



FRUSTRATED BY POOR PRICE REALIZATION?

Three Questions to Ask Yourself

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With an improving economy, managers have grown increasingly aggressive in their efforts to raise prices. Unfortunately for many companies, rosy profit projections have been replaced by a frustrating inability to realize long sought-after price increases. Are you among the managers stung by this fate? If so, here are three questions that should lead to an informed understanding of the problem and where you should focus your energy and resources.

Question 1: Are you using objective, value-based criteria to manage prices?

Discounting decisions are usually made quickly, in the heat of the moment, in order to win deals. The criteria that managers often site for discounting usually include market factors such as:

- Competitor pricing
- Powerful procurement groups
- Skilled customer negotiators
- Length of customer relationship

While these market factors may exist, they have little connection to the value of an offering or their cost to deliver. Criteria of this nature all too often lead to:

- Markets that are increasingly price sensitive (even as economic fundamentals improve)
- An increasing spread between published price and pocket (realized) price

- Less correlation between objective measures (purchase size, share of wallet, service usage) and quoted price

The most effective pricing strategies follow three fundamental policies to ensure the realization of price.

- **Focus on value and competitive reference for setting pricing decisions.** Initial price setting decisions needs to align your value with different customer segments while honestly recognizing your competitive advantages and disadvantages versus the reference price (i.e. the price customer's will compare you against)
- **Focus on value and cost/productivity improvements for trade-off elements.** Trade-off elements need to be designed into your offering to allow sales to handle customer objections and with different value "bundles" that force customers to make trade-offs. These trade-off elements may include aspects of your product mix like access to supporting services, production tied to specific assets, or even turnaround/delivery times.
- **Focus on business performance impact for reasons to provide incremental discounts.** Incremental discount-in decisions should be made primarily on the performance impact they have on

a company. While most customer requests for discounting should be handled by the rules above (because they force customers to trade-off the value they receive for the price they pay), there may be situations where price adjustments make sense. In those situations, pricing decisions should be explicitly tied to objective and measurable elements such as order type/length, percent of business/spend, order size/volume or asset utilization.

Question 2: Are your pricing policies really just a list of discounting authorities?

The most insightful question about pricing is usually the simplest – what is your pricing strategy and what policies do you use to sustain it? All too often, managers answer by either saying they “don’t have them,” or they tick off a series of authority levels as the definition of their strategy.

We recently experienced this with a large chemical client, which claimed its pricing strategy was to provide the sales rep with 8.5% discount authority off list price; the regional sales director with 12% discount authority; and the GM with authority to go within 8% of what they called “direct margin.” While these levels seem to be a logical component of pricing policy, on their own they oversimplify strategic decision making and inevitably become undermined as markets and competition change.

A research products company SPG worked with had established a skim pricing strategy (setting a higher price and skimming profits) but took a different tact by implementing a pricing strategy with clear policies. Following policies similar to those outlined in Question 1, the organization worked in a fundamentally different way:

- The **sales team** (armed with different offers at different price points) shifted negotiations from “how much of a discount” to “how much value do you want to pay for.”
- **Sales directors** stopped being the traffic cop for discounting requests and moved

into a role of ensuring all performance criteria were met to achieve discounts.

- **Divisional leadership** was consulted on an exceptions basis to provide additional analysis on the performance impact of complicated new deals.

These policies established a structured framework with the flexibility and depth to support changes while maintaining consistency and controls. It proved far more effective in supporting the pricing and overall business strategy for our client.

Question 3: Are you tracking the relative impact of different pricing decisions?

Even with the vast investments in resource planning and other management systems, there is usually a gap in the area of price management and measurement. As a result, price managers are often left to their own devices when it comes to measuring and understanding the relative impact of their decisions. Thus we often hear from managers that pricing information is captured in such locations as log sheets, spreadsheets or in ERP systems that record only price and volume.

While the systems need not be complex, effective pricing management relies on the tracking of how different pricing criteria were managed and the resulting impact on pricing and profitability. These are typically pulled and analyzed from three distinct sources:

- Reports at the quote level that break down the distinct inputs used in the price decision
- Reports at the price management level that display price, success data, and aggregate trends
- Reports at the division or company level that link in elements of costs, inventory and profitability and measure the outcomes of these decisions

By better detailing the inputs to pricing decisions and the resulting outputs from both a pricing and business perspective, pricing managers can fine tune their criteria in the short term and adjust policies, as

necessary, in the long term. Following these policy-driven pricing guidelines helps ensure pricing consistency and realization. In addition, these guidelines help eliminate the “shot-gun blast” we so often see when we plot a business’s realized pricing. These more transparent pricing criteria result in pricing “bands” that show a consistency in processes and decisions. While not a panacea, these three questions lead to a clearer diagnosis of the problems preventing better price realization. By providing a focused effort against these elements, we have seen companies from a diverse set of industries revive their pricing performance and finally deliver their long awaited profits.



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