SUMMARIZING PRICING

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1. Pricing Aim

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**Figure 1. A taxonomy of pricing strategies**
2. Pricing Menu

Figure 2. Pricing a new product

- Improving pricing for existing product
- Use EVC as initial diagnostic
- Obtain broad historical data
- Calculate price elasticities for different products/customers
- Develop price segmentation fences

Figure 3. Pricing an existing product
3. 10 Challenges to Pricing Intuition

(1) If we use cost-plus pricing, we will make a profit
   - Only if you are incredibly accurate with your sales projections

(2) Our customers always prefer low prices
   - Customers will always say they like lower prices. However, in many markets price serves as a guide to quality, and pricing too low can send out a negative signal.

(3) Our customers do not know prices, so our pricing strategy is unimportant.
   - Lack of customer price knowledge makes how you present the price even more important. This is where strategies such as good-better-best and price ending cues are key.

(4) Simpler pricing structures are better.
   - You always want three prices. Simplifying pricing structures means giving away money. Due to the taxi-meter effect, customers may not always appreciate it when firms do price simply.

(5) If we are profitable, we do not need to price-discriminate.
   - On the contrary: Price segmentation is actually going to be most effective for already-profitable firms, because effective segmentation requires the market power implied by profitability.

(6) Razor Blade pricing works because our customers are stupid
   - Razor blade pricing works because it is actually subtle price segmentation. High-value, high-usage customers pay more. Low-value, low-usage customers pay less.

(7) Our product has network effects, so we need to set a low price
   - Your product may well not have network effects at all.
   - Even when a product has network effects, price segmentation is key. The crucial questions for network goods are: Whom do I set a low price to and whom do I set a high price to?

(8) Firms need to adjust prices until I fill capacity.
   - It can be more profitable to have unused inventory or capacity.

(9) Industries need to work together to ensure that they avoid harmful price wars
   - Statements like this lead to jail time. It is the responsibility of the firm, and the firm alone, to avoid a price war.

(10) Our competitors understand our pricing strategy
    - Firms have to actively manage perceptions of their pricing by competitors, regulators and other stakeholders.
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