

Price Optimize for Your Best Customers

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The scenario: Customers who account for a small percentage of sales are taking up a large percentage of time and energy — at a time when a resource-strapped company can't afford to spread itself thin.

The tactic: Segment your core customers from the deal seekers — and offer goods that will appeal to each.

Every business depends on different types of customers whose importance can change in step with a changing economy. According to Pennsylvania State University management science professor Gary Lilien, most businesses depend on three basic groups of customers: “value buyers,” who will pay extra for service and support; “price buyers,” who just want the bare-bones product at a low price; and “pigs,” those who want all the services *and* the lowest price. During a recession, Lilien says, most companies can't afford the pigs, so now is the time to move them into one of the other two categories.

Any company with a wide range of customers can look for ways to package its goods and services differently to meet different needs. Successful customer segmentation relies on research gathered by sales reps or through loyalty programs, surveys, and behavior tracking on the Web. With the right data, companies can pinpoint exactly who their customers are, what they need, and how much they're willing to pay for it, and then develop pricing models accordingly.

In 2002, customer research helped chemical giant **Dow Corning** segment its core clients from its less profitable ones — and still optimize prices for each. Data showed that as the markets for Dow Corning's silicon products matured, the company lost buyers who no longer needed its more expensive services, like product testing. So the company responded by developing **Xiameter**, a separate business unit that offers discounts for bulk orders of its biggest selling silicon products. Xiameter customers must make purchases electronically; almost all of the unit's transactions are done by machine, which keeps costs low. Customers who need technical support or who only buy small volumes still place their orders with Dow Corning — and pay the full-service price. By offering a two-tiered pricing system for the same products, the company was able to maintain its traditional high-touch relationships while holding onto those customers who were leaving to find better bargains. Those who didn't like the new program were free to go elsewhere; Dow Corning could afford to lose them since Xiameter experienced double-digit growth in its first year of operation and paid for itself within three months.

Caution: As Harvard Business reporter Loren Gary has pointed out, **a two-tiered pricing system could undermine core business** if premium customers think they're being overcharged, so companies need to make sure their service offerings are worth the price they're asking.