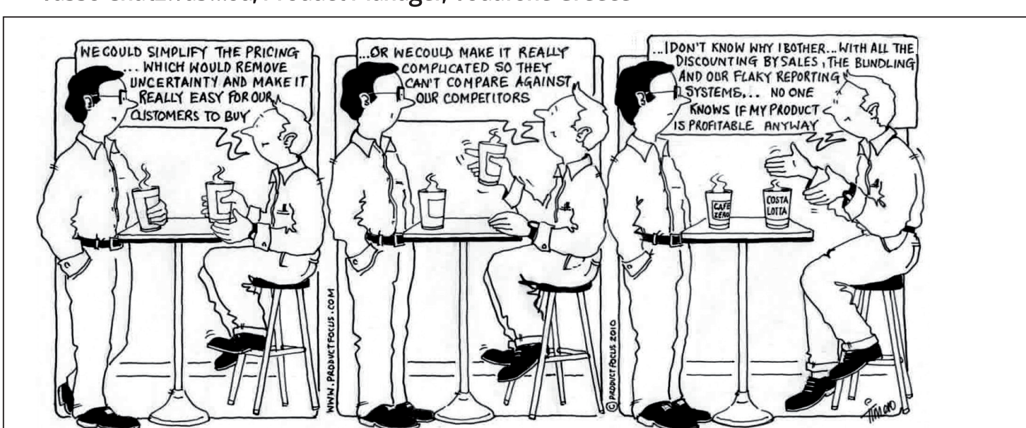
"The course was conducted in a friendly yet very professional atmosphere. It fits exactly what we needed. The trainers provided us with practical information, but we also had time to exchange our experiences with other participants. Content will give us the tools and techniques we have been missing."
Sardar Ali, Product Manager, Voice Products, Mobily, Saudi Arabia

"Very good – mixing theory with practice, plus real world considerations and common sense."
Jonathan Buttle-Smith, Director of Products and Retail, Sharpcards

"Excellent course – I really enjoyed all the modules and exercises. It was a great opportunity to assess and improve my product management skills."
Vasso Chatzivasiliou, Product Manager, Vodafone Greece

Annual Survey

We use our survey to benchmark product management each year. Let us know if you'd like to take part. You can **download the latest results** from our website.



The Insight

Take control of pricing

Making pricing decisions requires insights into what customers value in your proposition and an understanding of costs, competitor offers and company strategy. These are all areas that are fundamental to the product management and product marketing roles. Why then do so many of us shy away from active and regular engagement in pricing discussions? See Fig. 11.

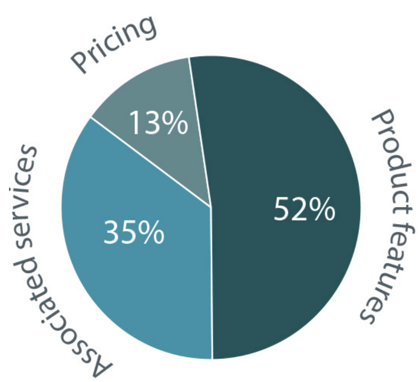


Fig.11 The average product manager spends only 13% of their time pricing. Source: Product Focus Survey 2017

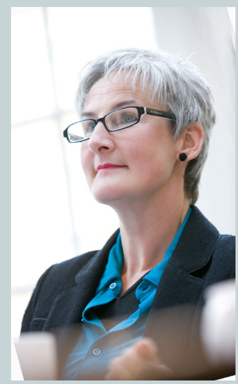
One reason may be that pricing decisions are often contentious – it's a little like branding, naming and design questions – these are highly visible areas in which everyone has an opinion, although few have the skills and experience to make sound judgements. But pricing decisions are doubly pressurised because changing a price has a quick, direct and tangible impact (positively or negatively) on sales and profitability – and also on sales bonuses and commissions.

Product managers should not allow themselves to become disconnected from front-end pricing decisions – though there are many corporate sales people who would rather bypass the product manager and get discount approval elsewhere. In fact, product managers should embrace pricing issues: it's a core element of their proposition and who else in the company has the market insight, balanced perspective and long-term view needed to be able to set prices?

Every product manager should understand why customers buy, what they value and what objections they raise. You cannot always resolve pricing objections but you should know what they are, be able to argue for the pricing you've established and equip your sales channels to do the same. You might spend a lot of time deciding on the features of a multi-zillion pound product – do you put enough time into thinking about its price?

Product Management Leadership Forum

1-day workshop
for product management leaders



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