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The 1% Windfall: How Successful Companies Use Price To Profit And Grow



Synopsis

Leading pricing expert Rafi Mohammed shows businesses how to reap a financial windfall and foster growth using the underutilized and often overlooked strategy of setting prices. The 1% Windfall reveals how modest incremental changes to an everyday business practice—pricing—can yield significant rewards. Illustrating the power of pricing, a study of the Global 1200 found that if companies raised prices by just 1%, their average operating profits would increase by 11%. Using a 1% increase in price, some companies would see even more growth in percentage of profit: Sears, 155%; McKesson, 100%; Tyson, 81%; Land O'Lakes, 58%; and Whirlpool, 35%. The good news is that better pricing is more than simply raising prices. Instead, the key is to offer customers a variety of pricing options. This strategy is win-win: profits to companies and choices for consumers. But how do executives and managers set the right price? Underpinned by sound empirical research and real-life anecdotes, The 1% Windfall addresses this fundamental question. This book offers guidelines that any company—whether a multinational conglomerate, a small business, or even a nonprofit—can follow to create a comprehensive pricing strategy for any product or service. In addition, these versatile techniques and tools provide solutions to avert a slump in a recession, offset the impact of inflation, or battle a new competitor. The result is a mind-opening, clear blueprint for companies to price for profit and growth.

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Customer Reviews

Rafi Mohammed is an economist who consults on pricing strategy. The 1% windfall refers to the large impact on operating profits resulting from small adjustments to price. A study by McKinsey & Company of the Global 1200 found that if they increased their prices by just 1%, and demand remained constant, on average each company's operating profits would increase by 11%. The book is about creating a portfolio of pricing options to appeal to as many customers as possible, thus maximizing profit. The foundation of better pricing involves setting prices that capture the value that customers place on a product or service | Value-based pricing uses the next-best alternative's price as a starting point and then adds or subtracts based on product attributes. Mohammed explains his profit maximizer analysis to find the most profitable price. Prices can be structured to overcome various obstacles. Pick-a-plan pricing tactics are classified into four core groups: (1) ownership alternatives, (2) uncertain value, (3) price assurance, and (4) financial and other constraints. The author discusses 16 alternative pricing approaches to address these concerns. For example, flat rate pricing can make it easier to customers to budget rather hourly billing. Adding premium and entry-level versions of a product can broaden the customer base. Companies also benefit from current customers who choose to upgrade to more profitable products (as Southwest Airlines discovered with its Business Select ticket versions). The author suggests holding a pricing summit with sales and customer service staff.

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