The Gurus of Pricing Strategy

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Much of our Crash Course on How to Beat a Low-Cost Competitor is built around the insights of Michael Treacy, but other business writers provide useful advice as well. We talked to five authors who advocate five different approaches to competitive pricing. Here's what they had to say about applying their strategies in the marketplace.

Philip Kotler

His Book:
Lateral Marketing (Wiley, 2003)

His Strategy:
Create a highly recognizable brand name.

Works Best For:
Large traditional companies in established markets.

Less Effective For:
Startups selling new and disruptive innovations.

What He Told Us:
"Differentiate on some basis valued by target customers, such as quality, special features, service, or performance reliability. There is no one strategy that works in all cases. Interestingly, even commodity companies have managed to charge more and still do well. For example, unbranded coffee sells for $.75 a cup; Starbucks for $1.55. Unbranded chicken goes for $.89 a pound; a Perdue chicken goes for $1.40 a pound. Unbranded iodized salt sells for $.59 for a 26 ounce can; Morton's for $.76. The key is branding backed by a superior promise and consistently superior service."

Jack Trout

His Book:
Differentiate or Die (Wiley, 2000)

His Strategy:
Use innovation to build a reputation as the market leader.

Works Best For:
Technology companies in fast-growing markets.

Less Effective For:
Commodity product manufacturers in established markets.

What He Told Us:
"Low-cost competition is the number one problem in businesses today because competition is now coming at you from all over the world. If you're not going to differentiate on price, you need to differentiate by having something that leads the market, that's more innovative than the competition. That's not an easy strategy to execute, because you'll need to be constantly innovating in order to stay ahead of the game. Once you've got technology leadership, you've also got to tell people about it effectively. At Sony, for example, the product brand Trinitron uniquely differentiated their products because, in the minds of consumers, it meant that they'd be getting the latest and greatest in television technology."

Emanuel Rosen

His Book:
Anatomy of Buzz (Doubleday, 2000)

His Strategy:
Generate word-of-mouth endorsements from customers and the public at large.

Works Best For:
Products and services aimed at large consumer markets.

Less Effective For:
Products and services aimed at small or exclusive market niches.

What He Told Us:
"Start with a great customer experience, which means a good product that generates goodwill. Studies have shown that a lot of people like recommending things that they truly enjoy, so your job is to make it easier for them to share their great experience. This can be as simple as a 'tell a friend' button or a coupon that you give customers to pass on to their friends and colleagues. If you're really certain that you have lots of happy customers, consider providing a Web forum or blog where customers can share their experiences."

Regis McKenna

His Book:
Total Access (Harvard Business School Press, 2002)

His Strategy:
Find a hook that creates an irrational preference for your products.

Works Best For:
Companies that market to a very specific demographic.

Less Effective For:
Companies that target a wide variety of customers.

What He Told Us:
"In today's markets, everything is either a commodity or in the process of becoming a commodity. In a commodity market, every product in a category does the same thing, has the same features, and has the same high quality. Without those, you simply go out of business. The challenge is to make consumers choose your product over the others. To do that, you identify your product with something else that the customer wants. With Apple it's 'cool'; with Volvo it's 'safety'; with Colgate it's 'tartar control.' These irrational attributes influence the buying process, so that a consumer picks your product rather than the virtually identical product sitting on the shelf next to it."

Seth Godin

His Book:
Small Is the New Big (Portfolio, 2006)

His Strategy:
Convince the leading edge of the market that your product is superior.

Works Best For:
Companies selling luxury or specialty goods.

Less Effective For:
Commodities intended for a broad base of consumers.

What He Told Us:
"In virtually every market, there's at least one product or brand that manages to command a much higher price than everyone else. The reason is that the companies selling that product have found the outer edges of the market, the people who are a bit off the curve, and built a product — or a story about a product — that makes sense to them. For example, office furniture is about as bland a product category as there is, but companies pay two to three times extra for Aeron chairs for their executives, because they're supposed to be better for the backs of health-conscious, upscale white-collar employees."