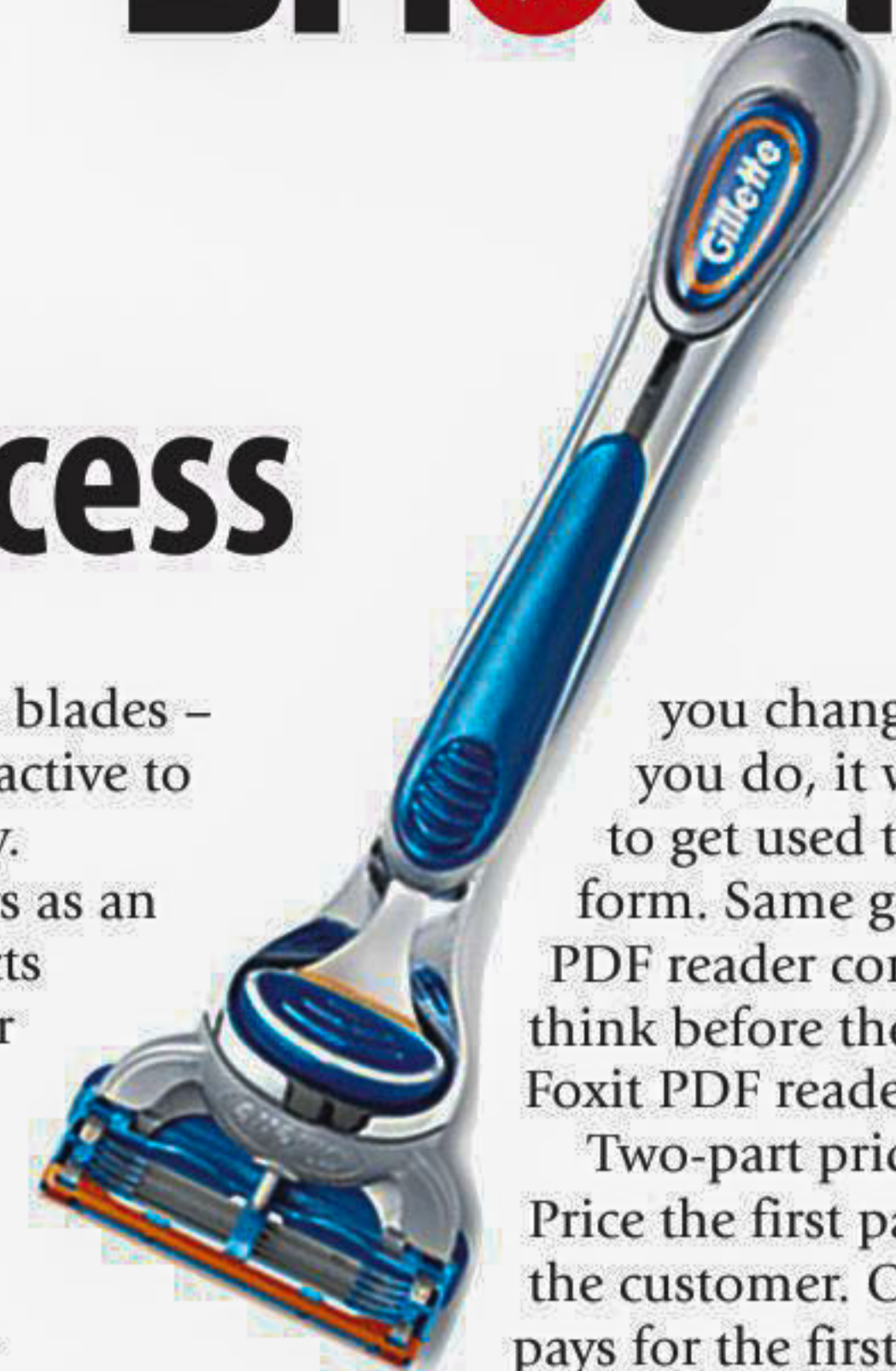




**ECHOES BY
 ASRAR CHOWDHURY**

Gillette: A Two-part Pricing Success



Have you ever wondered why the price of the ink (toner) of a printer is a large part of the price of the printer itself? Have you ever asked why a game console is so cheap compared to the CDs you need to play games? Have you ever thought why your grandfather uses a basic mobile phone and probably won't change to a

devised a clever way to make the razor small and strong, and yet the blade thin to reduce manufacturing costs. Gillette's innovation was revolutionary. It saved the hassle of going to a barbershop to shave because razors were heavy and shaving on your own wasn't always a good idea. Disposable blades meant people could

components – the razor, and the blades – high. The high price made it attractive to the richer end of the market only.

Patents are given to innovators as an incentive to develop new products and enjoy a monopoly to recover their innovation costs. Other manufacturers can't make cheap alternatives within the patent period. But, patents don't last forever. Cheap alternatives do emerge. However, if the patented product becomes a brand, the business model may survive after the patent finishes. The model may also survive if 'switching costs' to alternatives is difficult. This is how the two-part pricing model emerged with the Gillette experience.

Gillette's patent expired in the 1930s. Rival companies manufactured their safety razors. Once the patent expired, Gillette priced the first component, the razor, low while keeping the price of the blades high.

Why did this two-part pricing model make sense?

First, many could now afford to buy Gillette razors that had become a trusted brand. Second, once you buy the razor for cheap, would you very easily change to a rival manufacturer once blades run out? You probably won't. Such changes involve 'switching costs'. These costs don't always have to be financial. They can also be psychological.

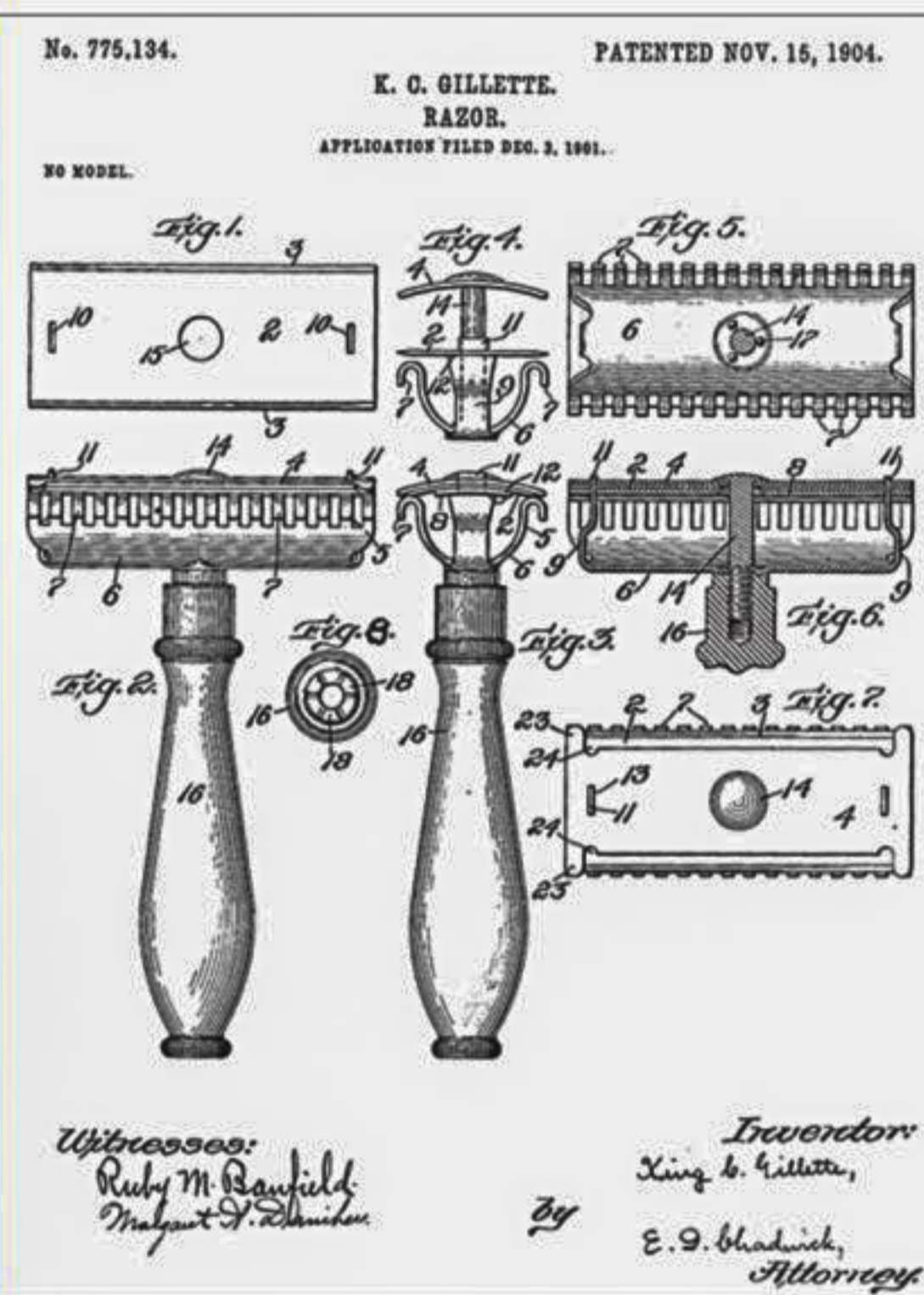
If you've gotten used to Apple IOS, would you switch to Android next time

you change your mobile? If you do, it will involve time to get used to the new platform. Same goes for Adobe PDF reader consumers who'll think before they change to say Foxit PDF reader.

Two-part pricing is simple. Price the first part cheap to attract the customer. Once the customer pays for the first part, price the second and latter parts high if switching is difficult. Theme parks and cinema halls are good examples. Ticket prices at entrance may be attractive. After entering, you find the food and drinks are over-priced, or they sell specific soft drinks. You're not allowed to bring food and drinks from outside. What will you do? You can't leave. Your long-awaited movie or fantasy rides are waiting for you.

The Gillette experience showed why two-part pricing makes sense. It helps recover costs and make an extra. It also helps retain old customers because of switching costs. You may now appreciate why your grandfather uses a basic mobile, and why you may not change the brand of your printer even though the toners aren't cheap.

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smartphone? The answers take us to what's known in economics as 'two-part pricing' and 'switching costs'. Since this isn't an economics class, I'll try to tell you a story.

King Camp Gillette patented the world's first safety razor in 1904. He

avoid sharpening the blade each time it lost its sharpness. There were shouts. Barbers were going to become unemployed. Those who could afford the safety razor, didn't listen.

Gillette had a patent on manufacturing the safety razor. Thus Gillette priced both

Mama Bari gets International Guests

ANUPOMA JOYEETA JOYEE

Seven years ago on a June afternoon, the young people of a nine-storey Mirpur building wanted to teach the kids of nearby slums. They invited the kids to their rooftop. Before the school, college and university students of the apartment building decided to take the initiative, not much thought was put into it. Hence the complaints from fellow apartment dwellers about the entrance of slum kids were the first hurdles Mr. and Mrs. Robbani had to deal with. They brought the makeshift weekend school from the rooftop into their own home, so that no one could oppose it.

I was one of the very few volunteers who witnessed the beginning of Mama Bari with nothing more than eight kids, two bed sheets to serve as seating for the children, and 10 taka being collected weekly from the volunteers. Seven years later, I stood in the living room of the Robbani home (which is also the happiest place on earth for 70 slum children) dressed to the nines, eagerly waiting for the arrival of four honourable Members of the Hungarian Parliament – Mónika Eva Bartos, Dr Jozsa István, Dr Schmuck Erzsébet and Somfaine Adam Katalin – along with Bangladeshi surgeon Dr Firdous Quader Minu. The MPs were in Dhaka to participate in the 136th Inter Parliamentary Union and they chose to come to Mama Bari on their own accord with suitcases filled with gifts for the kids.

Within six days' notice, all the preparation had to be done. That included training the kids to put up a memora-



ble show all by themselves, coming up with a security plan and so on. Hours and hours of preparation went into readying a show so that the kids could demonstrate the impact Mama Bari has had on their lives. The school which started with an ambition no bigger than teaching the kids etiquette, morals, values and social skills has transformed their whole world. They have been admitted to good schools, taught music and various martial arts. They have even won awards in several international competitions.

The entire Block B of Mirpur 10 was secured by the police. The people passing with the most ease were those kids, who upon being asked their destination could reply, "I am going to Mama Bari." Just before 5 p.m. all the kids



PHOTOS: ORCHID CHAKMA

lined up in the garage with paper flags of Hungary in one hand and Bangladesh on the other. They gave the warmest welcome to the guests. They extended their visit well past their plan. After the show ended, both parties mingled for hours which resulted in elaborate chorus singing in both Hungarian and Bengali. If the pure joy of singing and having affectionate company was not enough, the gifts which followed made the kids' day even better.

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