PROFESSIONAL PRICING SOCIETY

The PRICING ADVISOR

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For pricing practitioners, working with a consulting firm can seem like a complex dance. Positive relationships can result in increased success for the pricing function, while negative relationships can result in undermining the pricing practice. The authors, Peter Maniscalco and Alan Hollander, assert that, to structure a beneficial relationship, pricing practitioners must understand the consultant's motivators and have a checklist of items to be addressed prior to beginning an engagement. Mr. Maniscalco is a senior pricing management professional and can be reached at Peterm09@yahoo.com. Mr. Hollander is the director of Solution Marketing at Avaya, Inc., and can be reached at Hollander@avaya.com.

'Dancing' With Consultants: The Delicate Balance Needed for Mutual Pricing Project Success

For some pricing professionals, working with consulting firms may seem like learning how to waltz for the first time with an experienced dance partner. It is important that the relationship and end result is mutually beneficial for both parties since consultants can be instrumental in a practitioner's personal and functional success if the project is structured properly. In many cases, the establishment of a new pricing function and therefore job creation is the direct result of a prior consulting engagement. In addition, a consulting firm can educate and influence senior management to help pave the way and clear roadblocks for greater pricing function power and responsibility.

Conversely, a poorly structured relationship and project engagement can result in pricing practitioners working for both the consulting firm and their own boss, creating an increasingly greater workload as well as increased stress levels. More frightening is the fact that this scenario can sometimes instill a perception that the current internal pricing function's capabilities are inferior. Lastly, sound strategies and tactics that the team may have been tirelessly advocating can get absorbed by the consulting firm and be

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presented as their own ideas, giving no credit to the existing pricing function.

In order to structure a relationship and specific project engagement for mutual success, pricing practitioners must understand consulting firms' business motivators and have a checklist of items that should be addressed prior to starting an engagement. In addition, ongoing inspection, communication and review are critical to maintaining project momentum and eventual success.

What Makes Consulting Firms Tick?

Consulting firms share a number of common business objectives. However, some vary in terms of the emphasis placed on each objective. Pricing practitioners must clearly understand these motivators before engaging a consulting firm:

- **Leverage fixed resources.** A consulting firm's major asset is people (very smart ones too). If this asset is not being utilized properly (e.g. 80%+ billable time), the firm is not making money. In addition, consulting firms want greatest utilization from junior resources, often 100%, even though they may bill at lower rates. This allows partners and other senior personnel to cover more projects and ensure both quality and relationship control.

- **Establish and maintain Executive-level client relationships.** This is a key element for consulting firms with respect to driving follow-on business within existing client projects. Most consulting firms want to get in the door and stay, kind of like an in-law or friend that just needs a place to stay for "a couple weeks" but ends up staying forever. If you remember the movie "You, Me and Dupree," it's just like that, although you won't have Owen Wilson show up! Remember that a consultant's end goal is always to get an audience with your boss or bosses' boss and some may simply view you as a means to an end. That said, not all firms are like this. Some firms: a) have a strong culture of "teaching clients how to fish" so they can become obsolete and b) measure their success on your own or your team's success (e.g. whether you get promoted, if the team gets expanded etc.).

- **Enhance reputation and subsequently referrals.** Consulting firms typically maintain high standards around analytics and project deliverables including final read out presentations to client executives. A project that is perceived as well done can provide significant word-of-mouth benefit within the client organization into other business units, as well as provide the firm with referrals for new client opportunities.

In order to structure a relationship and specific project engagement for mutual success, pricing practitioners must understand consulting firms' business motivators and have a checklist of items that should be addressed prior to starting an engagement.

A Cautionary Note:

Practitioners must be wary of firms who may take and repackage existing client information that is: 1) not sanity checked for accuracy, 2) lacks proper citing of source material or 3) used in the proper context of the discussion topic. Some firms can prioritize speed over quality and the result is significant internal client re-work and revisions to correct mistakes. That said, most consultants tend to take great care in ensuring there is proper buy-in and incorporation of internal feedback prior to presentation of key findings as part of the results read out process.

Setting Realistic Expectations on the Consultant's Role

In far too many cases, a project kick off with a consultant is destined for immediate failure due to misaligned expectations around the roles to be played. A typical "non-starter" from a consulting standpoint is the client's expectation for them to serve as an additional internal team resource for hands-on implementation management and/or process execution. Although this can be ideal for the pricing team since it temporarily fills a resource gap, it does not leverage consulting resources effectively and results in very high priced temp workers that may be performing lower value tasks. If additional resources are needed to fill a gap, then seek the appropriate, but temporary, internal resource or contractor.

Conversely, a pricing practitioner should

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Figure 1

Checklist Criteria	Low	Engagement Likelihood of Success		High
Consultant Role	Process Execution	Program/Process management	Targeted support/ expertise (e.g. analytics)	Strategic solution partner
Problem Definition	Fix our pricing/give us a strategy	Acute problem – end period discounts	Structural problem – list price setting	Systematic problem – strategic pricing capability roadmap
Internal Alignment: *functional	Single Function	Internal facing team view (R&D, Finance) only	External facing team view (sales, customer svc) only	Cross functional
Internal Alignment: *seniority	Grassroots/ Functional managers	Divisional/P&L specific	Sr. level governance/review forum	CFO, CEO, COO
Resource Availability	Limited to none	Dispersed subject matter experts/ Virtual team	Existing pricing team	Dedicated cross functional team
Progress/Results Tracking	As needed	Milestone driven	Regular cadence with working team members	Formal read out/update forum (sponsors &team)
Execution Process and Plan	TBD	Post project handoff to Operational group	Pre-determined implementation team	Change management/ training team

not cede the role of lead pricing interface to company executives over to the consultant. This executive communication role is critical for enhancing credibility, and although ideal for the consultant, it can minimize the relevancy of an existing pricing team if deferred since the consultant becomes the defacto voice of pricing.

The ideal role enables consultants to focus on providing additional support, and work collectively with an existing pricing practitioner and his/her team, to champion pricing as a core competency or strategic advantage with executives. This includes helping lay out a pricing roadmap or foundation for building sustainable pricing capabilities across the organization.

Planning For the "Dance"

Once practitioners have internalized the set of key consulting motivators and understand the roles for which the consultants are best suited, they can then create a plan for success based on a simple checklist of items.

Problem definition and scope (identifying the critical issue you want to solve). Establishing a project checklist is critical for success. The first step is that the **problem needs to be defined.** Is it a specific pricing problem (e.g., end of period discounting) or more of a macro level issue such as managing customer profitability? Maybe it's a deficiency in execution of your company's pricing strategies or tactics or ineffective use of existing operational resources. It's also quite possible your company's entire pricing approach is inefficient and needs re-examination.

Key Consideration:

- Is the project intended to address an acute pricing problem or a broader strategic issue?
- End of period discounting, grey market pricing vs. managing customer profitability, new offer packaging/purchase models

Degree of internal support and alignment. Your company's internal project expectations, as well as the one's you have for the consulting group, should be in alignment as a result of due diligence and clear communications between you and the consulting group. Will this project, and the results shared, help to establish or "legitimize" an existing pricing function? It's also a good idea to set a work agenda, or scope of work (SOW), for aligning your company's requirements with the consultant's capabilities.

Regardless of the problem defined, senior management involvement in and support of the project is critical in order to successfully resolve the problem. This can be determined by who is initiating or driving the project. In order to effectively contribute to the success of the project, it behooves all involved to understand if this is a division manager's "special project" or if it's being driven at the executive level. Having mutual agreement that a problem exists is important, as it helps to facilitate the project timeline and its scope.

Key Consideration:

- Are there different diagnoses or views from Sales, Marketing, Finance, Product Management etc. or a generally aligned view across functions?
- Finance, R&D view problem as value selling related vs. Marketing, Sales view problem as product cost/list pricing related

Internal resources available (within and outside the pricing function). Once you've agreed that there is a problem, and that you're going to implement the

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project and engage with a consulting group, the next priority is agreeing on the timeline for project completion. Your expectation as to the amount of time it should and will take is important for budgetary reasons and for the internal resources that will be assigned to work with the consulting group.

Internal resources should be made available to work with the consultants. It should be clearly communicated who will work with the consultants and what the parameters will be for doing so (e.g. oversight and review, execution expertise, data or analytics support).

Who should work with them? The internal project facilitator should ideally be a key member of the pricing team. However if none exists, then identify someone who is fully aware of the scope of the project, has the wherewithal to work closely with the consulting group and facilitate the project as well as to provide periodic updates to the company's management team.

Should there also be company resources involved from outside the pricing department? This depends on the scope and nature of the project and what other cross-functional group it will also impact (e.g. member(s) from the IT group if it's a project to implement a pricing quotations computer system). If your company decides to have a cross-functional team involved with the project it would still be wise to designate a (pricing) project leader to facilitate and oversee the project.

Key Consideration:

- Do you plan to use a virtual team of experts who exist across functions or dedicated functional expertise (e.g. product marketing or pricing etc.)?

Progress Monitoring and Results Measurement. Periodic updates to gauge the progress of the consulting group's performance are a must. This should be done with the consulting group's participation. Updates or brief presentations to management are important in order to ensure that everyone is on the same page, that the consulting group is "marching" towards the end deliverable and that there are no potential surprises at the completion of the project.

At the conclusion of the project, has the 'expected' outcome been achieved by the consulting group? Reviewing and contributing to final results with the consultant is critical. There should be a final presentation and discussion between executive management and all key members involved in the project. Ensure that there are specific recommendations shared for how to act on the findings. As a result, your company should be able create and implement an action plan in order to benefit from these findings.

Key Consideration:

- What is the planned cadence and regularity of tracking update meetings and does it include executive "check ins" as well as process for escalation?

Implementation, Planning and Execution. Will you have the internal resources to do so or will you need to enlist the assistance of the consulting group for follow-up? Will those who are going to implement the action plan within your company have the tools and education to do so? Ensuring that your internal resources are fully educated and trained by the consulting group on the "tools" needed to implement and maintain the project's action plan is essential for project close out. You may also need to have those involved who are implementing and maintaining the action plan trained on additional/supplementary tools (e.g. database management software such as Microsoft Access).

Key Consideration:

- Do you have commitment for cross-functional project team members who will responsible for implementing and monitoring action plan(s)?
- Continuous engagement of change management team vs. blind hand off to separate implementation resources

Conclusion

Engaging with a consulting group can and should be a mutually beneficial experience. Both the consultants and company have an end-goal which should be satisfactorily met. However, applying due diligence in selecting the appropriate partner is critical to your company's project success. Building a good relationship with each other can pay dividends in the short and long term. The key is to ensure it's the "right fit" for both your company and its new "partner." And remember, you don't want a partner like "Dupree" who ends up staying forever.

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The Pricing Prize

In many industries, managers make pricing decisions without fully analyzing their long-term profit impact. In this article from Columbia Business School, author Professor Hitendra Wadhwa, associate professor of professional practice in marketing at Columbia Business School, explains three key parameters for pricers to keep in mind while creating or changing pricing strategy. He can be reached at hw2114@columbia.edu.

The right price for the right customer in the right market at the right time is your company's greatest source of value.

In many industries, pricing is more art than science. Managers make pricing decisions without fully analyzing their long-term profit impact. Companies may have only a vague understanding of their customers' sensitivity to price. Manufacturing firms often take a cost-plus approach rather than a market-driven approach to pricing. And even in industries with more sophisticated pricing methods, companies don't always take advantage of opportunities to apply creative pricing strategies.

So how can you do better? Professor Hitendra Wadhwa, who in the past 12 years has helped several leading companies design optimal pricing strategies, suggests three areas for improvement.

1. Get Your Basic Economics Right

First, understand which costs are relevant to price and which are not. For example, fixed cost allocations like overhead should not be driving price.

Second, know your customers' sensitivity to price at different price levels. Sometimes companies skimp on market research because they worry that it will take too much time. "But there are some practical and easy ways," Wadhwa says, "to get quick checks of what the customer response is going to be — for instance, an online pricing survey, conversations with trade partners and salespeople, and analysis of sales and pricing history across accounts."

Third, think about a customer's lifetime value to your company. In what cases might you want to sell something at a lower price today in order to foster a long-term relationship with a customer?

Financial services companies have amassed huge databases of information that they can use to sell complementary products to existing customers. But they don't always leverage that information to make strategic pricing decisions based on customer lifetime value. "They're struggling with the complexity of managing multiple product lines and customer segments, with tons of data that in theory they could mine," says Wadhwa. "That's a situation where there's certainly untapped opportunity."

In the retail world, where drug and apparel stores are now starting to benefit from revenue management tools developed in the airline and hospitality industries, there is even more room to improve by getting the basic economics right.

2. Find Creative Ways to Segment Your Customers

Do you know which of your customers are willing to pay more for your product? If so, are you charging those customers a price that reflects the value they assign to the product?

Some companies are squeamish about price segmentation because they think it will annoy their customers. When Northwest Airlines announced that it would charge a higher price for exit row seats, which offer slightly more legroom, some customers complained that the new pricing policy was unfair.

But there are multiple ways to implicitly implement a segmented pricing strategy without alienating customers. "You can create variations of the product," says Wadhwa. "Or you could offer the product at a high price and then selectively give discounts on a targeted basis, through one-on-one conversations with those accounts that you feel are price sensitive, without necessarily broadcasting it to everybody."

A third possibility is to change your pricing metrics. An online employment or dating service, for example, might charge customers based on the volume of communication they engage in rather than charging a flat monthly fee. "If somebody's a heavy user, they're likely to be less price sensitive," Wadhwa says. "If you're charging everybody the same price, then you're leaving money on the table since those customers were willing to pay more."

3. Reexamine the Marketing Mix

When sales of a new product don't meet your expectations, your first instinct might be to drop the price. But perhaps you simply haven't done enough to educate consumers about the product's value or haven't lined up enough support from your channel partners. And by lowering the price you may unleash a price war, drawing you and your competitors into a downward spiral. Instead, consider focusing on further differentiating your product and creating healthier long-term pricing conditions.

"In getting price right, often you have to operate the other aspects of the marketing mix," Wadhwa says. "Price is very easy to change, and the short-term sales effect can be attractive, so it's an instrument of first resort as opposed to last resort. But when you operate in a vacuum and you're only focused on price, you're ignoring the opportunity to use the other variables to your benefit as well."

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Seeing Profit Despite Misunderstood Pricing Strategy

Citing the research of Kellogg professors Nabil Al-Najjar, Sandeep Baliga, and David Besanko, author Peter Klein, Kellogg MBA 2008, uses this article to illuminate why the sunk-cost fallacy has remained so persistent in pricing despite the efforts of economists to champion variable-cost pricing conventions. More on this research can be found at http://insight.kellogg.northwestern.edu.

Can a company improve its bottom line by pricing its products incorrectly? The answer is yes, in certain cases, according to recent research conducted by Kellogg professors Nabil Al-Najjar, Sandeep Baliga, and David Besanko.

The research, published in the RAND Journal of Economics, examines one of the most widespread pricing errors: namely, the inclusion of fixed and sunk costs in a company's calculations for making pricing decisions.

"Economic theory offers the unambiguous prescription that only marginal cost is relevant for profit-maximizing pricing decisions," emphasize the authors. However, they note that in reality, many companies, through naiveté or perhaps sheer optimism, ignore this principle and confound fixed costs (expenses that do not vary, regardless of production or sales levels), sunk costs (expenses that have been incurred and cannot be recovered to a significant degree), and variable costs (those that increase directly in proportion to the level of sales) when making their pricing decisions.

Although laws of supply and demand are persuasive teachers and such irrational pricing typically corrects over time, the researchers sought to explain why the full-cost pricing fallacy continues to be perpetuated, even in numerous accounting textbooks. Their results demonstrate that an exception to the rule does in fact exist, and full-cost pricing can be beneficial in limited market conditions.

Modeling Manager Pricing Decisions

By modeling numerous marketplace scenarios in which more simplistic pricing strategies are employed, Al-Najjar, Baliga, and Besanko were able to determine how these strategies would play out over time and affect the profitability of the companies using them.

In particular, the authors show that in a differentiated product oligopoly, firms will learn over time to confound variable, fixed, and sunk costs, because marketplace experiences will reinforce the practice through higher true profits. Examples of such oligopolies—that is, difficult-to-enter markets in which a small number of firms produce similar but not identical products—include the cereal and the global automobile industries.

By taking sunk costs into account, firms predispose themselves to set higher prices. Experimental research supports the conclusion that managers often confuse sunk, fixed, and variable costs. For example, in a 2006 study by Offerman and Potters, subjects were asked to play an equilibrium pricing game. The players were divided into two groups: those who paid a sunk entry fee to play the game and those who paid no such fee but faced an identical set of variable costs.

Theoretically, the equilibrium prices reached during each game should have been identical. But in practice, the equilibrium price reached in the game in which players paid the entry fee was significantly higher than the price reached in the counterpart game with no such fee.

Accounting for the Learning Curve

According to Al-Najjar, Baliga, and Besanko, however, such studies fall short of addressing the question of whether managers learn to price their products correctly by observing the dynamics of their own marketplaces, even if the foundations for their pricing strategies are theoretically incorrect.

To address this question, they built a model that assumes managers make pricing decisions based on their firm's budgeting assumptions and costing methodologies, both of which may or may not include sunk, fixed, and variable costs. The model also assumes that each firm has imperfect knowledge regarding the budgeting assumptions and costing methodologies of rival firms, including whether or not their cost bases are inflated and when (or even if) they make adjustments to their practices.

The model shows two things. **First, it indicates the obvious: each manager learns over time to choose as high of a price as possible within the limits of his knowledge and assumptions, regardless of the market in which he operates. The second conclusion is more surprising: the model indicates the impact that different market scenarios have on equilibrium prices.** For instance, in monopoly markets, the confusion of variable, fixed, and sunk costs does not lead to a higher equilibrium price for the simple reason that the monopolist will learn by trial and error what his most profitable price is.

Errors in costing methodologies do not lead to higher equilibrium prices in perfectly competitive markets either, since firms have no pricing power in such markets. If a manager were to inflate the cost basis for his firm, he would simply move

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the company away from making its profit-maximizing quantity. Thus, experience in such a market should eradicate the misunderstanding of cost allocation.

Similarly, homogeneous product oligopolies do not support the distortion of costs or prices.

When the products of rival firms are interchangeable, customers should be indifferent to where they purchase the products—the decision is based exclusively on price. Therefore, pressure for a firm to lower its prices, undercut its rivals, and capture its entire market is strong enough to clarify any confusion regarding correct costing over time.

Higher Profits Can Encourage Confounding Costs

In examining differentiated-product oligopolies, however, the authors discovered evidence supporting the sunk-cost fallacy. Managers of firms in such markets are incentivized indirectly through higher profits to confound variable, fixed, and sunk costs.

The intuition for this result is that in a differentiated-product oligopoly, if a firm raises its prices, its rivals increase theirs as well, resulting in a more profitable industry equilibrium. By taking sunk costs into account, firms predispose themselves to set higher prices. The resulting increase in profits reinforces this practice, making firms more likely to take fixed and sunk costs into account in the future.

It is important to note that these results hold true only in product oligopolies in which a firm's price increase causes either an elevation in price or a stabilization of price in its rival firms. For example, if restaurant A raises its prices, restaurant B has no incentive to lower its prices, since the meals offered at A are different enough from those at B that such a cut ought not to drive customers away from A to B. Restaurant B, therefore, might maintain its current prices, or might raise its prices in line with A's so as not to miss out on the additional profits available to it because of higher prevailing market prices.

The experimental results indicate that both the number of firms present in the oligopoly market and the degree of differentiation for these goods have profound impacts on the likelihood that a firm would benefit from full-cost pricing.

Figure 1

θ		N =2	N = 3	N = 5	N = 10	N = 100
→ 0	p^0	160.00	160.00	160.00	160.00	160.00
	s^*	0	0	0	0	0
	p^*	160.00	160.00	160.00	160.00	160.00
0.10	p^0	152.11	145.00	132.73	110.00	33.08
	s^*	0.71	1.17	1.65	1.81	0.18
	p^*	152.45	145.65	133.71	111.20	33.24
0.20	p^0	143.33	130.00	110.00	80.59	21.21
	s^*	2.70	3.70	3.95	2.80	0.10
	p^*	144.83	132.22	112.63	82.73	21.31
0.40	p^0	122.50	100.00	74.29	47.50	14.41
	s^*	9.47	9.18	6.29	2.62	0.04
	p^*	128.42	106.43	79.23	49.80	14.45
0.60	p^0	95.71	70.00	47.50	29.35	11.99
	s^*	17.70	12.05	5.76	1.72	0.02
	p^*	108.36	79.64	52.54	30.97	12.01
0.80	p^0	60.00	40.00	26.67	17.89	10.75
	s^*	21.82	9.88	3.40	0.80	0.01
	p^*	78.18	48.89	29.88	18.68	10.76
0.90	p^0	37.27	25.00	17.89	13.61	10.34
	s^*	17.48	6.12	1.80	0.39	≈ 0
	p^*	53.17	30.81	19.64	14.00	10.34
→ 1	p^0	10.00	10.00	10.00	10.00	10.00
	s^*	0	0	0	0	0
	p^*	10.00	10.00	10.00	10.00	10.00

Figure 1 presents these results, with N being the number of firms in the market; θ being the degree to which products are differentiated; 0 indicating that the goods are completely differentiated and independent; and 1 signifying that the goods are perfect substitutes. P^0 is the equilibrium price in the market given no cost-basis distortions; s^* is the cost-basis distortion that persists given the model's output; and p^* is the actual market-equilibrium price suggested by the model. Within the table, s^* is the key number: the larger the s^*, the greater the increase in the market's appropriate equilibrium price.

Within the table, s^* is the key number: the larger the s^*, the greater the increase in the market's appropriate equilibrium price.

As the data shows, for markets in which there are numerous players, cost-basis distortions are minimal. Greater intensity of competition accounts for this result. Additionally, when a market begins to resemble either a monopoly or a perfectly competitive market, cost-basis distortions tend to disappear. In the middle of these ranges, however, cost-basis distortions can be significant. For example, when N = 2 and θ = 0.80, the cost-basis distortion is roughly 36 percent of what should be the market's undistorted equilibrium price.

These results offer new insights into why the sunk-cost fallacy has remained so persistent despite the efforts of economists to champion variable-cost pricing conventions.

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A Proposal to Solve Concert Ticket-Pricing Woes

Many industries have found success in this challenging economy by implementing dynamic pricing strategies. Author Rafi Mohammed points out how utilizing a similar approach to pricing would benefit the concert industry, especially now that consumers have smaller amounts of disposable income. Rafi Mohammed has worked in pricing for more than twenty years, is the founder of Culture of Profit LLC in Cambridge, Massachusetts, and the author of the Pricing for Profit blog. He can be reached at rafi@cultureofprofit.com.

At a recent D: All Things Digital Conference, Ticketmaster CEO Irving Azoff proclaimed, "We haven't done enough dynamic pricing for tickets, and we should, and that will help make people happy." Mr. Azoff is right.

Dynamic pricing is the key to pricing for profits and growth in the rock concert industry.

The challenges of setting concert ticket prices come down to two key issues: (1) uncertainty and (2) properly scaling the house (setting the right price for different seats).

In an industry where high financial guarantees to artists are the norm, promoters need to set the right ticket prices to survive. There may be 12,000 fans cheering for an encore, but if a promoter had bet that the attendance would be 13,000, s/he is sulking over a big loss.

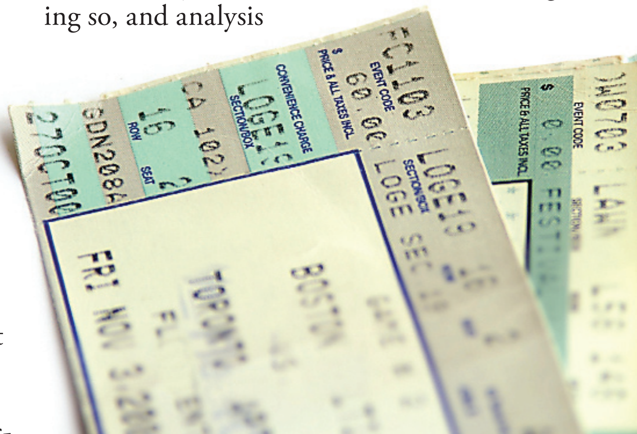
Their profit comes after selling those last 1,000 seats. Given that tickets are routinely sold six months before a show, it's impossible to undertake an accurate pricing and attendance analysis. Much can change in six months: An artist may get heavy airplay and high promotion, other similar acts may be playing the same week, there might be poor weather, and so on.

Even if a challenge is identified, it's hard to quantify its effects. For example, a Hall of Fame band may have sold well two years ago, but will its classic rock fans be as enthusiastic this year? We all know that this summer will be economically challenging for concert fans. So why are some bands doing well, while others aren't?

It is difficult to properly scale a venue. Having just two or three price levels won't capture the value of every seat. Standing in Row A is a lot better than sitting in Row Z, but at most venues, these tickets are priced the same. Similarly, having a seat in the center of Row A is more valuable than having a seat at the end of the same row. Profits are being left on the table.

One solution, of course, is to add more tiers. But, if it's a challenge setting accurate prices for three tiers, it's hard to believe that setting 10 would be more precise. Should the price differential between Rows F and G be $25 or $50?

Some have suggested using an analysis on historical data to set prices. Yes, using past data in conjunction with experience is always better than not doing so, and analysis may help set initial ticket prices. But an analysis on years-old data cannot capture the uncertainties of today's demand and ensure that Rows C and R are priced properly.



Would you risk losing $100,000 by relying on an analysis of one- to five-year-old data that "estimates" those crucial last 1,000 seats will be sold? I wouldn't. There's too much uncertainty. Mining past data can provide good insights, but it won't solve the concert industry's pricing challenges.

What do industries that use dynamic pricing, such as airlines and hotels, have in common? They all have high demand uncertainty and offer perishable products. Sounds a lot like the concert industry, doesn't it?

Dynamic pricing adjusts prices in accordance with demand. If a tour has good buzz in the Midwest, prices rise in those areas. If a widely anticipated tour seems to be falling short on selling those last crucial 1,000 seats, prices can be lowered. If demand for Row C tickets is lower than expected, other tickets upfront can be discounted. And just as it is in the airline industry, those who willingly pay high prices subsidize others by making it possible to offer lower price tickets.

To be clear, the goal of applying dynamic pricing to the concert industry isn't always to achieve a sellout. The goal is to offer consumers more choices, as well as for promoters and artists to increase sales and make the most money.

Dynamic pricing is a win-win strategy. By understanding demand and setting the right prices, bands, promoters, and consumers all win. If other industries can profit and grow by using dynamic pricing, so can the rock concert industry.