PROFESSIONAL PRICING SOCIETY

The PRICING ADVISOR

The Pricing Advisor™ is published monthly by the Professional Pricing Society
3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com
Kevin Mitchell, Publisher

A Professional Pricing Society Publication

April 2015

This article outlines results from a recent survey of executives, a majority of which reported substantial changes in their competitive environment and recognize that the structural shifts in the global marketplace are rendering many traditional approaches to pricing obsolete. "Building a Leading Pricing Capability" was first published in the Perspectives series by Monitor Group in 2009. Author, John Hogan, was a former partner of Monitor Group and co-author of the fourth edition of The Strategy and Tactics of Pricing *with Tom Nagle. He will be a keynote speaker at the 26th Annual PPS Conference in Dallas (May 5-8). Copyright© 2014 Deloitte Development LLC. All rights reserved. For more information about this article or the study, contact Lisa Thompson, Principal Deloitte Consulting LLP, at lisathompson@deloitte.com.*

Building a Leading Pricing Capability: Where Does Your Company Stack Up?

Pricing: Rising to the Top of the Corporate Agenda

The game is changing. This is the conclusion reached by hundreds of executives participating in Monitor's Pricing Capability Benchmarking study when asked to reflect on the pricing challenges they face. From financial services to manufacturing to consumer goods, surveyed executives report that growing profits in today's competitive markets has become an ever more difficult task.

For many, the challenge stems from globalization of markets that has unleashed new competitors with lower costs and innovative business models. For others, the change stems from the increased knowledge and sophistication of customers that have become experienced at extracting price concessions.

Of those surveyed, a majority of executives reported substantial changes in their competitive environment. The more astute managers also recognize that the structural shifts in the global marketplace are rendering many traditional approaches to pricing obsolete. They are beginning to ask critical questions about the role of pricing in their overall business strategy:

1. How can I transform pricing into a strategic growth lever?

2. How do I enable my organization to make consistently sound pricing choices to increase long-term profits?

3. What is the ROI of building a more robust pricing capability?

To help address these questions, in 2009, Monitor conducted a benchmarking

CONTINUED ON NEXT PAGE ➔

In This Issue:

Have a pricing article, case study or story to share? Send articles to editor@pricingsociety.com.

PPS Happenings

Serving the Pricing Community Since 1984

Upcoming Events

26th Annual North American Spring Workshops & Conference – Hilton Anatole Hotel – Dallas, Texas / May 5 - May 8, 2015

- 12 Workshop Choices on May 5 and May 6
- 24 Keynotes and Breakout Sessions on May 7 and May 8

2nd Annual Latin America Workshops & Conference – Sheraton WTC Hotel – São Paulo, Brazil / 16-17 September 2015

For the most up-to-date information about PPS events and programs, please visit our website at www.pricingsociety.com frequently.

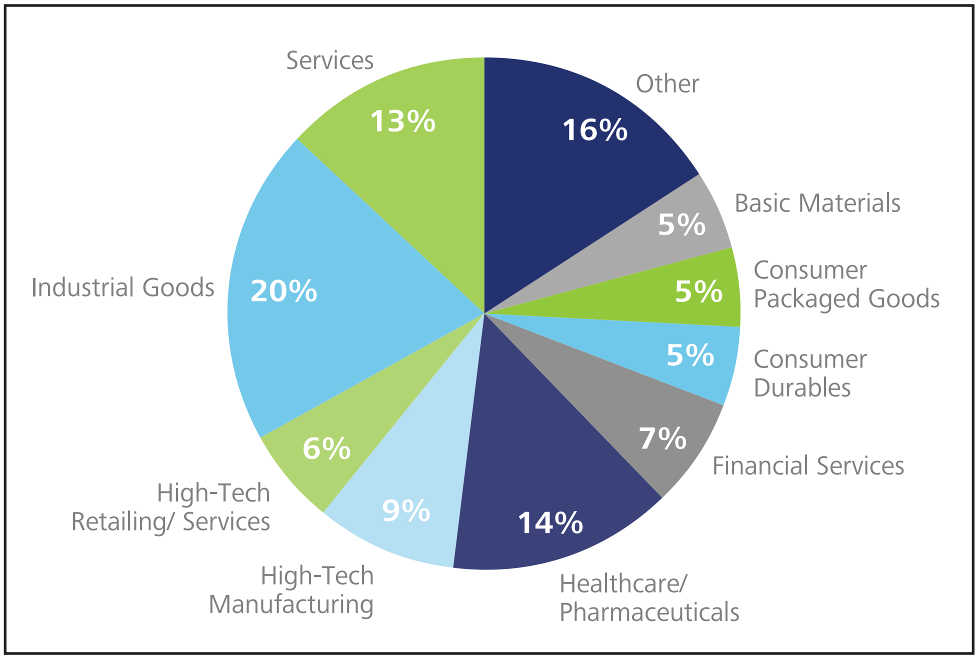
The PRICING ADVISOR
A Professional Pricing Society Publication
3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

study of more than 200 companies. The study sought to measure the impact of pricing strategy and pricing execution on profitability and revenue growth.

The results provide compelling evidence that the ability to manage pricing strategically can be a source of competitive advantage that drives strong financial performance.

The senior executives who participated in the survey came from a broad spectrum of industries including healthcare, financial services, consumer products, manufacturing, retailing, high tech and services. They responded to a detailed survey assessing the nature of their pricing strategies, market structure, organizational performance (profits and revenue growth), pricing capabilities, incentives and more. Follow up interviews were then conducted to provide additional insight.

Figure 1: Participant Profile



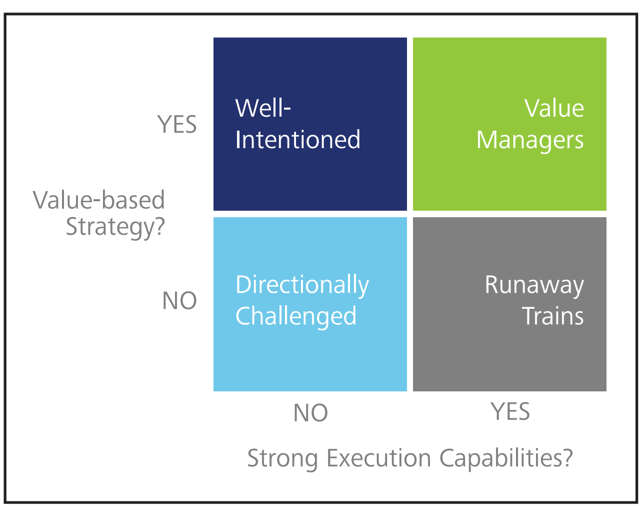
The participants revealed that having a pricing strategy is important, but not all pricing strategies are created equal. Leading edge companies focused their pricing strategy on maximizing their ability to create customer value and capturing that value through commercial excellence. As described below, the results provide a call to action for organizations that have yet to discover the benefits of strategic pricing.

The ROI of Strategic Pricing

The study involved several analyses to estimate the impact of pricing strategies and execution capabilities on business performance. The first analysis sought answers to two questions: 1) which pricing strategies are most highly correlated with operating profit and 2) what is the bigger driver of profitability: good strategy or effective execution?

Pricing strategy is a complex construct and, as a result, can be difficult to measure. To reduce the likelihood of obscuring the results with an overly complex measure of strategy, we focused, instead, on the important drivers of pricing decisions such as customer value, costs, market share or quarterly revenue targets. Pricing execution capabilities were measured based on the quality of each organization's pricing processes, decision tools, data and the skills of pricing decision makers.

Figure 2: Archetypal Pricing Organizations



Our operating hypothesis was that value-driven pricing is likely to be more effective than either cost or revenue driven strategies. To test that hypothesis, we broke the respondents into four categories based on the degree to which their strategies are value-based and the strength of their execution capabilities. This categorization led to the four organizational pricing archetypes shown in Figure 2.

Company performance was assessed by measuring operating profits relative to other firms within the industry. Thus, manufacturing firms were compared to other manufacturing firms, consumer durables were compared to other consumer durables, etc. in order to reduce the likelihood that the results were driven by industry specific effects.

The operating hypotheses that a value-based pricing strategy and strong execution capabilities could be positively correlated with profitability were supported as shown in Figure 3.

The firms with the lowest operating profit were those pursuing non-value based strategies (e.g., cost or market share-driven, etc.) while at the same time exhibiting strong execution capabilities. We describe these firms as Runaway Trains because of the obvious analogy to a train barreling down the tracks in the wrong direction—the passengers may not get

CONTINUED ON NEXT PAGE →

3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

where they want to go, but they get there quickly. Interestingly, firms with non-value based strategies and weak execution capabilities earned slightly higher operating profits than the runway trains. Although these Directionally Challenged firms lack an effective strategy, their weak execution capability limits the ability to make consistently misguided choices that undercut profits.

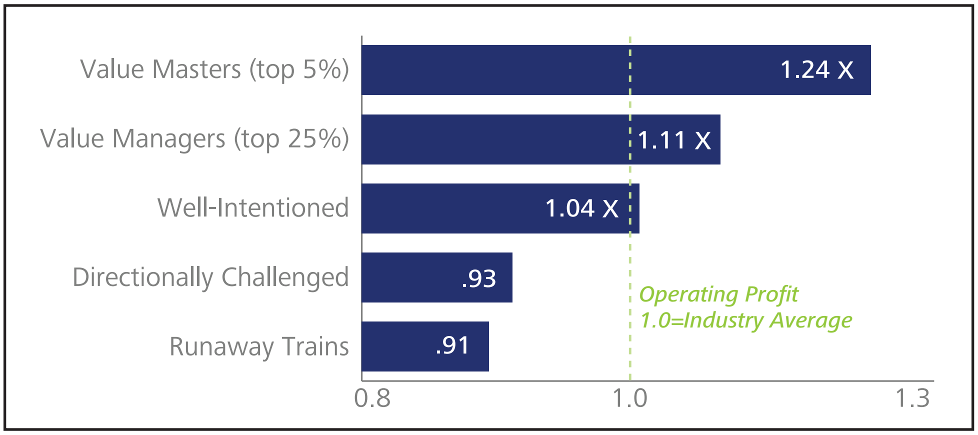
Much has been written about the shortcomings of cost-based and market share-based pricing strategies. However, this data is among the first of its kind to clearly link that choice of strategy to financial performance. Firms adopting non-value based strategies earn, on average, 8% lower operating profits than their industry peers; a result that was consistent across all of the industries included in the study. The case for a value-based approach to pricing has virtually never been stronger.

We next focused on the financial impact of pricing execution capabilities for firms pursuing a value-based pricing strategy. The data shows that firms pursuing a value-based strategy that have weak execution capabilities have significantly better financial performance than firms pursuing non value-based strategies — even though they perform only marginally better than the industry average. Managers within these Well-Intentioned firms attempt to set value-based prices but often have to make strategy choices with poor quality data regarding customer value or competitive reference prices.

Moreover, their managers were often not well trained in value-based pricing and lacked appropriate decision tools to guide effective pricing decisions.

In contrast, Value Managers pursue value-based pricing with a strong execution capability and, as a result, earn 11% higher operating profits than the industry average. Follow-up interviews with several of these firms revealed that managers invest considerable time to collect data on customer value and turn that insight into actionable pricing decisions. Managers are much more likely to have had formal training in value-based pricing strategies and collaborate effectively between functional areas on pricing issues. In short, Value Managers not only talk the talk, they walk the walk.

Figure 3: Operating Profit Relative to Industry Peers



Although it was not that surprising that Value Managers earn disproportionately higher operating profits than their peers, we had expected the performance gap to be bigger. In follow-up interviews, executives in the Value Manager segment emphasized that building a strategic pricing capability required time, resources and sustained commitment to the journey. Further review of the data showed that the firms in the Value Manager segment varied widely on how far they had progressed on that journey.

Therefore, we repeated our analysis on the approximately 5% of sample that had achieved true excellence in their price execution capabilities and the results were dramatic. These Value Masters earned operating profits 24% higher than their industry peers and 33% higher than firms in the runaway train category. For these firms, pricing is no longer a tactical function — it had become a competitive advantage.

Value Masters are more likely to have a formal pricing organization and take a consistent and disciplined approach to pricing decisions. They recognize that tactical pricing decisions can have long-term impact on the health of their industry and are the least likely of all firms to have engaged in a price war in the last three years. They work hard to understand customer value and translate that insight into better pricing and go-to-market strategies. When asked to describe his organization's pricing strategy, one executive replied "…pricing strategy is too narrow to describe what we do, we focus on value management and that starts long before you set the price." Although this is only a single example, it is indicative of the mindset that is helping some firms excel under challenging market conditions.

The results of these initial analyses raise an interesting question for the majority of firms not fortunate enough to be categorized as a Value Master or Manager. What is the ROI of building a strategic pricing capability? To answer the question, we analyzed a manufacturing company (we'll call Tech Co) that fell into the runaway train segment. Based on Tech Co's revenues of $10.5B in 2007, the profit improvement yielded by the transition to strategic pricing could increase market capitalization of the company by approximately $3.5B and increase their share price by 43%. Although this is a high-level analysis that assumes Tech Co. could capture the average increase from moving from Runaway Train to Value Master, it underscores the impact that strategic pricing can have on the value of the organization. Even if Tech Co. were only to capture half of that performance improve-

CONTINUED ON NEXT PAGE ➔

The PRICING ADVISOR
A Professional Pricing Society Publication
3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

ment, it is unlikely that the management team has many investment opportunities with greater upside potential.

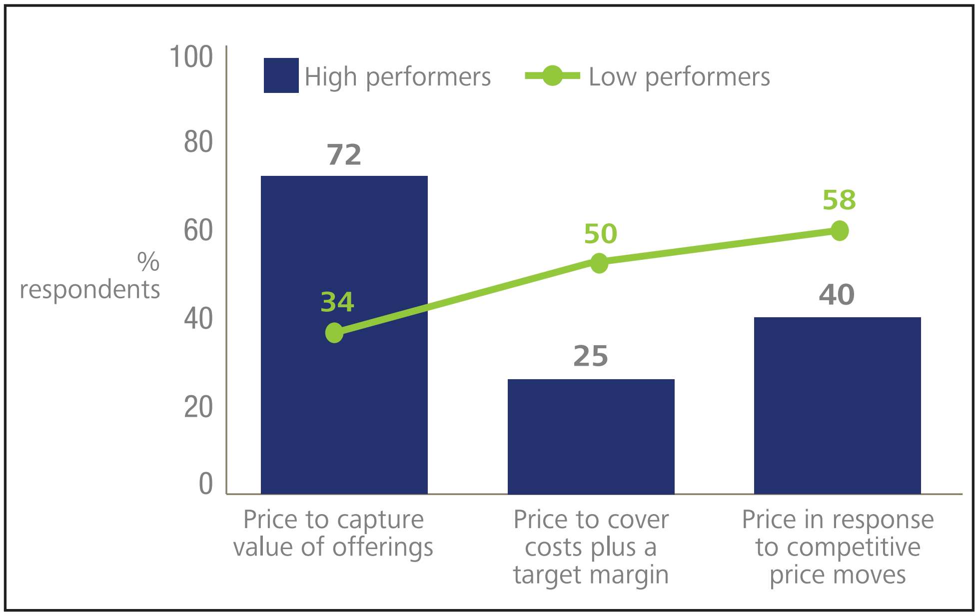
Characteristics of Leading Pricing Organizations

Experience has taught us there are two types of pricing strategies: the "intentional" strategy endorsed by senior management and the "enacted" strategy determined by the daily choices of sales, marketing and finance managers. When a sales person chooses to drop price in response to aggressive customer tactics, she is enacting a volume-driven strategy even if the stated strategy is to price for value.

Similarly, a comptroller that institutes a policy that all products must earn a minimum margin or be removed from the portfolio is enacting a cost-driven strategy. Whereas countless books and articles have been written to help senior managers design better intentional strategies, considerably less attention has been devoted to the issue of how to ensure those strategies are enacted in the organization.

The second suite of analyses in the benchmarking study focused on understanding how pricing decisions are actually made in the organization. The analysis compared firms in the top quartile of operating profits ('high performers') with firms in the lowest quartile ('low performers') in order to identify which pricing strategies, practices and organizational characteristics are more highly correlated with profitability. The analysis identified four distinguishing pricing characteristics of leading pricing organizations.

Figure 4: Zealous Commitment to Value

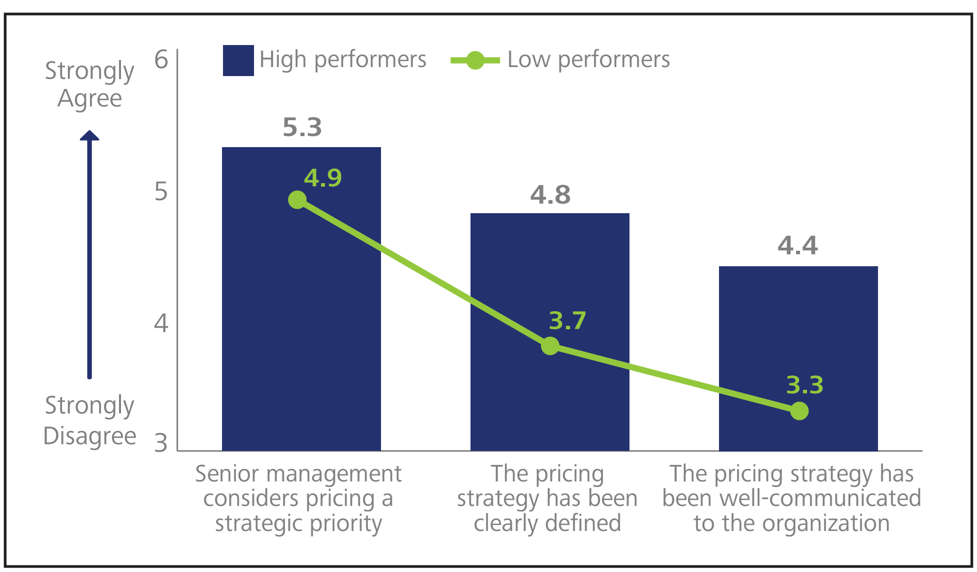


Characteristic #1: Zealous Commitment to Value

Perhaps the most prominent characteristic of high performing firms was the consistent focus on customer value to determine prices. High performers let value determine the level at which they set prices more than twice as often as low performers did. Low performers were much more likely to price to cover their costs or in response to competitive price moves.

In some respects, it is surprising that managers pursue non-value-based strategies such as cost-driven pricing because the shortcomings are so obvious. Cost-plus pricing inevitably misses profit opportunities. For some high value customers, a price that is set by marking up costs a fixed percentage will be too low and leave money on the table. For lower value customers, that same price will be too high causing them to buy competing products. In essence, cost-driven strategies are based on the premise that an effective way to set profit increasing prices is to turn away from the market and look internally to understand your cost structure. The data from this study provides significant evidence that allowing costs to be the primary driver of pricing decisions is detrimental to profitability.

Figure 5: Organization-wide Understanding of the Strategy



Characteristic #2: Organization-wide Understanding of the Strategy

CONTINUED ON NEXT PAGE

The PRICING ADVISOR
A Professional Pricing Society Publication
3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

There is virtually no difference between high and low performers in the stated importance of pricing to the strategic agenda. Differences arise in the degree to which that commitment to pricing translates into a clear strategy that is communicated to and shared within the organization. High performers are much more likely to have invested the time to develop a clear and actionable pricing strategy and, more importantly, to communicate it to the organization. The data shows that this step of communicating the strategy to the organization is a necessary, but not sufficient step toward strategic pricing.

Consider the example of the specialty chemical company that falls into the "well intentioned" segment. Although the executives aspire to be a value-based pricing organization, an analysis of their pricing practices reveals a different story. The company's price book contains over 100 pages of blindingly small font and, according to the Marketing VP, is only understood by one person in the organization.

Although considerable effort had been made to use customer value to set the prices, the rest of the organization was unaware of the price value linkage. Thus, a sales person trying to defend their prices to an aggressive procurement agent has little chance of results because he or she does not understand the strategy and does not have the required insight and tools to enact it.

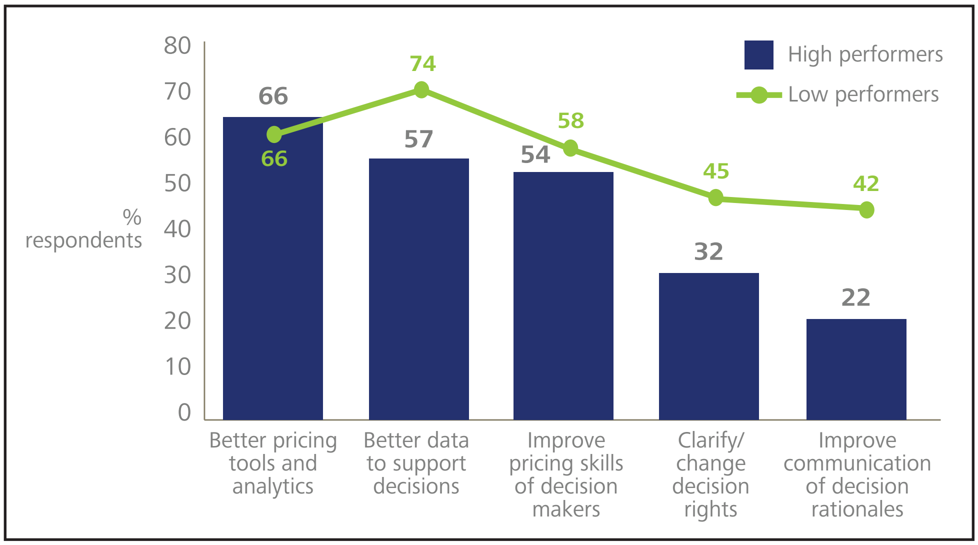
Characteristic #3: Effective Decision Processes

In a result driven era, executives are rewarded for choosing the "right" strategy to compete in challenging market conditions. To better understand "how" executives make those decisions, we examined various aspects of pricing strategy decisions. Specifically, we asked participants about the way in which pricing decisions were made and what steps could help improve decision quality.

Both high and low performing firms stressed the need for better pricing tools and analytics to help managers make pricing decisions. Pricing tools are only useful when used in conjunction with good data, however. The number one problem facing low performing firms was the lack of quality data upon which to base their pricing decisions. Without valid data about customer value, competitors' prices, and relative product performance, it is impossible to make proper value-based pricing decisions.

Pricing decisions are complex and can have long-term strategic impact on firms' performance. It is unsurprising, therefore, that high and low performers agree about the need to improve the knowledge and skills of decision makers. Differences arise, however, around the ability and commitment to execute strategies in a consistent and disciplined manner.

Figure 6: Effective Decision Processes



Pricing decisions in low performing firms were reported to be more political and senior managers were much more likely to make ad hoc decisions that undercut the strategy. As a result of this inconsistent approach to pricing decisions, low performing firms were 30% more likely to have engaged in a price war than high performers.

Characteristic #4: Incentives and Objectives Aligned with Strategy

Because pricing is inherently cross-functional, misaligned objectives and incentives can form major barriers to implementing effective pricing strategies. A CEO focused primarily on increasing share price may be willing to undercut long-term price stability if price cuts are necessary to achieve quarterly sales targets that are visible to market analysts.

A marketing vice president looking for greater market share may see price as a strategic lever to meet his objectives and capitulate to the demands of large customers for price cuts. On the other hand, a finance executive determined to maintain high margins may push for price increases and thus bypass otherwise attractive low-margin, high-volume opportunities.

In each case, these executives are making decisions that are perfectly sensible when viewed according to their own functional interests, but may undermine overall company profitability and share value. The data shows that high performers benefit from incentives and objectives that are aligned with the strategy. By contrast, low performers have less consensus around pricing issues because of misaligned incentives and objectives.

CONTINUED ON NEXT PAGE

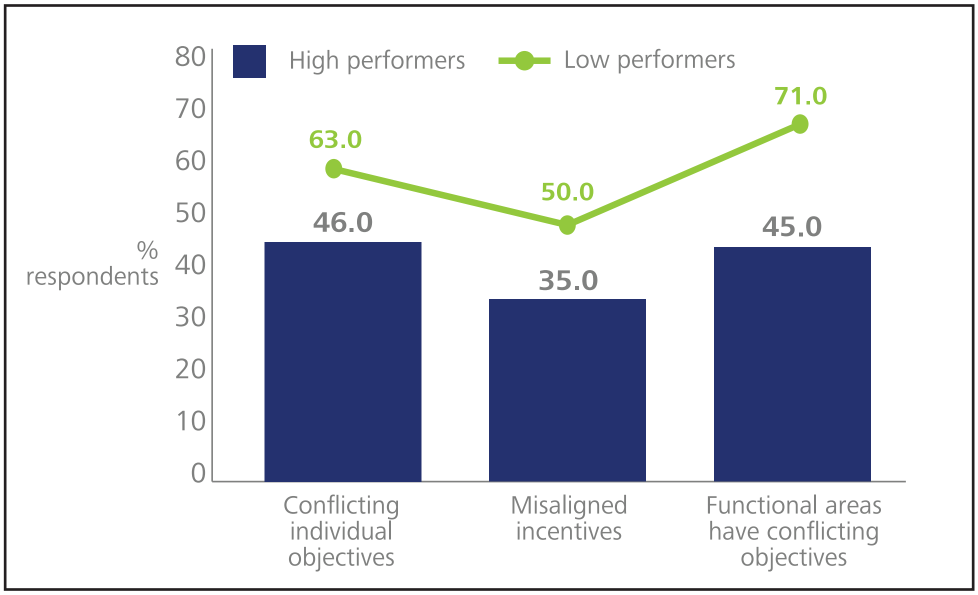
The PRICING ADVISOR
A Professional Pricing Society Publication
3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

Conclusion: The Sound of Two Hands Clapping

What is the sound of one hand clapping? Silence. Similarly, neither pricing strategy nor price execution can work alone. The Monitor Pricing Capability Benchmarking survey shows that having a value-based pricing strategy and the capabilities to deploy that strategy are essential for a company that wishes to grow operating profits.

Without organizational capabilities and commitment, a strategy is nothing but words on paper. Without an effective pricing strategy, having strong execution capabilities can actually be counterproductive and detrimental to success. Together, an effective strategy with an empowered organization can help provide the desired outcome — operating profits 30 percent higher than those of low performing firms. Given this potential payoff, pricing strategy and capabilities should be on the agenda of every CEO whose company competes in the global marketplace. Even strategic value managers can seek further improvement to match the operating profits of the top performing leading firms.

Figure 7: Incentives and Objectives Aligned with Strategy



For lower performers, collecting the data, building the tools and implementing the organizational framework necessary to execute a value-based pricing strategy may take time. For runaway train companies and those that are directionally challenged, the most important step is to recognize the benefits to be gained from change and begin implementing the processes and decision tools needed to get on the right path to success.

The PRICING ADVISOR
A Professional Pricing Society Publication
3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

Monetising Online Education

Although online education options are becoming more and more prevalent, according to this article, the fact that the market is still fairly immature creates a unique opportunity for universities and other online education providers to be creative in how they price and monetise this channel. David Smith is a Director at the London office of Simon-Kucher & Partners and a specialist in the Education sector. In this article, Debra Freedman, a Consultant at Simon-Kucher London, interviews him regarding his key insights and recommendations for monetising online education programs and, in particular, MOOCs (massive open online courses). Smith can be reached at david.smith@simon-kucher.com, and will be a speaker at The Pricing Forum sponsored by Simon-Kucher & Partners on Wednesday 20 May in London.

DF: Hi David. What are your main observations about the current online education market from working in the online education space?

DS: Hi Debra. I have three key observations. Firstly, I believe the online channel represents a huge opportunity for universities. With MOOCs in particular, the sheer numbers involved are staggering. Secondly, the market is still very immature, with new and innovative offerings popping up every day. Thirdly, universities have tended to be quite opportunistic so far in their approach to online, meaning they don't always have a joined up and coherent online strategy.

DF: Given these observations, what are the implications for universities from a monetisation point of view?

DS: The fact that the market is so immature presents a real opportunity for universities to be innovative in the way they monetise MOOCs and online education more generally. I've seen a lot of innovation on the product front, but sometimes universities can be a little too cautious about the commercial side of things. **Whilst we've seen remarkable growth in the online space over the past year or so, its long term sustainability will depend on whether or not universities can find a business model that works.** It's also important that universities transition from being opportunistic to being more strategic. They need to consider their online portfolio holistically in order to maximise outcomes and minimise risks.

DF: So monetisation is a key area for improvement. Do you have any insights on how universities could better monetise?

DS: Most early MOOCs have adopted a "freemium" approach whereby basic access is provided free of charge but more advanced features such as certificates must be paid for. In theory this is a great model for the education sector as it allows you to hit multiple objectives at once. The free entry point should help maximise student numbers, with no barriers to up-take, whilst the availability of paid-for extras should generate the income required to cover development costs. Experience has shown that striking the right balance between student numbers and income is a constant challenge in the sector, and freemium is a great win-win solution to this.

DF: But can't universities just charge for MOOCs?

DS: That is the eternal question. Charging for MOOCs is a bit of a taboo subject amongst universities. I think there is a lingering concern that charging for MOOCs will drastically reduce volumes, but I would challenge that. Firstly, it's becoming increasingly clear that high volumes do not equate to high completion rates, hence chasing volume at all costs is more of a vanity point. Secondly, universities should look to providers such as Udemy for insights on how paid-for MOOCs could work out.

DF: So is there anything we can learn from Udemy?

DS: Yes, definitely. We did some simple analysis of Udemy's student numbers and the findings were fascinating. Firstly, it sounds simple but the experience of Udemy shows once and for all that it is possible to charge for MOOCs. Udemy does it, still has substantial student numbers, and generates significant fee income doing so. But the best thing about Udemy is that the company takes a differentiated approach. Some courses are free, some are cheap, and some are expensive. Too often universities think in binary terms – paid vs. free – but why not mix up the two? This allows Udemy to monetise MOOCs where there is willingness to pay while the free courses stimulate demand. Another interesting insight is that the price of each course appears to bear no relation to the volume of users, with some of their most popular courses costing around $200. Universities should ask themselves: What is the opportunity cost of not charging for MOOCs.

The fact that the market is so immature presents a real opportunity for universities to be innovative in the way they monetise MOOCs and online education more generally.

CONTINUED ON NEXT PAGE ➔

DF: Very interesting. But are there other business models worth considering?

DS: Yes, of course. It's important to remember that monetisation does not necessarily mean MOOC users need to pay for anything. There are a whole host of indirect ways of generating income from MOOCs. Some examples include: driving sales of other courses, enhancing the value of other courses, boosting donations. You could even look to third parties such as other universities paying to use licensed content, advertisers paying for advertising space and employers paying to access user data. There's a whole spectrum of indirect monetisation approaches out there.

"Universities need to think about the bigger picture to maximise overall outcomes."

— David Smith, Director London Office, Simon-Kucher & Partners

DF: So all universities should now go and launch MOOCs?

DS: Good question. It depends. I mentioned earlier that universities have tended to be quite opportunistic with MOOCs so far. To maximise outcomes, all elements of a university's portfolio (on-campus education, paid-for online education and free online education such as MOOCs) should be used collectively. Each element should have a clear role in the portfolio with a business case underpinning it and the elements should complement one another and not conflict or cannibalise. Any new elements should be introduced strategically, filling in gaps in the portfolio and performing specific roles. At best, a scatter gun approach to launching MOOCs will lead to unsustainable MOOCs. At worst, it will lead to confusion internally and externally, and ultimately to cannibalisation and devaluation of a university's core offering.

DF: I see. So are there any key challenges when introducing free, freemium or low cost products to your portfolio?

DS: Absolutely. **When offering part of your portfolio for free or at low cost, the way you "fence" it off from other products is critical. It is vitally important to ensure there is a clear distinction between what is free and what is paid for.** This includes the choice of content offered but also the features and services provided.

DF: So how should universities figure out what to make available?

DS: With caution. Just because there is demand for certain content and features to be delivered as MOOCs doesn't mean universities should necessarily offer it. It comes back to the need to differentiate between their free, low cost, and core products. For example, are there certain integral features that should only ever be available as part of a core course? Alumni status and formal credits could be examples. Just because people would be willing to pay for them as part of a MOOC does not necessarily mean universities should make them available. Universities need to think about the bigger picture to maximise overall outcomes.

The PRICING ADVISOR
A Professional Pricing Society Publication
3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

The Apple Watch's Big Problem

Rafi Mohammed is the founder of Culture of Profit LLC, a Cambridge, Massachusetts-based company that helps businesses develop and improve their pricing strategy, and author of the The 1% Windfall: How Successful Companies Use Profit to Profit and Grow. *This article originally appeared on the Harvard Business Review web site at HBR.org.*

Apple begins taking pre-orders for its new watch today. This stylish watch includes the ability to track your heart-rate, use ApplePay, view text/email messages and take calls Dick Tracy-style by speaking into your wrist (so long as the watch is linked to a nearby iPhone). This product launch is unusual for Apple because it is offering a wide range of styles via a combination of options: two types of watch case sizes (38mm, 42mm), three different watch cases (stainless steel, aluminum, 18 karat gold), and a variety of watch bands.

That wide range of options results in a wide range of prices. The watch will cost from $349 (aluminum case, rubber band) to $17,000 (18 karat gold case, leather band with brass buckle).

I'm not a tech reviewer, but based on what I've read so far, I'd grade the watch an A for ambition and a D for pricing strategy.

First, the positives: The watch continues Apple's tradition of technology excellence, but brings the company into a new market realm — fashion. Apple realizes that watches, far more than smartphones, are an expression of the owner. Apple rolled big on this release by trying to serve the wide and varied consumer market instead of producing a utilitarian smartphone accessory targeted towards technology wonks. That's a level of ambition I admire.

Its pricing strategy, in contrast, will create major hurdles to long-term success. **The first problem is the issue of upgrades. Apple has long been criticized for the way its frequent updates result in planned obsolescence.** It's expected that Apple will release improved watches in the near future, just as it does for its smartphones. (A new iPhone version is typically released every September). So forget about the top-of-the-line $17,000 version – why spend even $3,000 today for an everyday wearable that will look outdated and be functionally inferior in a year or so? It doesn't make sense. In contrast to the advertising tagline for Patek Phillipe ("*You never really own a Patek Phillipe, you merely look after it for the next generation*"), consumers who buy a watch are choosing a very expensive disposable timepiece.

Second, in contrast with smartphones, cell phone carriers aren't subsidizing or providing monthly payment plans to make owning the latest technology financially accessible. If consumers had to pay the unsubsidized cost of an iPhone 6 ($649 to $849, depending on storage), most would be very slow to upgrade. The lack of subsidies on the watch will make — or at least should make — consumers even more anxious about the cost of upgrades.

Third, the price range is extremely wide — in fact, it's too wide, and that's a big mistake. It's rare for one brand to serve such a wide spectrum of customers – in the Watch's case, $349 (somewhat accessible) to $17,000 (garishly expensive). Timex, for instance, targets the lower price range in the watch market while Rolex serves the high end.

The downside of this wide price range, from a brand perspective, is further complicated by the technology component of the Watch. When consumers see prices ranging up to $17,000, they tend to psychologically believe they'll have to spend somewhere around the midpoint (say, $8,000) to get a "good one" (from a technology standpoint). The reality is the Watch's technical performance is the same no matter what the price — the price differential is based on the various metals and adornments – but this truth is obfuscated by the wide price range. So what should Apple have done?

First, I would have narrowed the price range to, say, $249 to $2,000. Sure, that will knock out the profitable high-end, but what Apple needs now is mass adoption. This narrow price range acknowledges the 1–2 year disposability of the Watch, provides a spectrum of choices, and doesn't psychologically scare customers away. I'd also offer a monthly payment plan to make the watch more accessible to everyone.

Next, Apple needs to boldly address the white elephant: watch technology will be much better in the near future. Perhaps for its higher-priced watches, this reality can be handled with a trade-in program (a guaranteed credit when an owner buys a new version). This will help customers overcome the obsolescence obstacle.

Finally, Apple should consider also bundling the watch with its iPhone. The bulk of iPhone 6 sales, for instance, have been made and a value bundle makes sense to sell more units by providing enhanced value. It would have been genius to offer this bundle to combat the other big technology release today of Samsung's highly anticipated Galaxy 6.

Creatively employing these pricing tactics would have helped Apple overcome key obstacles to help ensure this first generation watch is the foundation of another big product category.

Make no mistake: There will be a weekend of frenzied sales fueled by diehard and deep-pocketed Apple fans. But with $183 billion in annual revenues, Apple needs sustained sales to prove the watch has big product potential. Due to its sub-optimal pricing strategy, it's not clear this will happen.