PRICING AND VALUE

Pricing Strategy and Psychology

Nagle & Holden · Simon · Poundstone

PAPER 01 / 02

A Furtherance reference compendium on the intellectual traditions behind organisational design, leadership, execution, and culture.

> **IN THIS PAPER**
> This paper opens the Pricing and Value series in Furtherance's reference library. It covers strategic pricing and the psychology of price — how price should be set against value, and how buyers actually perceive it. The question it answers: what determines a good price, and why do rational value and perceived value so often diverge?

Nagle and Holden give the definitive framework for value-based, strategic pricing; Simon argues price is the most powerful profit lever and most firms neglect it; Poundstone shows how irrational and context-dependent price perception really is.

Nagle & Holden The Strategy and Tactics of Pricing, 1987–

Strategic pricing · value-based method

CORE THESIS
Price to the **economic value** a product delivers to the customer — not to cost plus a margin, and not to win share. Pricing is a disciplined **process**, from value creation down to the final number, and the goal is profit, not volume.

FRAMEWORK

Level of the pricing pyramid	Question
Value creation	What economic value do we deliver?
Price structure	How should the price be metered and segmented?
Price and value communication	How is value made visible to the buyer?
Pricing policy and level	What number, and how do we hold it?

Economic value is estimated as the **reference value** of the next-best alternative plus the **differentiation value** of what makes the offer better or worse.

METHODOLOGY
Microeconomics and strategy, applied as a practical pricing discipline.

SIGNIFICANCE AND CRITIQUE
The standard reference on strategic pricing. The critique: it is demanding to implement and depends on quantifying value the customer may not readily concede.

Hermann Simon Confessions of the Pricing Man, 2015

Pricing practice · the profit lever · Simon-Kucher

CORE THESIS
Price is the **most powerful lever on profit** — stronger than volume or cost — yet most firms under-invest in it and chase revenue or share instead. Profit, grounded in value, should be the explicit goal.

FRAMEWORK

Idea	Meaning
Price as profit lever	A 1% price gain often beats a 1% cost or volume gain
Profit orientation	Target profit, not revenue or market share
Value is the basis of price	Perceived value sets willingness-to-pay
Innovative price models	Freemium, pay-per-use, bundling, tiering

METHODOLOGY
Decades of pricing consulting and empirical work, distilled into practical principles.

SIGNIFICANCE AND CRITIQUE
The world's leading authority on pricing practice, and the clearest statement of the profit-lever case. The critique: the register is practitioner rather than theoretical.

William Poundstone **Priceless, 2010**

The psychology of price · behavioural

CORE THESIS
Price perception is **irrational and manipulable**. Anchors, decoys and relative comparisons shape willingness-to-pay far more than any “rational” value calculation — prices are judged in context, not in the abstract.

FRAMEWORK

Effect	How it shifts perception
Anchoring	An initial number pulls later judgements toward it
Decoy effect	A dominated option makes another look better value
Compromise effect	Buyers gravitate to the middle option
Price relativity	Value is judged by comparison, not absolutes

METHODOLOGY
An accessible synthesis of behavioural-economics research on price perception.

SIGNIFICANCE AND CRITIQUE
The popular bridge from behavioural economics to pricing practice. The critique, per the caveat: it is a popular synthesis, and the size of these effects varies with context.

> **A NOTE ON EVIDENCE**
> A caveat on the behavioural effects: anchoring, decoy and compromise effects are real but context-dependent, and some laboratory findings replicate imperfectly or shrink outside the lab. Use them as design hypotheses to test on your own buyers, not as guaranteed levers — and keep genuine value, not manipulation, as the foundation of a durable price.

Synthesis

Contribution	Lens	Key idea	Register
Nagle & Holden	Strategy	Value-based pricing process	Rigorous framework
Simon	Profit	Price as the strongest lever	Practitioner authority
Poundstone	Psychology	Anchors, decoys, relativity	Behavioural synthesis

FOR THE OPERATOR

Strategic pricing sets price against value and manages perception — a disciplined value-based process (Nagle & Holden), price as the most powerful profit lever (Simon), and the anchors and decoys that shape what buyers will pay (Poundstone). For the operator: price to value, treat pricing as a profit discipline worth real investment, and design price presentation for how people actually perceive it. The next paper deepens the value case — quantifying, monetising and structuring it.