



Research across multiple industries has shown that many companies do not effectively use pricing to capture the right market share for their products and services, especially at the time of new product launch. In this article, the authors explain how employing price anchoring, a pricing strategy in which a company charges a relatively high price for a limited duration when a product with substantial competitive advantage is launched, can help companies significantly improve margins with new market launches. Sudipto Banerjee is a Certified Pricing Professional (CPP) from the Professional Pricing Society (PPS) with more than 12 years of pricing strategy experience. He can be reached at Sudipto_Banerjee@bus.emory.edu. Vinay Srinivas has over seven years of pricing experience. He can be reached at Vinay_Srinivas@bus.emory.edu.

Price Anchoring for 'New to Market' Products

Research with organizations across numerous industries has shown that many organizations do not capture the right margin by setting the right price for their products and services at the right time. This is especially true at new product launch of innovative, new-to-market products and services. Many companies would like to fully understand the value of such a product in the market so that they do not have to anchor it near the closest proxy product available. In today's fast-paced and competitive environment, companies need a more strategic and dynamic approach to pricing new

products and services.

Why is this important?

Setting the right price at launch is very important for many reasons, including:

- Capturing willingness to pay a premium by early adopters
- Leveraging first mover or mass geographical availability advantage
- Setting an anchor point for new-to-market product by enhancing price index by geography vs. competing or upcoming products

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- Leveraging any existing strong brand equity in the market

How to achieve this?

The pricing strategy should be designed and clearly defined well before the new product launch. Some key activities successful companies are undertaking are:

- Identify potential consumer segments that would be early adopters for these products or services
- Understand pricing power by leveraging willingness to pay and price-benefits tradeoff in the target segments
- Align price strategy and value proposition for the target segments
- Show appreciation to early adopters through continuous and superior product support and customer experience

Following this approach, a company can improve price realization for the new product by leveraging sequential price anchoring. Price anchoring is a pricing strategy where a company charges a relatively high price for a limited duration when a product with substantial competitive advantage (for e.g. an innovative, new-to-market product) is launched. The objective with price anchoring is to “skim” off consumer segments’ willing to pay a premium to experience the product sooner. Once the sales volume begins to decline at the initial launch price, prices are usually lowered sequentially to improve sales (i.e. sequential anchoring) and create a less

attractive price point for new entrants. This gradual and sequential anchoring is continued until either a stable price with an acceptable margin is realized or competitive products are launched in the market. A key benefit of this approach is that additional margins realized could potentially be utilized to create “brand differentiation” and achieve competitive advantages ahead of competitor product launch.

When a competing product is launched in the market, three pricing scenarios can arise based on the competitive price point:

1. Competitor launches the product at a lower price: This is the most likely scenario; based on perceived value of this new product in the market and the price differential, the company can sequentially reduce price points to align with the competition and the market.

2. Competitor launches the product at a comparable price: This is a favorable scenario where the company has been able to establish itself as a first mover and price leader. The company can focus on non-price attributes of the product to articulate differentiation and value.

3. Competitor launches the product at a higher price: This might signal a missed opportunity for the company – where it could have potentially charged a higher price point at launch. Based on perceived value & differentiation of this new product in the market and the price differential, the company can look to improve its price realization by increasing

price points to match with the competition and the market.

What this means to the company?

Employing a well designed strategy for pricing new-to-market products, a company can gain significant advantages and reap benefits associated with higher margins and establishing strong foothold in the market. The company can look to:

- Improve price realization on the category of products (i.e. the new-to-market products and services)
- Define and deliver right value proposition to consumers
- Leverage skimmed dollars to create competitive advantage

The company should take into account certain key considerations on price moves while employing sequential price anchoring

Set right price along the anchoring curve: Anticipating competitive product launches (i.e. timeline and price points) can help identify the inflection points in the price curve and the levels for price moves.

- Create barriers to entry / launch for new competitors / products: Presence of a high price might attract competitors into the market. Timely adjustments to the price point would distract new entrants / product launches since it limits revenue potential for the product).
- Create broader appeal and capture larger market: Sequential price moves can attract new consumer segments to adopt the product, thereby expanding the market.

Case in point

Apple’s iPhone pricing is a classic example of price anchoring. When it was launched in June 2007 (with AT&T), the 8GB iPhone was priced at \$599*. Subsequently, Apple dropped the price down to \$399* (just 68 days after the launch!). Since then, iPhone 3G was launched in July 2008 at a price tag of \$199* (8GB

Figure 1: Technology Adoption Lifestyle

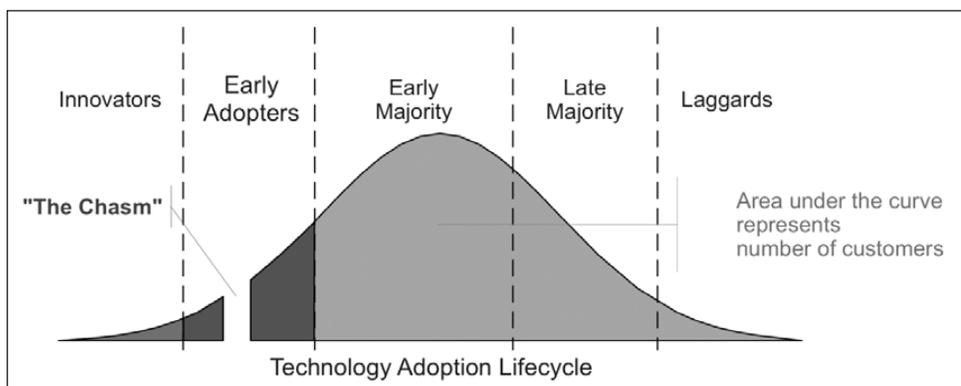
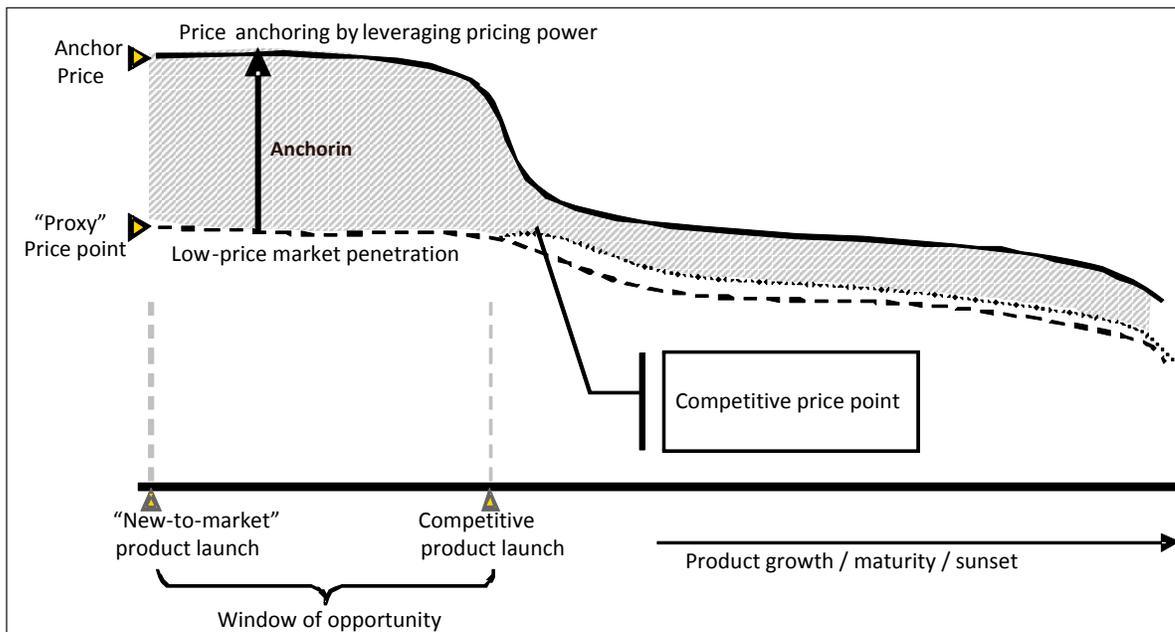


Figure 2: Illustration of Price Anchoring at Launch for New-to-Market Products



critical to product launch of innovative, new-to-market products and services. Companies only get one chance to anchor the price appropriately. Setting the right anchor price provides flexibility for subsequent price moves (i.e. sequential anchoring). Such a strategic and dynamic approach to pricing can help retain and improve competitive advantage in the market. Additional margins realized through this approach could

model). Currently, the model sells at \$99*.

What the company should be aware of?

Like any pricing strategy, there are some risks the company should be aware of when considering a price anchoring approach:

- **Defining the anchor price:** Setting this too high might deter even early adopters and negatively impact brand value. To mitigate this, the company should have a detailed understanding of the willingness-to-pay in the target segments and also potential competitive price down the road.
- **Value (i.e. levels) of sequential price reduction:** Drastic price cuts from the initial high price can leave a bad taste in the mouth for early adopters, jeopardizing future product releases. The company should have a well thought out step curve for sequential anchoring, thereby avoiding drastic price cuts. This helps balance barriers to entry / launch and price points to achieve better customer experience.
- **Time to sequential price reduction:** Price cuts that are too soon from the initial high launch price can also dis-

please early adopters (i.e. feeling ripped off), jeopardizing future product releases. The company should have a well thought out approach and timeline for sequential price reductions that take into account any competitive product launches.

- **Impact of staggered product launch across markets:** If the launch windows across the world / regions are not aligned well, then achieving price anchoring can present challenges, e.g. it might be time to reduce price in one market while the product is being launched in another. In such a scenario, commanding the high initial price in the yet-to-be-launched market can be challenging. The company needs to align the launch sequence in such a way as to be able to achieve its price anchoring strategies.

In conclusion, setting the right anchor price at launch and driving sequential price moves are

potentially be utilized to create “brand differentiation” and achieve competitive advantages. **Companies should continuously look for data and analysis that can provide better insights into the setting the initial anchor price and identifying when price moves should occur.**

Endnotes:

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* Prices based on qualifying AT&T service contract

Figure 3: Illustration of Sequential Price Anchoring for Apple iPhone Since Its Launch

