



The Magic Word

# Pretium

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On a recent trip to Rome I visited the Colosseum. I was once again amazed at the astounding skills of the Romans. Shortly thereafter, I came across further evidence of the Romans' incredible intellect. Although I learned Latin in school, I had forgotten the

Latin word for price. It is **Pretium**. Not a big surprise! Yet when I continued reading I was astonished to learn that pretium has a second meaning, it also means value. In other words, the Romans had the same word for price and value: **pretium = value = price**. This is a most accurate way of defining the core of marketing!

I've been dealing with the topic of pricing for over forty years now, first as a scientist and later as a consultant. Actually, it was Philip Kotler, who pointed my attention to

the potential of price consulting. As a young researcher I visited him in January 1979. Full of self-confidence, I told Professor Kotler that I wanted to conduct unconventional research into pricing. I wanted to go

outside the realm of sophisticated functions and elegant theories and actually produce something that a manager could understand and apply to his or her own business decisions. He quickly burst my bubble. "Most scientific marketing researchers want to uncover something that is relevant for day-to-day

business," Kotler told me. "Few succeed." I knew that Philip Kotler was correct. Most of the science around pricing came from microeconomics. If pricing remained

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limited to the boundaries and shifts in microeconomics, its real-world relevance would be marginal at best. Kotler did offer me one strong piece of encouragement, though. He knew someone who called



himself a 'price consultant', someone who apparently made a decent living by helping companies with pricing problems. The term 'price consultant' sounds intuitive now, but it struck me as unimaginable when I first heard it. How did he do that? What did he recommend to his clients? I filed the term away and vowed to track down this 'price consultant' after my trip and learn more about his work.

A little later in 1979, I did indeed follow up on the referral Kotler gave me. I contacted Dan Nimer, the man who called himself a price consultant. He sent me some of his articles, and the differences between his publications and the theoretical papers I'd read and written in my academic career could not be more striking. The scientific papers on price in the academic world were long on theory but devoid of practical advice. Nimer's papers were the exact opposite, chock full of simple but useful insights. He had a very good intuitive feel for pricing tricks and tactics, without exploring or perhaps even knowing their theoretical underpinnings. For instance, he had recommended price bundling a couple of years before a Stanford professor presented the theory and showed why price bundling can be optimal.

Nimer was the practice-oriented consultant who had a toolbox, before this toolbox was proven by academia. His enthusiasm for price consulting was contagious; it certainly infected me. And he was interested

in what we young guys were doing. When people who are older, more experienced, and more famous than you are take an interest in your work, it provides a tremendous motivation. I would see Nimer on occasion in the ensuing years. Into his 90's, his enthusiasm did not wane. He still lectured on pricing and advised clients. In 2012, members of the pricing community honored this visionary of price consulting

with a voluminous book of almost 400 pages for his 90<sup>th</sup> birthday (Smith 2012). He passed away in January 2015 at the age of 93.

Today, the company I founded in 1985, Simon-Kucher & Partners is the global leader in price consulting. What is the core lesson I learned during my decades as price consultant? I've been asked several thousand times what I think is the most important aspect in setting prices. My answer was always: the value. Or, to put it more precisely, the product's value as perceived by the customer. The customer's willingness to pay – and thus the price chargeable by the seller – is solely and always the reflection of the perceived value – nothing more and nothing less.

Giving the two sides of a transaction the same word, the Romans understood the fundamental connection from the very beginning. If we interpret *pretium verbatim*, value and price are the same. Interestingly enough, Latin gives us a further linguistic meaning that is intriguing *Pretiumfacere* (literally: make the price) means both to ask a price (from the seller's side) and to offer a price (from the buyer's side), implying correctly that a transaction takes place only

if the buyer and seller agree on a common price.

This deep understanding of value and price as well as of supply and demand is a good starting point for tackling value and pricing problems. Let's first look at manager's perception of prices. Everywhere I turn, I hear managers complaining about prices. Suppliers of all kinds of products or services feel defeated by price aggression and the low-price craze. This attitude will get them nowhere. If managers complain to me about tough price competition, I ask them what added value and benefits they offer that their competitors don't. And I ask what value and benefits their customers actually **perceive**. The usual response: silence. I firmly believe that businesses

and private consumers are readily willing to pay premium prices if they get higher value. Enercon's wind turbines are 20 percent more expensive than those of the competitors.

Still, Enercon has a market share of 60 percent in Germany. Why? Because of the economic advantages and the top operating availability Enercon offers, which lead to higher returns. Miele is able to charge about 20 percent more for its washing machines than its competitors due to its superior quality, higher reliability and durability – in one word: higher value.

When Gillette launched its three-blade Mach3 razor, it charged 50 percent more than for its hitherto most expensive product, the Sensor Excel. Since then, Gillette has

introduced newer, even better shavers at ever higher prices. Did consumers turn away from Gillette? No, instead Gillette actually gained market share. The reason was clear: higher value-to-customer! Of course, to communicate the advantages of the new blades, Gillette had to invest heavily in advertising. After all it's perceived value that



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counts in the marketplace. Most recently Gillette has been attacked and seems to be on the losing side. It's not because its products

are worse, but because competitors, especially those who sell online, have improved their quality and offer higher convenience. Again, it's a value-price-game.

Apple didn't achieve the highest market capitalization in the world by selling its products cheaply, but through selling high value. Innovation, design, brand and systems

integration are the value creators that Apple employed with enormous success. They are also the value creators that technically more advanced companies such as Sony have failed to utilize. No, companies that have

problems implementing profitable prices should first ask themselves what is wrong with their value offering. The chances are good that this is the root of their problems.

In other words, the magic word pretium teaches us that we first have to determine the value of our offering. This requires us doing three things:

- **Create value:** A challenge for innovation, procurement, product quality, design, systems integration, service, etc.

- **Communicate value:** This involves making statements about the product, its positioning and its branding. Packaging and presentation are also critical for value communication. Value-oriented merchants are increasingly using their own stores to retain control over the “communicative value chain”. Luxury brands have opened hundreds of such stores in recent years.

- **Maintain value:** This takes place in the post-purchase phase. For luxury products or durables such as houses or cars, maintaining the value can contribute tremendously to the current willingness to pay.

I've shared the story of the magic word pretium with my audiences. Listeners typically respond that they would take this simple message to heart and apply

it to their business. Observing the  $\text{pretium} = \text{price} = \text{value}$ -equation may indeed help to avoid many of the pricing follies we see in modern markets.

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#### REFERENCE:

Gerald E. Smith (Ed.) 2012: Visionary Pricing: Reflections and Advances in Honor of Dan Nimer, Bingley (UK): Emerald Publishing Group 2012

#### PHOTO CREDIT:

Pictures of Roman and ancient coins are taken from various websites, as below:

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