3 Principles of Pricing

Leading Learning Podcast
Transcript for Episode 394

Jeff Cobb: [00:00:00] There is no one-size-fits-all, failsafe approach to pricing, but there are principles to keep in mind. As you do the work to understand the pricing landscape your learning business operates in, three principles will help guide your efforts. Pricing primes perception, prices drive profit, and pricing is strategic.

Celisa Steele: [00:00:26] I'm Celisa Steele.

Jeff Cobb: [00:00:27] I'm Jeff Cobb, and this is the Leading Learning Podcast.

Jeff Cobb: [00:00:35] We preach that learning businesses need to focus on reach, revenue, and impact to be successful, and pricing is a key factor in revenue.

Celisa Steele: [00:00:44] Learning businesses rely on the revenue that comes from introducing new educational offerings or the revenue that comes from getting better sales from existing offerings. That means that we, as learning business professionals, have to know how to determine the best pricing—the best pricing for attracting and converting prospective customers, and the best pricing for maintaining and even maximizing revenue levels.

Jeff Cobb: [00:01:12] In today's episode, number 394, we want to touch on three principles of pricing that can help your learning business in setting or revisiting prices for your educational offerings. Those three principles are prices prime perception, prices drive profit, and pricing is strategic.

Celisa Steele: [00:01:33] Let's dive in with that first principle and talk about prices prime perception. Our argument here is that pricing heavily influences how someone perceives whatever it is that they're going to buy, and, as buyers, we aren't as rational as we might like to believe that we are in how we make our purchasing decisions. We're influenced by any number of factors that are unrelated to how much an item actually costs to make, and so pricing is one of those factors, but there are other things that also influence our perception.

Jeff Cobb: [00:02:14] Yes. Things like brand, the way the product looks, what our peers think about the product, how it compares to competing products or other points of reference that we bring to the table. But price is a big factor. Basically, when we see a price, we're using that to make a judgment about that product that we're considering purchasing.

Celisa Steele: [00:02:37] A very simple example of this are the name-brand knockoffs. If you see a Louis Vuitton bag for $20, your immediate thought isn't, "Oh, that's a good deal. That's a good bargain." You're like, "No, that's a knockoff. That's not the real thing."

Jeff Cobb: [00:02:51] Right because the real Louis Vuitton is something special, and, when you see the….well, heck, I don't even know how much a Louis Vuitton bag actually costs. I just know it's very expensive, and people see that price, and it becomes something special, in my mind, almost just because of the price, because you're paying a lot of money for it, and, when you carry that bag, people know you've paid a lot of money for it.

Celisa Steele: [00:03:09] The critical point for you, dear listener, is that, when you're involved in setting prices, you have the ability to influence how learners and potential customers respond to and perceive the products that you're offering based on the price that you ascribe to those things, the price tag that you put on them—that's going to influence those buyers' perception of what you're offering.

Jeff Cobb: [00:03:36] We see this happen all the time. As a general rule, all things being equal, a higher price point is going to be associated with a higher-value or higher-end product than a lower price point is. You can think about the world of automobiles. We're all familiar with cars and the car market, to some extent. We happen to be in the market for a car right now, so we've been looking at this rather closely, and we've always been fans of Hondas in the past—very reliable, standard cars. One car we're considering looking at is a 2024 Honda Accord, and the suggested retail price on that—that MSRP they tell you about—is around $28,000 for the standard baseline Honda Accord.

Jeff Cobb: [00:04:25] Now, if you look at a 2024 BMW 5 Series Sedan, you see pictures of these two cars next to each other, and they don't look terribly different. You can tell they're in the same general class of car, or type of car, that somebody might be looking for in a sedan. But the BMW, the MSRP on that, that baseline price is $61,000. You can tell me all you want to about German engineering and how superior it is, but is there really that $30,000+ level of cost difference justified in those prices? No, that price is part of the perception of BMW as that ultimate driving machine in that brand. And you just have this feeling when you're paying

$61,000 that you're paying for something that's more special—that's a higher-value product that you're getting.

Celisa Steele: [00:05:18] Yes, and I think that part of why people will spend more on something like a BMW versus a Honda is because that's how they perceive of themselves. They see themselves as someone who drives a BMW, who has a nice car, and, for them, the Honda isn't going to be nice enough. Again, it gets back to perception of both the buyers' own values and how they think of themselves and also then the perception of that product that is again heavily influenced by that price tag.

Jeff Cobb: [00:05:50] You see this kind of thing all over the place. Like coffee. Back in the day, you used to be able to get a cup of coffee for 50 cents or $1. Then Starbucks came along and changed the perception of coffee. There were a lot of things that went into that, but price was one of the things that went into that. And it's suddenly acceptable to pay $4 or $5 for that sort of coffee experience you get from Starbucks. Or you think about wine, the cheap bottle of wine versus the high-end bottle of wine. You're paying $10 for one and $70 for the other. The fact is most of us can't really taste the difference. In fact, most experts can't really even taste the difference—there's research to show this. But that price does something for you psychologically. And, of course, you may not be thinking about your learning products as BMWs or fine bottles of wine or Starbucks cups of coffee, but the same principles apply.

Celisa Steele: [00:06:40] So here's a place where we would invite you to do some reflection. We invite you to pause—literally pause the podcast—and think about what you know about how your products and services are perceived. Are they perceived as high-value, high-end? Are they perceived as good value? Think about what you know about how your offerings are perceived. And then think about what you might be able to do to change that perception, to positively impact the value perception, which would then, of course, allow you to potentially raise your prices.

Jeff Cobb: [00:07:17] And, of course, raising the price in the first place is one of the ways to change those value perceptions. Just by changing the price, keeping all else as it is, you're going to influence how people think about your products. Now, of course, you don't want to do that if your value isn't actually commensurate with that price point, but our experience is that most learning businesses are, in fact, charging less than they should for the value they're delivering.

Celisa Steele: [00:07:47] At Tagoras, we're experts in the global business of lifelong learning, and we use our expertise to help clients better understand their markets, connect with new customers, make the right investment decisions, and grow their learning businesses. We achieve these goals through expert market assessment, strategy formulation, and platform selection services. If you are looking for a partner to help your learning business achieve greater reach, revenue, and impact, learn more at tagoras.com/services.

Jeff Cobb: [00:08:23] We've talked about the psychological aspect of pricing when we said that prices prime perception. The next principle that we want to talk about is how price is, in fact, one of the strongest levers you have for profitability. Prices drive profit.

Celisa Steele: [00:08:43] When it comes to selling products or services, there are three key variables that impact your net revenue: volume, cost, and price. Out of those three, price is by far the most powerful when it comes to the impact that changing it can have on your net revenue.

Jeff Cobb: [00:09:05] Let's take a simple example. We're going to wade into the realm of trying to do math over audio here, but we'll try to keep it simple so that folks can follow along and hopefully get the point that we're making, even if you can't completely follow the math. Let's say you have a self-paced online course that you're charging learners $100 for. We're picking $100 because it's a nice round number for trying to do some verbal math.

Celisa Steele: [00:09:32] Let's say you sell 100 of those $100 online courses. That brings $10,000 into your learning business. Now let's say that out of that $100 price for the course, $90 of it goes to your costs—your learning management system, your course creation tools, your subject matter expert time, etcetera. So $10 of the $100 price tag is profit.

Jeff Cobb: [00:10:03] Now say you increase the price by 10 percent, so the price goes from $100 to $110 per enrollment. Your costs are the same, so that extra $10 in the price goes straight to profit. So you go from making $10 per course enrollment, or $1,000 in profit, to $20 per enrollment, or $2,000 in profit. You've doubled your profit.

Celisa Steele: [00:10:31] So that was a 10-percent increase in price. What about a 10-percent increase in volume? Let's follow this scenario down this line and say that the price for the course stays at the original $100, but, instead of selling 100 of them, you sell 110 course enrollments. So that brings $11,000 into your learning business, but the profit is still just $10 per enrollment. Instead of bringing in the original $1,000 in profit, now you're bringing in $1,100 in profit. That's only $100 more in profit with a 10-percent increase in volume versus the $1,000 more with that 10-percent price increase.

Jeff Cobb: [00:11:18] So we can see that pricing is more powerful than volume increases. We won't attempt the verbal math to walk you through the changes in cost, as that involves usually both fixed and variable costs, and it can be a little hard to follow verbally, so we won't challenge you anymore, as far as that goes. But trust us that, if you're going to change any of those three factors—price, volume, or cost—price is by far the most powerful one to change.

Celisa Steele: [00:11:48] Your exact results will, of course, vary based on your current prices, your current volume, your current costs. But, at the bare minimum, this should give you some food for thought to be thinking about, "Okay, what can we potentially do around price increases?" Selling more, refining your processes to cut back on costs—those are both great goals, admirable goals, but, again, the takeaway point is that they're not going to mean as big a change in net revenue as increasing price.

Jeff Cobb: [00:12:21] There's even research that's shown that a 1-percent increase in price will increase profit by around 11 percent. So think about that. If you're thinking about whether to raise prices, you don't actually have to raise prices by very much—just a percent or two—to have a significant impact over time. You may be able to get good results with a price raise that your learners are barely even going to notice.

Celisa Steele: [00:12:46] Now, on the flip side, if you're going to discount to provide an incentive for bulk purchases of your products, for example, you need to make sure that you've done the math. Is the purchase volume that you're requiring for a given discount going to be enough to make up for whatever you're going to lose in profit? Make sure that you're analyzing the way that price works relative to your net margins and your underlying costs, both those fixed costs and those variable costs.

Jeff Cobb: [00:13:16] Yes, because price is a powerful lever in both directions. And, if you cut price and think you're going to make it up on volume, often that doesn't actually work out. You don't get the increased volume that you need to actually make that happen. And you need to look at, as you said, Celisa, how underlying costs, both fixed and variable, play out in your different types of learning products. Your self-paced online learning, for example, might have variable costs that are really close to $0. Once you've got a unit of that produced, you can keep selling it and selling it without really adding many more costs to it.

Celisa Steele: [00:13:49] On the other end, high-touch, facilitated, in-person learning tends to have smaller margins because you might have food and beverage tied into that, or you're paying for that subject matter expert to fly in and be there in the workshop all day long. So those tend to have higher variable costs and smaller margins. Again, the takeaway is to be aware of the risks when you're thinking about discounting and making sure that you really do have a clear view of what those discounts are going to mean in terms of your profit.

Jeff Cobb: [00:14:22] Yes, definitely understand both your upsides and your downsides, and, just in general, you need to understand what drives profit in one direction or the other. I know we have a lot of people listening who are at nonprofit businesses. Most learning businesses are going to be very mission-driven or, in many cases, nonprofit, and so they may not be thinking about maximizing net revenue or profit. But, at the same time, we all understand that the revenue that we're bringing in through our educational products can be reinvested, whether it's into more educational products, better educational products, or other parts of the organization that the learning business is a part of. So that's a reason to think about pricing. It's a reason to think about profit and really understand how these different dynamics work.

Celisa Steele: [00:15:15] We've talked about the first two principles, that pricing primes perception and that prices drive profit. That brings us to our third principle, which is, pricing is strategic.

Jeff Cobb: [00:15:29] That may sound a little flip to say that, but, the fact is, pricing often is not strategic. We witness, in organizations, that you go out and make a product, and you decide at the end of the day, once the product is completely built and ready to go, how you're going to price it. But that's really not the way it should work. It should be something that's built into the decision to even make the product in the first place and then how you make the product, what it actually is in the end—all of that should be built in as part of the overall product strategy.

Celisa Steele: [00:16:05] If we think about some typical strategic objectives that a learning business might have, we can tick some of those off and think about then how pricing can influence those. If you think about, for example, market penetration, maybe your goal is to go as deeply as possible into the market that you serve with your product or service. Maybe you have a goal of market share, so you want to claim as much market share as you can, maybe even get some of what your competitors currently have. Market penetration, market share, those are common strategic objectives. I will say sometimes those concepts can be a little confusing, so, just to be clear in unpacking them, market penetration is the percentage of your target market that you sell to during a given time period.

Celisa Steele: [00:16:57] Let's say you serve ophthalmologists in the U.S. You might be looking to hit an 85-percent penetration mark—so 85 percent of those ophthalmologists are buying your education. Market share is a slightly different view of it—you look at your market's total value. If education for ophthalmologists is a $50-million market, or whatever, then you might want to get the majority of that $50 million, but that's regardless of how many individual ophthalmologists you serve. But, again, market penetration, market share, both of those are common objectives, and both of those tie to pricing. Again, penetration, you might think, "Lower prices are going to help me sell to more people," for example.

Jeff Cobb: [00:17:39] Right. And they're both things that you think about at the beginning, as you're thinking about actually building out whatever the offering is, and those objectives are going to influence your cost, they're going to influence your design, and they're going to influence your price. They should play a direct role in how you're going to price. All of these things influence each other. Your pricing is going to influence your volume. How you're able to price is going to influence what you can afford to invest in a product. All of these things have to be thought about at the beginning, not at the end, when you decide to tack a price on to whatever it is you've created.

Jeff Cobb: [00:18:13] Other strategic factors that you would keep in mind when you're deciding to create a product, as you're creating a product and thinking about the pricing all along, one would be positioning. Pricing can really influence the positioning of your products or your organization. This goes back to what we were talking about earlier around pricing priming perception. Pricing is a powerful positioning tool. Are you going to be creating premium or exclusive offerings? It might have that high price to them. Is that how you're going to position them? Are you going to be more of the middle-of-the range, go-to source? That also is going to influence how you think about pricing. Are you going to be the low-cost, beat-all-prices, all-of-your-CME-for-life-for-$300 provider? That's all positioning. It's all strategic. And price is wrapped up in all of it.

Celisa Steele: [00:19:07] Differentiation, that's another strategic objective that you want to think about as you're developing products, as you're pricing them. Price can signal a lot about your product. If you have a $3,000 course on ethics, if someone's looking at that, and then they also see on another site a $19.99 ethics video, that tells them something about the difference in the products, the difference in the experience—or at least sets a certain expectation there.

Jeff Cobb: [00:19:35] If you're able to sell a $3,000 course on ethics, then we want to know your secrets. But the point is, any of these—market penetration, market share, positioning, differentiation—and there can be other strategic factors as well, these are big ones that relate to pricing. But all of them take into account much more information than simply what the product costs. They recognize the actions of competition, the preferences of your customers, and the potential power of your brand. Again, all of this is wrapped up in thinking about both your products and their pricing strategically.

Celisa Steele: [00:20:10] How you manage your prices, that's inherently linked to how you manage your strategy—or at least it should be in our book—and it's going to tie into how you achieve your objectives.

Jeff Cobb: [00:20:22] Maybe just a fun little example that we have in our pricing stories portfolio that we could put out there.

Celisa Steele: [00:20:31] Yes. There's this Barclay Prime Steakhouse in Philadelphia. We've never been, but it's a steakhouse in a major city. We're assuming that there's a lot of competition. There are a lot of other steakhouses in Philly, we're going to guess. One way that Barclay Prime has chosen to stand out is that they've taken a well-known Philly tradition, the Philly cheesesteak, and then they've created this ultra-premium version of it. It's hand-cut Wagyu beef; it's got black truffle; it's got foie gras; and it comes with a half bottle of champagne. It's this high-end, premium version of a Philly cheesesteak. And it's priced at $140—$140 for a Philly cheesesteak.

Jeff Cobb: [00:21:16] A hundred and forty dollars for a Philly cheesesteak. That's crazy. It makes it kind of a novelty. But this offering is also very much in keeping with the image that the restaurant wants to present and how it wants to differentiate itself in the marketplace. So there's positioning, and there's differentiation going on there, and pricing is helping to do both of those things. It's not just another steakhouse. It's a place where you're going to be able to get exotic, different, high-end things, like this specialized Philly cheesesteak. And this menu, well, it's created a tremendous amount of word of mouth for this particular offering, which actually sells really well, this $140 cheesesteak.

Celisa Steele: [00:22:00] Yes, it attracts people who want to be able to say they've had the experience of the $140 Philly cheesesteak. It's also a strategic move in which price played a really big role. It helps to position Barclay as this high-end, premium, different-than-the-others kind of steakhouse.

Jeff Cobb: [00:22:21] And then another effect that it has—and this is an important one in pricing, kind of goes to that psychological end of it—is that that high price for a cheesesteak sandwich creates what's called an anchoring effect. People are fascinated by this kind of product with a $140 price tag on it, and, once they have that $140 price tag in mind, $60 or $70 for a filet mignon seems like a really good deal.

Celisa Steele: [00:22:49] Yes, it does. Suddenly, you're like, "Sure, I'll have two filet mignons." But another thing that's also at work here is the magnet effect. When you have that anchor of $140, that higher-priced product, it tends to allow you to raise the price of other related products. If you put something out there at the high end, it's going to give you the potential for raising the prices of some of your lower-priced products without it being perceived as a big deal. So we have the anchoring effect, and we also have the magnet effect at work.

Jeff Cobb: [00:23:26] You can think about the impact of having some very high-end, premium education products on your menu—really, your catalog. What impact would that have? Where might you be able to carve out some things that are high-priced, that have an impact, that are going to change the anchoring that people have around your pricing, that are going to change the perception of all your products and potentially give you that magnet effect that can then pull up some of your lower-priced offerings to higher price tags? We're talking about doing this with a Philly cheesesteak, but the exact same thing can be applied to any type of product or service, and we're encouraging you to apply it to yours.

Celisa Steele: [00:24:10] There isn't one, single formula for setting prices. But there are some levers; there are some principles, like the three that we covered today, that we think can help learning businesses.

Jeff Cobb: [00:24:21] Pricing is always going to be subject to your particular situation, of course, the context that a particular product exists in, and the expectations that buyers are bringing to the table.

Celisa Steele: [00:24:34] You'll have to do the legwork. You have to put in the effort to make sure that you understand the environment in which you work, but referring back to these three principles can help you better understand pricing.

Jeff Cobb: [00:24:53] There is no one-size-fits-all, failsafe approach to pricing, but there are principles to keep in mind. As you do the work to understand the pricing landscape your learning business operates in, three principles will help guide your efforts. Pricing primes perception, prices drive profit, and pricing is strategic.

Celisa Steele: [00:25:15] At leadinglearning.com/episode394, you'll find show notes, a transcript, and options for subscribing to the podcast. If you haven't yet, please do subscribe so we can get some data on the impact of the podcast.

Jeff Cobb: [00:25:28] We'd be grateful if you'd take a minute to rate us on Apple Podcasts or wherever you listen, especially if you enjoy the show. Celisa and I personally appreciate reviews and ratings, and they help the podcast show up when people search for content on leading a learning business.

Celisa Steele: [00:25:43] And please spread the word about Leading Learning. You can do that in a one-on-one note or conversation with a colleague, or you can do it through social media. In the show notes at leadinglearning.com/episode394, you'll find links to connect with us on X, LinkedIn, and Facebook.

Jeff Cobb: [00:25:59] Thanks again, and see you next time on the Leading Learning Podcast.

[music for this episode by DanoSongs, www.danosongs.com]