

ALL	pV Pricing Deeply	Unit 1: Concept 4, Switching Costs
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SWITCHING COSTS

Key Concept



DESCRIPTION:

Switching Costs are the costs to the customer of switching from one product to another. This effect works in the favour of the incumbent product or service (this is called lock-in), and makes it difficult for a potential replacement product or service to win customers.

Typical examples are:

- The hassle and time involving in switching your current bank accounts from one bank to another.
- The problem of transferring data and retraining staff if switching to a new order processing system.

WHY IS IT USED:

Switching costs is nowadays a key driver as to why people stay loyal to one company or product. They have a known working relationship and the product or service works, so why should they change? New companies with a better product or service need to counteract these switching costs to encourage the customer to purchase their offering.

HOW DO I DO IT:

- Understand the competition and the switching costs involved.
 - These will vary by competitor and market segment.
 - Services can lower or eliminate switching costs.
- Add features to your product to help mitigate switching costs.
- Having lock-in features on your product can be helpful, but smart buyers will spot the obvious ones, such as non-standard parts, and go elsewhere.
- Really good service and customer relations can be an excellent lock-in.

TRAVEL TO WORK EXAMPLE:

- See example 3, finding comparative products, in the bike example.
 - Walk, bus and bicycle have very low switching costs.
 - Home working has high switching costs, especially for retail workers.

RELATED CONCEPTS:

1. Barriers to Purchase and Use
2. Whole Product Offering

Further Reading:

3. Carl Shapiro 'Information Rules', Chapters 5 and 6

YOUR COMMENTS:

This is applicable to our *PRODUCT*: Not at all ... Very much

How could it work in your organisation?:

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PRICE / BRAND POSITION AND SWITCHING COSTS

DESCRIPTION

We update the competition diagram to put our product or service in the place we want to occupy. In this case, we also need to consider other direct competitors such as other bicycle suppliers. This might generate a new chart.

We also include switching costs, which is the ease or difficulty with which customer can switch from one product or service to another.

Thick lines=easy to swap, thin lines=hard to swap, no lines=cannot swap.

