



*In this article, the author examines Sony's product development, pricing and product launch strategies for the new PlayStation VR headset, and analyzes how Sony used its knowledge of its target market to value engineer a product that would meet both their market's value expectations and their price requirements. Tim J. Smith is the founder and CEO of Wiglaf Pricing, adjunct professor at DePaul University, and Academic Advisor for the Certified Pricing Professional designation. His most recent book is Pricing Done Right: The Pricing Framework Proven Successful by the World's Most Profitable Companies (Bloomberg Financial, 2016). He will be delivering a keynote entitled "Pricing Done Right" at the PPS 12th Annual European Global Conference in Berlin, and can be reached at [tsmith@wiglafpricing.com](mailto:tsmith@wiglafpricing.com).*

## Will PlayStation VR Succeed?

Sony is entering the virtual reality market with the PlayStation VR headset, but will customers purchase it? Can the maker of Walkman re-emerge as the consumer electronics star after Apple stole the mantle with their iPod, iPhone, and iPad series? Three strategy paradigms indicate it just may be so.

### Value-Engineering

Value-engineering is a proven design principle of highly successful launches. This principle has been used by down-market firms like Ikea and Southwest, mid-market firms like Vespa and Nissan, and even up-market firms like Virgin Atlantic First Class. It is a core culture element of the value-based Pricing Framework discussed in **Pricing Done Right**.

In value-engineering, firms start with the target customer's perspective and work backwards to define the offering. Not all potential customers will be the target customer, but the target customer base is

anticipated to be large enough to warrant investing in the offering innovation.

Various outcomes the target customer highly desire and are willing to pay for are designed into in the offering. Elements that the target customer is willing to forgo, or at least are not willing to pay for, are removed from the offering. Even if all the competitors include the isolated element, if the target customers don't sufficiently value that element, it is reduced if not eliminated.

As the firm defines the benefits to be included and excluded, they define the target price of the launch offering. From this target launch price, the firm defines the target cost. And from the target cost, the firm defines the features and attributes necessary to deliver the benefits demanded at the profitable target cost.

**This is the opposite of "build it and they will come," which was just a field of dreams. In its place, we have "to**

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**make them come, build what they want at a price they will pay.”**

Sony took this value-engineered approach, or at least appears to have tried to, with their PlayStation VR launch.

First, they defined their target customer as a gamer. This is a different market segment than those looking to use virtual reality for professional purposes such as showcasing condominiums remotely, designing industrial engineered products, or training professionals and military personnel.

The gamer VR customer may be willing to forgo some of the higher-end VR chips and features that are required by these other segments in order to have a lower, more family-budget friendly, price point. On the other hand, gamers may demand more in terms of comfort and abuse-tolerance than VR headsets used in more controlled environments.

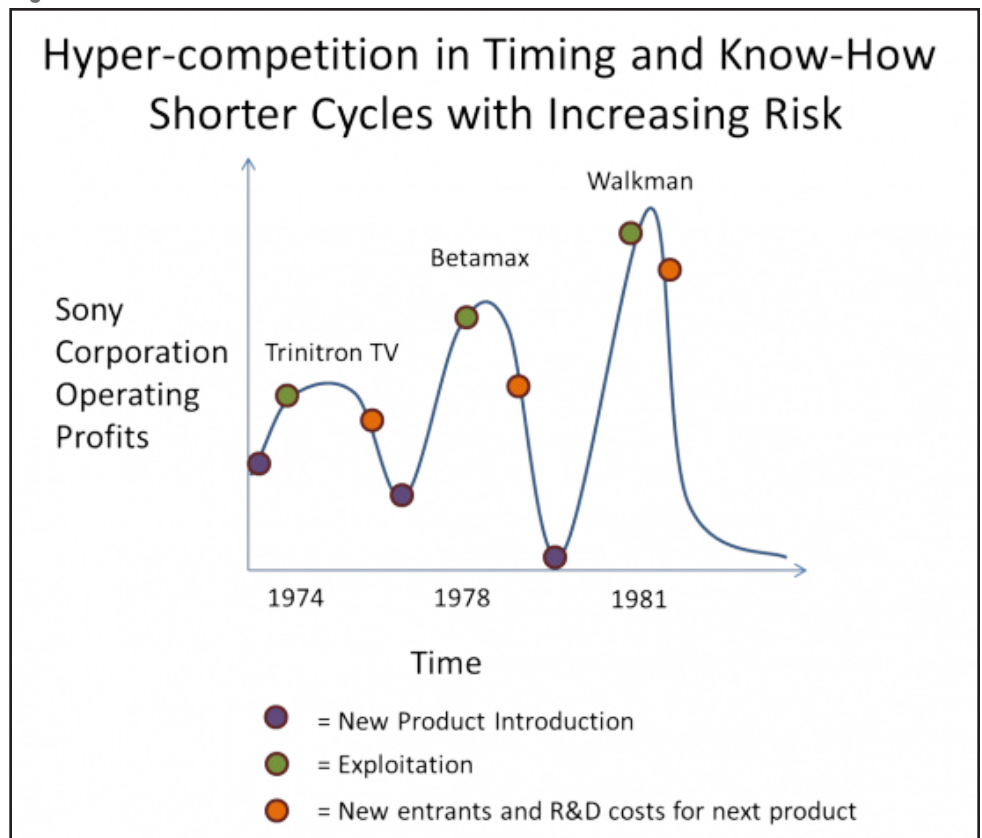
According to Masayasu Ito, Sony Interactive EVP, they took exactly that approach. In designing the PlayStation VR.

He states: “the user experience must come first before the technical specs.” As such, the PlayStation VR design team made what appears to be rational tradeoffs.

- They restrained the desire of engineers (and some VR enthusiasts) to pack hardware with expensive features that would force a higher price tag.
- They kept a high focus on ergonomics so that squeamish family members may even find the headset somewhat comfortable.
- And, they even enabled gamers to keep a social dimension with others by enabling the VR gamer to interact with others in the same room viewing the game on a regular TV.

The result is a PlayStation VR headset priced at \$399 entering a market against Facebook’s \$599 Oculus Rift and HTC

Figure 1



\$799 Vive, both of which require a \$1,000 or more high-end computer to run, and tend to be used for professional purposes. Research firm IHS estimates that with the PlayStation VR launch, the virtual reality hardware market will be \$1.6 billion this year.

Not that I can or am stating that everything Sony did was perfect. And I am definitely not stating that everyone will find Sony’s design tradeoffs to result in a good offering.

But they did define their target market and product design requirements in such a manner broadly appearing to be compatible with a highly successful product, launch. Value-engineering works. Sony appears to have done this with their PlayStation VR.

**D’Aveni’s Hypercompetition in Timing and Know-how**

In 1994, Richard D’Aveni released **Hypercompetition**, a groundbreaking book describing competitive strategy in

a hyper-competitive world. The second of four competitive arenas he describes is that of timing and know-how.

**In the timing and know-how arena, firms compete by creating entirely new industries through utilizing the firm’s unique tangible assets and intangible knowledge and capturing early, if not first-mover advantages.**

While Apple can be used as a modern example of competing through timing and know-how, D’Aveni actually used Sony as his example back before the iPod, iPhone, iPad series of consumer electronic breakthroughs.

In the early 70’s, Sony launched the all solid-state Trinitron TV, earning Sony an Emmy Award in ‘73 and redefining the standard of viewing excellence. As competition heated up, Sony launched Betamax, which briefly led the market until network externalities drove the VCR format to dominate a now defunct

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industry. As the prospects for the Betamax began to fade, Sony again applied its deep knowledge of consumer electronics to release the Walkman in the early 80s.

Today, it can be said that Sony is once again leveraging its deep knowledge of gaming and consumer electronics, built upon its PlayStation knowledge. It also appears to be appropriately timed in relationship to the development of the core components required for moderately priced virtual reality hardware.

While I am definitely not stating that Sony is assured success by being an early mover in the gamer VR market, and D'Aveni and myself are both well aware that not all first-movers hold an advantage in a rapidly evolving industry, I am stating it fits the pattern of what looks likely to be a successful new business venture.

Competing with timing and know-how works. Sony appears to have done this with their PlayStation VR.

## Ecosystems and Network Externalities

Network effects, first popularized by Metcalfe in the 80's, business ecosystems, and platforms have become the rage of Silicon Valley. According to this vein of thinking, businesses come to dominate markets as consumers and suppliers both utilize a platform to transact and create value. In these markets, value is created in proportion to the square of the users of the network, not linearly as they are with simpler transactional products like baked goods or televisions.

The Sony PlayStation VR headset plugs into their PlayStation 4 videogame consoles. Estimates state that there are 43 million PlayStation 4 consoles in the market today, and that this number will

rise to above 50 million in 2017.

This is in contrast with the VR headsets made by Facebook and HTC. Both of these headsets require high-end computers as mentioned earlier. Fewer consumers own the necessary platforms for these competing VR headsets, as such they enter a weaker ecosystem.

In comparison, the PlayStation VR is entering a healthier ecosystem than either of its existing competitors.

Other firms, notably Google, are also working on VR gaming solutions. Some of these VR gaming headsets require no more than a mobile phone to operate. This might prove to be an even greater platform for gaming, but that story is for a later day and it is hard to forecast how these will be received.

As stated, first-mover advantage is disputable. Markets evolve. Today, I cannot state whether the VR + Gaming Console platform will out- or under-perform a VR + Mobile Handset platform in 2020. But today, in 2016, it looks like it will.

Part of the platform theory stresses the value of suppliers as well as customers. For VR gaming, that is an issue of having games available for customers which other gaming firms are willing to build. Again, we see in Sony's PlayStation VR release a target to have at least 50 games ready at launch, including STAR WARS™ Battlefront™, Batman Arkham, RIGS Mechanized Combat League, and Farpoint VR. I am sure Sony is hoping other game developers will hop on the platform soon.

Network externalities have a real impact on some offerings' success. Gaming is one area where the impact of network externalities, ecosystems, and platform

adoption matters. Sony appears to leveraging a strong ecosystem with their PlayStation VR.

## Success, Likely But Not Assured

Sony's PlayStation VR fits the mold of at least three successful business strategy paradigms.

- They attempted to value-engineer the offering.
- They are leveraging their deep gaming and consumer electronics know-how and the timing of development of VR chipsets and other hardware elements in creating the offering.
- They are entering a fertile ecosystem at a price appropriate for the target market.

There are other business strategy paradigms we could explore with relation to this product launch. Yet business success requires more than following strategic paradigms like a recipe. It also requires some luck. As a gamble, Sony's PlayStation VR looks like a good bet, but nothing is ever assured.

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Sony's PlayStation VR fits the mold of at least three successful business strategy paradigms.

# The Five Biggest Myths of B2B Pricing

*In this article, the authors address five of the biggest myths in B2B pricing as well as key takeaways for pricers in B2B industries. Dr. Jochen Krauss is Managing Partner of Simon-Kucher's Singapore office. He specializes in developing commercial and pricing strategies, and designing innovative price and product structures. He can be reached at [jochen.krauss@simon-kucher.com](mailto:jochen.krauss@simon-kucher.com). Alexander Stahmer is Manager of Simon-Kucher's Singapore office. He specializes in developing commercial strategies, sales excellence, and pricing innovative products. He can be reached at [alexander.stahmer@simon-kucher.com](mailto:alexander.stahmer@simon-kucher.com).*

## **Myth #1: “The market sets the price. We can’t deviate from that.”**

There is no such thing as a market price! No two transactions are the same. Every customer is different, along with their willingness to pay. Similarly, every order is different, and so are the order volumes and delivery requirements. This means there’s a transaction price for every individual situation, but definitely no market price. **The notion that you cannot differentiate prices because you would deviate from the market price is far from the truth.** Defining value drivers, such as customer potential, volume or delivery time, and using them to differentiate prices, are simple examples of how this can be done.

## **Myth #2: “The competition always undercuts our prices. We have to follow and match them.”**

This is the recipe for a price war. Simon-Kucher’s Global Pricing Study shows that 88 percent of the companies who are involved in a price war blame “the

Others” for instigating it. **Regardless of who started it, one thing is clear: the only winner in a price war is the consumer.**

The solution is to act based on the idea of live and let live. Companies involved in price wars have to understand the concept of deserved market share. It means that if you fight for more than your deserved market share, you will end up in a price war. Nobody reaches 100 percent market share without destroying margins in the industry. The threshold is not 100 percent, but maybe rather 20, 30 or 40 percent, depending on your competitive advantages in a specific market segment. Whether you started the price war or not, you should definitely be the first one to stop it.

## **Myth #3: “Pricing methods might work in B2C, but not B2B.”**

The typical large scale customer survey won’t work in B2B because clients quickly catch on to the real reason behind the questionnaire and start answering strategically. However, there are pricing methods that do work in B2B very well.

Incorporated in selective client interviews and extensive data analysis, pricing methods are very powerful and reveal substantial profit potential for B2B companies. The key with client interviews is to have a discussion based on value instead of price. If you know what you are looking for, a transaction data analysis can lead to stunning discoveries. Drawing the right conclusions with the right adjustments in pricing leads to real profit improvements.

## **Myth #4: “Our sales reps know exactly what they can charge.”**

For the best, very experienced, grey-haired sales representative, this is often true. They typically have a very good sense of what an appropriate price is in a specific situation. However, how many of these sales reps do you have? The

large majority of sales reps are not well equipped with hundreds or thousands of price reference points from closed transactions in the past. They base their price decisions on gut-feeling. Thus, a structured price setting logic based on objective value drivers is necessary. Embedded in an easy-to-use pricing tool, this makes it less complicated for the sales reps to find the profit-optimal price for each transaction.

## **Myth #5: “We don’t have any issues. We have pricing fully under control.”**

One simple question: Do you monitor and steer your prices as accurately as your costs? We have never seen a company that has tracked and optimized their price quality over the last decades in the same way they did with costs, even though price has a bigger impact on profit. Huge deviations in prices for C-customers with low potential or rounding discounts in 5 percent steps are just two simple examples where companies leave money on the table. **Pricing is, like costs, not just a one-time optimization effort but rather a constant process.** Creating transparency with transaction prices is the first step in that process. Continuously steering margins is the second.

### **Takeaways:**

1. Accept the fact that there is no market price, but individual transaction prices
2. Define your deserved market share and act on it – you can’t win a price war
3. Identify and optimize profits with proven pricing methods in B2B
4. Move from gut-feeling to a structured and tool-based price setting process
5. Manage your prices like you manage your costs

# The Profit Opportunity for Revenue Management in Manufacturing

*In this article, the author explores the application of revenue management in manufacturing and examines if the pre-requisites for its further application are fulfilled. Danilo Zatta is Partner and Managing Director of the Pricing Practice Area at The Boston Consulting Group and a leading pricing and top line growth expert with more than 20 years of consulting experience. He has authored Revenue Management in Manufacturing (Springer, 2016) as well as several other books and articles. He leads pricing and sales excellence transformations for corporations and public entities on a global scale. Danilo can be reached at [zatta.danilo@bcg.com](mailto:zatta.danilo@bcg.com).*

Service companies, like all major airline operators, hotel chains, railway companies, and car rental companies employ a high number of managers and analysts working on revenue management (RM). In addition, a number of management consulting companies and software developers also have large teams of RM experts.

But what exactly is RM and why does it matter in the manufacturing world? Once a hidden weapon in the hands of a restricted selection of incumbent carriers in the North American post-deregulation period of the 1970s, RM developed to a mainstream business practice throughout the service industry. **Companies like Starwood Hotels, Royal Caribbean, Lufthansa, Emirates, Walt Disney Resorts, Avis Rent-a-Car, Maersk, and Thomas Cook attribute strong increases on both the revenue and profit side to RM.**

Research on both the concepts and the applications of RM in the service industry has also been brought forward strongly by both university research and the activities of practitioners. In the world's leading business schools, like INSEAD in Europe or Harvard in the United States, students can study both RM and pricing case studies or attend entire courses on the topic.

RM has similar revenue and profit potential for manufacturing companies. Despite the first recent applications of RM in manufacturing companies, little industry or academic attention has been given to the application of RM beyond the service industry. Do the pre-conditions for the applicability of RM hold also in manufacturing, and more specifically in the process industries, as relevant subsets of the manufacturing sector?

Several works examine the conditions for application of revenue management with respect to the make-to-order manufacturing of tangible goods and come to the conclusion that these conditions, detailed in the following analysis, can essentially be deemed to have been met.

Heterogeneous demand and the possibility to segment customers based on their willingness to pay characterizes both the services and manufacturing industries. They both have different patterns of usage and behavior in terms of when they purchase and how flexible their demand is, and they place very different valuations on the need to purchase services.

Demand varies according to season, week, day, and time of day. The more uncertain demand is, the harder it becomes to make future demand-management decisions. Forecasting time-related demand to effectively make pricing and allocation decisions thus becomes a criti-

cal success factor both in services and process industries.

In the service industry, capacity is available in discrete periods and expires at the beginning of a period. Orders are assigned precisely to individual periods. As a result, sequencing is not necessary. In the manufacturing industry, capacity is constantly available and constantly expires. The delivery of the order takes place at a certain point in time. Sequencing of orders is necessary.

In the short run capacity is considered as fixed, even though companies can adapt their capacity by adjusting available units, e.g. by changing the aircraft use to a larger or smaller one. However, with an increasing degree of production inflexibility, the more production delays, economies of scale, switch-over costs and fixed capacity constraints exist, the more cost-intensive it becomes to match demand with supply variations. Thus, the higher fixed capacity is, the more strategically relevant revenue management becomes.

In the service industry, capacity is largely fixed and demand is dynamic. In the process industry, capacity is also largely fixed. Demand is also dynamic and it is

**The more uncertain demand is, the harder it becomes to make future demand-management decisions.**

determined by the delivery dates requested by the customer, the state of resources and the result of scheduling. Changes in availability are possible within certain limits by adjusting the intensity.

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The application of RM is characteristic of industry structures with a fixed cost component which is significantly larger compared to the variable cost component. Once, as an example, a restaurant has facilities and staff in place, the marginal cost of an additional client is relatively low when expressed in terms of food and drinks served as well as laundry and dishwashing. Therefore, the revenue generated must cover variable costs and offset at least part of the fixed costs. This is true for both the services and manufacturing industries.

The service is usually booked or purchased in advance of consumption, e.g. in the car rental industry. The same applies to manufacturing capacities, e.g. in the pharmaceutical industry. In the airline industry, for example, companies can withhold seats from current economy customers in order to make them available to future, more profitable business customers without being morally irresponsible or acting illegally. The same applies to manufacturing companies and their economic freedom to act.

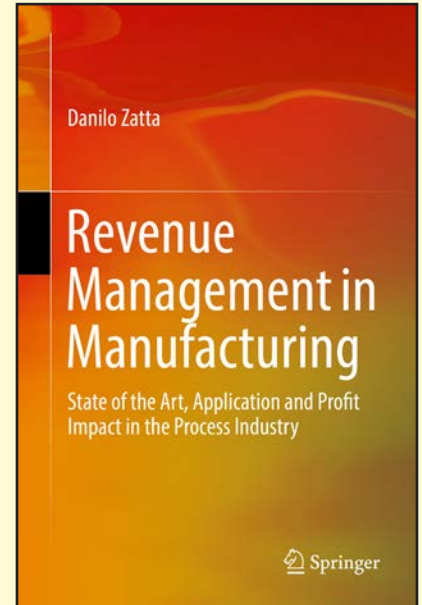
To model demand, data and supporting

systems are required. The data gathering and elaboration of the systems represent the starting point to implement and monitor the resulting real-time decisions. In this case, information technology enables companies to operationalize RM science. The services industry, and more specifically the airline industry, is an excellent case on data management and information technology and system support.

The pricing and distribution processes of this industry were widely automated with the implementation of GDSs starting from the 1960s. Therefore, it is one of the earliest industries to move almost entirely to electronic selling and distribution decades before the advent of e-commerce. Also the manufacturing industry today has the same potential to leverage data availability and information systems, even if those can differ in terms of use and level of maturity between companies.

As described above, the preconditions of applicability thus apply also to the process industry. This insight will help in demystifying limiting the application of

Click [here](#) to purchase the latest book by Danilo Zatta, [Revenue Management in Manufacturing](#).



RM to the services industry and triggering new research, approaches, and thoughts on how to further develop RM beyond the services industry.

# Results of PPS Survey on Pricing Optimization & Management Software Usage

*In the continuous search for a competitive advantage, companies are increasingly turning to Pricing Optimization & Management (PO&M) software. The Professional Pricing Society (PPS) conducted a survey in April 2016 to assess adoption of and attitudes toward PO&M software. This paper outlines the results and findings of that survey. For more information, please contact Kevin Mitchell, PPS President, at [kevin@pricingsociety.com](mailto:kevin@pricingsociety.com).*

The Professional Pricing Society (PPS) conducted a survey in April 2016 to assess adoption of and attitudes toward Pricing Optimization & Management (PO&M) software. We thank the PPS community for their enthusiastic response, with more than 300 members participating in the survey, and we are excited to share our findings.

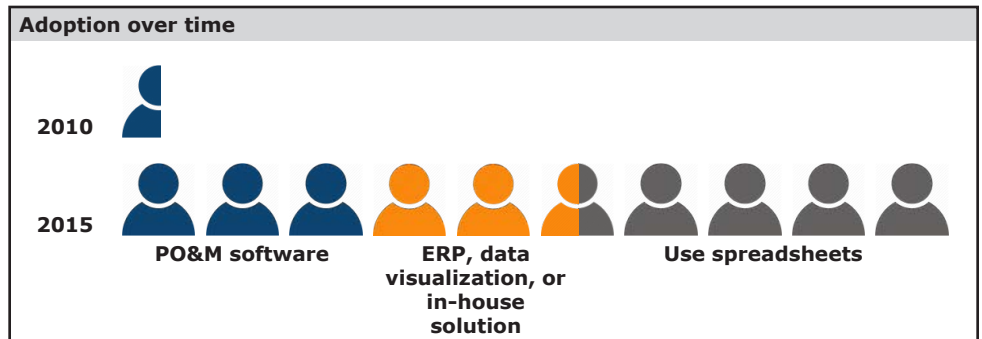
## Adoption healthy and growing across the board

The PPS Survey shows that three out of ten companies with at least \$500 million of revenue use PO&M software as their primary tool for capturing and analyzing pricing-related data, forecasting their businesses, managing price lists, providing pricing guidance to their field sales force, and ultimately optimizing pricing

**30%**

Respondents who use PO&M software as their primary tool for pricing

Figure 1



for their products and services. PO&M software adoption has accelerated in the past five years, growing from just 1.0% and 4.5% in 2005 and 2010, respectively.

**45%** Respondents who still use spreadsheets as their primary tool for pricing

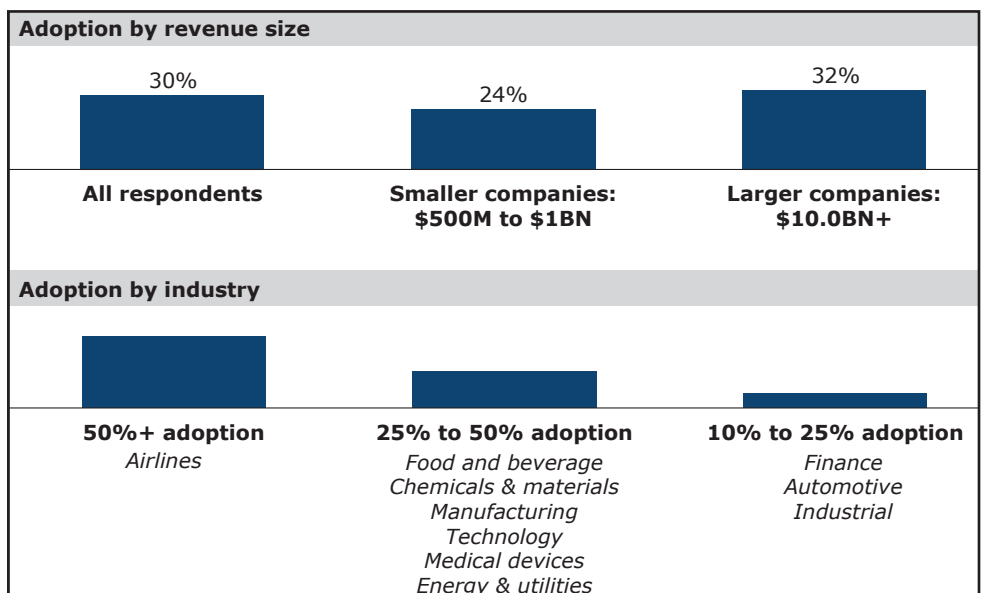
The PPS Survey reveals a striking figure: 45% of companies still use spreadsheets as their primary tool for pricing. Our conversations with experts in the field suggest an overwhelming belief that with the increasing volume of data informing pricing decisions, many of these compa-

nies relying on spreadsheets will eventually need to shift to some form of automation.

PO&M software adoption is healthy across the board, although larger companies (\$10BN+ in revenue) are 8% more likely to use PO&M software versus smaller companies (\$500M to \$1BN). Most industries have over 25% adoption, with airlines still leading the way with over 50% adoption.

The PPS Survey suggests that data quality and having a dedicated pricing func- [CONTINUED ON NEXT PAGE](#)

Figure 2



tion are “false barriers” to PO&M software adoption. Users and non-users of PO&M software judge the quality of their data similarly, and 19% of users actually thought their data was not ready for PO&M software before they implemented. Further, PO&M software users and non-users have a similar distribution of who owns the pricing decision in the organization, and 43% of users do not have a dedicated pricing group.

## PO&M value proposition widely known

The rising use of PO&M software does not come as a surprise because proper implementation of PO&M software use is widely-accepted to generate significant ROI. Per separate studies by McKinsey & Company and Deloitte Consulting LLP, a 1% improvement in price can deliver a 9% increase in profits, versus 2-6% for similar 1% improvements in variable costs, volume, or fixed costs.

PO&M software functionalities are valued by both users and non-users alike. According to the PPS Survey, users and non-users rate the value of the software as a 4.0/5.0 on average, although there are some differences across functionalities. Users value data capture and historical reporting slightly more than non-users, while non-users ascribe slightly more value on pricing guidance and optimization than users.

## PO&M software adoption approaching a tipping point

PO&M software vendors are addressing key challenges that are top of mind for potential users, especially industry-specific adaptations, which include features and functionality specifically tailored to

Figure 3

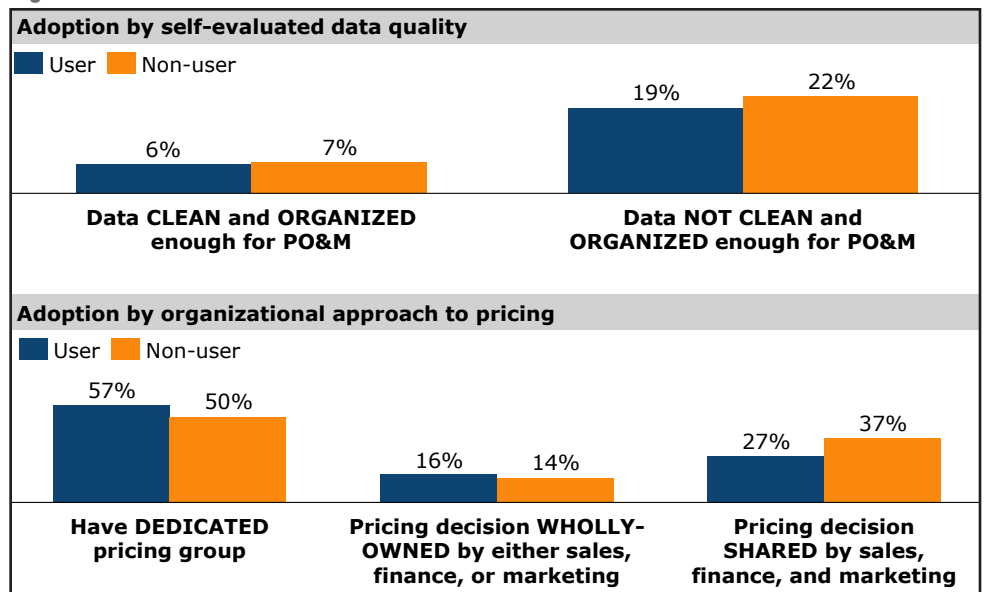
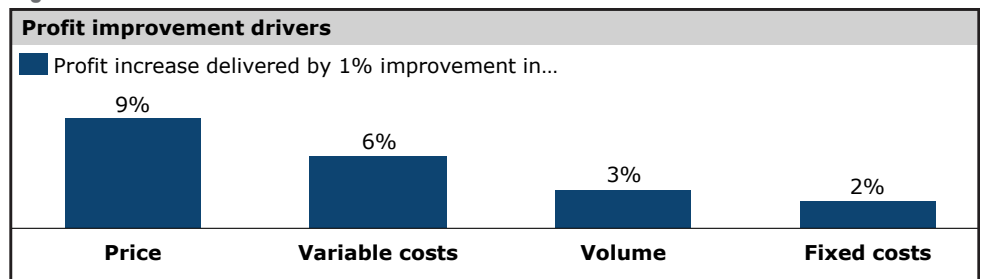


Figure 4



industry specific practices and “quirks.”

The PPS Survey shows that 67% of non-users would be more likely to adopt PO&M software if it was clearly adapted to the users’ industries. Shorter implementation times and cloud-based implementations also increase likely adoption for 37% and 36% of non-users, respectively.

Recent technology improvements in the

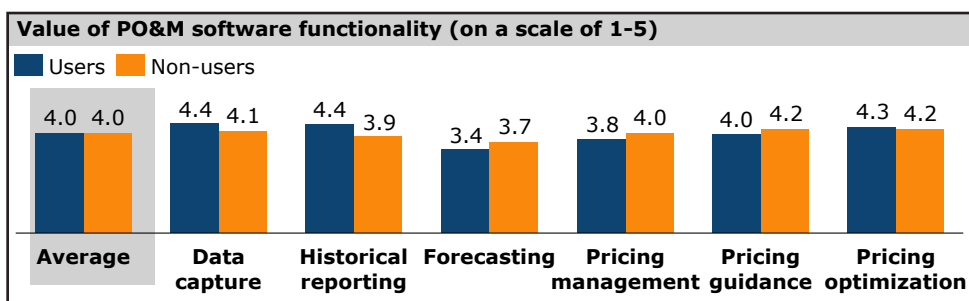
PO&M space have led to more highly-configured systems and easier implementations, helping convert non-users to evangelizers.

PO&M software vendors have continued building their library of use cases for particular industries, and developing tools and models specific to the practices and “quirks” of various industries. For example, PO&M usage in the food industry extends to optimizing inventory levels of commodity raw materials and managing shelf-life of end products. For distributors, PO&M software now have opportunity screens for sales people, which identify products that sales people should push to particular clients.

Cloud-based deployment has cut down on implementation times and allowed for a modular approach to implementation. What used to be an 18-24 month

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Figure 5





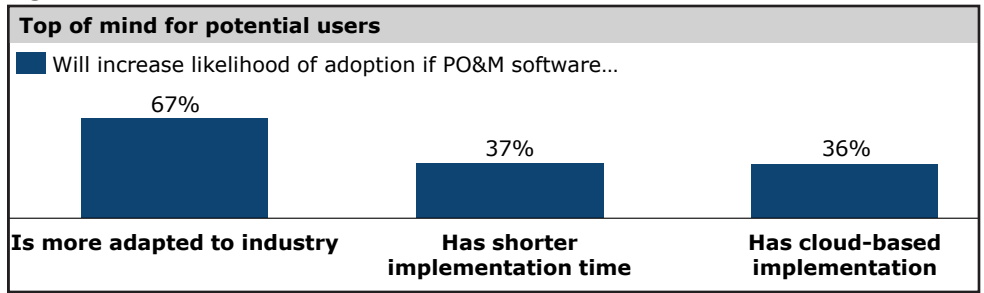
exercise can now be completed in 9-12 months, depending on the complexity of the user's workflow. And users have more flexibility in breaking down implementation to various phases and focusing first on the most "bang for your buck" modules that capture their particular opportunity sets quickly.

**41%**

Respondents who are more likely to adopt PO&M software if their competitors are users

Lastly, the PPS Survey reveals that PO&M software usage will only continue to grow as respondents look to their peers. Asked how their competitors' behavior would affect their usage of PO&M, 41% of respondents responded they would react strongly to increasing

Figure 6



industry adoption. This suggests that what currently is a competitive advantage will likely become a cost of doing business in the market. A senior executive at a leading pricing consulting firm put it nicely:

*"We believe that PO&M software will see a similar trajectory to CRM software."*

*CRM was initially a competitive advantage, but eventually everyone started using it to catch up with the early adopters. There will be a time when not having a PO&M system is likely going to be a disadvantage as it may just become table stakes for competing in the new normal."*