## MERCATO INCREASE PRICES INTELLIGENTLY

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## Program Goal

Identify short-term low-risk opportunities to increase prices and learn how to communicate them.

## MOST PROFITABLE PRICING STRATEGY:

## VALUE BASED PRICING

Charge what a customer is willing to pay (WTP)

Customers trade money for value


## Value is NOT Based on Costs



## CUSTOMER VALUE

## RECURRING REVENUE / SUBSCRIPTION



## IMPACTFUL INSIGHT

## COMPANIES EXIST TO CREATE

 VALUE FOR CUSTOMERSPRICING CAPTURES VALUE

## TWO WAYS TO INCREASE REVENUE



## 4 WAYS TO GROW A CUSTOMER



Customers trade money for value

## Willingness to Pay

Will I?
Which One?

## TYPICAL BUYERS VALUE JOURNEY




## WHEN BUYERS ONLY MAKE WILL I DECISIONS



Buyers are much less price sensitive


## MONEY IDEA

## RAISE PRICES ON WILL I PRODUCTS AND SITUATIONS



## CUSTOMER VALUE

## RECURRING REVENUE / SUBSCRIPTION




## THE SECOND MOST PROFITABLE PRICING STRATEGY:

## PRICE SEGMENTATION

Charge different prices to different customers based on their WTP





## IMPACTFUL INSIGHT

CHARGE LESS TO BUYERS ONLY WILLING TO PAY LESS.

CHARGE MORE TO BUYERS WHO ARE WILLING TO PAY MORE.

## HOW TO SEGMENT BY PRICE



## MONEY IDEA

## USE PRICE SEGMENTATION TO RAISE PRICES ON A SUBSET OF BUYERS



## VALUE TABLES



## VALUE TABLES

## SOLUTION

## PROBLEM

## RESULT



We have a lot of electronics failures on top of light poles due to condensation from large temperature swings.

The vent allows the escape of condensation, lengthening the life of the electronics resulting in 20\% fewer failures. For 100,000 light poles, the normal failure rate would be 1000 per year. That would decrease by about 200 per year.

Saving 200 failures * $\$ 1,000$ per repair = \$200,000 or \$2/pole/year

## IMPACTFUL INSIGHT

NOBODY CARES ABOUT YOUR PRODUCT

## Van Westendorp's Price Sensitivity Meter

- At what price would you consider the product too expensive to consider?
- At what price would you consider the product to be priced so low that you would feel the quality couldn't be very good?
- At what price is the product starting to get expensive, but you still might consider it?
- At what price would you consider the product to bea bargain-a great buy for the money?


## Quick and Dirty Question

"What price do you think other (people like you) would pay?"

## When to Raise Prices (in normal times)




## Should you raise your price?



To raise price from P2 to P1, how many unit sales can you lose to make the same profit?

## Break-Even Analysis



P: Price

$$
\begin{aligned}
& (P 1-c)^{*} Q 1=(P 2-c)^{*} Q 2 \\
& \Delta Q \%=\frac{-\Delta P \%}{C M \%+\Delta P \%}
\end{aligned}
$$

Q: Quantity

## Product with a Contribution Margin of 60\%

$$
\Delta Q \%=\frac{-\Delta P \%}{C M \%+\Delta P \%}
$$

20\% Price Decrease

$$
\Delta Q \%=\frac{-(-20 \%)}{60 \%+(-20 \%)}=50 \%
$$

20\% Price Increase
$\Delta Q \%=\frac{-(+20 \%)}{60 \%+(+20 \%)}=-25 \%$

## Breakeven Volumes: Price Increase

|  |  | Contribution Margin Before Change |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 100\% | 90\% | 80\% | 70\% | 60\% | 50\% | 40\% | 30\% | 20\% |
|  | 5\% | -4.8\% | -5.3\% | -5.9\% | -6.7\% | -7.7\% | -9.1\% | -11.1\% | -14.3\% | -20.0\% |
|  | 10\% | -9.1\% | -10.0\% | -11.1\% | -12.5\% | -14\% | -17\% | -20\% | -25\% | -33\% |
|  | 15\% | -13\% | -14\% | -16\% | -18\% | -20\% | -23\% | -27\% | -33\% | -43\% |
|  | 20\% | -17\% | -18\% | -20\% | -22\% | -25\% | -29\% | -33\% | -40\% | -50\% |
|  | 25\% | -20\% | -22\% | -24\% | -26\% | -29\% | -33\% | -38\% | -45\% | -56\% |
|  | 30\% | -23\% | -25\% | -27\% | -30\% | -33\% | -38\% | -43\% | -50\% | -60\% |
|  | 35\% | -26\% | -28\% | -30\% | -33\% | -37\% | -41\% | -47\% | -54\% | -64\% |
|  | 40\% | -29\% | -31\% | -33\% | -36\% | -40\% | -44\% | -50\% | -57\% | -67\% |
|  | 45\% | -31\% | -33\% | -36\% | -39\% | -43\% | -47\% | -53\% | -60\% | -69\% |
|  | 50\% | -33\% | -36\% | -38\% | -42\% | -45\% | -50\% | -56\% | -63\% | -71\% |

## Breakeven Volumes: Price Reduction

|  |  | Contribution Margin Before Change |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 100\% | 90\% | 80\% | 70\% | 60\% | 50\% | 40\% | 30\% | 20\% |
| 을 <br> 0 <br> 0 <br> 0 <br> 0 <br> 0 <br> 0 <br> 0 <br> 0.3 <br> 0. | 5\% | 5.3\% | 5.9\% | 6.7\% | 7.7\% | 9.1\% | 11.1\% | 14.3\% | 20.0\% | 33.3\% |
|  | 10\% | 11.1\% | 12.5\% | 14.3\% | 16.7\% | 20\% | 25\% | 33\% | 50\% | 100\% |
|  | 15\% | 18\% | 20\% | 23\% | 27\% | 33\% | 43\% | 60\% | 100\% | 300\% |
|  | 20\% | 25\% | 29\% | 33\% | 40\% | 50\% | 67\% | 100\% | 200\% |  |
|  | 25\% | 33\% | 38\% | 45\% | 56\% | 71\% | 100\% | 167\% | 500\% |  |
|  | 30\% | 43\% | 50\% | 60\% | 75\% | 100\% | 150\% | 300\% |  |  |
|  | 35\% | 54\% | 64\% | 78\% | 100\% | 140\% | 233\% | 700\% |  |  |
|  | 40\% | 67\% | 80\% | 100\% | 133\% | 200\% | 400\% |  |  |  |
|  | 45\% | 82\% | 100\% | 129\% | 180\% | 300\% | 900\% |  |  |  |
|  | 50\% | 100\% | 125\% | 167\% | 250\% | 500\% |  |  |  |  |

## What will your competitors do?




## MONEY IDEA

NEVER LEAD A PRICE DECREASE QUICKLY FOLLOW A COMPETITOR'S PRICE INCREASE


## RAISING PRICES IN SUBSCRIPTIONS



## COMMUNICATING PRICE INCREASES

1 "Costs went up"
2 "We added more value"

3 "We haven't raised prices ..."

4 "Your price is less than ..."
5 Do something nice

## MONEY IDEA

RAISE PRICES ON A SUBSET OF CUSTOMERS.

WATCH THEIR RESPONSE.


## Revenue-based Commission

|  |  | Base |
| :--- | :--- | :--- |
| Price |  | $\$ 300,000$ |
| Commission | $6 \%$ | $\$ 18,000$ |
| Selling realtor | $3 \%$ | $\$ 9,000$ |
| Owner keeps |  | $\$ 282,000$ |

## Agent owned homes:

${ }_{d}^{n}$ On the market 9.5 days longer
Median prices 3.7\% higher

1992 to 2002: 98,000 home sales in suburban Chicago.
3,300 of the homes were owned by real estate agents.

## Alternate Commission Structure



## MONEY IDEA

RAISE REALIZED PRICES BY INCENTIVIZING SALESPEOPLE TO NEGOTIATE WELL.



## THE SECOND MOST PROFITABLE PRICING DECISION:

## ADOPT PRICE SEGMENTATION

Charge different prices to different customers based on their WTP

## WHEN BUYERS ONLY MAKE WILL I DECISIONS



Buyers are much less price sensitive

## HOW TO SEGMENT BY PRICE



## Breakeven Volumes: Price Increase

|  |  | Contribution Margin Before Change |  |  |  |  |  |  |  |  |
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Customers trade money for value


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## WIN KROW

How to Price and Package to ACCELERATE Your Subscription Business

Mark Stiving Ph.D.


SELLING VALUE
How to Win More Deals Hu Helthar Prices

