

Developing Pricing Strategy

Pulling Consumers into Desired
Behavior



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The discipline of pricing continues to evolve in many organizations, but often lags the insight and structure found in sales and marketing. Regardless of the size of your business or the amount of internal pricing expertise, having a set of principles to guide pricing decisions will prove beneficial. Guiding principles can:

- ✓ Help keep the focus on the end goal;
- ✓ Provide a tool for sorting through strategic options;
- ✓ Keep the customer front and center in the decision process;
- ✓ Assist with price integrity, a critical factor in establishing consumer trust; and
- ✓ Help prevent reversion to old – and often times, bad – pricing tactics.

Over the past decade, and through the design and implementation of countless pricing strategies, we have become firm believers that leading with the consumer consistently produces optimal and sustainable results. Marrying the consumer's value proposition with that of the business quickly leads to win-win solutions. It is not unusual to see step-change improvement – double digit increases in net income – when strategies are developed that speak to how consumers think and behave. Yet leading with the consumer is often easier said than done, particularly if pricing has historically been deployed as the stop-gap measure for achieving a budget or goal.

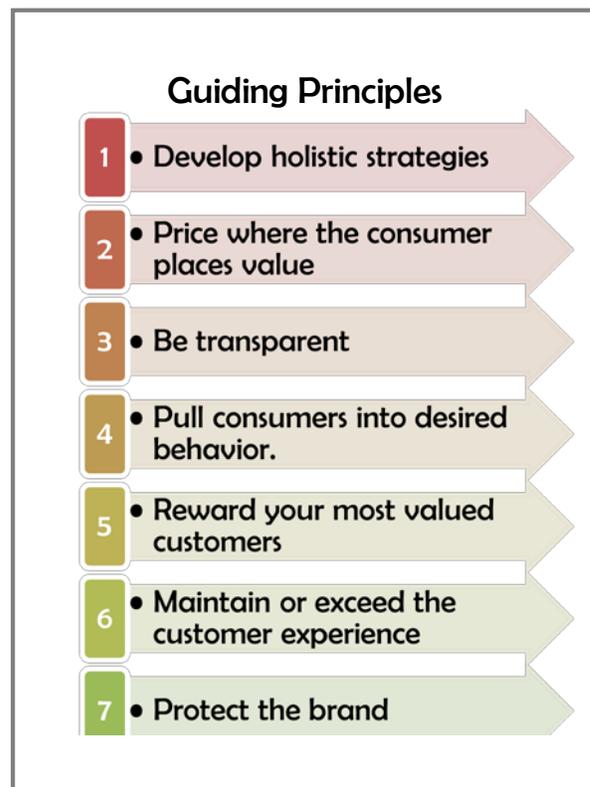
Seven principles have served us well, although others may be critical to your specific organization or industry.

Develop holistic strategies

Organizational construct can stand in the way of great pricing strategies. Pricing is often done in silos, with each functional line of business determining what is optimal for their particular area of responsibility. This is often in direct conflict with how consumers engage. For example, if I find a great deal on a hotel room, only to discover I'm gouged on restaurant pricing, parking, and resort fees once I arrive, I may do some more digging the next time I need accommodations in the area. Just as consumers expect a seamless experience, pricing should be seamless and supportive of the whole as well.

Price where the consumer places value

Understanding where consumers place the most value, among all the products and services provided by the company, is the foundation upon which your strategy should stand. Robust analysis of transactional data will indicate *what* is happening, but consumer research and insightful analysis will help with the *why*. Both are important. Consider health plans.



Transactional data will indicate how patients use their health plan insurance, but research will unveil *why* customers chose the plan they did. What they were seeking, which benefits drew them in, and how *they* perceived the plan to provide value.

Be transparent

You have no choice. Consumers expect transparency and know how to get it, whether your prices are transparent or not. Search engines provide a plethora of opportunity for consumers and companies like Kayak, Nextag, and The Find make it easy to compare and contrast. But you *want* to be transparent for no other reason than it builds trust. Consumers want to conduct business with companies they trust. Given the cost of acquiring new customers versus keeping the ones you have, your pricing strategy should lead the way in open, transparent practices.

Pull consumers into desired behavior

Consumers value choice. The ability to customize and even personalize their purchase to what fits them best is desirable. At times, we try to force solutions to achieve higher per capita revenue, often putting the customer in the position of purchasing something they did not want or need. Take for example, cable television. With hundreds of channels to choose from, we are almost always forced to pick a bundle that inevitably includes channels of little interest. And in defense of the cable company, *they* are often forced to include channels by the content distributor. Cedar Falls Utilities, based in – you guessed it – Cedar Falls, Iowa – was recently faced with taking on the SEC Network as part of the National Cable Television Cooperative negotiation with ESPN or going outside the cooperative to purchase. Arguably, viewers in Cedar Falls have little interest in the Southeastern Football Conference. Effective pricing strategies can overcome this hurdle and use price to pull consumers into desired behavior, particularly when deployed with a holistic approach.

Reward your most valued customers

Loyalty comes with expectations. In turn, keeping loyal customers satisfied creates goodwill for the company and stronger word of mouth recommendations - another win-win proposition. Developing potential tiers of benefits and adhering to a hierarchy of customer value will help ensure your most loyal customers are treated fairly. This can be more easily said than done, due to the complexity of client sales in some organizations and the tendency to price in silos as mentioned previously. The timeshare industry comes to mind. Long-time owners are now seeing their investment de-valued as resort hotels sell their same size unit at a nightly rate on the internet, for less than it costs them to maintain their ownership through annual maintenance fees and taxes. Not to mention the cost of the ownership in the first place.

Maintain or exceed the customer experience

Although at times counter-intuitive, how products and services are priced and packaged can actually improve the customer experience. Such was the case with the [Magic Your Way](#) pricing strategy at Walt Disney World, where consumers were given a vast amount of choice after years of forcing them into certain behaviors. Leading with the consumer when developing the strategy itself is the first step to using price to improve the experience, but equally important is how prices and packages are communicated, the ease with a purchase can be made, and the perceived value for price paid.

Protect the brand

A good pricing strategy builds upon brand equity. Feeling gouged – for any aspect of the experience – deteriorates brand equity. But so does a fire sale. Selling products and services significantly below their standard price, or expected standard price based on industry

comparisons, will make consumers second guess the quality that will be provided. Consider Groupon Reserve. In an attempt to go after higher-end consumers, Groupon has partnered with upscale restaurants to offer significant discounts to Groupon customers. While the offers may indeed bring in new guests who have not previously dined at the restaurant, you cannot help but wonder if loyal guests will be concerned about whom the potential clientele may be, or if their own status is now diminished.

Other principles may apply to your organization. These we have found to be beneficial across a number of service industries, and hopefully, can be a guiding light for you as well.

Who we are: Integrated Insight, Inc. is an Orlando, FL based analytics consulting firm, helping organizations out-behave the competition. The company was founded by two former Disney executives with a passion for helping organizations and the people in them reach their full potential. The company specializes in the use of data-driven insights and robust analytics to pinpoint untapped opportunities and ensure long-term, sustainable growth in three primary capacities: New Business Strategy, Business Optimization, and Research and Consumer Insights.

For more info visit www.integratedinsight.com. For immediate help contact Joni Newkirk at 352-988-3490 or jnewkirk@integratedinsight.com