

Prevent profits slip sliding away by mastering the science of pricing...

Start by asking yourself:

How do you know if you're making the most profit from the current pricing structure you offer your customers?

CONTENTS:

- 1. The one 'profitable pricing' question you must ask if you are serious about making more profit from pricing your products or services in a smarter way**
- 2. 3-tier pricing examples to start your collection** – It pays to collect pricing examples in your industry or similar industries. Look for 3-tier pricing examples your customers use to buy other products or services from other suppliers. Here are some familiar examples you'll recognise to start you off...
- 3. 2 pricing exercises** – If you want to prove to your team the power of top-down pricing – use these fun exercises with ping pong balls and numbers to make your point.
- 4. The book and other powerful resources** – *Priceless: The Hidden Power Of Value* by William Poundstone is worth investigating further. You'll find details and other resources in this section.
- 5. Top-down, 3-tier pricing in action** – How an upholstery company used 3-tier pricing to increase sales and profits

STOP offering one price and taking a sense of control away from your buyers.

START giving your buyers top-down, 3-tier pricing options, so they feel in control and are more likely to buy from you.

1. The ‘Profitable Pricing’ question you must ask if you are serious about growing the profitability of your business this year, next year and every year from now on...

How do you know that offering 3-tier top-down pricing options to your customers will result in greater profits?

Where is the value in this question?

The question rightly suggests you should seek ways of pricing more profitably.

Putting the question to work for you: Pretend that the three beer options described below are three of your service options or three product options. Put your ‘standard’ price into the low price beer option and then add in two pricing tiers above.

Then work out how your revenues would improve if you achieved similar changes in sales quantities as those in the beer example. This grid can help you do this:

		
Price	£1.80	£2.50
Buyers	20	80
Sales	£36	£200

			
Price	£1.80	£2.50	£3.40
Buyers	5	85	10
Sales	£9	£213	£34

Your price (1 option only)	
No. of buyers	
Sales revenue	

Your price (2 options)		
No. of buyers		
Sales revenue		

Your price (3 options)			
No. of buyers			
Sales revenue			

Need more convincing? The stories and insights in the Business Bitesize report should convince you of the power of 3-tier pricing options. The impact on beer sales in the report should be enough to persuade you to test 3-tier pricing for yourself. You’ll find another real-life 3-tier pricing example in section 5 of these resources.



Profitable Pricing

Support tools and resources

In the next section you'll see the type of businesses that take 3-tiered pricing seriously. Given the success of these companies we hope it persuades you further to take 3-tier pricing seriously.

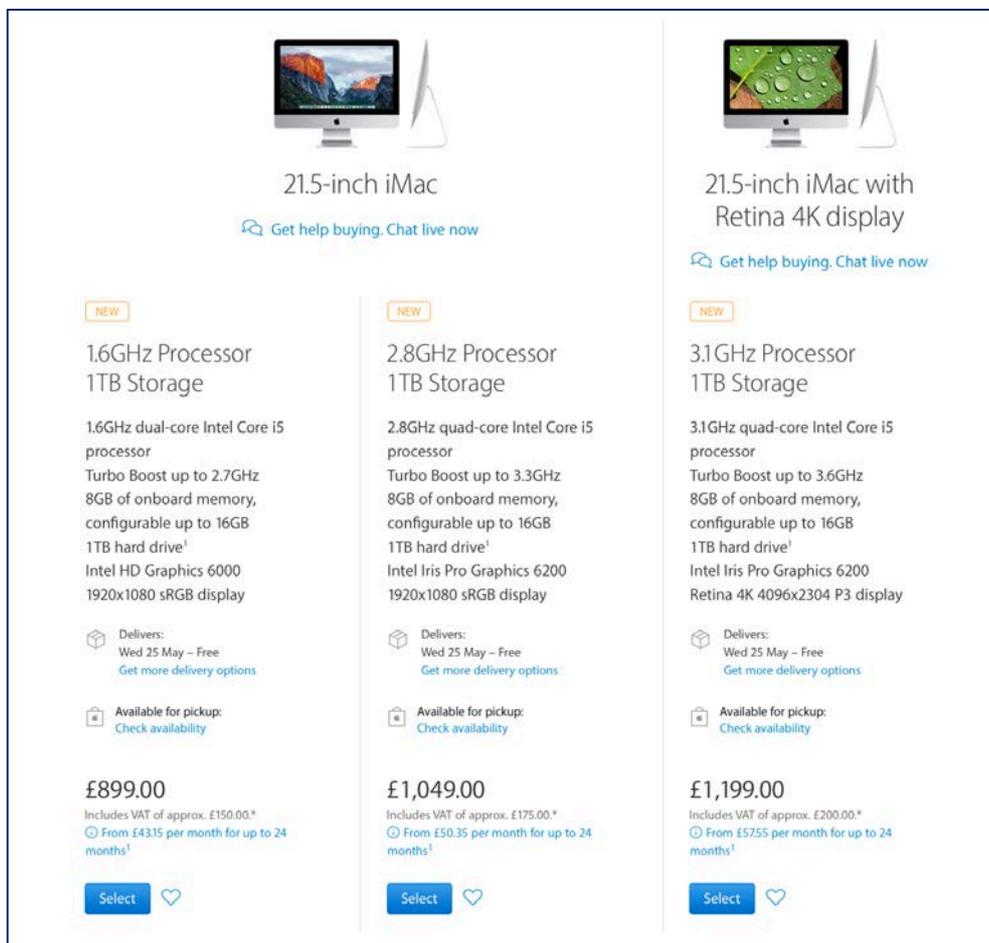
IMPORTANT: If you already use the power of top-down 3-tier pricing you'll be able to easily point to the revenues from each tier of pricing and the extra profit margin you make from each. Should you want help working out the profit from each tier of pricing in your business then get in touch – you'll find our contact details on the 4-page Business Bitesize report.

Have a look at the examples on the following pages and see the sort of companies that have embraced 3-tier pricing. They don't always opt for a top-down approach to their 3 prices but they take 3 pricing options very seriously. Shouldn't you do the same?

2. 3-tier pricing examples to start your collection – It pays to collect pricing examples in your industry or similar industries. Look for 3-tier pricing your customers use to buy other products or services from other suppliers. Here are some familiar (general) examples you'll recognise to help start you off...

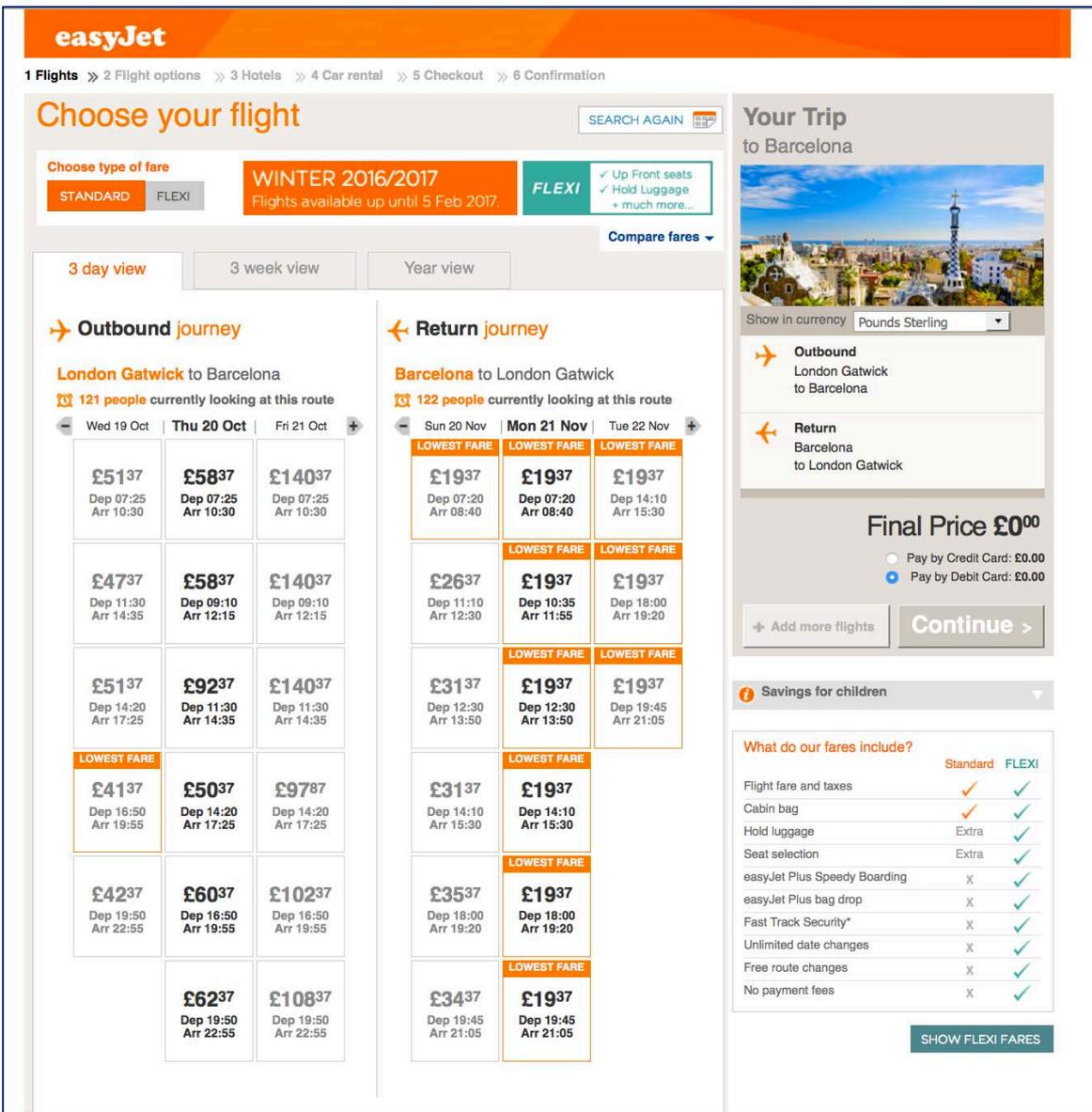
...3-tier pricing by Apple on their 21.5inch iMac – notice how the subtle use of the grey line brings emphasis to the retina display version on the right.

Notice also how the extra £150 pounds of the mid tier option gets the same graphics processor as the top option and that the processor is almost twice the speed (2.8Ghz as opposed to 1.6Ghz and almost as fast as the top option at 3.1Ghz) but is £150 less than the top model. Apple are using the technology to clearly demonstrate the value differences – screen type, processor speed, graphics card. How can you apply this pricing approach to your business?



21.5-inch iMac	21.5-inch iMac with Retina 4K display
<p>NEW</p> <p>1.6GHz Processor 1TB Storage</p> <p>1.6GHz dual-core Intel Core i5 processor Turbo Boost up to 2.7GHz 8GB of onboard memory, configurable up to 16GB 1TB hard drive¹ Intel HD Graphics 6000 1920x1080 sRGB display</p> <p>Delivers: Wed 25 May – Free Get more delivery options</p> <p>Available for pickup: Check availability</p> <p>£899.00 Includes VAT of approx. £150.00.* From £43.15 per month for up to 24 months¹</p> <p>Select </p>	<p>NEW</p> <p>2.8GHz Processor 1TB Storage</p> <p>2.8GHz quad-core Intel Core i5 processor Turbo Boost up to 3.3GHz 8GB of onboard memory, configurable up to 16GB 1TB hard drive¹ Intel Iris Pro Graphics 6200 1920x1080 sRGB display</p> <p>Delivers: Wed 25 May – Free Get more delivery options</p> <p>Available for pickup: Check availability</p> <p>£1,049.00 Includes VAT of approx. £175.00.* From £50.35 per month for up to 24 months¹</p> <p>Select </p>
	<p>NEW</p> <p>3.1GHz Processor 1TB Storage</p> <p>3.1GHz quad-core Intel Core i5 processor Turbo Boost up to 3.6GHz 8GB of onboard memory, configurable up to 16GB 1TB hard drive¹ Intel Iris Pro Graphics 6200 Retina 4K 4096x2304 P3 display</p> <p>Delivers: Wed 25 May – Free Get more delivery options</p> <p>Available for pickup: Check availability</p> <p>£1,199.00 Includes VAT of approx. £200.00.* From £57.55 per month for up to 24 months¹</p> <p>Select </p>

...multiple pricing options by EasyJet – notice how they anchor you to the lowest fare (because they are a low-fare airline) so you can compare and contrast other flight options on other days/times. We end up comparing the convenience of other flight times with the lowest fare to help us make a value decision. How could you apply this approach to your business?



easyJet

1 Flights >> 2 Flight options >> 3 Hotels >> 4 Car rental >> 5 Checkout >> 6 Confirmation

Choose your flight

SEARCH AGAIN 

Choose type of fare: **STANDARD** FLEXI

WINTER 2016/2017
Flights available up until 5 Feb 2017

FLEXI ✓ Up Front seats
✓ Hold Luggage
+ much more...

Compare fares ▾

3 day view | 3 week view | Year view

→ Outbound journey

London Gatwick to Barcelona

 121 people currently looking at this route

Wed 19 Oct	Thu 20 Oct	Fri 21 Oct
£5137 Dep 07:25 Arr 10:30	£5837 Dep 07:25 Arr 10:30	£14037 Dep 07:25 Arr 10:30
£4737 Dep 11:30 Arr 14:35	£5837 Dep 09:10 Arr 12:15	£14037 Dep 09:10 Arr 12:15
£5137 Dep 14:20 Arr 17:25	£9237 Dep 11:30 Arr 14:35	£14037 Dep 11:30 Arr 14:35
LOWEST FARE £4137 Dep 16:50 Arr 19:55	£5037 Dep 14:20 Arr 17:25	£9787 Dep 14:20 Arr 17:25
£4237 Dep 19:50 Arr 22:55	£6037 Dep 16:50 Arr 19:55	£10237 Dep 16:50 Arr 19:55
	£6237 Dep 19:50 Arr 22:55	£10837 Dep 19:50 Arr 22:55

← Return journey

Barcelona to London Gatwick

 122 people currently looking at this route

Sun 20 Nov	Mon 21 Nov	Tue 22 Nov
LOWEST FARE £1937 Dep 07:20 Arr 08:40	LOWEST FARE £1937 Dep 07:20 Arr 08:40	LOWEST FARE £1937 Dep 14:10 Arr 15:30
LOWEST FARE £2637 Dep 11:10 Arr 12:30	LOWEST FARE £1937 Dep 10:35 Arr 11:55	LOWEST FARE £1937 Dep 18:00 Arr 19:20
LOWEST FARE £3137 Dep 12:30 Arr 13:50	LOWEST FARE £1937 Dep 12:30 Arr 13:50	LOWEST FARE £1937 Dep 19:45 Arr 21:05
LOWEST FARE £3137 Dep 14:10 Arr 15:30	LOWEST FARE £1937 Dep 14:10 Arr 15:30	
LOWEST FARE £3537 Dep 18:00 Arr 19:20	LOWEST FARE £1937 Dep 18:00 Arr 19:20	
LOWEST FARE £3437 Dep 19:45 Arr 21:05	LOWEST FARE £1937 Dep 19:45 Arr 21:05	

Your Trip

to Barcelona



Show in currency: Pounds Sterling ▾

→ **Outbound**
London Gatwick to Barcelona

← **Return**
Barcelona to London Gatwick

Final Price £0.00

Pay by Credit Card: £0.00
 Pay by Debit Card: £0.00

+ Add more flights | **Continue >**

 Savings for children ▾

What do our fares include?

	Standard	FLEXI
Flight fare and taxes	✓	✓
Cabin bag	✓	✓
Hold luggage	Extra	✓
Seat selection	Extra	✓
easyJet Plus Speedy Boarding	X	✓
easyJet Plus bag drop	X	✓
Fast Track Security*	X	✓
Unlimited date changes	X	✓
Free route changes	X	✓
No payment fees	X	✓

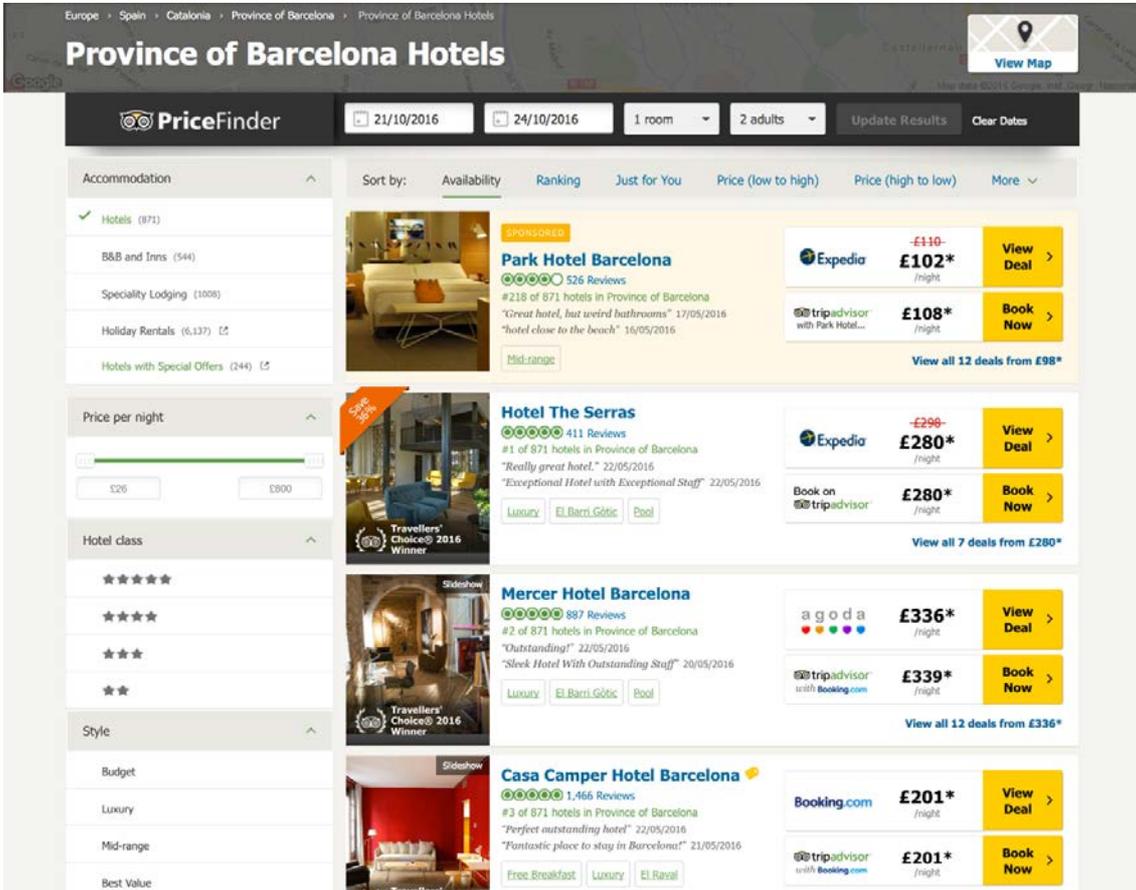
SHOW FLEXI FARES

...pricing options by TripAdvisor – notice how every hotel has two prices to choose from so giving the browser a sense of certainty about pricing and also a sense of control about choosing the best deal available.

Two options with a third option to look at the other deals – where there are 12 more deals or 7 more deals.

Check out the boxed summary of facilities for easy decision making too – we know Hotel The Serras has a pool and is classed as luxury.

There is almost an endless stream of hotels to choose from which can reduce the likelihood of a decision but the left column menu allows us to reduce the options (type of accommodation, pricing band, star rating, value rating). TripAdvisor is putting us in the driving seat, we have control. How good are you at putting your buyers in control?



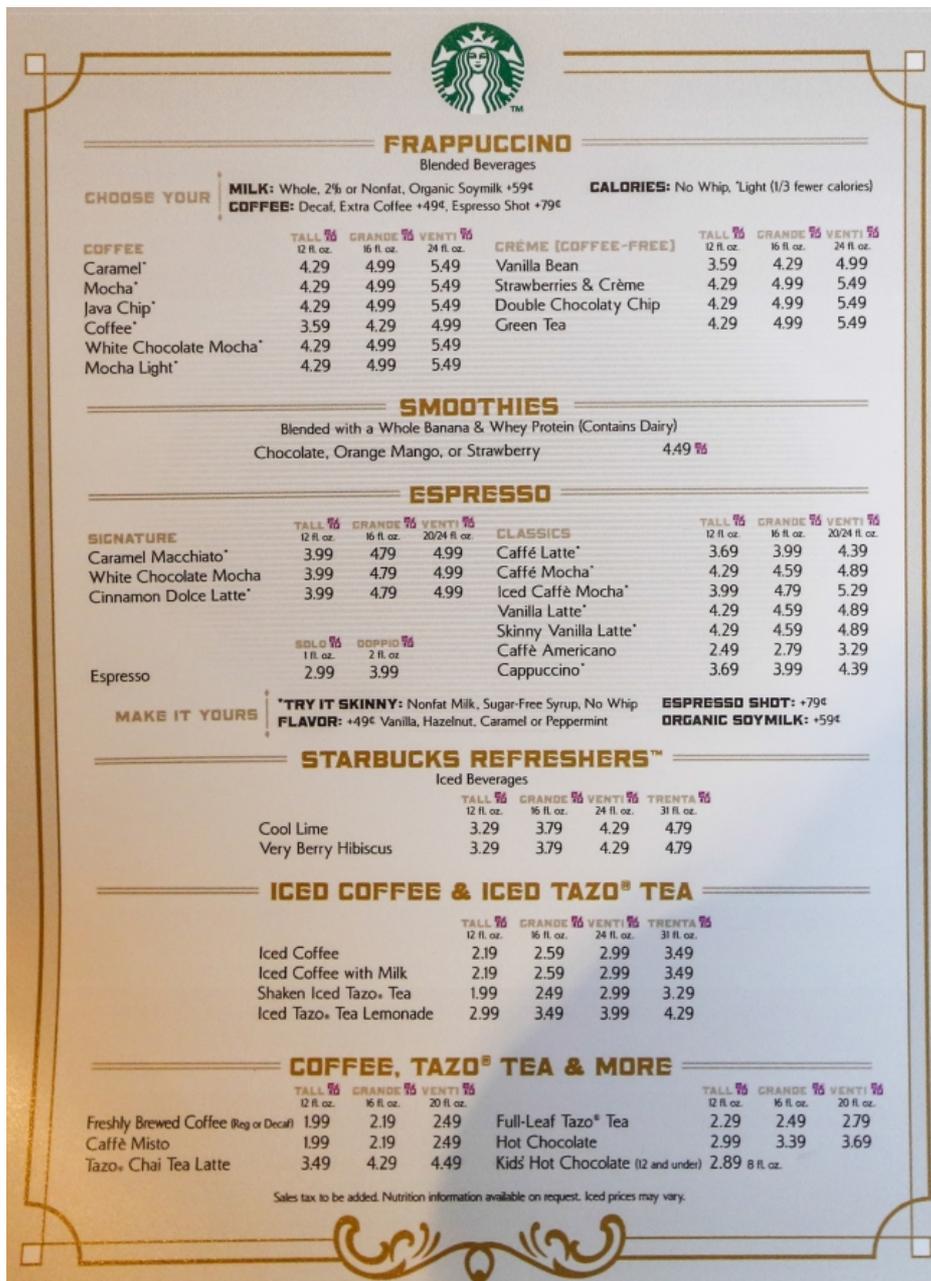
The screenshot shows the TripAdvisor search results for 'Province of Barcelona Hotels'. The search parameters are: 21/10/2016 to 24/10/2016, 1 room, 2 adults. The results are sorted by Availability. The first four hotels listed are:

- Park Hotel Barcelona**: 526 Reviews, #218 of 871 hotels in Province of Barcelona. Price: £102* (Expedia), £108* (TripAdvisor). View all 12 deals from £98*.
- Hotel The Serras**: 411 Reviews, #1 of 871 hotels in Province of Barcelona. Price: £280* (Expedia), £280* (TripAdvisor). View all 7 deals from £280*.
- Mercer Hotel Barcelona**: 897 Reviews, #2 of 871 hotels in Province of Barcelona. Price: £336* (Agoda), £339* (TripAdvisor). View all 12 deals from £336*.
- Casa Camper Hotel Barcelona**: 1,466 Reviews, #3 of 871 hotels in Province of Barcelona. Price: £201* (Booking.com), £201* (TripAdvisor).

...pricing options by Starbucks – you'd expect Starbucks to be expert at pricing options. They are.

Can you find any product that doesn't have 3-tier pricing on this menu? OK so there's only 2 espresso options but hey! - they make tiered pricing work on everything!

What more could you do to use 3-tier pricing options on your products or services?



FRAPPUCCINO
Blended Beverages

CHOOSE YOUR MILK: Whole, 2% or Nonfat, Organic Soy milk +59¢
COFFEE: Decaf, Extra Coffee +49¢, Espresso Shot +79¢
CALORIES: No Whip, *Light (1/3 fewer calories)

	TALL 16			GRANDE 20			VENTI 24		
	12 fl. oz.	16 fl. oz.	24 fl. oz.	12 fl. oz.	16 fl. oz.	24 fl. oz.	12 fl. oz.	16 fl. oz.	24 fl. oz.
COFFEE									
Caramel*	4.29	4.99	5.49						
Mocha*	4.29	4.99	5.49						
Java Chip*	4.29	4.99	5.49						
Coffee*	3.59	4.29	4.99						
White Chocolate Mocha*	4.29	4.99	5.49						
Mocha Light*	4.29	4.99	5.49						
CRÈME [COFFEE-FREE]									
Vanilla Bean	3.59	4.29	4.99						
Strawberries & Crème	4.29	4.99	5.49						
Double Chocolate Chip	4.29	4.99	5.49						
Green Tea	4.29	4.99	5.49						

SMOOTHIES
Blended with a Whole Banana & Whey Protein (Contains Dairy)
Chocolate, Orange Mango, or Strawberry 4.49

ESPRESSO

	TALL 16			GRANDE 20			VENTI 24		
	12 fl. oz.	16 fl. oz.	20/24 fl. oz.	12 fl. oz.	16 fl. oz.	20/24 fl. oz.	12 fl. oz.	16 fl. oz.	20/24 fl. oz.
SIGNATURE									
Caramel Macchiato*	3.99	4.79	4.99						
White Chocolate Mocha	3.99	4.79	4.99						
Cinnamon Dolce Latte*	3.99	4.79	4.99						
CLASSICS									
Caffè Latte*	3.69	3.99	4.39						
Caffè Mocha*	4.29	4.59	4.89						
Iced Caffè Mocha*	3.99	4.79	5.29						
Vanilla Latte*	4.29	4.59	4.89						
Skinny Vanilla Latte*	4.29	4.59	4.89						
Caffè Americano	2.49	2.79	3.29						
Cappuccino*	3.69	3.99	4.39						
SOLE 16									
Espresso	2.99	3.99							
DOPPIO 20									
		3.99							

MAKE IT YOURS *TRY IT SKINNY: Nonfat Milk, Sugar-Free Syrup, No Whip
FLAVOR: +49¢ Vanilla, Hazelnut, Caramel or Peppermint
ESPRESSO SHOT: +79¢
ORGANIC SOYMILK: +59¢

STARBUCKS REFRESHERS™
Iced Beverages

	TALL 16	GRANDE 20	VENTI 24	TRENTA 31
	12 fl. oz.	16 fl. oz.	24 fl. oz.	31 fl. oz.
Cool Lime	3.29	3.79	4.29	4.79
Very Berry Hibiscus	3.29	3.79	4.29	4.79

ICED COFFEE & ICED TAZO® TEA

	TALL 16	GRANDE 20	VENTI 24	TRENTA 31
	12 fl. oz.	16 fl. oz.	24 fl. oz.	31 fl. oz.
Iced Coffee	2.19	2.59	2.99	3.49
Iced Coffee with Milk	2.19	2.59	2.99	3.49
Shaken Iced Tazo® Tea	1.99	2.49	2.99	3.29
Iced Tazo® Tea Lemonade	2.99	3.49	3.99	4.29

COFFEE, TAZO® TEA & MORE

	TALL 16			GRANDE 20			VENTI 24		
	12 fl. oz.	16 fl. oz.	20 fl. oz.	12 fl. oz.	16 fl. oz.	20 fl. oz.	12 fl. oz.	16 fl. oz.	20 fl. oz.
Freshly Brewed Coffee (Reg or Decaf)	1.99	2.19	2.49						
Caffè Misto	1.99	2.19	2.49						
Tazo® Chai Tea Latte	3.49	4.29	4.49						
Full-Leaf Tazo® Tea	2.29	2.49	2.79						
Hot Chocolate	2.99	3.39	3.69						
Kids Hot Chocolate (12 and under)	2.89	8 fl. oz.							

Sales tax to be added. Nutrition information available on request. Iced prices may vary.

...**BMW 640 pricing options – Top-Down vs Bottom-up** - 5 coupe options and 5 convertible options – on the road price from £73,675 down to £60,630.

Oddly BMW are going for a bottom-up pricing approach on their premium products.

Wouldn't it make more sense for BMW to organise their prices top-down so they anchor buyers on the high price, and make the lower prices seem 'well priced'?

Or list the convertible prices first before the cheaper coupe prices?

What small modifications about your pricing layout could help your buyers make better value decisions?

PRICING INFORMATION.								
Model	Basic price (excluding VAT)	VAT 20%	Retail price (including VAT)	On the road price	P11d value	BIK tax rate (2014 / 2015)	VED band	Insurance group
COUPÉ				Automatic				
640i SE	£49,587.50	£9,917.50	£59,505	£60,630	£60,230	28%	I	47
640i M Sport	£53,475.00	£10,695.00	£64,170	£65,295	£64,895	29%	I	47
650i M Sport	£60,045.83	£12,009.17	£72,055	£73,470	£72,790	34%	K	49
640d SE	£51,837.50	£10,367.50	£62,205	£63,130	£62,930	24%	F	48
640d M Sport	£55,725.00	£11,145.00	£66,870	£67,795	£67,595	25%	F	48
Model	Basic price (excluding VAT)	VAT 20%	Retail price (including VAT)	On the road price	P11d value	BIK tax rate (2014 / 2015)	VED band	Insurance group
CONVERTIBLE				Automatic				
640i SE	£54,695.83	£10,939.17	£65,635	£66,760	£66,360	29%	I	50
640i M Sport	£58,375.00	£11,675.00	£70,050	£71,175	£70,775	30%	I	50
650i M Sport	£64,941.67	£12,988.33	£77,930	£79,345	£78,655	35%	K	50
640d SE	£56,945.83	£11,389.17	£68,335	£69,260	£69,060	25%	F	50
640d M Sport	£60,625.00	£12,125.00	£72,750	£73,675	£73,475	25%	F	50

3. 2 pricing exercises – to prove to your team the power of top-down pricing – use this fun exercise with ping pong balls to make your point.

Mark an equal number of ping pong balls with the number 10, the others mark with the number 65.

Get each person to select a ping pong ball at random from a dark bag or box (tell them there's a variety of numbers on the ping pong balls AND ask them to keep their number secret).

Then ask them the two questions about something they are unlikely to know...

1...Do you think the percentage of African countries in the UN is above or below the number on your ping pong ball?

2... What do you think is the percentage of African countries in the UN?

Then on two separate A1 NOBO sheets capture the answers and get your audience to work out the average on each board – an average for the board who held number 10 balls, an average for the board who held number 65 balls.

The results will typically prove the power of anchoring. This is made even more powerful when you then share the story of the baby geese hatching and how they are anchored to the first moving object – see the Business Bitesize report p.3.

Check out pages 150-154 of Poundstone's book 'Priceless' for more background on this pricing exercise – it will build your confidence in the outcome.

Alternative or additional exercise:

Time to put your phones and ipads away! Then...

1. Get half your audience/team to turn around so they can't see your flip chart or your projected slides.
2. Before you show the calculation to the half still looking, let them know they have 'just 5 seconds' to work out or guess the value of the calculation, repeat 'just 5 seconds'.
3. Then show the flip chart page with these numbers in a line as shown:

$$1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8$$

4. Instantly count 5 seconds from your watch then remove the flip chart page or screen (without revealing the next calculation for the next group).
5. Get them to write their answer down on a large piece of paper then hide it from everyone.

All change:

1. Reverse the team/audience. Get the other half of your audience/team to turn around so they see your flip chart or your projected slides. And the others face away and cannot see.

2. Before you show the calculation to the new half who can see the flip chart or screen, let them know they have 'just 5 seconds' to work out or guess the value of the calculation, repeat 'just 5 seconds'.
3. Then show the flip chart page with these numbers in a line as shown:

$$8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1$$

4. Instantly count 5 seconds from your watch then remove the flip chart page or screen.
5. Get them to write their answer down on a large piece of paper then hide it from everyone.

Compare and contrast:

Now you capture in two columns the results from the two groups and get the audience to quickly calculate the average for each.

The 12345678 example will typically be less than the 87654321 example.

This shows the 1 and 8 anchors at work.

Nb. Both will be less than the correct answer 40,320 because of the short time available for working out the maths.

4. The Book and other powerful resources—

William Poundstone - *Priceless: The Hidden Power Of Value*

William Poundstone has done a brilliant job of pulling together some of the best science about pricing. It's a book every business owner and manager should read and then start testing the insights. You'll [find it at amazon here](#)

Here's a couple of resources to supplement your pricing learning:

- http://www.huffingtonpost.com/gregory-ciotti/10-classic-academic-studies_b_6182498.html
- <http://www.nickkolenda.com/psychological-pricing-strategies/>
- http://lesswrong.com/lw/j7/anchoring_and_adjustment/

5. Top-down, 3-tier pricing in action – how an upholstery company used 3-tier pricing to increase sales and profits.

What happens to the sale of expensive wing chairs when an even more expensive wing chair option is introduced?

		
Price	£1,000	£1400
Buyers	90	60
Sales	£90,000	£84,000

			
Price	£1,000	£1400	£1900
Buyers	60	90	6
Sales	£60,000	£126,000	£11,400

An upholstery company we are acquainted with in the midlands sold a total of 150 wing chairs a year. Two chairs were sold. 90 x £1,000 'standard' wing chairs and 60 x £1400 'premium' wing chairs – a 60/40 split. And a total revenue of **£174,000**.

Initially by offering 2 wing chair options, the customer is getting a better experience than the single 'Hobson's Choice'.

When a larger, more expensive 'platinum' wing chair at £1,900 was introduced, the numbers changed.

The company sold 6 'platinum' chairs at £1,900 and again sold 150 of the other two wing chairs. However the ratio reversed. The company sold 60 'standard' chairs at £1,000 and 90 'premium' wing chairs at £1,400.

Total revenue of **£186,000** (ignoring the 6 'platinum' chairs). That's **£12,000** increase in sales.

Also because the more expensive 'premium' chair was a higher profit margin chair than the lower 'standard' model this meant considerably more profit.

These results clearly show that:

- When using 3-tier pricing options, the customer experience is improved by having more choice and more control over what they spend on their purchase
- there are healthy revenues and margins to be had when 3-price options are used

Why not test this for yourselves – try the pricing exercise for your product on page 2 of these support tools.