

THE ENTREPRENEURS SERIES

THE PRICE CODE

How to Price Products, Services &
Offers for Profit



VARDHMAN SINGH

T H E P R I C E C O D E

V A R D H M A N S I N G H

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The Entrepreneurs Series

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The stories of real companies and people in this book are retold from public sources to illustrate ideas. Dara Quinn, Kabir Mehta and Lena Fischer, their businesses and every figure connected with them are invented.

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A Note Before You Begin

Most founders set their price in about ten minutes. They look at what the competitor charges, subtract a little to feel brave, add a little to feel safe, and type a number into the website. Then they spend the next three years working very hard to make that ten-minute number come true.

It is the most expensive ten minutes in business.

A price is not a label. It is the one decision that touches **every** part of the company at once. It decides how much of each sale you keep. It tells the customer what you think of your own product. It chooses *which* customers you attract and which ones you lose. It sets the speed of your growth and the size of the hole you can fall into. And unlike a new factory or a new hire, it can be changed in an afternoon.

This book is about getting that decision right, and about knowing when to change it.

It is built around **six checks**, in this order, because each one depends on the one before:

1. **The floor.** What does it really cost you? Below this number you are paying customers to take your product.
2. **The ceiling.** What is it really worth to the buyer? Above this number they walk, and no clever marketing will stop them.
3. **The method.** How do you choose a price between the two? There are five ways, and real companies have used every one.
4. **The shape.** Where does the price sit: which channel, which pack, which plan, which free tier, which country?

5. **The move.** When and how do you change it: segments, surges, tests, rises and discounts?
6. **The guard.** What can go wrong: price wars, the law, and your own nerves?

Some promises, so you know how to read it.

Every term is explained the first time it appears. *Margin, markup, break-even, elasticity, anchor:* if it sounds like jargon, it is defined in plain words, with a number, at the moment you meet it.

Every chapter starts in a real story. A phone that lost \$200 in ten weeks. A hot dog that has cost \$1.50 since 1985. A drug that costs \$84,000 a course. A cigarette company that lost a quarter of its value in a day. These come from many countries and many decades, because bad pricing has never needed a passport. You will also follow three invented founders, **Dara** in Austin, **Kabir** in Pune and **Lena** in Berlin, so that every idea is tested on someone ordinary. They are made up, and so are their numbers. Money is in dollars so that every reader can compare like with like.

The numbers are real arithmetic. You will see small, honest sums throughout, never anything harder than a school multiplication. Each chapter that needs a tool gives you one. There is a Pricing Calculator that goes with the book, and at the end you will fill in a one-page price sheet for your own product.

You do not need to be good at maths. You need to be willing to *look at the number*, which is the thing most founders avoid. Let us begin with a phone, ten weeks old, and a very bad day for the people who had queued to buy it.

P A R T O N E

The Numbers

*Before any method, four chapters on what a price really does,
what you really pay to make the thing, and the floor and ceiling
between which every price must live.*

CHAPTER 1

One Percent of Price

*The lever that moves profit fastest, and the phone that dropped
\$200 in ten weeks.*

In June 2007 people queued outside shops to buy a phone that nobody had ever held before. The iPhone cost \$599 for the 8GB model, a hefty price for a phone, and they paid it. Some had camped overnight. Some had skipped work. Early adopters are the people who pay for the privilege of going first.

In early September, roughly ten weeks later, Apple cut the price of that same phone to **\$399**.

Two hundred dollars. Gone, in ten weeks, for exactly the same phone.

The first buyers were furious, and said so loudly. Steve Jobs, then Apple's chief executive, wrote an open letter. He said he had received emails from hundreds of upset customers. He defended the cut: prices fall quickly in technology, he said, and that is simply how the industry works. Then, in the same letter, he did something unusual. He apologised, and gave early buyers a **\$100 credit** to spend in Apple's shops. "We want to do the right thing for our valued iPhone customers," he wrote.

Read that again as a pricing story. A price was cut by a third. Customers were angry. The company paid to calm them down. And the phone went on to become one of the most successful products in history.

Was the cut a blunder or a masterstroke? We will come back to that, in Chapter 8 and again in the last chapter, because the answer teaches something. For now, notice only this: **one number, on one product, in one week, changed the mood of millions of people and the money of a very large company.** No advertising campaign does that. No new feature does that. A price does.

This book is about that number.

Why Price Beats Everything Else

Here is the claim, and then the proof.

Of all the things a business can change to make more profit, price is usually the fastest and the most powerful. And it is the one that founders spend the least time on.

The proof is arithmetic. Meet Dara. She sells handmade leather bags through her online shop, Tanbark, in Austin, Texas. Her numbers in a typical month:

Item	Amount
Orders	1,000
Average order	\$120
Sales	\$120,000
Cost of making and shipping the bags (45%)	\$54,000
Gross profit (what is left after those costs)	\$66,000
Rent, salaries, marketing and everything else	\$41,000
Operating profit (before tax)	\$25,000

Two terms to nail down. **Gross profit** is sales minus the direct cost of the thing you sold. Divide it by sales and you get the **gross margin**: Dara's is $\$66,000 \div \$120,000$, which is 55%. **Operating profit** is what remains after the running costs of the whole business as well. Dara's $\$25,000$ is the real prize. It is what the business actually earns.

Now suppose Dara wants to lift that $\$25,000$. She has three levers. She tries a **one per cent** improvement in each.

One per cent better	What changes	New operating profit	Gain
Sell 1% more (10 extra orders)	10 more orders at \$66 gross profit each	\$25,660	+\$660 (2.6%)
Cut her bag costs by 1%	1% of \$54,000 saved	\$25,540	+\$540 (2.2%)
Raise her price by 1% (to \$121.20)	1% of \$120,000, every dollar of it profit	\$26,200	+\$1,200 (4.8%)

DARA'S EXTRA MONTHLY PROFIT FROM A 1% IMPROVEMENT

Sell 1% more
(10 more orders)

+\$660

Cut cost by 1%

+\$540

Raise price by 1%

+\$1,200

Same effort. Very different result.

One per cent on price is worth almost twice one per cent on volume, if the customers stay.

Look at the last row. A one per cent price rise adds **\$1,200**, nearly double the volume gain and more than double the cost saving. Why? Because when you sell more, you also pay for more bags. When you cut a cost, you save only that one cost. But

when you raise the price, *every extra dollar lands straight in profit*. Nothing else about the business changes. The leather costs the same. The courier costs the same. The same bag leaves the same shelf.

And a one per cent change is tiny. Customers will not notice \$1.20 on a \$120 bag. Imagine a 5% rise: \$6.00 on the order, and \$6,000 more profit a month, **\$72,000 a year**, from changing one number on a website.

The Catch (There Is Always One)

If it were that easy, every business would raise prices every morning. The catch is the word *if*: **if the customers stay**.

A higher price means some people will buy less, or buy elsewhere, or not buy at all. Economists call this **elasticity**, which is simply the word for *how much demand moves when the price moves*. If a small rise sends many customers away, demand is *elastic*, like a stretched elastic band that snaps back. If most customers stay, demand is *inelastic*, like a stiff band that hardly moves.

The skill in pricing is not “charge more”. It is knowing how many customers you lose when you do, and whether the extra money from those who stay beats the money from those who go. In Chapter 3 you will learn a two-line formula that tells you exactly how many customers you can afford to lose before a price rise stops paying. For now, one result, because it is startling. For Dara, a 5% rise pays off **even if she loses about one customer in twelve** (8%), because those who stay each pay more.

The same arithmetic runs in reverse, and it is far nastier. If Dara *cuts* her price by 10% to \$108, she must sell **22% more bags** just to earn the same profit. A tenth off the price needs a fifth more customers. Most founders do not know this. They offer a discount, see orders rise by 15%, feel clever, and quietly make less money than before.

What a Price Actually Does

A price is doing four jobs at once, whether you plan it or not.

It earns. It decides how much of every sale you keep. This is the job everyone thinks of.

It signals. A price tells the buyer what to expect. A \$12 bottle of wine and a \$120 bottle make different promises before anyone has opened them. Cut the price of a luxury item and you may not sell more, you may sell *less*, because the number has stopped saying “this is special”. Apple’s cut did not make the phone worse. It did change the story of who had paid for what.

It sorts. A price decides who comes in. At \$120, Dara’s bags attract people who want a gift or a lifetime bag. At \$60 she would attract bargain hunters, who behave differently and complain more. The price selects your customers, and your customers shape the rest of the business.

It sets the stage. Competitors watch it. Suppliers watch it. Your own team watches it, because a price decides how much room they have to spend, hire and promise.

When a founder says “I’ll just copy the competitor”, they are not skipping the decision. They are choosing to let someone else make it for them, without knowing that person’s costs, customers or plans.

Where the Money Goes Wrong

Pricing mistakes are rarely about one dramatic blunder. They cluster into five kinds, and each has a chapter in this book:

- **Pricing from fear.** Charging too little because you are afraid of “no”. It feels safe. It is usually the most expensive choice. (Chapters 4, 7 and 22.)
- **Pricing without knowing your costs.** You cannot find a floor you have never measured. (Chapters 2 and 3.)
- **Pricing like someone else.** Copying a rival who has different costs. (Chapters 6 and 24.)
- **Pricing one price for everyone.** Leaving money on the table with those who would pay more, and losing those who would pay less. (Chapters 14, 17 and 18.)
- **Changing a price carelessly.** Surprise rises, panic cuts and discounts that never end. (Chapters 20 to 23.)

The Six Checks

You met the shape of the book in the note at the start. Here it is as a picture, because you will see it again in every part.

1	FLOOR What does one sale really cost me?	Part 1
2	CEILING What is it really worth to the buyer?	Part 1
3	METHOD How do I choose a point in between?	Part 2
4	SHAPE Which channel, pack, plan, free tier, place?	Part 3
5	MOVE When and how do I change it?	Part 4
6	GUARD What can go wrong, and what is allowed?	Part 5

The six checks, in order. Each one depends on the one before.

Floor, ceiling, method, shape, move, guard. Part One finds the floor and the ceiling. Part Two gives you five methods to pick a number in between. Part Three shapes the offer around that number. Part Four moves it over time. Part Five guards it, and ends with a one-page price sheet you will fill in for your own product.

Before You Turn the Page

You need three numbers for Chapter 2. Write them down now, on paper or in your phone. If you sell more than one thing, choose your best seller.

1. **Your price.** What a customer pays for one unit, or one job, or one month.
2. **What you sold last month.** How many units, jobs or subscriptions.
3. **Your best guess of what it costs you to make and deliver one.** A guess is fine. Chapter 2 will show you how wrong the guess usually is, and it is nearly always wrong in the same direction.

That is the whole homework. A price that you have never put next to its cost is a price that is guessing.

What You Now Have

You know why price is the biggest lever in the business: one per cent on price is worth about twice one per cent on volume, as long as customers stay. You know the catch, the word *elasticity*, and the alarming arithmetic of cuts. You know the four jobs a price does, and the five ways founders go wrong.

The next chapter starts at the bottom, with the number that no clever strategy can argue with. We begin with a car company that cut its prices by up to 20% in a single day in January 2023.