# **MERCATO INCREASE PRICES INTELLIGENTLY**

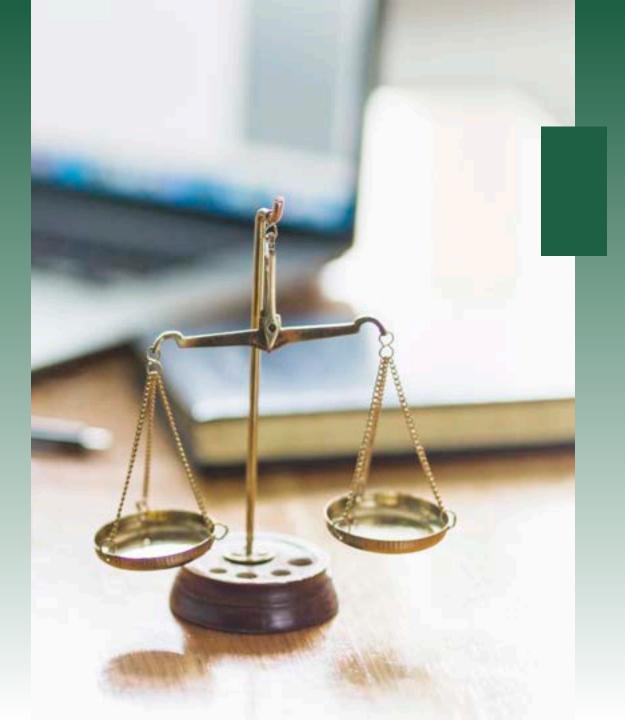
Mark Stiving, Ph.D.
Chief Pricing Educator, Impact Pricing



### 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



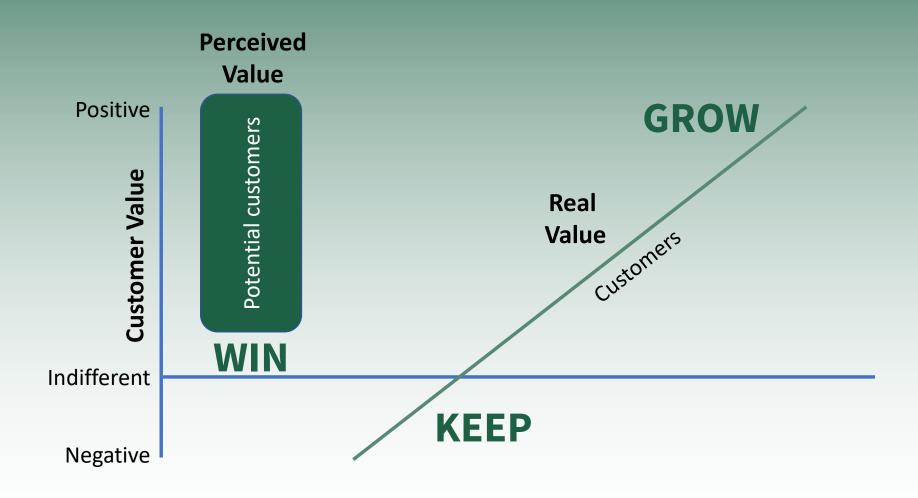


### Value is NOT Based on Costs





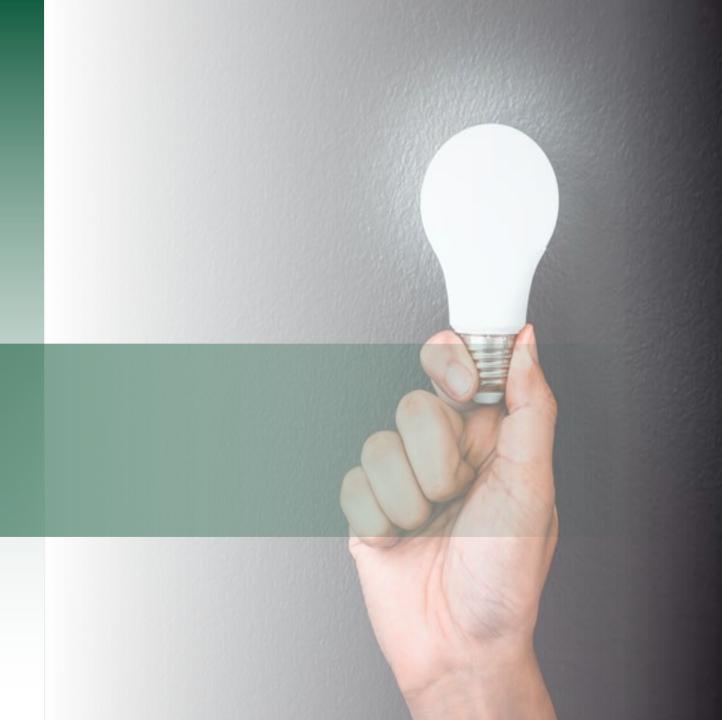
### **CUSTOMER VALUE**RECURRING REVENUE / SUBSCRIPTION





## IMPACTFUL INSIGHT

COMPANIES EXIST TO CREATE VALUE FOR CUSTOMERS
PRICING CAPTURES VALUE

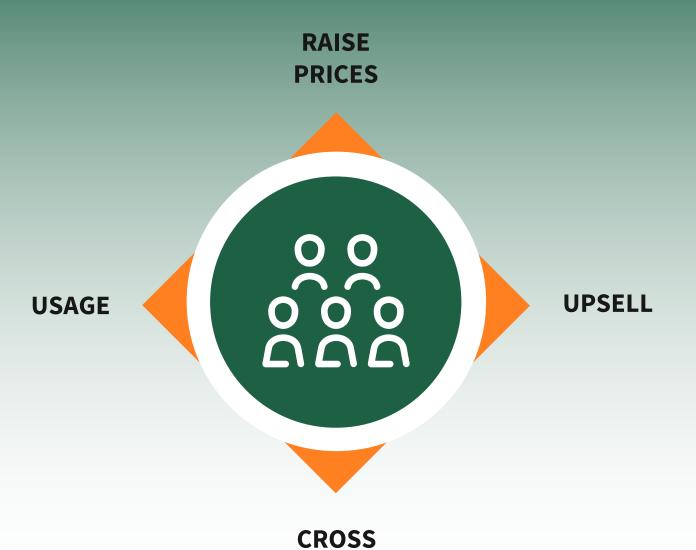


### TWO WAYS TO INCREASE REVENUE

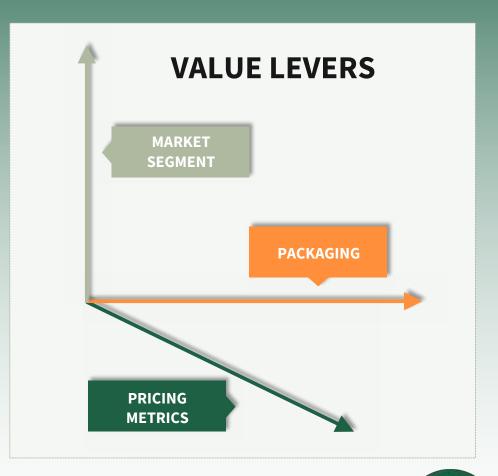




### 4 WAYS TO GROW A CUSTOMER



**SELL** 





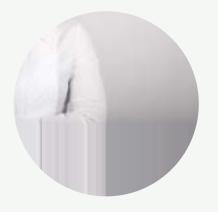
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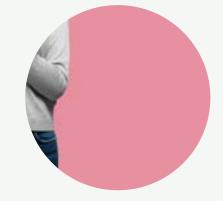
### **TYPICAL BUYERS VALUE JOURNEY**

### WILL I?



Inherent Value
Solve the problem
Less price sensitive

### **WHICH ONE?**



0

Relative Value
Compare alternatives
Very price sensitive

### **PURCHASE**



Most purchases go through **both decisions** 

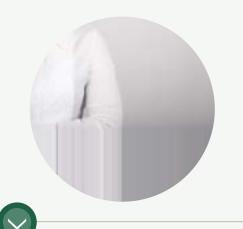




### WHEN BUYERS ONLY MAKE WILL I DECISIONS



A competitive alternative was not considered











Buyers are much less price sensitive





### WILL I DECISIONS

#### **WILL I PRODUCTS**

- New iPhone
- Utility
- Add on or Option

#### **WILL I SITUATIONS**

- Popcorn at the theater
- Last gas
- Relationships
- Referrals

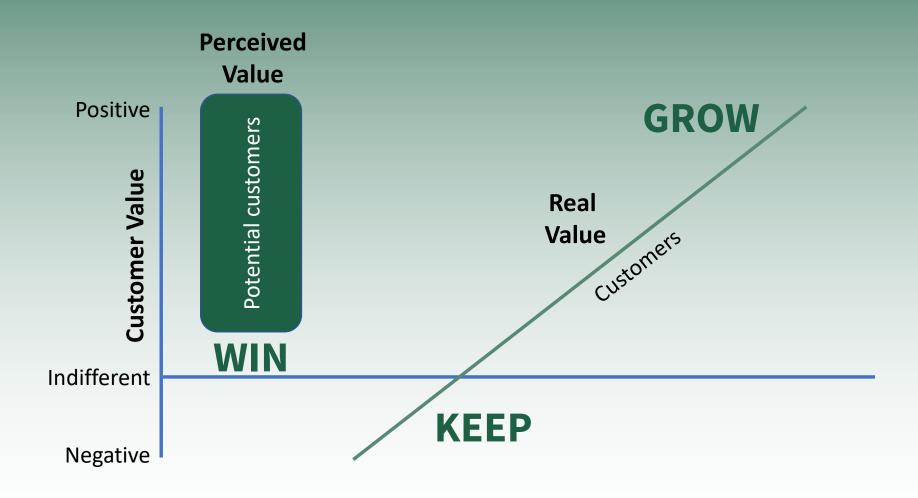


### MONEY IDEA

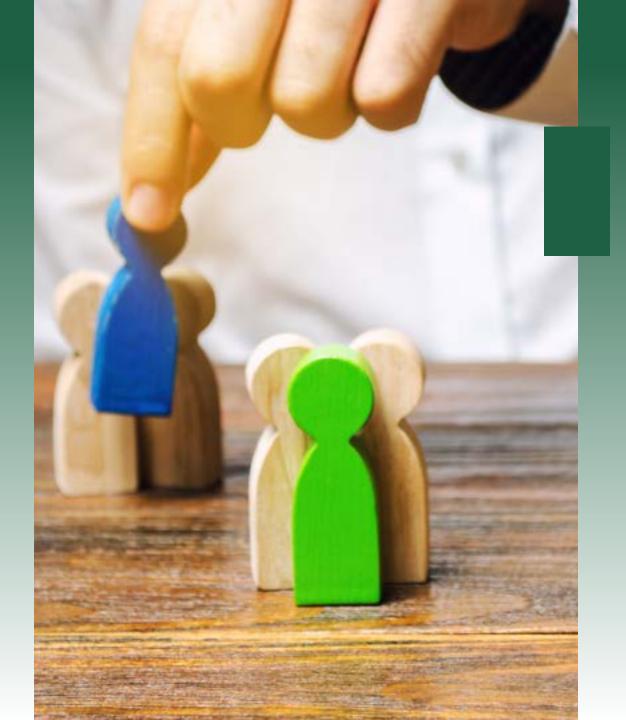
RAISE PRICES ON WILL I PRODUCTS AND SITUATIONS



### **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**



Customer characteristics



Transaction information



Behaviors



### MONEY IDEA

USE PRICE SEGMENTATION TO RAISE PRICES ON A SUBSET OF BUYERS



### VALUE **TABLES**



SOLUTION PROBLEM RESULT VALUE



### **VALUE TABLES**





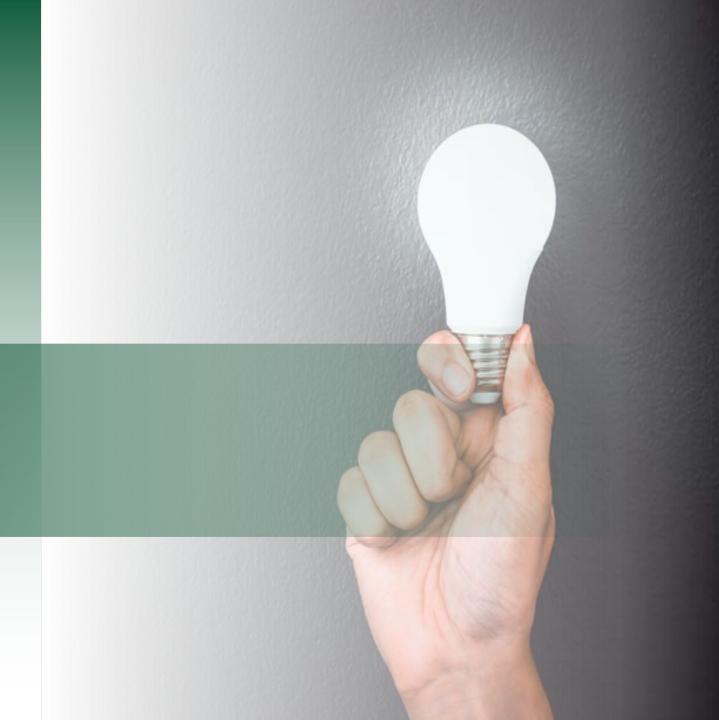
We have a lot of electronics failures on top of light poles due to condensation from large temperature swings. The vent allows the escape of condensation, lengthening the life of the electronics resulting in 20% fewer failures. For 100,000 light poles, the normal failure rate would be 1000 per year. 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 be a 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)



Not losing enough



Win ratio increasing



Competitors raised prices

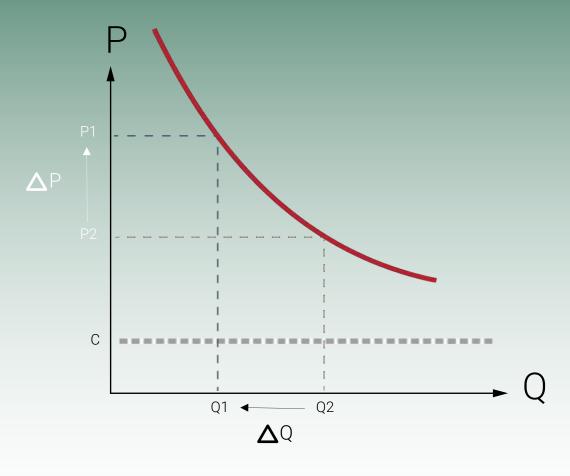


Deliver more value





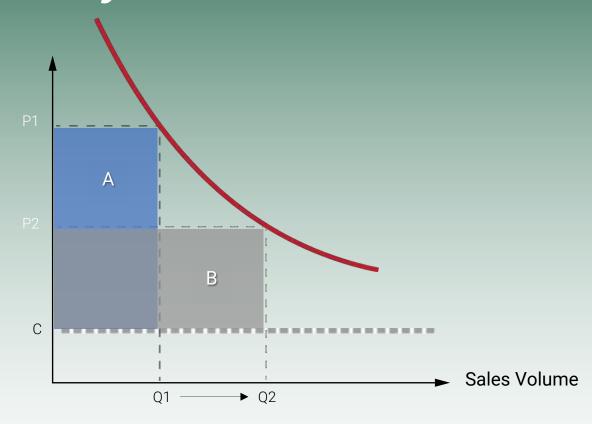
### Should you raise your price?



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



### Break-Even Analysis



P: Price

**Q:** Quantity

**C:** Variable Costs

**CM:** Contribution Margin Before Price Change

$$(P1-c)*Q1 = (P2-c)*Q2$$

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



### Product with a Contribution Margin of 60%

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

#### 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%
se	20%	-17%	-18%	-20%	-22%	-25%	-29%	-33%	-40%	-50%
Price Increase	25%	-20%	-22%	-24%	-26%	-29%	-33%	-38%	-45%	-56%
ce Ir	30%	-23%	-25%	-27%	-30%	-33%	-38%	-43%	-50%	-60%
Pri	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%

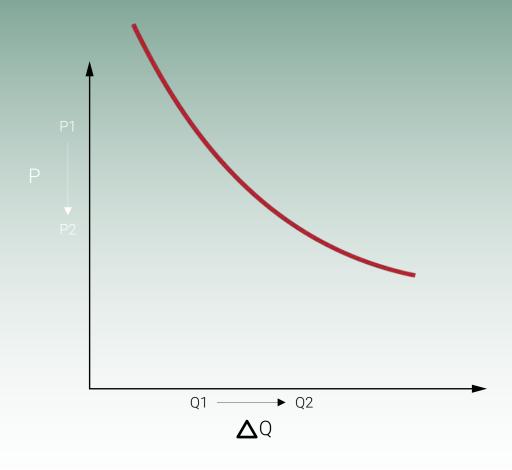


### Breakeven Volumes: Price Reduction

		Contribution Margin Before Change									
		100%	90%	80%	70%	60%	50%	40%	30%	20%	
	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%	
tion	20%	25%	29%	33%	40%	50%	67%	100%	200%		
que	25%	33%	38%	45%	56%	71%	100%	167%	500%		
Price Reduction	30%	43%	50%	60%	75%	100%	150%	300%			
Pric	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?







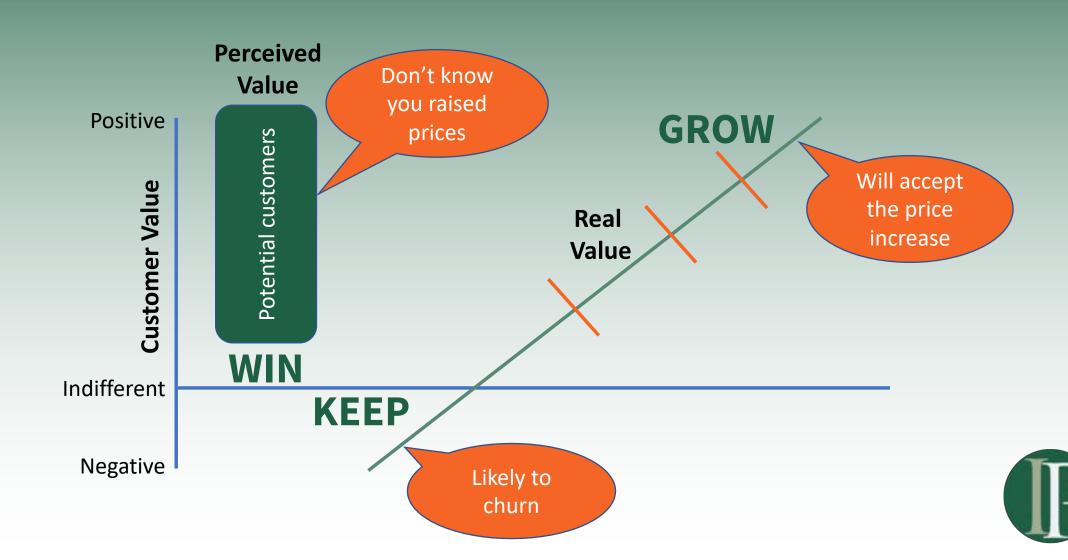
### MONEY IDEA

NEVER LEAD A PRICE DECREASE

QUICKLY FOLLOW A COMPETITOR'S PRICE INCREASE



#### RAISING PRICES IN SUBSCRIPTIONS





### COMMUNICATING PRICE INCREASES

- 1 "Costs went up"
- "We added more value"
- "We haven't raised prices ..."
- Your price is less than ..."
- 5 Do something nice



### MONEY IDEA

RAISE PRICES ON A SUBSET OF CUSTOMERS.

WATCH THEIR RESPONSE.

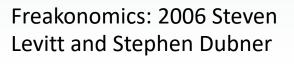


#### Revenue-based Commission

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

Agent owned homes:
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.





# MOST PROFITABLE PRICING DECISION:

# ADOPT VALUE BASED PRICING

Charge what a client is willing to pay (WTP)





# THE SECOND MOST PROFITABLE PRICING DECISION:

## ADOPT PRICE SEGMENTATION

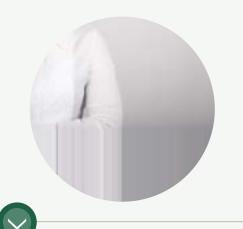
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sse	20%	-17%	-18%	-20%	-22%	-25%	-29%	-33%	-40%	-50%
Price Increase	25%	-20%	-22%	-24%	-26%	-29%	-33%	-38%	-45%	-56%
ce Ir	30%	-23%	-25%	-27%	-30%	-33%	-38%	-43%	-50%	-60%
Pri	35%	-26%	-28%	-30%	-33%	-37%	-41%	-47%	-54%	-64%
	40%	-29%	-31%	-33%	-36%	-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%



# Customers trade money for value







# WIN GROW

How to Price and Package to ACCELERATE Your Subscription Business

Mark Stiving Ph.D.



How to Win More Deals at Higher Prices

Mark Stiving, Ph.D



SELLING VALUE

How to Win More Deals At Higher Prices

SELLING VALUE