

Exploring Business Models: Pricing and Revenue Management

What is a cynic? A man who knows the price of everything and the value of nothing.

OSCAR WILDE

There are two fools in any market: One does not charge enough. The other charges too much.

RUSSIAN PROVERB

Creating a viable service requires a business model that allows the costs of creating and delivering the service, plus a margin for profits, to be recovered through realistic pricing and revenue management strategies.

Pricing of services, however, is complicated. Consider the bewildering fee schedules of many consumer banks or mobile phone service providers, or try to understand the fluctuating fare structure of a full-service airline. Service organizations even use different terms to describe the prices they set. Universities talk about tuition, professional firms collect fees, banks impose interest and service charges, brokers charge commissions, some expressways impose tolls, utilities set tariffs, and insurance companies determine premiums—and the list goes on.

A key goal of effective pricing strategy is to manage revenues in ways that support the firm's profitability objectives. Doing so requires a good understanding of costs, competitors' pricing, and the value created for customers. This sounds straightforward, but it is a real challenge for service firms, for whom unit costs may be difficult to determine and fixed costs difficult to allocate appropriately across multiple service offerings. Competitors' pricing cannot be compared dollar for dollar as services are often location- and time-specific, and customer's switching costs can be