

Customer Power in Pricing & How to Tame the Beast

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Participative price mechanisms (PPM) are popular amongst customers, as they allow them to influence the price and reduce their risk. However, sellers hardly use PPM yet as they fear buyers misusing their power and subsequent negative financial consequences. Based on an analysis of existing PPM the authors propose new PPM in order to better balance benefits of sellers and buyers. Classifying existing price mechanisms along the dimension of buyer's price empowerment and price formation type (paying directly vs. reclaiming; using/not using default prices), the authors identify and test new PPM against established approaches. Comparing seven different pricing mechanisms, the authors identify buyer's price empowerment as the relevant dimension for attracting customers to purchase. When it comes to payment, they find that reclaiming and providing a default price outperform direct payments and situations without default prices. One of the newly identified pricing mechanisms, Get-Back-What-You-Want (GBWYW), combines those beneficial properties, i.e., full pricing power together with reclaiming and a default price. By using the power of defaults and reclaiming money instead of directly determining the price, GBWYW is shown to outperform alternative ways of customer empowerment in terms of revenues and profitability