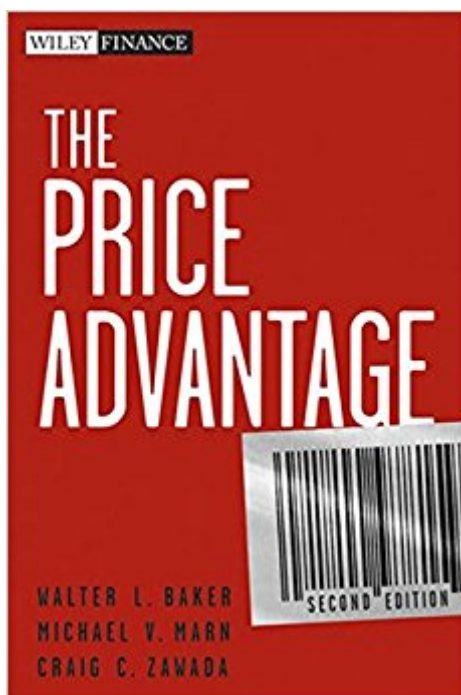


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# The Price Advantage



## Synopsis

A comprehensive look at creating pricing strategies that work in both good economic times and bad. Written by three preeminent pricing experts at McKinsey & Company, the Second Edition of *The Price Advantage* is a practical pricing guide for the executive or pricing practitioner who wants to identify, capture, and sustain substantial pricing gains in their business. Pricing is by far the most powerful profit lever that managers can influence. Yet few companies approach pricing in a way that fully capitalizes on its value. This Second Edition, a major revision and extension of the first book, shows you what it takes to achieve the price advantage in today's competitive and complex business environments. Based on in-depth, first-hand experience with thousands of companies, this book provides managers with a pragmatic guide through the maze of pricing issues. It reinforces why pricing excellence is more critical than ever today and then explains state-of-the-art approaches to analyzing and improving your own pricing strategy and execution. Explores the fundamental role of pricing infrastructure in achieving the price advantage. Includes new topics such as software and information products pricing, lifecycle pricing, custom-configured products pricing, pricing of high-count product lines, pricing in distributed sales environments, "razor/razor blades" pricing, and tiered products and services pricing. Revisits the full range of classic McKinsey pricing tools, including the pocket price waterfall and value maps. Engaging and informative, the Second Edition of *The Price Advantage* will put this essential discipline in perspective.

## Book Information

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## Customer Reviews

For all the advantages businesses pursue, there is one powerful advantage that is accessible to

virtually every business—but realized by very few. That advantage is the price advantage. Pricing is far and away the most sensitive profit lever that managers can influence. Very small changes in average price translate into huge changes in operating profit, yet few companies are as disciplined and deliberate about pricing as they should be. In the most comprehensive and insightful treatment of pricing management available today, this Second Edition of *The Price Advantage* shows companies how to use pricing excellence to outperform competitors and increase profitability in both good and bad times. Drawing on more than three decades of client success, three preeminent McKinsey & Company experts demonstrate why pricing is critical to bottom-line profitability and explain state-of-the-art approaches to analyzing pricing and building distinctive pricing capability. Working with colleagues and companies across the globe, they have helped develop leading-edge practical knowledge in pricing for clients in all major industries. Written in pragmatic terms, this Second Edition of *The Price Advantage* continues to be the practical pricing guide for thoughtful general managers who have been tempted by the unrealized promise of improved pricing and, perhaps, even frustrated by attempts to translate pricing theory into bottom-line impact. It provides a structured approach for identifying where the most precious sources of untapped pricing opportunity reside in a business, along with practical, case-illustrated guidance on how to capture that opportunity. Updated throughout to reflect changes in the global pricing environment and advances in McKinsey's pricing knowledge, this Second Edition covers a host of new topics including software and information products pricing, lifecycle pricing, custom-configured products pricing, pricing of high-count product lines, pricing in distributed sales environments, and tiered products and services pricing. Also, the building of a sustainable pricing capability and a high-performing pricing infrastructure is covered in much greater detail than ever before. With emphasis on translating pricing theory into real improvements and bottom-line performance, the Second Edition of *The Price Advantage* is designed to give today's CEOs and business managers a competitive advantage in any economy.

Praise for *THE PRICE ADVANTAGE, SECOND EDITION* "This book is a treasure—a practical yet intellectually sound guide to pricing that is applicable to both large and small companies. Frankly, in all my years writing about economics and covering corporate decision making, I have not seen pricing strategy and tactics explained so clearly as in this book."  
—Michael Mandel, former chief economist, *BusinessWeek*, and Editor-in-Chief, Visible Economy LLC "This book is both insightful and practical. Many companies overlook the substantial profit opportunities from smart pricing. The authors show you not only where to look for, but also

how to capture and sustain those opportunities." —James M. Kilts, former chairman and CEO, The Gillette Company "The Price Advantage is very straightforward and direct, with concise and easily applied coverage of each and every topic." —David J. Reibstein, Marketing Professor, The Wharton School The Second Edition of The Price Advantage, written by three preeminent experts at McKinsey & Company, is the most pragmatic and insightful book on pricing available. Based on in-depth, firsthand experience with hundreds of companies, as well as significant investments in new pricing research, this book is designed to be a comprehensive guide for managers through the maze of pricing issues. The authors examine state-of-the-art approaches for analyzing and improving pricing performance, demonstrate those approaches with real case studies, and draw a pricing excellence blueprint for companies to follow. In good economic times or bad, achieving the price advantage is critical to corporate performance and profitability.

The Price Advantage is one of the essential books on pricing and it is the second one I would read after Tom Nagle, John Hogan and Joe Zale's *The Strategy and Tactics of Pricing* (5th Edition). (I have not yet read Tim Smith's *Pricing Strategy: Setting Price Levels, Managing Price Discounts and Establishing Price Structures* which looks like it will be an interesting read.) Reed Holden and Mark Burton's *Pricing with Confidence: 10 Ways to Stop Leaving Money on the Table* is also a good first introduction. The authors are McKinsey consultants (one has recently moved to the pricing software vendor PROS Software) and they bring a great deal of consulting experience to the book which greatly enriches the case studies. Pricing excellence is divided into three elements, Market Strategy, Customer Value and Transactions and tools, advice and examples are provided for each element. This book provides the best introduction to the Pocket Price Waterfall (and its extension the Pocket Margin Waterfall), which is not surprising as the authors are the people who developed this framework. Appendix 1, which provides numerous examples of waterfalls is a great thing for them to have shared and is itself worth the price of the book. The book also has the best presentation I have seen of Value Maps and the Value Equivalence Line and how they are relevant to strategy. Even though I have problems with this approach (see below) it is important foundational reading for anyone interested in pricing and pricing strategy. The extended case study on Monarch Battery provides a good summary of the ideas in the book and how they can be applied. This is a great way to pull things together at the end of a book and it also provides a touchstone for people involved in pricing that we can refer to in conversations. I do have three problems with this book. The Value Mapping approach has been criticized by Gerald Smith and Tom Nagle (see "Pricing the Differential" by Gerald Smith and Tom Nagle, published in Marketing

Management in the May/June 2005 issue and available on the Resources page of the LeveragePoint website). In short, value maps tend to over estimate the contribution to price of shared (commoditized) benefits and to understate the potential contribution of differentiated benefits. Value models like Nagle's Economic Value Estimation are a far more powerful way to understand the economic impact of a product for a customer and how to use this in setting and communicating price. Baker, Marn and Zawada do not mention value modeling or respond to the well known criticisms of value maps. This is part of a wider problem with the book, it is narrowly depended on the McKinsey approach and experience and does not engage the wider conversations taking place in the pricing community. The book also fails to relate pricing concepts and frameworks to other work. For example, on Page 229 they discuss new product launches and characterize these as Revolutionary, Evolutionary and Me To. This discussion would be greatly enriched by putting it in the context of Clayton Christensen's work, see *The Innovator's Dilemma: The Revolutionary Book that Will Change the Way You Do Business* (Collins Business Essentials) and subsequent books. This is actually a general problem in the pricing community, which tends to be inward focused and caught up in its own role and frameworks. But pricing will only show its full potential to transform business when it is connected to other parts of the business: product development, marketing, sales and finance. This will only happen when pricing frameworks are related to the frameworks used by people in other functional areas. There is a special need for someone to put pricing in a context meaningful to sales, so that sales can stop seeing pricing as "the sales prevention department." The Pricing Advantage does not address emerging opportunities from two-sided markets. Two-sided markets, or platforms, are becoming more and more common and surface all sorts of important pricing and competitive strategy issues. If you have a conventional business model, and you are caught on the wrong side of a two-sided market, you are basically done for unless you can find a new business model. To get insight into two-sided markets, their challenges and huge opportunities, see *Catalyst Code: The Strategies Behind the World's Most Dynamic Companies* by David S. Evans and Richard Schmalensee and *Free: The Future of a Radical Price* by Chris Anderson.

Professionally I needed to learn about pricing tactics and strategy behind it as we were involved in evaluating performance. This book helped me look at things from many different perspectives as I formed my own strategy.

As a pricing expert and author of *Strategic Pricing for Medical Technologies*, I thought this book

provides a nice framework for thinking about pricing as well as some specific discussion on topics that are not addressed in detail in other books. I found the following discussion areas in the book to be particularly helpful:- Overall framework: the overall generic framework for thinking about pricing from an industry strategy; product/market strategy; and transactional pricing perspective is a helpful way to attack many pricing problems.- Post-merger pricing: Having lived through a merger and worked through the pricing challenges, I thought it was good that the book addressed this topic. It's not covered as widely in other pricing books.- Driving price change: This is another topic that is not widely addressed in other pricing books. I've led pricing transformations and thought this topic was well covered in the book. From a B2B perspective, it would be helpful for the authors to address quantifying economic value to customers, and using unbundling and offering strategies to compete. All in all, it's a good book that complements other pricing books on the market.

The Price Advantage, still after a few years in the marketplace, is one of the top pricing books for both pricing experts and those just desiring to learn a bit more about pricing. The book is written in a very readable form with an 'eye' for knowing what's practical in business and what's not. highly recommend this book

Good book.

One of the best price books I read in the last years. It's easy to read, lots of examples. I strongly recommend to anyone that is looking to learn more about smart pricing.

Good, easy read. Provides some great insight on how to unlock the power of pricing. Makes some great points on how businesses of all stripes have failed to exploit their positions to leverage revenue and profit through pricing opportunities. Provides good insight on how to correct the deficiency.

The author comprehensively breaks down pricing opportunity, and strategy methodology. I recommend this book to any business manager who is looking to improve bottom line profits.

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