Price in Pieces

Originally I wanted to use the title *Price in pieces* for this book. I got the inspiration from an American comedy show *Life in Pieces* that I watched years ago. My editor talked me out of it in the end. But I really like the sound of the title I had first wanted to use. Therefore, I allowed myself to use it as the title for this chapter to review some of the fun/uncanny moments that I had when conversing with clients, colleagues and friends. What I am trying to say is that we encounter pricing all the time, even if we do not immediately recognize these moments as pricing moments. These encounters are scattered, unstructured, in pieces. In what follows, you will find below a selection of my personal repertoire of pricing dialogues.

I separate the dialogues into two categories, respectively *at work* and *off work*, and try to put them in a logical sequence. Spoiler alert: there is not always science behind each dialogue. Whether pricing is science or art is still debatable. Therefore I highlighted the keywords as reading aids at the end of each dialogue to highlight what the key messages are.

**At Work: The Pricing Consultant Side of Me**

**Question #1** Why shall we conduct market research? Steve Jobs never did any market research. Yet he created the iPhone, which is such a great product.

**The short answer:** First, we do not know 100% whether it is true. Second, how dare you say you are as good as Steve Jobs?
The unsaid: What we know for sure is that Steve Jobs was an exceptional genius. The 1% geniuses are always entitled to privileges—they do whatever they want, and whatever they do turns out to be alright, most of the time. The remaining 99% of people are better off following the best practices. Doing market research is like a no-brainer. Should you conduct some sort of market research before launching a project? Definitely! It gives you the assurance that you are doing the right thing. It gives you a second chance to correct any mistakes, before you go all in and fail. Market research is a cost-effective way to glean customer insights and is thus strongly recommended.

It goes without saying that market research does not get you to come up with a 100% perfect product. But it will help you to score say 80%, if you do it correctly. The remaining 20% requires luck and ingenuity. The great late Jobs was an exception. Exceptions prove the rules.

The owner of a design bag startup once shared with me a real story of his. Every time his company is about to launch a new product, the product and marketing teams will gather together to assess the prospects of the product in question. A while ago, there was this “ugly” bag on the table for joint evaluation. Almost everyone dismissed the bag. But it got approved due to the persistence of the designer. Guess what? It turned to be one of the best sellers of the year for the company.

It was a revealing shock to the entire team but it also taught them a valuable lesson. We are all biased, believe it or not. When it comes to new product development, it is imperative to get out of one’s own shoes and try to see the product through the eyes of the customers. To that end, market research is a useful tool.

Keywords: Market research; New product pricing

Question #2 Can you make an educated guess about the pricing maturity of a company after just a glimpse?

The short answer: I would make that decision based on whether the company has a dedicated pricing function and how high up that function is situated in the organizational hierarchy.

The unsaid: We pricing consultants often suggest that pricing belongs to the boardroom. There is evidence from Simon-Kucher’s global pricing survey that firms achieve better profit margins if the senior management is involved in pricing. Unfortunately, in reality this is more often than not not the case. According to a desk research conducted in 2019, there are more than 70,000 pricing job listings in the United States, about 700 of these in Germany and, strikingly, less than 70 in China. It seems that the more mature an economy
is, the greater emphasis the companies will put on pricing. Many organizations do not even have a dedicated pricing function, leaving it to the invisible hand of the market, or they follow their competitors’ pricing. It is no different to letting your competitors manage your business. Despite how crazy it may sound, many companies are actually doing that, burying their heads in sand.

**Keywords:** Pricing maturity; Pricing manager

**Question #3** The concept of value pricing resonates with me very much. But the market situation opposes it. All my competitors are so irrational and set their focus on protecting market shares. Does value pricing also work in a highly competitive environment like mine?

**The short answer:** Yes. You should definitely watch out for competitors’ moves. But it is the wrong place to start if you start with your pricing. To capture full price potential, you need to think first what value you bring to your customers.

**The unsaid:** There is a recurring question in Simon-Kucher’s annual global pricing survey, which asks about who it is that starts the price war in the industry that is being participated in. The quota has been consistently over 60%, which means the majority believes it is the others’ fault. Price war is like a downward spiral. Once it gets started, everyone is hurt by it. There is usually no winner at the end of a price war.

Frankly speaking, a competitive market situation does make the practice of value pricing more difficult, as aggressive price actions will take a heavy toll on the customers’ willingness to pay. A company that nurtures a value-first mentality will gain a competitive edge over the rest. For one thing, not all customers are equally price-sensitive, even in a harsh environment. It is not necessary to offer low prices simply everywhere; another aspect is that value pricing helps the companies discover unmet customer needs which opens doors to new opportunities.

A photo studio specialized in kids photo shooting had been struggling in acquiring new customers ever since it started. To be on the “safe” side, management set the prices at a similar level as those of its competitors and ran promotions on a regular basis. But the demand was lukewarm, and the studio could barely make ends meet. Partly out of desperation, the CEO took the decision to step up the offering and charge a significant premium to set it apart from the me-too competition. It worked! The studio is making remarkable progress in both revenue and profit.

Last but not least, if your company is a market leader, you should be (held) responsible for maintaining the price level in the market. The reason is
straightforward. All others are looking up to you. If you cut prices, the others will probably follow suit.

*Keywords*: Commodity trap; Leadership

**Question #4** What is your take on the pursuit of price value relationship?

**The short answer**: I think it is a false proposition.

**The unsaid**: Pursuit of a superior price value relationship is the mantra in many companies, especially for newcomers. There are two levers that can be used in order to improve the price value relationship. One can either decrease the cost to achieve a better price or invest to improve customer value. Obviously, the two levers are in conflict. It would be too naive to believe that you can have them both in the long run. Some companies which root for price value relationship claim to provide the best value for the price they charge. The statement sounds fair but is a compromise in disguise. The conflict between “lower cost/better price” and “improved customer value” persists. When the conflict manifests itself and is becoming difficult to be reconciled, guess which lever gets the upper hand? According to my experience, it is always lower cost/better price. Why? Because it is easier to implement.

Consequently, I have come to automatically react with aversion when someone extols the magic expression of price value relationship. I tend to interpret it as a sign of lacking strategic direction.

Chinese tech unicorn Xiaomi is well-known as an advocate of the price value relationship. Mr. Lei, the CEO, even made public its 5% profit margin policy on hardware to prove that. However, the company has always been struggling with the speed to market. The latest flagship, Mi phones, as well as popular accessories is always difficult to get after the release. Waiting times may span months, which is not something eager Chinese consumers will tolerate. There was suspicion that Xiaomi was doing this on purpose to create a sense of scarcity, of sought-after products in order to stimulate consumer’s appetite. However, Mr. Lei never admitted to this accusation as being correct.

I pre-ordered a higher-range model of the Mi Smart Watch in December 2019, and it was still out of stock at the beginning of March 2020. That is unacceptable. I started to believe what looks like marketing hunger was actually not happening on purpose. It seems that Xiaomi has difficulty in getting its supply chain in line with demand. Owing to its sustained low price strategy (high value-price ratio strategy in official terms), Xiaomi must have been giving the upstream suppliers a hard time. Guess which client the suppliers will favor in case there are production constraints? The stingy Xiaomi or generous Apple?
PS After waiting for three hopeless months, I removed the smartwatch from my shopping basket. It is not as if I do not any have other choices.

**Keywords:** Price; Value; Compromise

Question #5  Did you ever fail in your pricing projects?

**The short answer:** No, I did not fail.

**The unsaid:** I don’t know why I get this kind of question all the time. I am not sure whether the client is looking for assurance for or a reason to turn down my proposal.

But have I really never failed? Well, it depends on the definition of failure. Pricing projects do not yield a 50% profit increase every single time they happen. However, the downside is also limited. In the worst case, the client learns how to manage pricing in a more structured way. The payoff will be long-lasting, even if it cannot be realized immediately due to market conditions or internal constraints. Thereby, it is just a matter of the magnitude of the impact. I like to quote one of my favorite clients who responded to my invitation to a meeting for discussing follow-up initiatives:

“The project that your team delivered was fantastic. You created real value for us. But we do not intend to work with you in the foreseeable future. Good consultants are like poison. I do not want my people to become addicted and to stop thinking for themselves.”

Bad for him, bad for us. Building pricing competence is like building muscles. Having a good coach alongside is invaluable.

**Keywords:** Failure; Pricing muscles

Question #6  We would love to work with you on this project. But what you ask is way beyond our expectation. Could you give us more discounts?

**The short answer:** Sorry, I cannot. I will be discounting my credibility if I give you more discounts. How can I help you with your pricing when I cannot do my own right?

**The unsaid:** My viewpoint is that if the client truly believes in the value of our work, she or he is willing to pay for it. Mutual trust is the foundation for successful cooperation. I hate preaching wine while drinking water. I like and need to walk the talk. Pricing integrity matters. This kind of question usually signals that I am talking to the wrong customer.

**Keywords:** Pricing integrity
Question #7  (During a client acquisition meeting someone whose identity was unknown at that time was asking:) What constitutes great pricing? The overall suitability or minimizing errors between forecast and actuals for individual customers?

The short answer: Pricing needs to be fair and easy to communicate. By the way, are you a data scientist?

The unsaid: While I was listening to myself responding to his question, it became clear to me what he was actually driving at. He was concerned with the output for individual outliers in a dynamic pricing model driven by machine learning. A statistically sound model might perform very well on aggregate level, but it cannot rule out unfortunate cases in which some individuals stand to be severely disadvantaged. Setting restriction rules would not be always practical, as too many exceptions break integrity of the algorithm. That is where probably the limits of technology still lie.

The moment he raised the question, I had strong instinct that this guy must be a data scientist (or a nerd). He turned out to be a new hire on the data science team and was charged with the task of upgrading the pricing algorithm to set initial property prices.

Keywords: Pricing fairness; Machine learning

Question #8  What? You are a pricing consultant? Isn’t price determined by the market?

The short answer: You don’t want to entrust your fate to the invisible hand.

The unsaid: Usually my older Chinese friends would ask me this question. Only in hindsight did I realize the irony. Given their communist background, shouldn’t they ask “Isn’t price determined by labor cost?” At least Karl Marx was of the opinion.

Now, joke aside. According to Adam Smith, the invisible hand finds an equilibrium between supply and demand and in turn determines the price. However, price search takes time. The first mover has the advantage of setting the price anchor in the market, which has substantial influence on the lifetime value of the product in question. Pricing consultants add value by helping companies get the pricing starting line right.

For the price optimization of existing products, you would also use pricing consultants. The equilibrium price abovementioned is an averaged value, which means that there are deviations. Pricing consultants supported the price adjustment, maximizing value along a product’s cycle.

Keywords: Pricing profession
Question #9  What traits are you looking for when hiring a new pricing consultant? Any preferences for educational background or work experience?

   The short answer: Actually, very simple. You need to look smart…and be smart.

   The unsaid: Honestly speaking, pricing is not rocket science. But it has many facets, inextricably connected internally with cross-functional teams and requiring a sharp sense of insight into the customer. It is a complex task, bridging the inside (the organization) and the outside (the market), and one that ultimately determines how profitable the firm will be. It really does not matter what educational background or what work experience you have; what matters is that you are levelheaded about what is going on and able to bridge the gap between value (what is offered to the customers) and price (what is demanded by customers in exchange).

   Keywords: Look smart; Be smart

Question #10  What is your pricing advice for companies in a sentence?

   The answer: Price should equate value. Do not shy away from claiming your deserved price. I constantly get the feeling that the customers are actually expecting their suppliers to ask for a higher price if they are satisfied with the product or service.

   Keywords: Do not shy away

Off Work: The Consumer Side of Me

Question #11  Is pricing art or science?

   The short answer: It is both.

   The unsaid: This is one of the rare moments in which I can give a clear answer without dodging it in a consultant-typical way by saying “It depends.” Pricing comes down to numbers. There cannot be good pricing decisions without some number crunching, as is typical of any science known to man. However, as so often, humans make decisions last. We can factor in the X factor of human behavior to a certain extent. Nevertheless, I am convinced that no model can capture all factors that influence pricing in the real world. Although there are simulation models that can precisely tell you the odds of pricing outcomes, we all sometimes just believe that we can do better than
machines. How and when do we deviate from machine-generated suggestions? Answering that question is definitely art.

My word of advice: side with the science if you need to pick one. To err is human.

*Keywords: Pricing art; Pricing science*

**Question #12** Have you ever fallen into a price trap?

**The short answer:** Hm, a couple of times I guess.

**The unsaid:** Behind the modesty there is something that I am not particularly proud of. My professional training makes me more sensible to the pricing happening all around me, but it does not make me immune to pricing traps, even though I should know better. I am, for instance, as I see it, a lousy consumer.

On a sunny weekend afternoon, Doreen and I took the kids to the park. We were playing football on the central lawn, and then the kids spotted some other kids were playing bubble guns so that they also wanted them. I went to the kiosk next to the lawn to buy the bubble guns. I paid 20 RMB for a plastic bubble gun without even trying to haggle over the price. The bubble guns were fun; it took 10 min at the most until the soap had been used up. Doreen did not stop me but instead laughed about me for paying the exorbitant prices on the way back home. To prove that I was an idiot, she searched for bubble guns on Taobao.com, a B2C/C2C marketplace owned by Alibaba.com. It turned out that you could get a dozen of those plastic toys for 60 RMB. I had paid four times the regular price. Did I regret it? Yes, maybe for a second. But the smiles on the kids’ faces were priceless for me.

Once I had to travel to a client by train who was in a remote location. Upon arrival at the departing railway station, I found that I still had some time for a quick bite. All the popular restaurants were busy, with long queues of those waiting at the counter to place orders. I am really not a fan of queuing, especially as I have this uncanny capability of picking the queue with the longest waiting time. So I settled for a less popular fast-food chain restaurant. I wanted a burger and a drink but ended up leaving the counter with a prepaid loyalty card featuring freebies and discount coupons. I should have known better that I would overestimate my need for consumption and that the purchase did not make sense. But I was not that rational and bought it anyway. Who does not like a bargain? Colleagues laughed at me when they found out what I had done. And they were right. There were so many constraints attached that I would be able to use only less than half of the coupons before the expiration date of the loyalty card. In retrospect, the cashier was
really convincing. My takeaway: good pricing does not sell itself. Good sales does.

**Keywords:** Price traps; Good sales

**Question #13** (My wife Doreen says) We are moving soon. Let’s put the old sideboard on eBay Kleinanzeigen (a C2C classified ad service provided by eBay in Germany). As it is just an IKEA product, shall we just set the price to zero to get rid of it as soon as possible?

**The short answer:** We won’t become rich by selling a sideboard. But let’s still ask for something like 5 Euro to avoid weirdos.

**The unsaid:** Zero price is equal to zero value. Buyers will not take you seriously because they have nothing to lose. Another side effect of offering something for free is indeed that you may run into some strange people.

A few days after my conversation with Doreen, a friend of ours told us a story. She had a bookshelf to spare and put it on eBay Kleinanzeigen for free. The buyer, or, more precisely, the taker, soon came by, showing up punctually to pick up the bookshelf. Before he left, he asked whether she could give him 10 Euro to fill his fuel tank. What a scam!

The same friend was giving away a TV set for free the other time. During the inquiry about the specifications, the potential buyer accused her of not being polite and dropped the deal. These bizarre encounters really drove her nuts. I hope that she has learned a lesson at least. As far as we are concerned, I am glad that we did not give away our sideboard for free. Bad pricing invites bad luck.

**Keywords:** Zero price; Zero value; Bad luck

**Question #14** What do you think of small prints, also known as hidden terms and conditions?

**The short answer:** I absolutely hate them as a consumer, while I have to admit that from a business perspective, they do make sense.

**The unsaid:** Small prints are hideous and conceal terms and conditions that are detrimental to customers, a practice commonly used by utilities and telecom companies among others. The classic tricks include a default price increase after a certain time period, an extremely long notice period for contract termination, and automatic contract renewal, just to name a few. Customers tend to fall into the trap as they rush to fill out and sign an order, or they simply ignore the small print; customers hate it when they find out that they have been tricked. But when all suppliers have the same small print
policy, customers have only themselves to blame for having not been more attentive.

By the way, small print seems to be more widespread and accepted in Germany than anywhere else for reasons that I do not know. Is Germany really a service desert?

#SmallPrints #MadeInGermany #ServiceDesert

Question #16 What is your favorite worst-of-pricing example?

The short answer: You mean what pricing examples I hate? This one is easy. It is the smartwatch maker W (I had better not disclose the name).

The unsaid: Being a big fan of Bauhaus, I love the W concept and its sleek design language. The smart part of the watch is also user-friendly—for starters, you do not have to press any button to tell the watch what activities you are about to engage in. The sensor will guess what is happening and record your performance automatically. So, quite cool stuff.

As an absolutely early adopter, I have owned at least five timepieces from this tech startup since its inception. Despite there having been promotions frequently, I have miraculously managed to buy all of mine at full price. Nevertheless, there are annoying moments when the devices fail to do what they are supposed to do or the connection between the watch and the smartphone breaks down. To my relief, their customer service staff is both accommodating and competent. I do appreciate that.

But W sucks at marketing and pricing. The worst of all is its mailing campaign. I proactively check in on the website to see what is new from time to time. As a subscriber to W’s newsletter, I also receive promotional emails on a regular basis. Some of the emails are literally unnerving. After I had purchased and then had a new model for no more than 2 months, I received an email from W informing me of the great news that my recently purchased timepiece was on promotion right now! This has happened a couple of times already. Does W do this on purpose to alienate loyal customers like me? Sadly, I continue to buy new watches from W.

Keywords: Worst of pricing

Question #15 What is your favorite best-of-pricing example?

The short answer: I do not have one yet.

The unsaid: Honestly, I believe we can always do better. The next will be better. But I do have a few candidates for the best pricing award (in alphabetic order):
1. iPhone by Apple—Apple remains triumphant in the modern smartphone era though applying a skimming pricing strategy. Moving further into the life cycle, it defends its market/premium price position with expensive flagship models and supplies the lower end of the market with obsolescent models priced at significantly lower price levels. It does a very good job at price fencing. In addition, it also does an excellent job at designing the product portfolio, fostering user habits to its benefit while extracting willingness to pay along the way. Just take lightning as an example. Apple reduced the ports to one universal port years ago, which serves both as a charging port and a headphone jack. As a result, more and more iPhone users buy AirPods, and various adapters, if they wish to continue to use the old accessories. And yes, I remember I discussed earlier how flawed iPhone pricing is.

2. Nespresso by Nestlé—Nespresso epitomizes a continuous ecosystem type of innovation both in technology and for its price model. Nespresso fundamentally changed the way coffee was made and consumed at home, at work, and on the road. The capsuled coffee thrived as a new product category and convinced consumers around the world of its supreme quality, which helped the significant price premium. The division between professional and private use by means of a differentiated product design and price model is textbook-like price fencing.

3. Netflix by Netflix—Netflix was already a classic case study when I attended my MBA program back in 2007. The case study was about how Netflix revolutionized the American DVD rental market. Among others, the subscription model was a key differentiator and growth driver. Netflix reinvented itself in 2010, transforming itself into becoming an online streaming service provider. Netflix revamped its business model. But the subscription model has survived and has been being optimized since then. I am amazed how agilely Netflix tests and rolls out new price schemes in different regions of the world. Chapeau!

4. Hand sanitizer by Rotunden—Rotunden is a Danish grocery market chain. Amid the COVID-19 pandemic in early 2020, disinfectants, toilet paper, and flour among others were constantly in shortage. It was getting close to impossible to buy them at drugstores or supermarkets. The constantly empty shelves reinforced the sense of scarcity and triggered further hoarding. Whoever moved faster got the supplies, leaving other people in need high and dry. Many German supermarkets did what they were used to, i.e., putting up signs which said three units per head per purchase. Did it work? No, as we already knew from the milk formula story. Rotunden did something different and ingenious. It also put up a sign on the shelf of
hand sanitizers. Instead of imposing purchase volume restrictions, it said the following: “40 kr for the first bottle and 1000 kr for every bottle that follows.”$^1$ Since then, things have returned to normal.

**Keywords:** Best of pricing

**Question #17** What is your pricing advice for consumers?

**The answer:** Buy it. Life is short. Do not let the price get in your way. You have many more important things to regret than having paid too high a price.

**Keywords:** Buy it; Life is short

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$^1$ 1 DKK = 0.13 EUR, exchange rate per 21st March, 2020