

# POWER PRICING

*How Managing Price Transforms the Bottom Line*

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## 1 Introduction

*Power Pricing* challenges conventional pricing approaches, demonstrating that price is the most powerful—yet most neglected—profit lever. While companies focus on cost reduction and volume growth, they often treat price as an afterthought. This book provides a systematic framework for becoming a "power pricer" who transforms bottom-line performance.

## 2 Core Thesis

**1%** price improvement = **12%** increase in net income

Price drives profit like no other factor. A 10% improvement in price yields a 100% profit improvement—far exceeding equivalent improvements in variable costs (60%), volume (40%), or fixed costs (30%). Companies must move from passive pricing to active price management based on customer value.

## 3 Key Frameworks

### Four Dimensions of Power Pricing:

- 1 **Viewpoint:** Treat price as a manageable profit driver
- 2 **Fact Files:** Accurate data on customer value, competitors, and costs
- 3 **Tools:** Price response curves, break-even analysis, simulations
- 4 **Determination:** Cross-functional teams with aligned incentives

**Estimation Methods:** Expert judgment, conjoint measurement, experiments, and historical analysis for understanding customer willingness to pay.

## 4 Pricing Strategies & Tools

<b>Price Customization:</b> Segment-based pricing	<b>Nonlinear Pricing:</b> Volume structures
<b>Product-Line:</b> Good-better-best tiers	<b>Bundling:</b> Strategic packaging
<b>International:</b> Cross-market management	<b>Time-Based:</b> Dynamic pricing

**Competitive Strategy:** Understand price tiers, build "industry IQ," and shape competitor reactions. Smart competitors focus on industry profitability, not just market share.

## 5 Bottom Line Transformation

- **Capture Customer Value:** Price based on perceived value, not cost-plus
- **Eliminate "Passed-Up Profit":** Serve price-sensitive segments without sacrificing margins
- **Stop "Money Left on Table":** Capture value through tiered offerings

## 6 Practical Applications

- **Glaxo's Zantac:** Priced above incumbent based on superior value
- **Deutsche Bahn's BahnCard:** Nonlinear pricing increased volume & profit
- **Progressive Insurance:** Superior cost data for profitable niche serving
- **Swatch:** \$40 price integrated with brand positioning

## 7 Final Takeaways

- Start pricing decisions in R&D—target pricing determines target costs
- Invest in understanding customer value at segment-specific level
- Resist cost-plus pricing; it ignores customer value
- Build organizational capability with proper authority and incentives
- Use "Pricing IQ Scorecard" to continuously improve pricing sophistication

**Key Insight:** Even small improvements in price realization yield outsized profit gains—power pricing is worth the investment.