

Ron Baker, Founder
VeraSage Institute



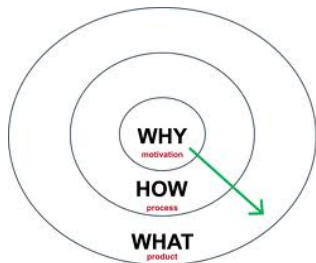
The First and Second Laws of Pricing

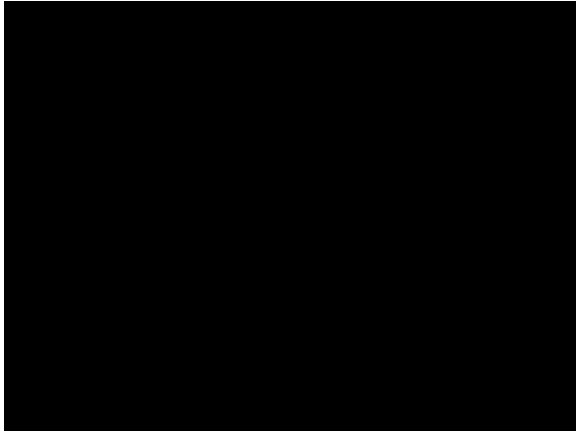
START WITH WHY

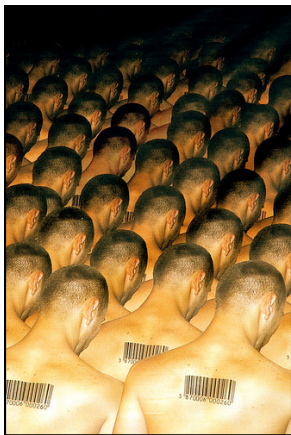
HOW GREAT LEADERS INSPIRE EVERYONE TO TAKE ACTION

SIMON SINEK THE GLOBAL BESTSELLER

Simon Sinek, *Start with Why*







What are you
really selling?

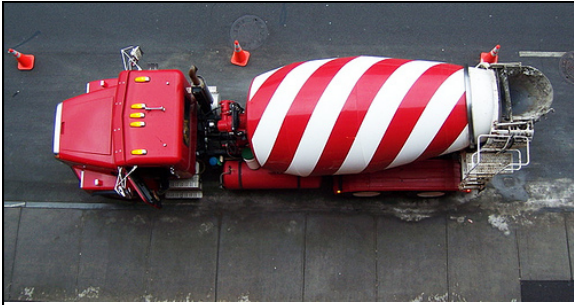
What are your
customers
really buying?



Not jet engines.

BUT

Flying time.



Not cement. **BUT** On-time delivery.

Charles Revson, Founder,
Revlon



“When it leaves the
factory, it’s *lipstick*. But
when it crosses the counter
in the department store,
it’s *hope*.”



The First Law of Marketing

All value is subjective



Peter Drucker



“The customer never buys a product. By definition the customer buys the satisfaction of a want. He buys value.”



What is the **cost** of a bottle of water?
What is the **value** of a bottle of water?

COST vs. VALUE



What is the **value** of a bottle of water?





What is the **value** of a bottle of water?





What is the **value** of a bottle of water?





Cost is objective and calculable
Value is subjective and contextual

Costing vs. Pricing

What it cost the seller to build	What the buyer is willing to pay
Objective	Subjective



Confusing Cause and Effect



Two schools of pricing

Cost-Led Pricing

Product → Cost → Price → Value → Customer



Customer → Value → Price → Cost → Product

Price-Led Costing



Chrysler 300



Chrysler 300C



Price to consumer → + \$10,000

Cost to Chrysler → Identical



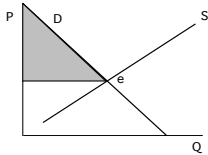
FedEx 1-Day

FedEx 3-Day

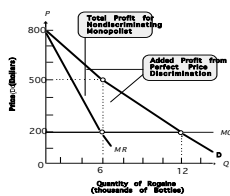


Price to customer	Higher	Lower
Cost to FedEx	Lower	Higher

Consumer Surplus



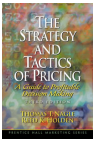
Rogaine



"The easier it is to quantify, the less it's worth."

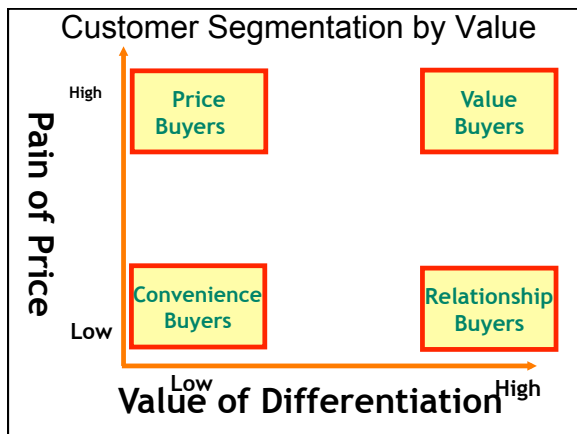


Seth Godin
Author



Tom Nagle and Reed Holden

"Managerial judgments of price sensitivity are necessarily imprecise while empirical estimates are precise numbers that management can use for profit projections and planning. However, precision doesn't necessarily mean accuracy. Accuracy is a virtue in formulating pricing strategy; precision is only a convenience. No estimation technique can capture the full richness of the factors that enter a purchase decision. In fact, measurements of price sensitivity are precise specifically because they exclude all the factors that are not conveniently measurable. Yet both measurements and judgment are complements, not substitutes."



4 Ways to Spend Money

	You	Someone else
Yours	Category I	Category II
Someone else's	Category III	Category IV

Relative vs. Absolute Price

	Expensive Date	Cheap Date
Couple w/o children	Dinner + Concert = \$150	Dinner + Movie = \$75
		2:1
Couple w/ children	\$150 + \$50 Babysitter	\$75 + \$50 Babysitter
		1.6:1

Van Westendorp's Model

- At what price would this customer think this is too expensive and not buy it?
- At what price would this customer think this is expensive, but most likely buy it?
- At what price would this customer think this is cheap, but still likely to buy it?
- At what price would this customer think this is too cheap and not buy it?

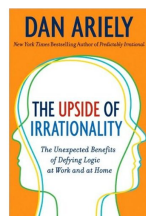
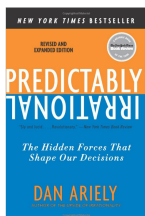


The Second Law of Marketing

**All prices
are
contextual**




Behavioral Economics





1 Yr Sub	Price	Mkt Share	
Web only	\$59	16%	42.8%
Print only	\$125	0%	
Print & Web	\$125	84%	

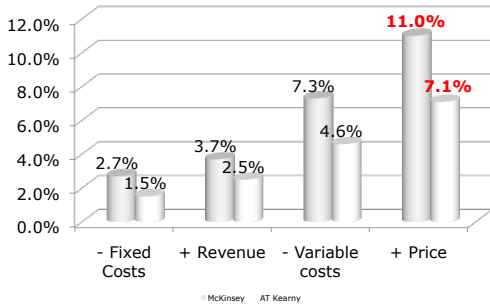
1 Yr Sub	Price	Mkt Share	
Web only	\$59	68%	
Print & Web	\$125	32%	



Warren Buffet

“The single most important decision in evaluating a business is pricing power. If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you’ve got a terrible business.”

A 1% increase change in...yields



Jim Stengel, former Global Marketing Officer, Procter & Gamble



“I hate it when someone says they’re in a commodity category. We don’t accept that there are any commodity categories. We are growing Charmin and Bounty very well and if there is any category that people could say is a commodity, it’s paper towels and tissues. We have developed tremendous equities, tremendous loyalties from our consumers. So, no, I think that is a cop-out. That is bad marketing and an excuse. We are not in any commodity categories.”

Richard Branson, Founder, Virgin

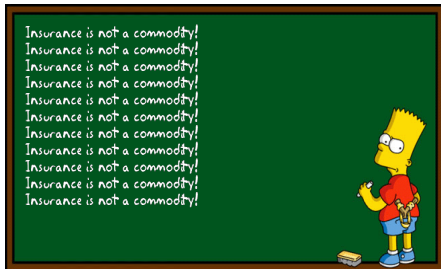


“Tell me ten things you never hear said about this industry?”

--Branson’s challenge before entering a new industry

What if Disney Sold Insurance?





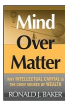
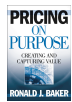
Thank You!



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