

Pricing for Growth

2018 Chief Marketing Officer Programme

15-17 November 2018

Introduction

This course studies the “back end” of marketing. That is, we examine how organisations choose to profit from their efforts to stand out and serve customers. It is exactly at this moment—the moment when a firm asks the market to exchange good money for the products and services it supplies—that bad practice tends to creep in.

Indeed, prices and pricing are topics that business people seldom talk about with enthusiasm. Although most understand that their decisions can make or break the bottom line of the firm, they act without the aid of a carefully crafted strategy. Rather, you witness collections of tactics held together by questionable assumptions and crude heuristics that, by shunning customers and obsessing over just about everything else, put financial and brand health in jeopardy.

You will hear me stress that the right approach is part economics, part psychology—as prices invariably play different, complementary roles in a market. Mastering this mix introduces new opportunities to capture, communicate and even grow value in the eyes of customers. For this and other reasons, the course pushes well beyond the mechanics of setting a price and my approach is more one of general management than standard marketing. While pricing anything certainly involves an element of “running the numbers,” there is much more to cover.

Welcome!

Benefits

The objective of the course is to equip you with the necessary confidence and skills to design and execute a superior pricing strategy, irrespective of job description or professional orientation. Specifically, by the end of the course you will have learnt how to:

- Recognise and exploit the different roles that prices play in the marketplace,
- Understand what a proper monetisation strategy looks like—that is, the type and sequence of activities on the manager’s “to do” list,
- Appreciate the fundamental technological changes that are affecting the way organisations generate revenue from customers—how they design an effective and efficient revenue model,
- Identify the ingredients to setting the “right” price, and how to use and combine them properly,
- Understand the impact that psychological and sociological factors exert on demand,
- Identify opportunities for price discrimination that are palatable to customers,
- Design a discounting policy that achieves shorter-term financial goals without compromising the longer-term health of the brand,

- Conceptualise, compute and sell value with confidence in a market dominated by buyers who are “strategically stupid,”
- Respond intelligently to competitive threats and the broader forces of commoditisation, and
- Institute meaningful pricing change in an organisation.

Overview of the Sessions

Session 1: A better harvest

15 November 2018, 09:00-12:30

“Take what you want, God said to man, and pay for it.” (Spanish proverb)

Every business has to price what it sells. It is inescapable, yet also deeply misunderstood. This session explains that managers mostly characterise pricing as a tactical afterthought—an exercise in “running the numbers” that follows and is independent of the value-creating activities in the organisation. In fact, pricing decisions are as much about creativity and strategy as they are about dollars and cents. And prices educate and stimulate a market as much as they mark the value of a sale. Ultimately, the problem among managers is one of scope: there are multiple challenges and perspectives that must be recognised and tackled in order to improve this basic business skill. Getting all of it right can reveal unexpected opportunities to capture, communicate and even grow value in the eyes of paying customers.

Required reading: The London 2012 Olympic Games***
Three rules for making a company truly great

Suggested reading: Companies and the customers who hate them
Pricing to create shared value

Session 2: The “ends” game

15 November 2018, 14:00-17:30

“The buck stops here.” (Harry Truman)

Customer centricity is the defining mantra of the 21st century organisation. We have been trained to see the market from the eyes of those we serve, thinking in terms of “solutions” rather than products and services. Yet even the most customer-loving enterprise reverts to old habits when it comes to turning value into cash—rather than taking a hard look at customers and what they need and want, we take a hard look at what we make. Given today’s technologies and the opportunity from greater accountability, this has become a problem. The result is fascinating: albeit at different speeds, just about every industry one can think of is heading toward a form of compensation that rewards real, tangible outcomes. The session describes this reality via several examples, providing a roadmap and straightforward advice on how to orchestrate a revenue strategy fit for the digital times we live in.

Required reading: Capture more value

Suggested reading: A novel architecture to monetize digital goods
Making “freemium” work
Selling solutions isn’t enough

What to know before you sign a payment-by-results contract

Session 3: The price is right!

16 November 2018, 09:00-11:00

“There are two fools for every market: one asks for too little, the other asks for too much.” (Russian proverb)

There are only four ingredients that matter when setting a price: company, cost, competitor and customer. When prompted, most business professionals cite these four “Cs” in a matter of seconds. However, they then struggle to define each input or combine them into a proper decision. The session proposes a simple “two-finger” framework to address this problem. We draw several lessons, but two stand out. First, finding the right price implies striking a balance between looking inside and outside of the organisation for inspiration. Second, the key criterion is a solid understanding of how one’s offering differs from those of competitors in the eyes of the target customer. Indeed, a business that cannot translate value added into dollars and cents is a business without confidence or control.

Required reading: Financial analysis for profit-driven pricing

Suggested reading: The CFO guide to better pricing
When cost-plus pricing is a good idea

Session 4: One size doesn’t fit all

16 November 2018, 11:20-12:30

“If everyone is equal before God, then everyone is equal before price.” (John Wanamaker)

Not all customers are created equal. Certain groups find more satisfaction in a given product than others do. A smart professional spots this and realises that pushing the same price across the market is inefficient: in some cases it leaves a good chunk of money in the pockets of customers, in other cases it prevents sales that would still be profitable at some lower price. This session explores the fascinating challenge of tailoring prices to individual valuations. One lesson is that proper price discrimination requires some input from customers– the traditional “take-it-or-leave-it” approach is not sufficient because it is the customer who ultimately decides whether something is cheap or otherwise. Second, while there are many forms of discrimination, they fall into one of three buckets: observation, choice or mechanism. The session presents several examples to explain these labels and suggests an action plan.

Required reading: When customers help set prices

Suggested reading: How retailers can drive profitable growth through dynamic pricing
Should you punish or reward current customers?
The good-better-best approach to pricing

Session 5: The promotion of things

16 November 2018, 14:00-17:30

“A cheap price is a shortcut to being cheated.” (Chinese proverb)

Discounting is often likened to a potent, dangerous drug. Many businesses “give it a try” heeding

to external pressure. The immediate bump in sales is rewarding, but the drop that follows stings even more. As time goes by, the concessions get deeper and more frequent to satisfy customers who are increasingly habituated to receiving offers. One interesting aspect is that this downward spiral is mostly predictable, which begs the questions: Are organisations discounting intelligently? Is there a healthier way to entice customers without mortgaging one's brand? This session provides answers and a useful checklist. First, we have to understand that discounting is not synonymous with "tactics." Quite the opposite, the strongest sign of a clever campaign is its ability to serve the broader objectives of the business. Second, there are steps that managers can take to ensure that their investments in temporary price concessions are, indeed, investments. The overarching goal is to put an end to the familiar "can't live with it, can't live without it" feeling associated with discounting.

Required reading: If brands are built over years, why are they managed over quarters?
Time for a unified campaign?***

Suggested reading: Don't let big data bury your brand
The three faces of consumer promotions
Three steps to creating value from B2B discounts
What is a free customer worth?

Session 6: \$\$\$elling value to customers

17 November 2018, 09:00-10:20

"A cynic is a man who knows the price of everything and the value of nothing." (Oscar Wilde)

At the heart of every sound pricing strategy lie the actions that businesses take to understand and document value to their customers. Indeed, there is truth in the statement "when the value of an offering is clearly understood by both firm and customer, price is seldom a problem." This session discusses the complications that arise when an organisation tries to sell value in a market plagued by stubborn, cynical buyers. Specifically, it preaches to "keep calm and sell value," a five-step framework that highlights remedies and invites several conclusions. Two stand out. First, a better understanding of what value actually means to customers, and how the business can be true to its promises, gives a sense of calibration and confidence that helps fight off the pressure from clients and competitors. Second, a better process to sell value quickly improves the performance of the firm—and this improvement is enduring.

Required reading: Customer value propositions in business markets

Suggested reading: Six sigma pricing
Tiebreaker selling
Why the highest price isn't the best price

Session 7: It takes three to tango

17 November 2018, 10:40-12:00

"There is no victory at bargain basement prices." (Dwight D. Eisenhower)

How can you stop a costly price war or, better still, avoid one altogether? What does it take to become a price leader? These questions are pertinent in many markets, and the answers lie in

understanding that the “fight” unfolds on three fronts. First, part of the blame certainly rests on the actions of the rival, and your task here is to influence behaviour by sending unequivocal, credible and legal signals. However, price is not the weapon of choice unless there are enough customers in the market who demand it. As such, you must also mitigate customer habituation—the “commodity mindset.” Finally, you may be unaware or too proud to see that your actions trigger a response from the rival. This cannot persist. This double session uses different means to present these perspectives on competition and suggests ways to gain the upper hand.

Required reading: How to stop customers from fixating on price
Price wars and the managers who start them

Suggested reading: Competing against free
How to fight a price war

Session 8: The lean, mean, pricing machine

17 November 2018, 13:00-15:00

“We want to educate leaders who make a decent profit decently.” (Wallace B. Donham)

What does an efficient pricing function look like? We identify several key considerations and then explore three common doubts. First, the question of structure. Specifically, management needs to decide how far down the company to push responsibility, and how many different job profiles to involve in the process. Clearly, there is no “one-size-fits-all” solution. Second, incentives. What is the best way to compensate those who are responsible for the “health” of the prices we actually achieve in the market? In the session, I present several possible schemes and discuss their strengths and weaknesses. Third, remember that pricing decisions exist at different levels of abstraction. At the highest point, the goal is to gauge the tone of a particular market: significant fluctuations in demand or supply, new regulation, changes in customer sentiment, and so on. At the second level, monetisation focuses on the task of capturing value from customers, keeping in mind that differences in valuation are expected and should be exploited. Finally, at the third and most granular level management needs to ensure that the pricing protocol does not result in costly leaks: there needs to be a logical argument for each and every deviation from list prices.

Required reading: How do you know when the price is right?

Suggested reading: Building a strategic pricing organisation
Is it time to rethink your pricing strategy?
The power of pricing

Faculty

Marco Bertini is associate professor and department head of the marketing subject area at ESADE. He is also co-founder of the school’s Institute for Data-Driven Decisions (ESADE d3). He completed his doctoral studies at Harvard Business School, and was previously on the faculty at the London Business School.

Marco’s research, which for the most part lies at the interface of the economics and psychology

of pricing decisions, appears in the leading journals for marketing science and management practice. His teaching, speaking engagements and advisory work similarly focus on the challenge of designing and implementing a proper strategy to generate lasting revenue from customers.

Recently, Marco was named to the Thinkers50 Radar, a shortlist of the scholars “most likely to shape the future of how organisations are managed and led.” Prior to this, he was nominated for the Business Professor of the Year Award, a global competition of the Economist Intelligence Unit, and recognised by the Marketing Science Institute in the United States as one of the most promising scholars in the field.

A native of Italy, Marco also lived in Australia, the United States, the United Kingdom and now Spain. For more information, please visit www.marcobertini.com.

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