

Customer Centric Pricing

One of the key focuses for pricers around the world and in all industries in 2015 is the importance of understanding the customer. In this article, the author explains why customer centric pricing is key for success in today's market, and gives several examples of companies who have significantly increased market share due to modifying their pricing strategies to meet changing customer demands. Kyle Thompson-Westra is a Senior Pricing Analyst at Wiglaf Pricing. He can be reached at kthompsonwestra@wiglafpricing.com.

The Professional Pricing Society held its 26th Annual Fall Conference in San Francisco at the end of October. One of the biggest takeaways that was repeated in multiple forms across all of the events was the importance of understanding the customer. **Customers will reward you with sales and loyalty if you give them a reason to care. Understanding customer needs is the critical first step to effective pricing.**

The need to understand customer preferences may seem obvious from a product standpoint, but it is just as important for pricing strategy. How many companies fail to regularly reevaluate whether the assumptions they first made still hold true after a month, a year, a decade?

eBay first rose to prominence providing a unique buying experience for millions of customers. Its auction format was not only a great way for buyers and sellers to arrive at a mutually agreeable price, but also a delightful new buying experience. Auctions were fun.

Now, however, only 20% of transactions on eBay include auctions, according to *The Economist*. Due to pressure from other E-commerce sites and its own customers, eBay began offering a fixed price option a decade ago, which now

amounts to over 60% of sales.

Intriguingly, otherwise similar items on the site tend to sell at a lower price via the auction format than the fixed price. Why should the manner of arriving at a price affect the final price of the product? It appears these days that the auction format, instead of delighting customers, incurs a "hassle cost": auctions cost customer time, require additional attention, and lack the certainty of a simple sale.

eBay was able to adjust to the changing E-commerce environment and stay relevant against strong competition from the likes of Amazon by paying attention to what its customers wanted. While its brand is still closely connected to auction sales, the majority of its business hasn't been for years. By being willing to adopt to this change, eBay remains a prominent online retailer.

We see similar transitions across the technology industry as once-dominant companies try to address the needs of a changing marketplace. Microsoft began to offer its flagship Office software suite as a subscription service back in 2013. This Office 365 represented a major shift away from buying a high priced one-off license to a lower priced periodic subscription. Customers had begun to find suitable alternatives to Office in the likes of cloud-based Google Docs, and it was incumbent upon Microsoft not only to expand its cloud integration but also reassess the method by which people paid for its product. This was critical to strengthen its presence with both consumers and the enterprise market.

Its strategy has been very successful for enterprise. As reported by the *International Business Times*, Microsoft's market share increased from 7.7% last year to 25.3% today. Google, in the same period, grew from 16.3% to 22.8%. Despite its strong lead, Google has fallen behind a company that many had dismissed from relevancy. Microsoft's pricing structure deserves much of the credit:

"Part of this growth can be explained by Microsoft's broader price structures, offering more tailored solutions compared to the competition. The Office 365 website offers seven different packages, with varying pricing structures that start at \$5 per user/month for an annual commitment to the Business Essentials package, all the way up to \$22 per user/month for the full Enterprise E4 package. Google, on the other hand, has two plans available. The base package will cost \$5 per user/month, or \$50 per user/year. The premium package will cost \$10 per user/month or \$120 per user/year, and adds unlimited storage with more than five users and advanced admin and audit controls."

Note that Microsoft has been able to enjoy this type of growth with substantially higher prices than Google's. Customers want value, not simply a low price.

It takes a clear strategic vision to undergo a shift such as those undertaken by eBay and Microsoft, but their innovative and adaptive pricing structures have led the way in ensuring their continued relevance in the marketplace.

But today clearly isn't the end of the story. Amazon and Google will continue to innovate and try to offer even better value propositions than eBay and Microsoft, respectively, to individuals and enterprise. Google is already reacting to the office suite news by incentivizing companies to make the switch from Microsoft, an unambiguous attempt to stop [Office 365's growth](#).

Companies must constantly reevaluate their product offerings and pricing strategy in order to provide the best value for their target customer segments. Without a strong understanding of these customers, as well as the effort to continuously reevaluate this understanding, companies will see their share slip away to better positioned competition. Pricing requires just as much strategy as product; the right product at the wrong price is no longer the right product.