The PRICING ADVISOR
A Professional Pricing Society Publication
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TRANSFERABILITY IN PRICING

In the September issue of Pricing Advisor we reported that Employee Pricing was spreading from the auto industry to the on-line wine industry. This was a single example of Transferability in Pricing. This article challenges you to open up your mind to the possibility that pricing is transferable from one industry to another. As the author points out "there is no such thing as a pricing laboratory, only the real world".

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Figure 1

Many of the veterans in the pricing community will be aware that pricing is transferable: what works in one industry may work in another. If one is not quite sure if something is going to work, it is at least worth a try. After all, there is no such thing as a pricing laboratory, only the real world.

Take the humble "Happy Hour" for example, a practice that seems to be universally popular, even at my local pub, as Figure 1 left illustrates.

Virgin Blue, a low-cost airline in Australia, has transferred the 'happy hour' concept on to its website, as the advertisement in Figure 2 on the right shows.

But not only are pricing strategies, tactics or methodologies such as these transferable from one industry to another, from a product to a service and from the pub to the portal. Just as easily transferred are some of the tools we as pricers take for granted and use daily.

In the June edition of The Pricing Advisor (published by the Professional Pricing Society), we saw a fantastic example of this from Reuben Schwartz from Mimiran on how the pocket price waterfall can be extended to effectively incorporate the concept of customer value.

The concept of the pocket price waterfall can be extended to other areas of usage as well. Take the hypothetical example of a company planning to launch an entertainment guide in an inner-city residential area dominated by high rise apartments. Packed full of coupons, vouchers and

Figure 2
Source: The Age 22nd Jan 2005 p13

other offers each month, this publication is really going to appeal to a particular sub-set of the 200,000 residents living in the area.

What else does the publisher know about its target readership? It knows that of the 200,000 residents, 5,000 of them are infants under 3 years old and a further 7,000 residents can neither read nor speak English, the language the guide will be published in. These people can be eliminated from the target readership numbers. The company also knows that there are 15,000 3-16 year olds that are unlikely to read the guide, nor will the 25,000 elderly (65 years and over) residents in the area. It wants to

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target the publication at those residents in the area that have an income of $60,000 per adult and who dine out three times a week.

The pocket price waterfall is ideal for graphically presenting this market opportunity, as shown in Chart 1 to the right. Loosely based on the terminology of McDonald and Dunbar (from their book Market Segmentation) we can define the 200,000 residents as the Total Available Market. From this, we deduct the 5,000 infants and the 7,000 non English speakers and readers to arrive at the Potentially Available Market (PAM) of 188,000. From that, one can arrive at the Realistically Available Market (RAM) by deducting children between the ages of 3-16 yrs, old age pensioners (OAP) of 65 years and over, those who don't earn over $60,000 per annum and those who do not dine out three times a week.

Another challenge that pricers often face is the analysis of churn or customer attrition. Here again, the concept of the pocket price waterfall can be used. Consider the example of a mobile phone carrier who in 2002 had 17,558 subscribers in a particular market segment. The company decides to discontinue one of the call plans in this segment and hopefully migrate subscribers to a new plan.

"Another challenge that pricers often face is the analysis of churn or customer attrition."

Chart 1
Realistically Available Market for an Entertainment Guide

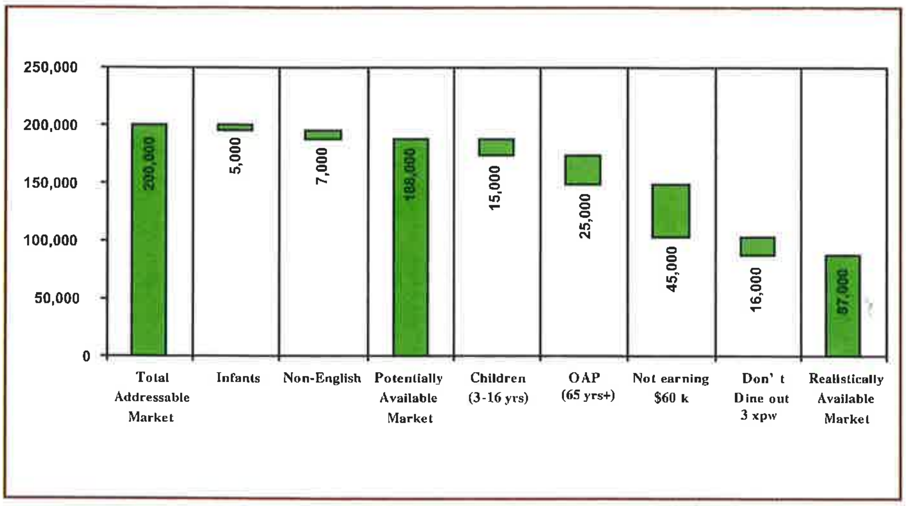
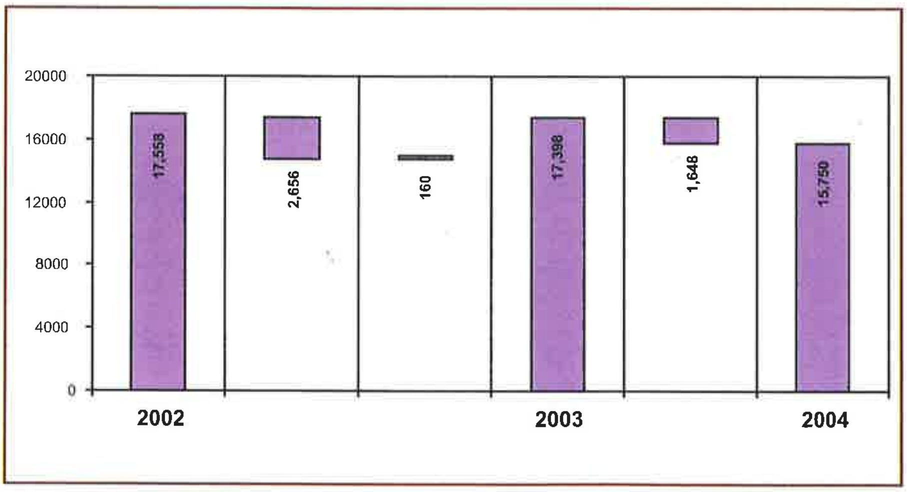


Chart 2
Customer Churn/Attrition Analysis



Included in the 17,558 subscribers are 2,656 who will be affected by the planned changes. The company is successful in migrating all but 160 of them to the new plan by 2003. Things don't go as well the following year, and of the 17,398 subscribers in the segment in 2003, 1,648 of those affected by the change in the year prior decide to churn the following year (for simplicity, this example ignores customer acquisition and other changes in these years).

But once again the pocket price waterfall, or in this case the 'customer churn waterfall', provides a great graphical representation of a second year migration and retention challenge that pricers everywhere face from day to day.

These adaptations of the pocket price waterfall, as well as Reuben's adaptation of it to a customer value waterfall, underline the versatility of the concept. There have of course been other innovative uses of the tools commonly found in a pricing toolbox.

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Thirty year ago this year, Peter Van Westendorp published his seminal paper Price Sensitivity Meter (PSM) – A New Approach to Study Consumer Perception of Price as part of his studies at the NSS in The Hague. The basic technique described in the paper, which built on early work by the likes of Gabor and Granger, involved asking four questions:

- ✔ At which price on this scale are you beginning to experience... (test product) as cheap?
- ✔ At which price on this scale are you beginning to experience... (test product) as expensive?
- ✔ At which price on this scale are you beginning to experience... (test product) as too expensive, so that you would never consider buying it yourself?
- ✔ At which price on this scale are you beginning to experience... (test product) as too cheap, so that you say at this price the quality cannot be good?

Based on plots of responses to these questions, two of which are inverted, Van Westendorp identified the points of marginal cheapness and expensiveness, the indifference price point and the optimal price point.

The transferability of this methodology was not lost on Kimes, Wirtz and Noone when in 2002 they adapted the methodology and applied it to expected meal durations in restaurants, in the context of restaurant revenue management. They named their adaptation of the technique TSM or the Time Sensitivity Meter.

As we've seen, not only is pricing itself transferable, but so too are the pricing tools that are taken for granted and used day in, day out. All it takes is an "Apple" –type mindset to "Think Different".❐

PPS would like to make a correction. In the September issue of the Pricing Advisor we failed to recognize the author of the article

"IT Pricing: Understanding Price Sensitivity".

Boro Radjevic, MBA was the author for The Harrison Pricing Strategy Group newsletter.
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