EXECUTIVE INSIGHTS

Don’t Let the Wrong Price Kill Your New Product Launch

Innovation drives growth. And breakthrough innovations — those that lead to entirely new products, services and lines of business — are the most effective drivers of large-scale growth and value creation. Need proof? Look no further than the S&P 500’s “Magnificent Seven” — Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. These breakthrough innovators delivered 19% compound returns between 2013 and 2019. The other 493 companies in the S&P 500 delivered just 2% in the same period.

But breakthrough innovations can’t succeed if the pricing strategy fails. In general, innovation is a high-risk undertaking. Many factors determine success or failure. A new book, “Predictable Winners: A Handbook for Developing, Forecasting, and Launching New Products and Services” by L.E.K. Consulting’s Stuart Jackson and Ilya Trakhtenberg, describes how to identify and manage those factors in order to systematically eliminate innovation risk and increase the odds of success.

Consider things from the customer perspective. When a breakthrough product is first launched, there is no track record, no army of users promoting the product and often only lukewarm support from channel partners. Overcoming these requires managing the key barriers to adoption that are the difference between a potential customer and a recorded sale, barriers that include convincing customers that the product is a good value.

History is filled with examples of groundbreaking products and services that failed to reach their potential due to mispricing that didn’t establish or communicate value. On the other hand, companies that have strategically set and evolved their pricing have reaped substantial rewards. Successful innovators understand that pricing is not just about numbers — it’s a strategic tool that defines customer perceptions, competitive positioning and long-term profitability.

In this article we explore the frameworks and principles that can help innovators navigate the complexities of pricing to maximize both immediate and long-term success.

The impact of getting pricing wrong

The most innovative and transformational products and services can fail if priced incorrectly. Pricing missteps can alienate customers, reduce competitive positioning and ultimately destroy value. Even the largest and most successful companies can stumble when it comes to pricing a product at launch. Notable missteps include:

- **Google Glass:** Priced at $1,500, Google Glass entered the market as a luxury tech gadget. The price alienated many potential early adopters who viewed the product as experimental and unpolished. Combined with privacy concerns, this misstep hampered adoption and relegated Google Glass to niche industrial applications.
- **Apple Watch Edition:** At the launch of Apple Watch in 2014, the company benchmarked the price of luxury watches and launched the high-end Apple Watch Edition with gold cases and prices starting at $10,000. Given the technology cycle and obsolescence risk, few luxury watch buyers bought, and this tier was quickly dropped. Apple still partners with Hermès, offering premium options at more accessible prices. However, luxury watch collectors have largely remained loyal to established brands.
- **Biogen's Aduhelm:** Biogen priced Aduhelm, its Alzheimer's drug, at $56,000 annually despite limited evidence of its efficacy and controversy surrounding its Food and Drug Administration approval. The price sparked widespread backlash from physicians, insurers and policymakers. Medicare eventually restricted coverage, and the price was later halved to $28,200, but adoption remained low.

Mispricing doesn't just hurt sales — it can derail a product's entire trajectory.

Why pricing matters in a successful launch

Pricing is more than a way to recoup costs; it's a tool for capturing customer value, communicating product positioning and managing customer expectations. This is especially crucial for a breakthrough product or service that creates new kinds of value in ways that customers may not yet fully understand. Effective pricing can:

- **Signal value:** Customers use price as a proxy for quality and innovation. Premium pricing can elevate a product’s perceived worth, as demonstrated by the Apple iPhone, which revolutionized the mobile industry by justifying its high price with unparalleled functionality.
- **Drive early adoption:** Penetration pricing strategies — such as the Disney+ $6.99 launch price — attract subscribers rapidly, creating the momentum needed for long-term market positioning.
- **Balance revenue and accessibility:** Pricing must strike the delicate balance between maximizing revenue and ensuring customer accessibility. The Tesla Model 3, for example, brought electric vehicles to a broader audience while maintaining Tesla’s premium brand.

Strategic pricing decisions must be informed by customer insights, competitive dynamics and long-term goals.

Always price for value

The traditional cost-plus pricing model — adding a markup to production costs — fails to capture customer value or market realities. In contrast, value-based pricing aligns price with the perceived benefits customers derive from a product. Value is highly context dependent, making it crucial to understand customer nuances. Breakthrough innovators must:

- **Recognize customer nuances:** The value ascribed to your product will be different depending on the customer segment and the situation; this presents an opportunity to package different versions of the product for different uses or customers. Coca-Cola comes in a multitude of packaging sizes and is offered in fountains, each tailored to match customer willingness to pay in different contexts.
- **Understand the customer’s full value picture:** Identify the tangible and intangible benefits customers gain. For instance, Tesla justifies its premium pricing by highlighting fuel savings, reduced maintenance costs and the environmental benefits.
- **Set price boundaries:** Establish a lower bound based on the next-best alternative and an upper bound defined by the product’s exchange value (the incremental benefits provided over its competitors). Luxury goods like Hermès bags are priced far above functional alternatives, reflecting their exclusivity and craftsmanship.

By focusing on value, innovators can create pricing strategies that resonate with customers while maximizing revenue.

Choosing the right pricing model

Equally important as the price itself is the pricing model — the method by which customers pay. Common models include:

- **Transactional pricing:** A one-time payment, ideal for physical goods like electronics.
- **Subscription pricing:** Recurring payments, as seen with services like Netflix, which lower the barrier to entry and foster customer loyalty.
- **Consumption-based pricing:** Pay-per-use models, such as for cloud storage services, that align costs with usage. Amazon Web Services has been remarkably successful in using this model to scale accessibility, from startups all the way to enterprise users.
- **Performance-based pricing:** Payments tied to outcomes, popular in business-to-business (B2B) industries. For instance, some pharmaceutical companies charge for oncology treatments only if patients see measurable improvements.

Each model has unique trade-offs, but selecting the right one depends on aligning the payment structure with how customers derive value.

Pricing strategies for launch

The launch phase is critical in establishing a product's market presence. Innovators typically choose between two strategies:

- **Penetration pricing:** Set a low initial price to quickly capture market share. Disney+ employed this strategy effectively, attracting millions of subscribers before gradually increasing its price. Disney+ has moved from its $6.99 launch price to $15.99 in the U.S., with an ad-supported tier at $9.99.
- **Price skimming:** Start with a high price to maximize profit from early adopters before lowering it to appeal to broader audiences. Apple exemplifies this with its iPhone launches, with premium pricing helping fund ongoing R&D and marketing.

Choosing the right launch pricing strategy depends on market conditions, competitive dynamics and customer expectations.

Evolving pricing over time

Pricing isn't static; it must evolve with market conditions, customer behavior and competitive pressures. It is critical to adjust pricing as competitors either enter the market or evolve their product or pricing model in a way that erodes differentiation. Similarly, as customers evolve how they use a product as their needs and the capabilities around them change, the pricing model has to change to reflect that. A notable example is Microsoft's transition from selling

Office as a one-time purchase to a subscription model (Office 365). This shift aligned with changing customer expectations and preferences but has the benefit of providing Microsoft with a consistent, recurring revenue stream.

The role of experimentation and testing

Pricing experimentation is crucial for optimizing breakthrough innovation launch strategies. In a digital world, A/B testing allows companies to test different offers and price points with different segments and understand what resonates and what drives uptake and retention. Spotify, for example, has effectively used testing to optimize differentiation and pricing for its subscription tiers to drive significant adoption of paid subs within its "freemium" user base. For physical products, test markets allow companies to evaluate pricing strategies in controlled environments before scaling.

This experimentation doesn't have to stop with product launch. At the most extreme level of experimentation, dynamic pricing allows ongoing use of data and market signals to adjust product pricing to maximize overall profitability. Platforms such as Uber are well known for adjusting prices based on demand, optimizing revenue and incentivizing drivers during peak times, but dynamic pricing of some form is used regularly across B2B and business-to-consumer situations.

Conclusion: the strategic role of pricing

It is always true — but particularly significant in the case of breakthrough innovations — that pricing is not just a number; it's a strategic lever that can make or break a product launch. Effective pricing strategies align with customer value, adapt to competitive dynamics and evolve with market maturity. The distinction between success and failure often comes down to understanding customer perceptions and market dynamics before a product launches and through its evolution in the marketplace.

By taking a value-based approach, selecting the right pricing model and remaining agile in response to market feedback, innovators can maximize the impact of their product and service launches, unlock the full value of their breakthrough innovations and create enduring success.

For more information, please **contact us**.

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