Business Horizons (2016) **xxx**, xxx—xxx

Available online at www.sciencedirect.com

ScienceDirect

KELLEY SCHOOL OF BUSINESS

INDIANA UNIVERSITY

www.elsevier.com/locate/bushor

Razor-and-Blades pricing revisited

Anirudh Dhebar

Marketing Division, Babson College, 231 Forest Street, Babson Park, MA 02457-0310, U.S.A.

KEYWORDS
Complementary products;
Adoption incentives;
Razor-and-blades pricing;
Customer lock-ins and competitor lock-outs;
Business-model innovation

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.
© 2016 Kelley School of Business, Indiana University. Published by Elsevier Inc. All rights reserved.

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.

E-mail address: dhebar@babson.edu

0007-6813/$ — see front matter © 2016 Kelley School of Business, Indiana University. Published by Elsevier Inc. All rights reserved.
http://dx.doi.org/10.1016/j.bushor.2016.01.011

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

bundles. Razor-and-blades pricing can help reinforce a product bundle strategy.

- *To win platform standards wars*. The desire is to quickly build a large installed base of users for the razor-and-blades platform—users who would not just be a valuable customer pool for future sale of consumables but who would also provide a critical advantage for network effects inherent to product-complementary product systems. This advantage can be a major determinant of any standards war between different durable component platforms and their respective ecosystems.

Second, in terms of financial wherewithal, product-design feasibility, and/or operational capability, the marketer of the complement sets must be able to offer razor-and-blades pricing in the first place. For example, the very essence of razor-and-blades pricing is the relatively low pricing of the durable component; therefore, the marketer must have the means to offer the initial subsidy and the patience to await high margins from some future sale of consumables. Not all razor-and-blades players can afford this, especially start-up enterprises with little funding and a short runway. Besides having the financial ability to sustain razor-and-blades pricing, the marketer must find it feasible to physically, functionally, emotionally, or contractually design some sort of customer lock-in into the complements set. And having done so, the marketer must in pure operational terms be able to implement, enforce, and sustain the lock-in. Absent the threefold financial, design, and operational ability, the razor-and-blades pricing construct can prove a fragile if not impossible house of cards.

Third, the whole point of keeping the price of the durable hardware low is to create incentives for the consumer to commit to purchasing a future stream of consumables. The consumer incentives may work for one or more of the following reasons:

- Especially in the case of new product categories, the pragmatic (early majority) or conservative (late majority) consumer may be hesitant to try something new, and a low initial outlay reduces the consumer's risk.

- The argument would be the same for so-called experience products: the razor-and-blades complement sets may need to be experienced by the consumer in order for the consumer to be convinced of the benefits, and a low initial outlay would encourage the consumer to try out the experience.

- The consumer may suffer from bounded rationality that results in an undue focus on the initial expenditure on the durable component. The bounded rationality may be because of (1) emotional anchoring around the initial investment in the durable product while ignoring the anticipated expenditure on a flow of consumables, (2) cognitive limitations in terms of figuring out the present value of the aggregate total expenses on the durable and consumable components, or (3) uncertainty about the time horizon over which the consumable component will be purchased and consumed. Whatever the cause, the consumer may be inordinately focused on the initial outlay on the durable component of the joint system, and this would justify charging a low price for the complementary product.

- The consumer may have a limited budget, and a low price for the durable component makes the initial purchase affordable in a very basic sense.

Fourth, razor-and-blades pricing only works if the consumer, once baited to purchase the durable component, is locked into the platform. Absent customer lock-in, the marketer will be unable to make up for the price subsidy on the initial razor through higher margins on the follow-through blades. Effective customer lock-in may be achieved through several possible mechanisms:

- *Consumer emotions*: The consumer may already have or may develop positive associations with a particular brand of the razor and may then choose to stay with the same brand for the blades. But consumer emotions resulting in customer lock-in do not have to be only positive. They may also be negative: The reader probably is all too aware of how, when he or she inserts a replacement ink cartridge in a particular brand of inkjet printer, the latter goes through some kind of check to see if the replacement cartridge is genuine. It may be a real check on functional compatibility, or it may simply be a signal to the user. Regardless, the consumer wonders: "What if the test were to pass a verdict of not genuine? Does the printer stop working? Does the user lose warranty protection? Will there be smoke and fire and lightning bolts from the heavens above?" Perhaps the intent of this stratagem is to scare the user into staying locked into the brand.

- *Consumer behavior*: Often, the marketer offers the consumer the convenience of becoming a registered customer with the ability to place replacement orders for the consumables without

having to repeatedly provide personal information such as name, address, e-mail address, consumable part number, credit card number, and so on and so forth. Indeed, the marketer may be so kind as to set up the customer on an automatic consumable replacement plan under which the consumable is predictably and repeatedly shipped to him or her. In such instances, the marketer often relies on consumer behavior inertia to effectively lock in the customer: most modern-day consumers are busy and will likely put off any changes in all of this to the proverbial tomorrow.

- *Contractual terms*: The customer may be legally locked in through a formal contract under which he or she is able to acquire the durable component, such as the new Apple iPhone 6S Plus, at a subsidized rate, but only in return for a two-year subscription commitment to stay with the mobile operator offering the initial subsidy.

- *Proprietary interface*: There is also an apparently watertight customer lock-in—a proprietary durable-consumable interface that consumers cannot work around or, if they try to work around it, they do so at their own peril. For example, when the connection port of the complements set may be such that the consumable can be inserted into only the same-brand durable product, and the proprietary interface is protected by patents or some closely guarded design secret. Even if the connection appears to work at first, consider what happens when a customer 'jailbreaks' an Apple iPhone so that it works in a network other than the network of the mobile operator who initially offered the phone at a discount: The phone becomes incapacitated the next time there is a software upgrade.

As a fifth and final point, the competitive context must support razor-and-blades pricing: Just as the marketer must be able to lock in customers to purchase high-price consumables once they have adopted the low-price durable component, the marketer must be able to lock out competitors from offering their own variations of the consumables.

3. The case for revisiting razor-and-blades pricing

If Apple's iPhone Upgrade Program marks the latest strike against two-year lock-ins to razor-and-blades mobile phone plans, Epson's new printer kills the printer ink cartridge as we have come to know it through the lens of razor-and-blades pricing, and Gillette—where razor-and-blades pricing presumably began—is experimenting with an alternative blades subscription plan, what is the future of razor-and-blades pricing? Is it still tenable in today's times?

For an answer, let us assume the first two of the five considerations underpinning razor-and-blades pricing are met: the business model is consistent with strategic intent, and the razor-and-blades marketer is able to practice razor-and-blades pricing in financial, design, and operational terms. We will now explore the modern-day tenability of the other three considerations.

The first of these, the third consideration in the previous section, is the relatively low price of the up-front durable component as an inducement for the consumer to adopt the razor-and-blades platform. We have already seen that a relatively low price for the razor as an adoption incentive may be justified by the consumer's risk aversion, uncertainty about the benefits, bounded rationality, and limited budget. A host of modern-day developments require a revisit of this logic for all except the last point, and they have to do with the Internet, Google search, and social media. In addition to looking at price, today's consumers can—and do—turn to the Internet to look for information and advice. There, all kinds of aids are available in the form of price and usage data, lifetime expected cost calculators, and advice from all sorts of real as well as pseudo experts—including social media peers, the most influential opinion givers. If the razor-and-blades marketer could, to borrow from an old adage, "fool some of the people some of the time" before, the Internet makes it difficult to do so today.

Take the case of the new Epson printer. No sooner had the printer been announced than the technology and popular media were filling print, airwaves, and the Internet with detailed analysis and supporting horror stories for why the printer companies had it coming to them after so many years of consumer resentfulness over their razor-and-blades model. Who, for example, likes to be caught with empty ink cartridges in the middle of a mission-critical print job? It was time, the talking heads opined, for the old razor-and-blades pricing model to take a hike. According to the experts, consumers would be willing to pay a higher up-front price for the printer to avoid having to put up with frequent and ill-timed refills of high-priced cartridges.

To illustrate another change in the consumable market, consider the mobile phone. Last year, when deciding whether to sign up for a new two-year contract for a subsidized $199 iPhone 6, I experienced a rather curious situation where the mobile

operator's own customer service representative spent a considerable period of time helping me understand the total cost impact of the various pricing options. I am sure I was not the only beneficiary of such advice. With help like that, why fall for the razor-and-blades pricing trap—especially when the mobile operators offer a range of pricing models with and without the lock-in of razor-and-blades pricing?

The advice-column movement is helped by an additional development: Perhaps because of the clockwork accuracy of the so-called Moore's Law—every 18 months the likes of Intel can pack twice the number of transistors into any given area of semiconductors—and perhaps because of the clockwork regularity of product-upgrade announcements, a lot of the uncertainty has gone out of the technology update timeline. This further helps consumers get out of their uncertainty, anxiety, and bounded rationality bind.

The informed, advice-filled, no-calculations-required-and-it's-all-been-figured-out-for-me consumer does not need—and is not likely to be fooled by—the relatively low price of the durable razor in his or her consideration of the adoption decision. And this takes a lot of the steam out of razor-and-blades pricing.

Next on the list of razor-and-blades pricing considerations that merit a revisit is customer lock-in, where we saw that for razor-and-blades pricing to work, customers must be locked into buying future consumables from the razor-and-blades marketer:

- *The emotionally locked-in customer.* One reason a customer may be emotionally locked in is because of a strong brand. Fair enough; but if the brand associated with the razor-and-blades complementary set is strong, that would be an argument for *not* offering a subsidy on the originally purchased durable razor. Apple is a case in point. The company has a strong brand and offers both the razor and the blades at a high price: Apple famously makes way more than average industry profits from its iPhones and also does not hold back when it comes to the pricing of apps and other content. If brand is one way—and a positive way—to emotionally lock customers into consumable blades purchases, a second way is to scare the customer into staying locked in. Earlier, we saw an example of this in the context of ink cartridges where the printer software checks for a genuine cartridge—presumably to reassure the customer if the cartridge is found to be genuine and threaten the customer with dire consequences, such as possible loss of warranty protection, if otherwise. The thing is, customer fear may be an effective lock-in mechanism, but is it a good one? Disgruntled customers will gladly bolt to a competitor given half a chance and may resort to social media to bad-mouth the experience. So is scaring the customer a smart lock-in mechanism?

- *The behaviorally inertial customer.* Customers—especially those leading busy lives, those who are on some automatic consumables replacement plan, and/or those who already have e-mail addresses, passwords, and credit card information on the razor blades marketer's computer systems—are, as it is, locked in because of inertia. As with customer lock-in because of fear, inertia-based lock-in may be effective, but is it a basis for sound marketing strategy? Customers who, because of inertia, continue to purchase a particular brand of blades under a razor-and-blades pricing model may be doing so not because they find the value proposition compelling but because they simply cannot get their act together to initiate change. If so, when on social media and elsewhere, these customers will not be advocates or active supporters of the razor-and-blades complement sets. When they finally overcome their inertia and make their move, that move may very well be to some other offering.

- *The contractually bound customer.* In exchange for the subsidized razor, a customer may be required to sign a contract that commits him or her to a certain preset time period of repeated consumables purchases. Such contracts are fine and good and may even be legally enforceable, but contract enforcement costs can be high (both financially and in terms of public relations). Not only that, but all bets are off if competing operators offer to pick up the tab for walking away from a contract—as is increasingly the case for mobile phones. Let the customer churn begin!

- *The customer locked into a proprietary interface*. Such lock-in may be acceptable to customers provided they do not end up concluding that the proprietary mechanisms are not simply interventions to prevent them from bolting. Otherwise, some of them may be tempted to voice their discontent (e.g., on social media), and the more adventurous among them will see proprietary-interface artifacts as opportunities for finding workarounds, hacking, and creative forms of jailbreaking. These customers can increasingly find plenty of advice and detailed how-to guides and YouTube videos on the Internet. With grudging respect, one must tip one's hat

> to all the creative minds who make it their mission to hack a locking mechanism and then share their secrets on the Internet with the world at large. Throw into this mix the growing call in some circles for open-source standards, do-it-yourself communities that creatively mix technology hacking with the artisan spirit, and societies where intellectual property law is poorly enforced, and entrepreneurial businesses of work-arounds and copycats will thrive. These businesses will include both small entrepreneurial ventures and large established players.

There is yet another threat to razor-and-blades pricing based on customer lock-in, and it has to do with the threat of customer hesitation, regret, and anxiety resulting from the rapid pace of the evolution of high-tech products (Dhebar, 1996). Say the razor-and-blades pricing customer is locked into a long-term contract as a mechanism to help make up the subsidy on the initial durable-product purchase. Now take the case where, perhaps because of Moore's Law mentioned earlier in this discussion, the durable product improves rapidly. Knowing of such improvements and fearful of any lock-in to something that may quickly become obsolete, the customer may hesitate to make the durable-product purchase in the first place. Furthermore, even if the customer was induced through extra subsidy or otherwise to go ahead and purchase the durable product, he or she may end up regretting the decision after the fact. Finally, if not only the durable product but also the associated consumable is rapidly improving, the dynamics will only add to customer anxiety about any lock-in to fast-obsolescing technology. None of this bodes well for razor-and-blades pricing.

We end our discussion of the present-day tenability of razor-and-blades pricing with the fifth consideration underpinning the pricing model: the competitive context. Here it is worth noting that a lucrative market for blades will invariably attract competitors eager to raid customers *after* some other player has gone through the hard work of building—and offered financial subsidy for—an installed base of razor users. Search the Internet for a particular brand of replacement ink cartridge for your printer and you will find not just the brand offering its cartridges but also a slew of third parties offering to collect spent original-brand cartridges and to sell non-brand replacement or original-brand refilled cartridges for a fraction of the price. Moreover, the supply chains for many of the consumables go back to a small set of manufacturers in China and elsewhere. Given a certain disregard for intellectual property rights and business secrets, and given the right economic incentives, it is not unusual for engineering drawings, bills of materials, parts and toolings, and process know-how to leak to parties keen on turning ill-gotten knowledge and components into competing—and compatible—blades.

Where do the above present-day realities leave razor-and-blades pricing? In a difficult spot, with some of the basic underpinning on shaky ground: hence the call to revisit razor-and-blades pricing and the impetus to innovate models other than razor-and-blades pricing.

4. Opportunity for non-razor-and-blades pricing innovation

Early in Section 2, I alluded to the first patents granted to Gillette for its razors, blades, and razor-blade combination. Interestingly, between 1904 (when the company was granted these patents) and 1921 (when the patents had expired), the company did not actually practice such pricing (Picker, 2010):

> From 1904 through 1921, Gillette could have played razors-and-blades—low price or free handles [razors] and expensive blades—but it didn't. Gillette set a high price for its handles and fought to maintain those high prices during the life of the patents. The firm understood to have invented razors-and-blades as a business strategy did not play that strategy at the point that it was best situated to do so. It was only in 1921, when the 1904 patents expired, that Gillette started to play something like razors-and-blades.

Picker (2010) left his reader with an unanswered question: "In 1904, knowing what you know about razors-and-blades today, what strategy would you have advised King Gillette [inventor of the safety razor and the complementary razor blades] to play?" Good question—and one especially worth answering given the questions raised in the previous section about the present-day tenability of razor-and-blades pricing.

For an answer, it is useful to go back to the intents underpinning the choice of razor-and-blades pricing and the three considerations under threat today. First, there are at least four possible intents: the desire to accelerate razor-and-blades platform adoption, the goal of building the complementary product (blades) business, a strategy for bundling as opposed to offering mix-and-match products, and a game plan to maximize profits. The three considerations under threat are customer adoption inducements, customer lock-in, and the competitive

context. On both fronts—achieving one or more intents and addressing modern-day threats to razor-and-blades pricing—there is impetus and opportunity for innovation.

Four types of innovation immediately come to mind: a change in pricing and the purchasing arrangement, redefining the value proposition, revisiting product-complementary product system architecture, and redefining value delivery. Interestingly, they map well into the so-called Doblin Ten Types of Innovation, spanning business configuration, product/service/solution offering, and customer experience (Keeley & Walters, 2013).

4.1. A change in pricing and the purchasing arrangement

Earlier we saw why, for a range of reasons, the razor-and-blades marketer may wish to quickly grow the installed base of durable-product adopters. The marketer may be thwarted in this goal because of the customer's budget constraint and/or sticker shock at a possibly high durable-product price. One solution is the traditional razor-and-blades pricing model. But other solutions are available as well, and the most obvious is a change in pricing and the accompanying purchasing arrangement so that the customer can benefit from the durable-product usage without paying the entire price up front. In other words, a leasing or financing arrangement that spreads the initial purchase price out into smaller and, from the customer's point of view, more manageable installments. Apple's new iPhone Upgrade Program is a good example, as are the monthly-payment arrangements now offered by all major mobile carriers.

This relatively easy innovation has much in its favor: (1) it creates transparency in the price of the durable product and the price of the consumable component without the behind-the-scene price subsidy for the durable product and the making up of the subsidy in the pricing of the consumable component, (2) it does not have the artificiality of a lock-in contrivance, (3) it liberates the customer to upgrade the durable product on a schedule better aligned with the pace of product improvement, (4) it frees the customer to switch consumable-component suppliers if he or she so desires, and (5) it allows the customer to mix and match rather than be locked into a bundle that may not be that compelling.

4.2. Redefining the value proposition

Pricing is not the only way to impact customer value. While a lower price results in a higher value proposition, changes in the dimensionality of product and complementary product benefits and the cost of joint product usage can arguably result in something even more compelling for the customer: it can fundamentally redefine the value proposition—perhaps not for all customer segments, but maybe for some.

Take the case of the new Epson printer threatening to kill the printer cartridge as we have been conditioned to know it. True, the new printer is not for everyone; borrowing from *The Wall Street Journal* review of the new printer, and in terms of the bedrock marketing foundations of segmentation, targeting, and positioning, it certainly makes sense "at least for people willing to throw cash at the problem up front" (Rothman, 2015). In return for paying high up-front prices for the new EcoTank printers, what customers get are devices that look "like normal models, only they have containers on their sides that hold gobs of ink. How much? Years' worth. Enough that your children—or at least mine—could go on a two-hour coloring-page printing bender and you wouldn't even notice" (Rothman, 2015).

Not only are the new printer models better for some segments of consumers—for example, those who don't mind paying a higher price up front—they also are less damaging for the environment (i.e., no frequent disposal of empty plastic cartridges). "Rather than compete on price, the printer maker [Epson] is dropping the cartridge issue entirely" (Rothman, 2015). In other words, what we have here is product and business-model innovation that (1) is competitively differentiating (Epson's competitor, Hewlett-Packard, has chosen to pursue an alternative subscription model for automatic ink cartridge replacement); (2) requires rethinking segmentation, targeting, and positioning; and (3) avoids the modern-day pitfalls threatening razor-and-blades pricing. In line with the third point, it is worth noting that instead of initially enticing customers to adopt a low-price razor and then locking them in (through fear of the consequences for defecting) for some extended purchase of high-price blades, Epson's innovation offers something that redefines the value proposition and, in the course of doing so, changes the topic of conversation.

4.3. Revisiting product and complementary product system architecture

Next year, Google is expected to launch its Project Ara phone: a Lego block-like modular open smartphone platform on which customers can mix and match different modules based on their needs and desired functionality. It is a simple idea, one that

requires a re-imagination and re-architecture of the durable product-complementary product system, yet one not easy to implement.

However, if re-architecture can be pulled off—and Google, in spite of delays, is expected to pull it off—the innovation can turn many of the considerations underpinning razor-and-blades pricing topsy-turvy: a low entry price for the durable platform and a minimal set of modules, no need for price subsidies or customer lock-ins or proprietary interfaces, freedom for the customers to switch providers of the consumable component, and a readily upgradable architecture to keep up with rapidly improving technology.

4.4. Redefining value delivery

Another innovation alternative to a traditional razor-and-blades pricing model is focusing instead on redefining value delivery, especially through the lever of customer experience.

In a world of increasingly look-alike and me-too products, what often sets one razor, blades, or razor-and-blades provider apart from another is the experience the customer realizes across all of his or her touchpoints with the provider. If this experience is compelling, so too will be the value delivery. Hence, the need to resort to initial price subsidies for the durable product or customer lock-ins for consumable purchases goes down. Customers, freed from the contrivance of lock-ins, will still choose to adopt a particular brand of razor and follow that up with a particular brand of blades.

Take Apple: The company offers the durable product (e.g., iMac computer, iPhone, iPad, Apple Watch) at an unsubsidized price and also charges high prices for the consumables (e.g., apps, content downloads) because, for some segments at least, the experience is truly compelling.

5. Conclusion

Often, new management frameworks, tools, and ways of doing things enter the practitioner space, gain acceptance and ever-wider adoption, and become integral to business models and processes. Meanwhile, the world changes. Therefore, every now and then it is useful to step back and ask if the tried-and-true frameworks, tools, processes, and practices are as relevant today as they were when they were first conceived and adopted. Razor-and-blades pricing is a case in point.

There were—and still are—good reasons in support of razor-and-blades pricing. But here, too, the world has changed—especially given the advent of the Internet, the widespread adoption of social media, more informed and much-advised customers, the popularity of open standards and the growth of the maker movement, disparities among societies regarding respect of intellectual property rights, and long and information-leaking supply chains. These are but a few developments that call into question the present-day tenability of razor-and-blades pricing.

What is clear is that while reports of razor-and-blades pricing's death may be exaggerated, there clearly is a case for revisiting the model. This article does that. It outlines the what, why, and how of razor-and-blades pricing; it questions the present-day tenability of razor-and-blades pricing; and it suggests the impetus for innovative alternatives to razor-and-blades pricing by suggesting new pricing models and purchasing arrangements, value-proposition redefinition, rethinking product-complementary product system architecture, and redefinition of value delivery.

References

Dhebar, A. (1996). Speeding high-tech producer, meet the balking consumer. *Sloan Management Review, 37*(2), 37—49.

Keeley, L., & Walters, H. (2013). *Ten types of innovation: The discipline of building breakthroughs*. New York: Wiley.

Picker, R. (2010, September 23). Gillette's strange history with the razor and blade strategy. *Harvard Business Review*. Retrieved from https://hbr.org/2010/09/gillettes-strange-history-with

Rothman, W. (2015, August 4). Review: Epson kills the printer ink cartridge. *The Wall Street Journal*. Retrieved from http://www.wsj.com/articles/review-epson-kills-the-printer-ink-cartridge-1438683871

Ziobro, P. (2014, April 29). Gillette subscription service takes aim at Dollar Shave Club. *The Wall Street Journal*. Retrieved from http://blogs.wsj.com/corporate-intelligence/2014/04/29/gillette-subscription-service-takes-aim-at-dollar-shave-club/