

Pricing Tactics

CHAPTER

14

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Introduction

In this chapter, the concept of pricing tactics is unpacked in the context of consumer marketing. Pricing is, at the most simplistic level, the amount of money charged for a product or service, but it is also the sum of all the values that consumers exchange for the benefits of having or using the product or service¹. This exchange of value is at the heart of commerce and underpins the global economy. At a fundamental level, however, price is a crucial lever in the marketing mix as it has a large influence on consumer choice.

Effective pricing is a combination of science and art. The science is understanding the impact changes in price can have on a company's profitability, while the art is choosing the right price point and tactics to maximise company profits. Price is an area of business strategy that has an immediate financial impact for any business. Determining the price of a product or service is a complex process. Thus, it is important to understand the different decisions you will need to make along the way, many of which are introduced in this chapter.

Although other elements affect consumer choice, price is the ultimate element facing a consumer when they decide whether to buy a product. Price is, therefore, the final barrier or incentive to purchase. With its huge influence over consumer choice, price and pricing strategy are vitally important to any business, and should be treated as such. Pricing is also the key element of the marketing mix that produces revenue, which means that prices and pricing strategy must remain flexible and ready to adapt to changes in the market if businesses want to maximise profit.

Pricing in South Africa

South Africa's consumer market is undeniably different to many other parts of the world due to South Africa being one of the most unequal countries with regards to the distribution of wealth. This means that pricing can vary hugely in South Africa, with one end of the spectrum meeting the demands of the country's elite and the other meeting the demands of the poorest of the poor.

A common example of this is the pricing of foodstuff. The cost of chicken in upmarket shops like Woolworths differs markedly from the chicken offcuts sold in townships on street corners or even in lower-cost stores like Shoprite. It is this vast divide in the South African consumer market that makes finding a clear target market and paying close attention to pricing strategies imperative to the success of any business.

In a developing country like South Africa, there are many factors that result in an environment of such diverse and unequal prices between different industries and areas. This poses challenges for marketers, who need to pay close attention to the value of the product they are selling, the price it sells for in South Africa compared to other parts of the world, how the product appeals to different socio-economic groups, and how to maximise both business revenue and customer satisfaction based on all of this.

The fundamentals of pricing strategy

Pricing strategy provides a long-term view of how your price point will impact your market share and profitability. Intentional strategy examines a customer's lifetime value (the total value that a customer has for the company over their life) versus value at a single point in time (the value of a single transaction). In addition, market share will be considered in relation to individual sales. For example, a mobile provider's pricing strategy may be to give you basic data at a low cost while charging a premium rate for additional data purchased on an ad hoc basis. The firm may also choose to give you a new cellphone and bundle that cost into the price of a contract to lock you into a relationship with them.

As a strategy, price can be optimised for short-term gain (by discounting products to achieve immediate revenue growth), or it can be carefully designed for long-term goals (by building brand reputation or avoiding a price war with your competition). As such, designing a price strategy is often far more complex than just testing prices to see what works. Most of the time, it is about finding a way to sell to price-sensitive customers who may represent your primary source of revenue, while still charging premium prices to customers who are willing to pay more.

There are three primary approaches businesses usually take to define the price of their products: cost-based pricing, value-based pricing and competitor-based pricing. Each of these is discussed below.

Cost-based pricing

Cost-based pricing combines the cost of all the components required in production, distribution, sales and support, along with a mark-up. This pricing model needs to consider volume shifts (i.e., cost changes with volume), as they can dramatically affect the actual cost of the final product. Often cost-based pricing relies on a basic mark-up without considering the consumer's perception or positioning (for example, $\text{cost} + 20\% = \text{price}$).

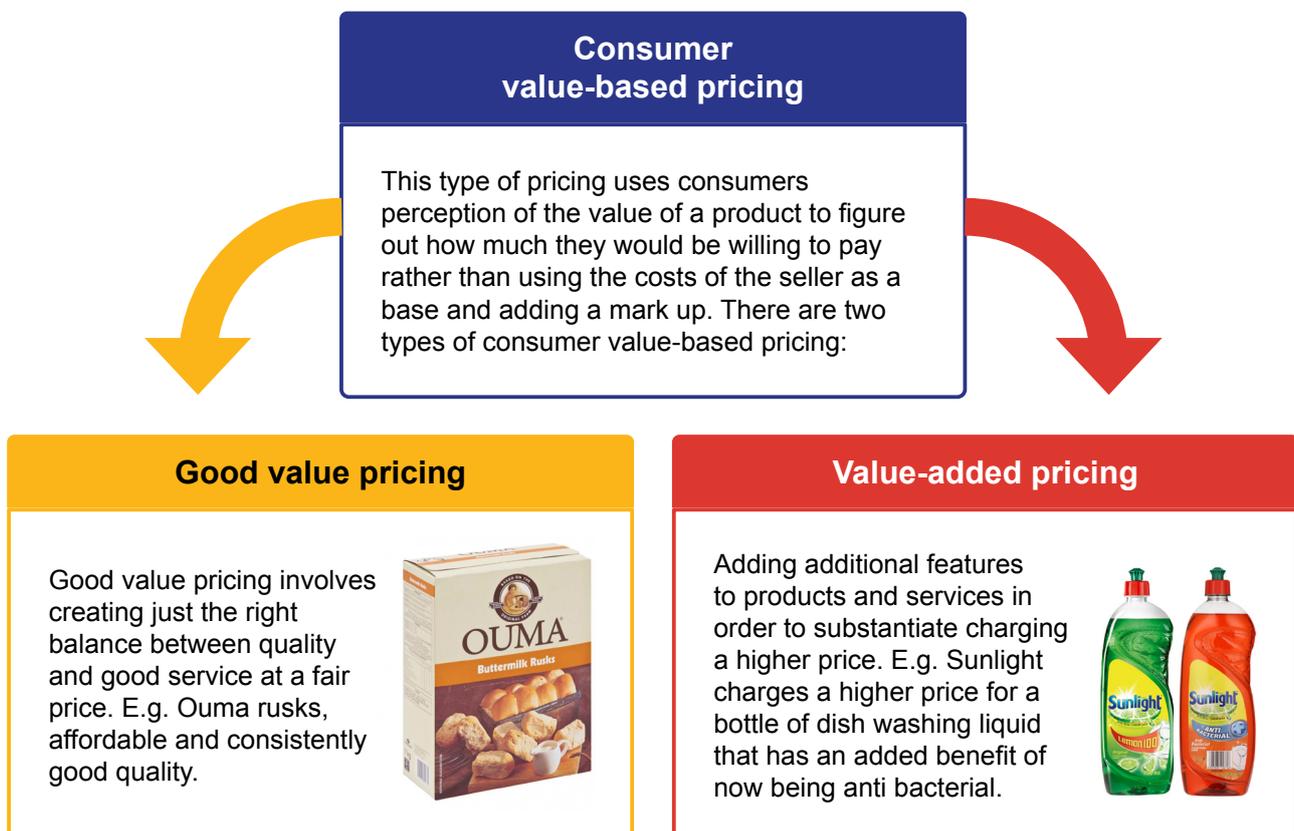
Competitor-based pricing

The price point in competitor-based marketing is set based on what existing competitors charge. This strategy is often used in undifferentiated product categories, or where gaps in pricing ranges are identified as potential segments (for example, there is soap on supermarket shelves at R5 and R15, so you price at R10). A danger in this form of pricing is that the corporate and marketing strategy can be hijacked by trying to align with what competitors are doing. While this is an important part of understanding consumer marketing strategy in the bigger context, it can lead to marketing myopia (see Chapter 1) as the focus moves onto the competitors and not the consumer. The importance of competitor-based pricing strategy becomes clear when you see a competitor discounting heavily (threatening your market share if you do not follow suit).

Value-based pricing

Value-based pricing examines the product from a customer (business or consumer) point of view. This pricing strategy tries to understand what customers feel is valuable and to align accordingly. This is an ideal pricing strategy for differentiated products or new markets. Value-based pricing can therefore be described as the process of setting your price based on the perceived value of your product and service in the minds of your customers, as opposed to factors such as your costs. Within value-based pricing, there are two possible sub-strategies. Good-value pricing tries to balance price and quality and value-added pricing justifies higher prices by adding more features (see Figure 14.1).

Figure 14.1: Value-based pricing



While value-based pricing is common, there are some misconceptions about the approach:

- **Value is based on features:** Value is based on what the benefit (or utility) is to the customer and not based on the features provided. This means that, even if you have ten unique features, if the benefit they provide is not significant to the consumer, it has, it has no value and thus no impact on price.
- **Value-based pricing is based on the product alone:** Pricing for a product that is similar to existing offerings in the market requires you to work within a comparable framework. If competitors price a similar product for the same segment at X, it is hard to re-price the product to double X using the same pricing variables without significantly changing the quality of the product.

While a broad strategy may be in place, short-term tactics are usually needed to adapt to different market conditions or stages in the product life cycle (see Chapter 13). The next section considers some generic pricing-strategy decisions.

Generic pricing tactics

Once the pricing model is in place, tactics often need to be used to implement the pricing on the ground (or in the shopping aisle). Pricing does not exist in a vacuum; there are competitors whose prices you need to work against or seasonality you need to allow for. Some of the more frequently used tactics include:

Product line pricing

Consumers interpret a sense of value and quality from product pricing. This means the same or a highly similar product can be priced across a continuum. This is known as choice architecture, by which the marketer creates a set of market prices that lead customers to purchase a specific option as 'best value'. In this way, manufacturers introduce higher priced options just to indicate that the product the consumer chose is the best value.

Optional product pricing

The pricing of optional or accessory products along with a main product. In this context, low prices are used to entice the consumer, but the product is often the base model and excludes extras that a consumer really wants or needs. It is also a way of breaking up the price into multiple components, thereby reducing the mental 'sticker price' consumers pay.

Captive product pricing

Setting a price for products that must be used along with an ancillary main product. In this situation, the base product is cheap, but hooks the customer who must pay more for the main product. A good example of this is a Nespresso machine, which is relatively cheap but requires expensive pods to operate.

By-product pricing

Setting a price for by-products to make the main product's price more competitive. If a by-product has no value and disposal is expensive, you have to take that into consideration in your pricing strategy.

Product bundle pricing

Selling products as a bundle (for example, McDonalds combo meals), thereby making it difficult for consumers to evaluate the price for any one component. This is also useful to solve a 'whole need', for example, a burger and a drink.

Discount pricing

A straight reduction in price on purchases made during a stated period of time. Many retailers also use discounted goods to increase store traffic and thus drive additional sales.

Segmented pricing

Selling a product at two or more prices, when the difference in price is not based on a difference in manufacturing cost but rather in targeting different markets.

Location pricing

Differentiated pricing based on the geographic location. This occurs in both physical retail and online stores. This may happen due to differing tax rates, shipping costs and other product cost influences or due to the differing affluence of locations. Razors and batteries have different prices in different locations.

Time-based pricing

Time based pricing differences are made for high demand and low demand periods, for example, train tickets during peak times are higher than at low demand times. They can also be used to expire products, such as airtime, when the longer period you buy the airtime for, the higher the price.

Psychological pricing

An approach that considers the psychology of prices, using price to say something about a product, such as high quality (for example, a Rolex watch) or value (half-price pizza).

Promotional pricing

Temporarily pricing products below the list price (and sometimes even below cost price) in order to stimulate sales. This kind of pricing does have problems. For example, price promotions are easy to get into and hard to get out of. Once the brand and its customers are addicted to the short-term high of a price cut, it is hard to wean them off the promotional price.

New product pricing

When introducing a new product to the market (or an existing product to a new market), marketers sometimes choose to adopt either market-skimming or penetration-based pricing approaches

- **Market (price) skimming:** Involves setting a high price for a new (or much anticipated) product to skim maximum revenues from those who can afford it or have the highest demand. This may occur when a product is launched and marketers often reduce the price over time. Fans of a particular brand or early adopters of new technology may be willing to pay a high price to be first to access the product. Price skimming is often used to recover research and development costs for a new technology that is brought to market. This is often done because the product does not have volume production in place or (as is often seen in technology start-ups), needs considerable customisation for the first customers.

The following conditions must be in place for market skimming to be successful:

- The quality of the product must support a higher price.
 - Costs cannot be so high as to counteract the benefit of higher prices.
 - Competitors should not be able to easily enter the market and charge lower prices.
- **Market (price) penetration:** Involves setting a lower price for a new product in order to attract a large number of customers and a large market share, resulting in more sales at a lower price.

The following conditions must be in place for market penetration to be successful:

- The market the business is selling in must be price-sensitive, so that a low price will lead to market growth and increased revenue.
- There must be economies of scale, meaning that costs must fall as sales increase.
- The low price must function as a barrier to entry in order to keep competition from entering the market.

While pricing involves numbers, it is a mistake for consumer marketers to think of pricing like an accountant. Great pricing strategy involves understanding the combination of business, marketing, consumer behaviour and psychology. In the next section, we explore price and perception.

Managing price perception

Most consumers are not aware of how much something costs to produce. Much of their decision-making is anchored in their perception of value and the cost/benefit equation in their own minds. Someone might, for example, find R24 expensive for a bag of rice while another person may see it as being cheap. This could be based on any number of variables, such as whether there are other brands of rice on the shelf (to compare against) or whether the person regularly purchases rice, how wealthy they are and whether they have been shopping around. As consumer marketers, understanding the power of perception can help in building a robust pricing strategy. This concept we explore further in this section.

The expectation of utility/value/happiness

At its core, price is an emotive experience rather than a logical one, with factors like affordability, desire and fear clouding how the purchase decision is made. Price decisions are often rationalised after the purchase as justification, especially with first-time purchases. You therefore cannot explore a pricing strategy without taking the behavioural psychology of the consumer into account.

In economics, *utility* refers to the benefits (satisfaction or happiness) that consumers get from a decision or purchase. Economists try to measure the utility of different alternatives, believing that humans want to maximise utility based on the belief that we can effectively compare the utility of different products and services. There are many ways a customer can look at utility or value that do not reflect the constraints of economics.

In fact, following the economic thinking model would be unusual for a customer. If you ask a consumer why they made a particular purchasing decision, it would be highly unlikely that they would say that it was to 'maximise their utility at that moment'.

Even though logical maximising of utility fits neat economic graphs, behavioural economists have questioned past assumptions that decisions are made in order to maximise utility. According to Herbert Simon, people tend to make decisions by 'satisficing' (a combination of sufficing and satisfying), rather than optimising². In this sense, most decisions are 'good enough' in the customer's context and various trade-offs that they are constantly making with other decisions. Satisficing individuals will choose options that meet their most basic decision-making criteria.

A key component of effective pricing is understanding that, in a consumer's mind, the price only exists as a perceived value (i.e., the amount they *think* they paid and the actual price of what something costs are not always aligned). This can be clearly seen in pricing strategies that rely on anchoring. For example, a low-cost airline will provide a ticket that has a low cost, but then increase it via additional fees at the booking stage or provide additional services that are important to the trip but not included in the anchor price. The consumer wants to believe they have paid less and is anchored on the ticket price versus the final price.

Value-based pricing sets the price based on the benefit or utility provided to the customer and not on the cost of producing the item or service. To do value-based pricing effectively, a marketer must:

- **Know what problem they are solving:** Understand the value of the problem you are solving or its utility to your customer and price accordingly.
- **Understand their customer's affordability segments:** Know who your customer is, how they buy and what the limits are of their budgets. If there is more than one customer segment, be able to identify those.
- **Understand the substitutes:** What does it cost the customer to currently solve this problem and how does your offering do it better (faster or safer, etc) to demand a higher price or lower price?

In the airline ticket example, there is great strategic power in understanding what price customers are willing to pay as core value and what their affordability constraint is (how much they have available to spend). You then need to understand the key factors surrounding the decision (time of flight, class of travel, and urgency). Inducements such as discounts or special offers can be provided to close a deal while value-adds (insurance, seat selection, etc) can be used to increase the ticket price.

Using behavioural economics in pricing

Behavioural economics is the study of how people make decisions. While traditional economics assumes that decisions are rational, behavioural economics shows through experimentation how the context and limitations of our brain influence our decision-making ability, leading to decision errors. As Daniel Kahneman put this, 'It seems that traditional economics and behavioural economics are describing two different species.'³

Our learning from behavioural economics clearly demonstrates how powerful the situation (inclusive of the environment) in which the purchase decision takes place can be⁴. A critical component of this situation is framing. In psychology, Lewin framed the basic formula that explains behaviour is the outcome of an interaction between an individual and a situation⁵. In marketing, we have traditionally neglected the situation and solely focused on the target customer, neglecting the fact that the situation provides the context for decision-making and therefore affects behaviour.

Framing is focused on how we contextualise our customers' buying experiences, not by changing our product, but rather by changing customers' perception of the options available to them. It is important to understand what can be achieved at a point of sale by controlling customers' choice options versus a long-term attitudinal or preference change. Point of sale is the location at which the purchase takes place. This could be online, via a retailer or via a salesperson or agent. The point of sale often provides the relevant context for the behaviour and can change the price perception in the customer's mind.

We can change customer perception of price by the pricing choices we show them. This is known as **choice architecture**. By showing three options and indicating the *best* or *most popular* option, our framing does two things:

1. It reduces the cognitive load (amount of thinking) of the customer trying to make the decision, that is, it gives them a clear idea of which option is best and reduces the chance that they will leave without acting.
2. It provides the opportunity to move them to a slightly higher price-point by limiting the choices that they have available.

In this last section, we focused on some of the many aspects of psychology and perception when it comes to pricing. Building on this, the next section looks at the impact that digital channels have on pricing, specifically personalised pricing.

The impact of digital channels on pricing

Marketers are excited about the affordances that digitally enabled products, services and channels provide to maximise revenue. Digital channels particularly allow the opportunity to find the right price for each customer. This panacea of pricing is known as *personalised pricing*. **Personalised pricing** is the offering of different prices and promotions at the individual level based on behaviour such as purchasing patterns or data about the consumer. In some instances, personalised pricing may have legal and compliance implications related to privacy rights and consumer protection regulations⁶.

In an ideal world, this would mean implementing personalised pricing, by which each customer is charged an individual price to maximise both profit and customer satisfaction. In reality, however, the time and effort needed to implement this strategy mean that it has not been feasible for the majority of goods and services. Furthermore, consumers, unsurprisingly, do not like the idea of personalised pricing and the OECD (Organisation for Economic Cooperation and Development) considers it potentially illegal due to possible abuse⁷.

The idea that somebody will charge you exactly what you are willing to pay versus a transparent and fair value is unappealing to consumers. This is why the potential of digital channels and how we approach our pricing strategy in a new paradigm must be carefully considered.

In the final section below, we look at some of the dynamics in pricing theory and what we can expect as more things change.

A fork in the road of pricing theory

Pre-digital pricing theory attempted to explain large market behaviour. Demand elasticity was touted as the answer to creating the perfect price, and, in the pre-digital world when it was developed, held some truth. Digital transformation has, however, superseded this theory and many pricing models built with it as a logical foundation.

How markets have shifted

Digital disruptors have one thing in common: they have priced in a way that destroys their information age competitors. Their pricing models do not necessarily deliver a lower cost to the customer, but they do reduce the perceived price. They have aligned the value of what they provide with the customer payment more effectively.

Spiderman's Uncle Ben famously said, 'With great power comes great responsibility.' This is true for modern product managers. Digital channels and product extensions allow marketers to increase the number of pricing variables. However, without a sound understanding of how our customers perceive value, this is a dangerous exercise.

How do you navigate this new reality in a digital era? What have the winners like Google, Slack, Salesforce and Uber done that has been so successful, and how do you develop a pricing strategy in a changing marketplace?

Media shifting from intangible to tangible

Google and Facebook's scalable business models are based on an auction versus a price list approach. For those not familiar with the pricing model, it works like this: advertisers bid for certain keywords (for example, car insurance) based on their value to the advertiser. The advertiser with the highest bid wins the top ad position and pays the second-highest bid price plus 1c. The second highest bidder pays their price and gets the second ad position, and so on.

Traditional media companies based their pricing on a cost per mille (CPM) ('mille' is a thousand in Latin), basically the number of individuals reached in their target audience. They would then have a slight variation of the CPM based on the specialist area it spoke to, for example, an ad in the motoring section of the newspaper has a different price to an ad in the lifestyle section. As many of the people who read the motoring section may not be in the market for a new car at that exact time, a car company placing an ad has to choose the value not based only on direct sales opportunities (people looking for a new car) but potential future sales.

Unlike traditional media pricing approaches, Google supports your pricing decision, in that:

- You only pay for a result, a click, that you can measure.
- The price is based on what the competitor is willing to bid; you can choose to pay more if you want, but you know what everyone else is paying, so the price must be right. The price is set by demand, not supply.

Table 14.1: Comparing old and new advertising pricing models

Old model	New model	Fundamental shift
Pay per thousand opportunities to view	Pay per click	Identifiable event that you are paying for
Fixed price	Auction	You pay not what the media owner charges, but what your competitors are saying that it is worth for your (search) keywords
Discount for loyalty and volume	Quality score increase for loyalty	The discount was provided to entice purchase. The quality score entices long-term commitment by providing an algorithmic 'discount' based on long-term spend.

Boom or bust for airlines

The airline industry is a prime example of hiding in plain sight. With so many price comparison options, you would think that prices are easier to understand and compare, but the opposite has happened.

Beyond getting rid of the travel agent channel and eliminating a part of the value chain, digital transformation has created a range of new pricing models for airlines to boost their revenues and attract more customers. Previously, pricing was based on an 'all baked in' model that simplified comparison: a seat was a seat, and they all came with the same built-in inclusions (such as luggage and meals). By moving to an *à la carte* pricing model, airlines can now attract customers with a low-cost ticket and claw back the margin through luggage, priority boarding, SMS reminders, insurance, snacks, seat selection, etc, many of the elements that were included as standard before as well as some new ones.

The taxi industry versus Uber and surge pricing

Ride-hailing services (Uber, Bolt, and Lyft) all provide a low cost and convenient transport service that is usually cheaper than taxis. However, their model includes surge pricing, which is based on demand and means that a trip to a concert that cost you R100 one way could cost you R300 on the way back when everyone is leaving. This level of price elasticity was not possible with traditional taxis that were regulated on price per kilometre and had no (legal) way to increase their fares when demand was highest.

Table 14.2: Comparing old and new airline pricing models

Old model	New model	Fundamental shift
One price that includes everything	<i>À la carte</i> pricing, disaggregating each component of the service	Moving away from a single price point entices travellers with a 'cheap' ticket and makes comparison on the overall price very difficult
	On-board services	Pricing for additional services on the flight, from catering to onboard Wi-Fi
	Price derivatives (hold prices, price auctions)	Allowing customers to secure pricing for a fee or auctions for upgrades to business class

Table 14.3: Comparing old and new taxi pricing models

Old model	New model	Fundamental shift
Fixed rate regulated by the government irrespective of demand. Supply-side constraint via taxi licensing.	Surge pricing to increase normal rate if there is high demand. Demand-side expansion via lower everyday costs.	Rate increase to match demand dynamically without impacting overall low-cost service perception.

Marketplaces

Marketplaces commonly charge a fee based on the value they deliver to the seller. The greater their market power, the more they charge. In physical markets, stallholders would pay a fixed fee to be at the market because you could not track sales made by stallholders. In a digital world, we can track sales easily. Apple and Amazon both have marketplaces as central components of their business models, leveraging their extensive customer base. In these instances, marketplace revenue comprises a share of the revenue the sellers make. This revenue share is fixed, so Amazon does not decide what each product should sell for, only how much it will earn from each sale.

In the Amazon Kindle books pricing model, the author chooses between two revenue share models and sets the price within the range provided by Amazon. By limiting choice, Amazon ensures uniformity in its marketplace and simplifies decisions for its customers.

Table 14.4: Comparing old and new marketplace pricing models

Old model	New model	Fundamental shift
Set a fixed fee for access to the marketplace not based on sale value.	Set a price for access to the marketplace based on a percentage of sale value.	<p>Incentivise buyers and sellers by reducing barriers to entry.</p> <p>Increase sales volumes by reducing consumer pricing through increased competition by sellers.</p> <p>Increases revenues by linking to actual sales generated by sellers.</p>

The rise of subscriptions

Subscriptions, such as Netflix or Spotify, are more desirable to companies than a once-off fee as they enable a higher price to be charged to consumers over a long period of time. This makes sense when considering consumer affordability. However, getting a customer to commit to a service for a long period of time is not easy. Many of the pricing tactics of subscription models are in inducing trial and first purchase.

The 'freemium' model, which provides a range of free services but with limited functionality, is one approach adopted by subscription services. Another is the 30-day free trial. Both approaches aim at getting customers over their initial perceived risk (new software/service: will it meet my needs and expectations?) or their inertia (I already have something that does this, it would be a pain to switch).

Table 14.5: Comparing old and new subscription pricing models

Old model	New model	Fundamental shift
Pay for the service before obtaining access.	Obtain access to a limited component of the service free of charge or for a limited time. Pay for more functionality or greater usability as you are more comfortable with the service.	The low marginal cost of providing the service allows companies to promote limited usage as a form of marketing.

Online gaming changes the rules

It may seem like the gaming industry has always been digital, but, much like commercial software and hardware industries, it was initially restricted to the physical retail realm. When computer games first came out, the marketing approach was highly skewed towards enthusiasts known as 'first release players' in a process known as **price skimming** (defined earlier). These players would buy the product at a once-off price as the game was released and pay a premium for it. As the games were physical cartridges or discs, the limited amount of oversupply would be sold over time through sales and by bundling the product with other less popular titles.

While console games still have a fixed-unit model and follow the same once-off purchase model as gaming did in the 1970s, digital distribution of games has changed the sales pattern. Non-subscription games still focus on first-release buyers as the cornerstone of their sales; however, the power of the long tail is increasing dramatically, as price discounts (usually timed with school holidays) are used to increase sales. With zero marginal cost per unit due to online distribution, the profitability of games increases over time and incentivises the production of sequels.

Online games have distinctly become the primary business model for the computer game industry. Early attempts to commercialise online gaming, like with *Neverwinter Nights*, charged an hourly fee (US\$6/hour) to play due to the associated telephone costs. As internet pricing changed, the model could transform. *Everquest*, a game launched by Sony in the late 1990s, created a new genre of games that had a low once-off purchase price and a monthly cost to play on their interactive worlds.

Steam, World of Warcraft and many others adopted these models, but eradicated the one-time purchase fee to increase the number of players. In-game currency, a key component of online worlds, was used to regulate access to valuable items inside the game, rewarding the players as they progressed and incentivising long-term playability. It did not take long for those 'in-game' items to be sold online via eBay for real money by enthusiasts.

In-game revenues have become increasingly important and drive much of the casual gaming plays seen on cellphones and provided via app stores. Here, players pay for items or additional lives using their app store payment gateways to master games. In China, Tencent (China's version of Facebook, which now owns many Western gaming companies) has leveraged this insight for many years, creating robust gaming revenues from micro-payments on its platform.

This insight sparked a new model used by League of Legends and Fortnite. With over 27 million daily players, League of Legends is generating growing revenues based on item/personalisation sales, as is Fortnite, which made an estimated US\$2.5 Billion (2018)⁸ from these purchases. The shift is moving from 'fee to play' to 'free to play, but fee for mastery'.

Table 14.6: Comparing old and new gaming price models

Old model	New model	Fundamental shift
<p>Pay for the physical game with decreasing price over time as the game gets older.</p> <p>Premium for new releases.</p>	<p>Premium fee for first access to the game with long-tail discounting and bundling of digital units.</p> <p>Monthly subscription to access platform or specific game.</p> <p>In-game purchases of items, lives and skills that change in value in the game.</p>	<p>The zero marginal cost of delivering the same game means that long tails can be lengthened (resulting in more units sold).</p> <p>The online, connected nature of the games increases the lifetime value of players.</p> <p>Players need to differentiate (through skins) or master a game (by gaining items or lives) creates a market for players.</p>

Algo-commerce boosts dynamic pricing

Dynamic pricing is the process of changing prices in real time in response to data. This is typically done by automation such as business rules, algorithms (hence algo-commerce or algo-pricing) or artificial intelligence. Human judgement may also be involved. While dynamic pricing has been practised by the airline industry for many years, ecommerce has advanced to the point at which players like Amazon are repricing their online inventory as much as 2.5 million times per day based on competitive data. This data-driven approach is known as *algo-commerce*. The aim is to keep your products competitive based on real-time data from the market, which allows you to change the price as needed. In theory, each person would have a unique price point when they accessed your site based on prior shopping behaviour, though the practice is in pricing buckets or steps that are set for consumers.

Algo-pricing is said to have achieved over 20% revenue growth for Amazon. The challenges of algo-commerce due to frequent price changes, however, mean that customers may pay a higher price for the same product from the same platform. Amazon has enabled a price matching guarantee that will allow customers to request a refund up to seven days after the purchase if the same product is sold for less on Amazon or a different platform.

Table 14.7: Comparing old and new price adjustment models

Old model	New model	Fundamental shift
Re-price products at regular intervals or seasonally.	Re-price products multiple times per day based on real-time market data and personalisation to optimise competitiveness.	The ability to collect data in real time and act on it due to the digital nature of sales platforms has enabled retailers to implement personalised price shifts and identify base performing prices more quickly.

Common types of dynamic pricing include:

- **Revenue management:** Setting prices at a fine-grained level based on data related to competition, demand and inventory levels. For example, airlines may set prices at the seat level and use a variety of sales channels and policies to optimise revenue using data such as demand forecasts.
- **Supply and demand:** Estimating supply and demand in real time to set prices. In some cases, this can be unpopular with customers or be prohibited by law. For example, raising prices during a natural disaster is typically considered to be 'price gouging'.
- **Sustainability:** Dynamic pricing may be used to manage cities to improve the quality of life or the environment. For example, tolls for emitting air pollution that go up when air quality drops.
- **Competition:** Adjusting prices in response to competition in real time. Common in highly competitive market places long before automation existed.
- **Inventory:** Adjusting prices in response to low or high inventory levels. Common in industries where inventory occurs at a point in time, such as an airline seat or a hotel room.
- **Price sensitivity:** Pricing set using algorithms that detect price sensitivities in real time. This requires careful attention to laws, regulations, business ethics, reputational issues and customer experience. Generally speaking, customers want pricing to be equitable, transparent and predictable.

Conclusion

In this chapter, we surveyed a combination of classic pricing theory and some fundamental shifts in the way that pricing tactics can be and are implemented. As you grow as a marketer, keep learning about pricing being more than just numbers. Learn about perception, consumer psychology, behavioural economics and all the innovations we are seeing in the various digital categories and channels.

At its core, pricing is more complex and prone to fluctuation than is possible to cover in one chapter, but it is a concept that is vital to understanding the modern-day marketing landscape.

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