Why More Businesses Should Consider Flat Pricing

By Ziv Carmon , INSEAD Professor of Marketing

Flat pricing can represent a win-win for customers and firms.

During a recent overseas trip, as soon as I stepped into a taxi, the driver offered to quote me a fixed price for travelling to my destination instead of using the meter. The driver clearly knew more than me about the route and the road conditions that day, and there was a good chance that this information asymmetry would allow him to profit by charging more than the expected cost of this trip. I was nevertheless drawn to the fixed price and accepted his offer. I suspected that many customers also prefer to pay a flat price. A survey that I conducted later confirmed that the preference for flat fares is pervasive. Yet this pricing approach is not as common as I believe it should be.

Flat pricing –paying a pre-agreed price no matter how much you consume – offers predictability and relief from the common meter-running annoyance. It eliminates the challenge of resisting staring at the taxi meter in spite of being fully aware that gazing at it will not make it move any slower nor make the ride any more pleasant. Consider how painful it would be to pay a per-minute fee for conversations with your lawyer, including the really bad joke he told you.

Another benefit of flat pricing is that once you've paid, you can think of everything you consume as "free." Customers love the sense of receiving something for nothing. Unrestricted consumption adds to the appeal – liberty feels great.

The alternative to flat pricing, better known as usage-based pricing, is the meter-based pricing that taxis usually rely on, for example. With this common approach customers pay for what they consume – no more, no less. Utility companies typically charge by the unit, hospitals by the number of days you stay and the medical procedures involved, and lawyers and other professional service providers typically charge by the hour.

Those who go flat

There are good examples of firms and business sectors that use flat pricing profitably. Cruises and holiday resorts often charge a flat fee for most of what guests can consume – lodging, meals, entertainment, sports equipment usage, and more. Automobile associations such as AAA, and content providers such as HBO, Showtime, Netflix, Amazon Prime or the New York Times online extend a similar offering – pay a flat fee and consume as much as you wish. Other examples include monthly or annual plans offered by public transportation providers, gyms, and phone and Internet service providers. Even firms that typically rely on usage-based pricing, such as professional services, sometimes offer flat pricing.

One may wonder if customers abuse such offers and over-consume. Consider all-you-can-eat buffets, for example. Some customers certainly gorge to "get their money's worth", but overconsumption is rarely the norm.

Flat pricing in practice

Savvy firms that utilise flat pricing add safeguards, for example, by requiring so-called fair usage. Many telcos provide "unlimited" data but throttle down the communication speed once a customer exceeds a reasonable level of consumption. In the case of all-you-can-eat buffets, the necessity of speaking to a waiter in order to receive another free steak can moderate consumption. Requiring an appointment to be seen by a flat-priced service provider is another example.

Designing an offer that appeals to customers and is profitable takes some work. In order to weigh what will be covered by the flat fee and how much to charge, managers must assess such variables as demand, costs, price elasticity and expected consumption levels. Some experimentation and calibration is often needed. Moreover, convincing customers to adopt flat price schemes is initially not always easy. But once they accept the flat price, customers are often happier and churn less.

I would love to see more firms try flat pricing, especially ones with low variable costs or selling perishable products and services. It can often represent a win-win – many customers enjoy the predictable cost and the firm can profit more.

Ziv Carmon is a Professor of Marketing at INSEAD and The INSEAD Chaired Professor of Marketing in Memory of Erin Anderson.

*Follow INSEAD Knowledge on **Twitter** and **Facebook**.*

Find article at
https://knowledge.insead.edu/marketing/why-more-businesses-should-consider-flat-pricing

---

About the author(s)

Ziv Carmon is the Alfred H. Heineken Chaired Professor of Marketing at INSEAD, where he studies judgment and decision-making, and its public policy, strategic, and tactical implications.