Pricing Disruption: Why it Matters

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by Stephan Liozu and Katie Richardson

Disruptive pricing and pricing disruption are not for everyone. It can be quite destructive when not considered holistically and prepared well. It cannot be done in a vacuum and needs to be aligned with marketing and business strategies. However, when done well, it can create significant results and long-term competitive advantage, as the authors explain. Stephan Liozu (www.stephanliozu.com) is the Chief Value Officer at the Thales Group (www.thalesgroup.com/en). He is also an Adjunct Professor & Research Fellow at Weather head School of Management at Case Western Reserve University. He recently published a book called Monetizing Data*. He can be reached at sliozu@gmail.com. Katie Richardson is a strategist and business model designer (Strategyzer, The Shared Clarity System, Signals Canvas, Value Canvas). She focuses on business models, value propositions, and value-based pricing of technology solutions. She can be reached at www.linkedin.com/in/katie-richardson-890b149.*

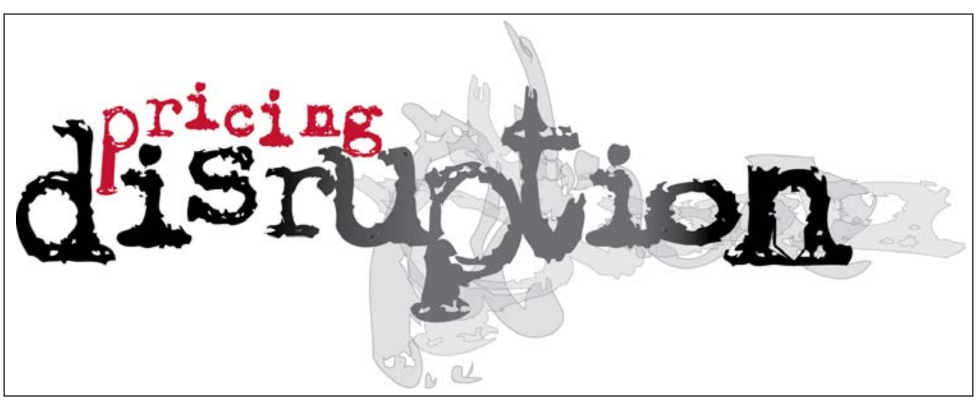
In an age of technological explosion and business transformation, disruption is all around us. New, exciting business models and amazing innovations are presented to us on a weekly basis. In the past few years, the concept of disruption has been frequently used in the fields of marketing, innovation, and technology. Disruption is defined as an interruption or a disturbance affecting a process, a routine, or an approach. Disruption can be intentional (self-disruption or the results of external forces challenging an organization at the core). It is well understood that disruption can be both a value creation and a value destruction force. For that reason, disruption is not for everyone and for everything. There are functions and areas for which stability, predictability, and consistency are essential. Whether intentional or forced, business model, strategic, or technological disruption must be managed with care. It is potentially a high-risk business.

That brings us to the heart of this article: Can the concepts of disruption be used in the fields of value and pricing management? Does pricing disruption make sense or is it too risky? And if it does make sense, how can pricing teams think more disruptively about their strategies and tactics?

We propose that the answer to these questions is "yes, but…". Again, pricing disruption is not for everyone and for everything. The first thing to consider is to have the right pricing maturity, culture, and mindset in place. If your organization just got started with pricing, it is going to be hard to adopt pricing disruption without potentially dire consequences. You and your organization might not be ready for that. There is a need to have a strong pricing process discipline in place. Here we refer to a professional pricing team working with marketers and innovators and to have your value and pricing management process well under control. Discipline, control, and maturity might offer opportunities for more disruptive thinking or at least to understand the true implications of such thinking.

There are many ways pricing disruption or disruptive pricing can be used to gain competitive advantage. We list potential such situations below, but keep in mind that the list is not exhaustive. We encourage business and pricing professionals to consider this list as a discussion trigger and to find other ways to be disruptive in pricing.

1) Being less predictable in our pricing actions and tactics: One of the downsides of having a good process orientation and a pricing process under control is that we become very predictable in the market place. If you study competitors and their pricing strategies, chances are they do the same. They might know exactly when you are going to raise your prices, when you will announce your new price list, when

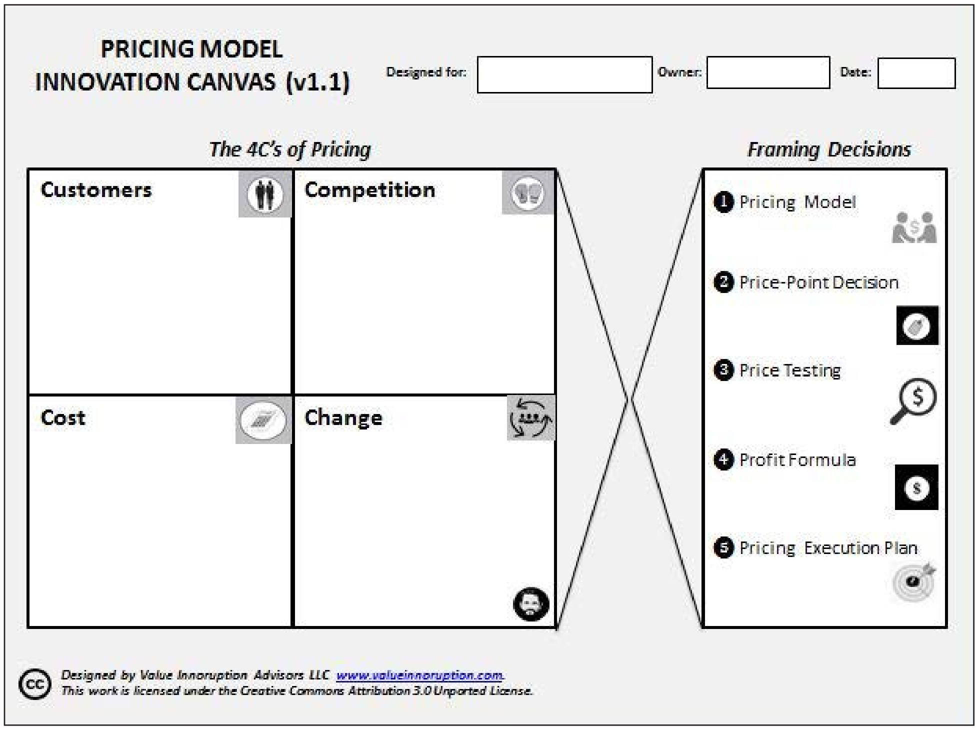


you schedule your special promotions, and what your reaction will be to competitive bids. One area of pricing disruption is to break these pricing routines and patterns, and to keep your competitors on their toes. Of course, we still want to give enough notice to customers and continue to be transparent. Practically though, it means making some changes in your pricing planning so that you can take competitors by surprise without impacting your customers' business. Potential examples here can be timing your price increases at different times, introducing new products or special promotions when no one expects them, or simply introducing new pricing conditions "out of the blue."

2) Moving against the status quo and not jumping on the band-wagon: Similarly, organizations tend to look at trends, patterns, and fads related to strategies, business models, and new methods. We all know that top executives read top practitioner journals like *Harvard Business Review* and *MIT Sloan Management Review* for example, and that we tend to adopt some of these new management concepts because others have too. We benchmark others and follow the fad by doing the same. This copy and paste approach is also frequently used in pricing when organizations take a following position to price leaders and mimic their initiatives. We propose here that it essential to study trends and patterns but to also design unique strategies and adaptations to reach a better outcome. It might mean not raising prices when everybody does. It might also mean not deploying an enterprise-level pricing solution when SaaS solutions can be nimble and more adapted or least doing so when you are ready and not because your industry peers have done so.

3) Introducing innovative pricing models: Over the past decade, new pricing models have been introduced to the B2C and B2B worlds. They include freemium, pay-as-you-go, pay-what-you want, reverse auctions, outcome-based pricing, etc. These new pricing models were designed and introduced by some of the most innovative organizations. In the future, we expect new and disruptive pricing models to emerge in support of new and disruptive marketing and digital value propositions. Nothing stops you from being a disruptor in this area. Pricing model innovation might also new financing terms, new commercial conditions, new payment options, as well as new pricing processes to create a new pricing model. The newly developed Pricing Model Innovation Canvas (see Figure 1) is an example of a process innovation.

Figure 1



4) Pushing pricing leadership to the limit: Every industry needs a price leader. This is the organization that leads the way with pricing innovations, that acts first with price increases, potentially creates new categories, sponsors emerging pricing scholars, and acts as a pioneer in the adoption of pricing technology. Leadership in this area means managing uncertainty, conducting deep pricing research to test disruptive hypotheses, and not being scared to launch. In our opinion, the recent introduction by Apple of the latest iPhone is a good example of positive and disruptive price leadership. By introducing the most expensive iPhone ever (over $1,400), Apple is pushing price leadership to the limit. They are demonstrating that powerful value propositions and robust versioning strategies can lead to higher pricing. Apple's competitors have not been able to follow Apple's luxury pricing strategy or have failed at doing so. Another example of disruptive pricing leadership is when a company takes the unexpected leadership in taking the first steps to move out of the commodity spiral. When competitors fight on volume and price, someone must take the high road and be the first one to change course.

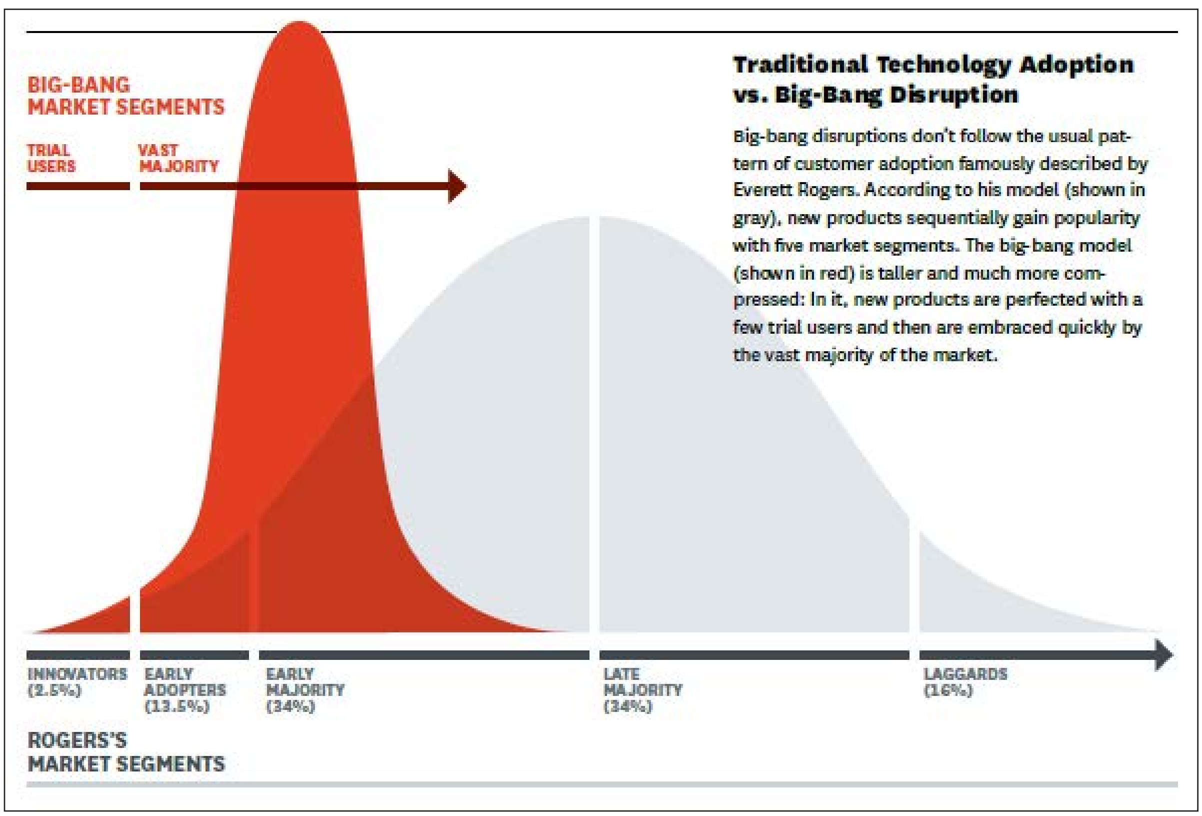
5) Scanning outside of your industry for innovations: We all know that some of the best ideas are created in far-away industries and sectors. Pricing disruptors in one sector focus on scanning other industries to identify innovations in pricing that might be adapted and integrated in their pricing strategies. With the right mindset, these boundary spanners bring the outside in. Scanning and boundary-spanning are not typical competencies pricing professionals have or develop. A disruptive approach to pricing might be to include these into the learning agenda of your pricing and value teams. There are numerous published papers and books focusing on these topics in the field of marketing and innovation. Every pricing organization should have a person with a curious mind who can spend time conducting such activities. Practical examples include attending unusual trade shows, setting up Google alerts on specific terms, following the trend setters in specific industries, and networking in new pricing circles outside of an industry. Gathering data nuggets is a first good step. That is just the beginning though. Innovators and disruptors must excel at connecting, associating, and visioning. Not your typical pricing professional!

6) Capturing large market share with disruptive pricing: We have written before about disruptive pricing approaches, especially around fast-paced technology. Big bang disruption refers to "a new kind of innovator that can wipe out incumbents in a flash." The big bang disruption concept challenges the traditional disruptive innovation process in a way that breaks conventional wisdom and the science of innovation management. The main goal of big bang disruptions is to enter the market super-fast and to wipe out an existing solution whether it is a new or mature one. The introduction process of such radical innovation does not follow the Roger's traditional diffusion of innovation model as shown in the figure below. Big bang disruptors come from outside the industry and are hard to stop. They proliferate very fast because they have a simple marketing and pricing offering which is easy to understand by users and simple to adopt. Most of the time they are also priced very aggressively to generate an adoption tsunami which is so powerful that competitors are totally disoriented. Big bang disruptive innovations are game changers for an industry because of their newness, simplicity and affordability. No need to search a lot for them, to read a lot about them, or to spend a fortune to be an early adopter. Their success comes from a combination of smart marketing, robust technology and simple pricing models. They also know how to reinvent themselves and keep pivoting and disrupting their business models (Amazon and Netflix are good examples). See Figure 2.

7) Creating the future pricing science: In 2012, Home Depot acquired Black Locus to accelerate the development of their internal retail pricing software. This was a disruptive move for a traditional black-and-mortar building material distributor. Of course, not everyone can make that type of investment. But some of the most progressive and sophisticated pricing organizations are developing their own advanced pricing solutions. By hiring analytics teams and by custom-designing their own solutions, they are helping with the progression of the whole discipline. Today, technology offers the potential for greater differentiation. But in a few years, most large organizations will be using an ERP system, a CRM solution, a business intelligence tool, and potentially some pricing system. Pricing disruptors are already developing the next generation of artificial intelligence-based pricing that can beat all existing pricing systems. In a few years, dynamic pricing will reach the B2B world more widely and will become a standard. Then, what is next? Pricing science also includes the development of unique ways to organize for pricing. Some of the best-in-class disruptors disrupt unique organizational designs that match their business requirements.

8) Focus on new dimensions of pricing: It is commonly accepted that pricing as a discipline has made significant headway over the past 10 years. We have been seeing more adoption across the board, the emergence of new technology, and more scholars starting pricing research projects. This is good news. There is, however, a tendency to focus on the same dimensions of pricing such as technology, analytics, optimization, retail operations, and quantitative modeling. There is less focus, especially in the B2B world, on new topics such as pricing experience, pricing satisfaction, system-based pricing, pricing of intangibles, etc. There is a lack of fundamental research and foundational concepts in these areas. At the same time, pricing professionals need to embrace innovations and diversify their learning agenda. It is too common for them to take the easy route and register for online-courses or workshops with familiar topics (core pricing skills, quantitative pricing for example). Only a few of them would challenge themselves and self-disrupt by at-

Figure 2



Source: Harvard Business Review, March 2013

tending courses on adjacent topics (emotional intelligence or change management for example).

Disruptive pricing and pricing disruption are not for everyone. They can be quite destructive when not considered holistically and prepared well. It cannot be done in a vacuum and needs to be aligned with marketing and business strategies. However, when done well, it can create significant results and long-term competitive advantages. Embracing disruption means cross-functional preparation and collaboration. It requires detailed risk management and contingency planning. It also assumes that pricing leaders are intimately involved in business models and marketing planning.

Our intention was to focus on 8 potential applications of disruption in pricing. We like to focus on the positive side of disruption in pricing and to remind the profession that there is need for it if we want to progress and reach higher ground. We like to focus on the UP of "disruption". The digital explosion we are all experiencing today is going to create tremendous opportunities both in the B2C and the B2B worlds. As disruptive marketing and digital opportunities are conceptualized and implemented, there is a need to be creative and disruptive in pricing as well. Business and pricing as usual are not going to cut it. We are calling on more intentional and controlled pricing disruption.

Self-disrupt or be disrupted! ❖