

Event Date: March 8, 2017
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HOW TO TRANSFORM PROFITABILITY THROUGH IMPROVED PRICING
EXECUTIVE SUMMARY BY TAYLOR DAVIS AND ASIFUR RAHMAN (STUDENTS IN ACCOUNTING)

“The journey to Pricing Excellence begins with gaining control over your pricing strategy and processes, and establishing the foundation for value-based pricing.”

- Paul Hunt

Paul’s presentation was centred around two areas:

A) The Pricing Toolbox

A 4-step design to superior pricing structures:

1. Pricing waterfall and price dispersion analysis
 - a. Two Core Approaches: Price Dispersion Chart & Price Leakage Analysis
 - i. Price Dispersion Chart - a tool used to determine where your clients are on your expected fit range of pricing
 - ii. Price Leakage Analysis - analyze where the costs are that result in a lower pocket price in comparison to the list price
 - b. The goal of these tools: “stop the leakage in order to improve your bottom line; every dollar counts!”
2. Segmentation and value-scoring
 - a. Segmentation - analyze the three key segmentation attribute categories: type of customer, product/service, and order
 - b. Value-scoring - need to align price increases to value proposition
 - c. The goal of these tools is to determine how to derive all sorts of value from a wide variety of clients.
3. Pricing tools, training and communication
 - a. 4 Steps to handling client price requests
 - i. Acknowledge & Defer - understand client’s needs and provide the value depending on their price range
 - ii. Deepen & Broaden - “where’s the value?”; understand what the customer really wants and what’s driving success for them
 - iii. Explore & Compare - explore all value adding options you can provide to your clients and compare them to industry pricing standards
 - iv. Concede According to Plan – “stay firm on your value proposition!” Client requests for additional discounts should be negotiated by providing alternative package that can offer a lower price at a lower cost
 - v. Be prepared to challenge the customer if the customer demands discounts

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- b. Best communication skills your sales force should have
 - i. Fairness - be prepared to support your value proposition derived from the price given to the client
 - ii. Know your position - offer packages that meet client needs and achieves an acceptable return on sale
 - iii. Negotiations - understand the client's point of view but stay strong on your position
 - iv. The goal is to give your sales force confidence in the value proposition when dealing with customer negotiations
4. Key Performance Indicators (KPI) - Evaluate how effectively the company is achieving the key business objectives and the success rate of reaching company targets

B) The Five Levels of Process Maturity:

Level One: Ad Hoc

- Achieving the next level will add profitable sales and net income to you
- The impact of a small change in pricing can lead to a significant impact in the overall bottom line of the business; an example scenario portrays a 1% decrease in your sales leads to a 13% decrease in the overall return of sale
- Say no to suboptimal pricing requests, as this will also help shape the salesforce culture

Level Two: Control

- “What you get doesn't matter unless you can keep it”. Analyze the difference between the listed price and the final pocket price (net cash to you); inspect the leakages resulting from discounts, allowances, payment terms, etc.
- Compare the dispersion of annual customer sales to list pricing to determine the expected fit range and identify opportunities to improve “pricing discipline”
- The best deals are not given to the best clients, but rather to the best negotiators. Pricing structure should be shaped accordingly, based on the target market and their perceived value
- “Get away from vanilla pricing”. In a scenario of lake front properties, the one closest to the lake will have a higher perceived value than the one farthest away. The price should reflect the value proposition

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Level Three: Value

- Customers want the best value, not necessarily the best price. Ideally, you want to differentiate your product/service. Consider a scenario of a grocery store selling two batches of apples, one local and organized, the other not local – the local batch has a perceived value of freshness, for which customers may be willing to pay the extra 10 cents
 - They key is also to identify if your customer is a price buyer or a value buyer – this is achieved through effective communication
- Vast majority (~80%) of businesses operate at level 2 or 3 of the process maturity levels.
 - This is not a negative trait, as these levels offer the most room for growth
- Remain close to your customer

Level Four: Optimize & Level Five: World Class Master

- Build salesforce compensation around a pricing guideline of floor, stretch and target to communicate expectations and develop incentives
- Not steadily increasing prices is a great way to starve your business - as costs go up, the price will be playing “catch up”. On the other hand, a sudden jump in price can scare away customers
- With the exception of lowest-price sellers, delay price discussions to the end and minimize them during the selling process
- Prepare for “fairness” rebuttals by knowing your value proposition

If you would like a copy of Paul’s presentation, please contact us.