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Razor-and-Blades pricing revisited

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Abstract From razors and blades to printers and ink cartridges to smartphones and monthly usage charges to media devices and content, razor-and-blades pricing is commonplace. The argument for such a business model is compelling: entice consumers to adopt with a low initial price for the 'razor,' build up an installed base, and more than make up for the initial subsidy by charging a high price for replacement 'blades.' The problem is, many consumer enticement, customer lock-in, and competitive lock-out mechanisms look less and less tenable given modern-day developments such as the Internet, Google searches, social media, the hacker revolution, the 'maker movement,' rapidly improving technology, leaky supply chains, and global markets. This article characterizes the what, why, and how of razor-and-blades pricing; then examines the present-day tenability of such a pricing practice; and concludes with an impetus and a call for innovation—innovation in, perhaps, the pricing of and the purchasing arrangement for the initial razor; the value proposition from the razor and the razor-and-blades system; the architecture of the razor-and-blades system; and the delivery, especially in terms of customer experience, of value from the razor-and-blades system.
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1. Introduction

During its 2015 annual New iPhone event, Apple Inc. announced not just the iPhone 6S and iPhone 6S Plus, but also a new iPhone Upgrade Program that gives customers a way to upgrade their phones every 12 months without being locked into a specific mobile carrier and its rate plan. While the new program was a major broadside against other mobile carriers, it was just one more strike against the mobile phone industry's traditional practice of razor-and-blades pricing: a revenue model in which the marketer offers a durable product (i.e., the 'razor') at a low price (even at a loss) and more than makes up for the initial subsidy by charging a high price for the consumable complement (i.e., the 'blades') over the lifetime of the durable product. Just a month earlier, Verizon Wireless, the U.S. carrier with the largest number of subscribers, had announced it was doing away with phone subsidies and two-year service contracts for new customers. Close on the heels of Verizon's announcement, Sprint followed suit, and T-Mobile was already offering its customers other pricing models.

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At about the same time as the above developments, the razor-and-blades pricing model was being revisited in another industry. In early August 2015, Epson brought to market a large-inkwell printer that broke the long-standing industry practice of 'ink-onomics': offering consumers a printer for a low price and more than making up for it later with high prices for ink cartridges (Rothman, 2015).

The razor-and-blades pricing presumably began in the men's grooming industry where it continues today. In 2014, Gillette, feeling the pressure from web-based competition offering blades on a $1 per week subscription plan, responded with its own online subscription blades but with arguable assumptions in support of a competitive price: "To come up with the $1 figure, Gillette assumes men shave just four times a week, pay $4 per blade and change blades once a month" (Ziobro, 2014).

Reading about of the above examples, I began to wonder: "What is happening to the tried-and-true practice of razor-and-blades pricing? Are these just stray examples, or are there systemic changes at play requiring the marketer to revisit the pricing model? And, if so, are there other alternatives?" This article addresses these questions in three phases. First, it reviews the what, why, and how of razor-and-blades pricing. Next, it explores why, given today's consumer and contemporary trends in technology, marketers should take a fresh look at any reflexive resort to razor-and-blades pricing. Finally, it offers examples of innovation departing from the tried-and-true-but-perhaps-now-tiring pricing model.

2. The what, why, and how of razor-and-blades pricing

Go to a retailer selling personal grooming products and you will find Gillette's latest razor, the Fusion ProGlide, priced somewhere between $9.99 and $13.99, depending on the packaging. Once you purchase the razor—presumably because you think the initial price is reasonable for a gadget that promises a close, comfortable shave—you are now locked in because of the proprietary blade technology and razor-blade interface. Gillette can make high margins on the blades you will repeatedly buy from the company over the life of the razor, thus more than making up for any initial subsidy in the price of the razor. This, in a paragraph, is the simple logic of razor-and-blades pricing.

The pricing model is not unique to the razor-and-blades category. Four years before Gillette first patented its razors, blades, and the razor-blade combination in 1904, the Eastman Kodak Company introduced its Brownie camera at a price of $1 with the promise: "You push the button, we do the rest." Once thousands of people were pushing their Brownie camera buttons, Kodak could make a lot of money by selling film, the other product the company made and marketed. Once again, the strategy included a durable product priced relatively low to encourage people to buy it and high margins from the complementary consumable product.

Modern-day examples of razor-and-blades pricing abound, especially in the world of technology: videogame consoles and videogames, media devices and media content, printer hardware (initially 2D, now also 3D) and printer cartridges, mobile phones and mobile connectivity, and so on and so forth. The model conceptually is the same in each case: entice the consumer by the low price of the hardware, lock in the consumer through some mechanism, and make high margins from a complementary consumable product or service.

The ink-onomics of razor-and-blades pricing rest on five considerations. First, it is helpful if razor-and-blades pricing is informed by the marketer's strategic intent and is not just a short-term profit-maximizing tactic. Here are some examples of strategic intent driving a razor-and-blades pricing model:

- *To establish a strong launching board for the complementary product business*. For example, take a company that is good in sensors, devices, and consumer electronics hardware—such as Sony, which over the last few years has built a strong presence in the digital cameras category—and say they want to build a strategic competence and business in optics and, leveraging that, camera lenses. A razor-and-blades pricing model for digital single-lens-reflex cameras and add-on lenses, which though not consumable in the typical sense may be purchased over time as the customer builds his or her collection of lenses, can help realize the strategic intent of building the camera lens business—a business that, importantly, may allow the company to reach out to other camera makers as a complementary product supplier.

- *To reinforce product bundling—and counteract mixing and matching*. In many industries, complementary product businesses are already pretty well established (e.g., razors and blades, printers and ink, media players and media storage). In such cases, a strategic question is whether to let customers mix and match complementary products from different suppliers and brands or to constrain customers to brand-specific product

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