tomers. How many different kinds of customers do you have? In how many ways do they use your products? In the answers to these questions you will find opportunities for price optimization.

The 12 Steps to Price Rehabilitation

1. Segment your customers (and prospects) into groups with similar uses for your products.

2. Understand exactly how each segment uses your products.

3. Estimate the value to them (remember: it is better to be roughly correct than precisely wrong.)

4. Dig into the structure of your pricing; do your "scorekeeping" units make sense to your customers?

5. Look over the level(s) of your pricing for, say, volume discounts that have gotten out of whack with reality.

6. Look for opportunities to bundle; particularly in new segments.

7. Look for opportunities to unbundle; particularly with customers who claim not to be persuaded by "value".

8. Think through your competition's reactions to changes you are considering.

9. Then think through your customer's reactions to both your changes and those that competitors might make in response to yours.

10. Think through the implications for your brand.

11. Remember that there can be only one "lowest cost" supplier, but several "best value" suppliers.

12. Listen to your customers... and your not-yet customers. ❒

The Pricing Year in Review and Trends to Watch in 2006

Jon Manning reviews some of the developments and milestones from the world of pricing (both good and bad) that caught his attention in 2005.
This article is from the Wiglaf Journal and can be found at www.wiglafjournal.com.
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The most important pricing concept to emerge in the last year has been that of **The Long Tail**, the title of an article written by Chris Anderson, Editor-in-Chief of Wired Magazine. It is a powerful article on the importance of focusing on the thousands of niche products that a company sells infrequently (and their price!), rather than the one or two blockbuster products that sell in large volumes, often for a short period of time.

Much of the discussion about The Long Tail to date has revolved around the ability of the internet to aggregate inventory without the limitation of shelf space, and how this facilitates a shift from a mass market to a niche market approach. It has many implications for the world of pricing, such as challenging the use of 'average pricing' and Vilfredo Paretos' 80:20 rule.

But The Long Tail doesn't only apply to e-Commerce. Just ask Barry Schwartz who, in his 2004 book *The Paradox of Choice: Why More is Less*, found 175 varieties of salad dressing, 275 varieties of breakfast cereal and 360 types of shampoo, conditioner and mousse in his local supermarket. Coca-Cola started as a one brand company: it now has around 400. The Long Tail applies equally in cyber space as it does to shelf space.

In Australia, the low-fares airline Virgin Blue provided one of the best examples that **pricing is transferable**. During the year, it took the humble pub happy hour and put it on their website, selling $1 airfares to mystery destinations between 12:00 – 13:00hrs.

Reed Hastings is a man who understands both the transferability of pricing and the concept of The Long Tail.

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Getting stung $40 in overdue fees, he wondered why the DVD rental business didn't operate like health clubs, offering unlimited visits for a fixed price per month. Netflix has an inventory of around 25,000 titles, compared to 3,000 in a typical Blockbuster store. And while this David of a business still competes against Blockbuster, it did, during 2005, defeat a Goliath, in the form of Wal-Mart.

Unfortunately, **pricing disasters** are still occurring from time to time. The famous philosopher, Anon, once said that "Making mistakes isn't stupid. Ignoring them is." Fifteen percent of gas stations in the US learned the hard way during 2005: when gas prices hit $3 a gallon following Hurricane Katrina, they discovered that their bowsers [gas pumps] could neither display prices above $3 a gallon, nor could they charge more than $99.99 for the total purchase. Thirty years earlier the same problem had occurred: in the 1970s, when prices hit $1 a gallon, it was discovered bowsers could only display a maximum price of $0.99 a gallon.

But perhaps the best [sic] pricing disaster that caught my attention over the last year involved Argos (a UK catalogue & High Street retailer). Over the August Bank Holiday long weekend, Argos advertised a TV and DVD player for £0.49 instead of £350. The company website took 10,000 orders, thousands of which had money deducted from their bank account, an error that would have cost them almost £3.5mill if honored.

Like pricing disasters, price wars don't seem to go away either. **Price War of the Year** would have to go to the US automobile manufacturers, Ford, General Motors & Chrysler, who over the summer, offered anyone employee discounts. What do these companies do next? I suspect we haven't heard the last of this price war, as the business schools start writing their case studies on the topic.

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Merger & Acquisition (M&A) activity increased in most parts of the world during 2005, and **post-M&A pricing opportunities** became an increasingly important area of work for the pricing professional. Symantec, who recently merged with Veritas, admitted during the year that it would take at least a year before the company could really see any post-merger pricing synergies. One company predominantly uses single user and site user pricing models, and the other tends to use CPU-based pricing models. The motto of the story is that a pricing evaluation has to become an essential component of an M&A due diligence process.

And finally, for those of you who may indulge in an occasional game of Trivial Pursuit, a couple of useless bits of pricing trivia for you:

- Dell Computers can see a change in customer behavior literally within minutes of changing prices on their website, and;
- The ink for an HP color printer is, by volume, more expensive than Vintage 1985 Dom Perignon.

Is your organization a Long Tail company? Do you use average pricing, or the 80:20 rule excessively? Are there pricing models you can transfer from another industry or company to your own? Do you have a flexible pricing system, and quality and integrity control procedures around the distribution of your prices? Do you have a strategy to fight a price war if one broke out in your industry? Have you done your pricing due diligence on that company you're thinking of taking over? Resolve to seek answers to these questions in 2006. ❐