

CROSSING THE PRICING CHASM

PRICING MATURITY PLAYBOOK

**A CONCRETE ROADMAP TO INCREASE PROFITS
BY DEVELOPING
ORGANIZATIONAL PRICING MATURITY**

POL VANAERDE

President EPP



4TH EDITION - MAY 2020
based on the EPP Pricing Maturity Model

Crossing the Pricing Chasm
PRICING MATURITY PLAYBOOK
A concrete roadmap to increase profits by developing organizational pricing maturity

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A CONCRETE ROADMAP TO INCREASE PROFITS
BY DEVELOPING
ORGANIZATIONAL PRICING MATURITY

Author

POL VANAERDE
President EPP

**EPP is the leading global association for pricing,
revenue growth management and monetization profession.**

EPP is a not-for-profit organization, focused on advancing
the pricing, revenue management and monetization profession.

The EPP mission is to support our members
to dramatically improve top line revenues and profitability
through personal and organizational pricing maturity development.

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PRAISE FOR "CROSSING THE PRICING CHASM"

"I found CPM programme based on the EPP Book 'Crossing the Pricing Chasm: Pricing Maturity Playbook' as a valuable structured source on different concepts, methods and tools to get transactional control and move to the strategic part in pricing. Highly useful to share approaches from different industries and experienced trainers who tackle industry specific topics in a pragmatic manner."

*Daniel Florea, Pricing Manager, BOREALIS
CPM 2 and CPM 3 Alumni*

"The CPM Programme based on the EPP Book 'Crossing the Pricing Chasm: Pricing Maturity Playbook' provides great insights and best practices for pricing through a group of knowledgeable speakers."

*Panagiotis Giannakopoulos, Sr. Financial Analyst – Strategic Corporate Accounts, IDEXX Europe
CPM 2 Alumni*

"EPP facilitated a really good CPM training based on the EPP Book 'Crossing the Pricing Chasm: Pricing Maturity Playbook' with innovative insights into the complex world of pricing with a focus on effort prioritization and profit maximization. Think about strategic pricing key to be successful in any business."

*Thomas Tang, Senior Pricing Manager, PHILIPS HEALTHCARE
CPM 2 Alumni*

"Before joining the Certified Pricing Manager Program my organisation didn't have a defined view on its pricing maturity.

The challenge was a newly defined strategy that was expecting considerable pricing Improvement between 2014 and 2018.

The Pricing improvement project I worked on, was particularly challenging because a mindset change required to shift to a much more data driven decision making process than before.

We worked together with Marketing and Sales to build an analysis tool that allowed us to identify improvement potential in terms.

The impact of the project was ~300K€ (2.4% on sales!) and it served as a pilot for the definition of a pan-divisional Pricing Excellence Programme.

I now feel stronger than before with a structured approach and clear KPI's to measure the performance of my pricing programmes."

*Federico Boccardo, Transformation and Commercial Excellence Lead South Europe at ALIAXIS
CPM 2 and CPM 3 Alumni*

"Thanks to the EPP programs (CPM2 and CPM3) based on the EPP Book 'Crossing the Pricing Chasm: Pricing Maturity Playbook', at LFB we succeed to reach 3 main objectives :

- Understand the impact of pricing during the all product life. By spreading this knowledge internally, we succeed to change minds and be ready for change management. Pricing is now one of the main discussion before taking strategy decision
- Building up a pricing governance, pricing strategies for core products.
- Avoid pricing and margin leakage by setting up a global commercial policy.
- All these changes took time but with some quick wins we have succeeded to have the support of the management to move forward and gain globally in pricing maturity."

*Mounib Jaballah, Pricing Manager - Global Market Access, LFB
CPM 2 and CPM 3 Alumni*

FOREWORD

This e-book explains a proven roadmap to advance your organisational pricing maturity. It is built on the lessons that EPP has learned through supporting more than 100 certification projects of pricing and monetization managers across industries – and many discussions with pricing software vendors, leading pricing consultants and pricing leaders all over the world.

We have found recurring patterns in success and failures in implementing pricing maturity development. One of the main insights is that “doing the right things right, at the right moment” is crucial.

Many people contributed shaping this book. I have personally spent many hours discussing with pricing peers at EPP Pricing Forums and during the many open and in-company pricing trainings and projects I conducted in the last 15 years. These discussions made significant contributions to this book.

A big thanks to Ian Tidswell for reviewing and giving insightful feedback that made this book so actionable.

Finally, of course, also the Certified Pricing Managers alumni played an important role in shaping the approach and providing invaluable feedback.

The experiences have been brought together at EPP into a deep body of knowledge that points to a clear roadmap for sustainably improving pricing performance and profitability. This book presents a proven, successful, path towards pricing excellence and profit growth.

Many pricing managers have taken benefit from using the principles and roadmap outlined in this book.

We therefore dedicate this book to all pricing professionals, responsible for taking their organization to a higher pricing performance, leading the change towards pricing excellence.

Pol Vanaerde
Founder EPP



www.pricingplatform.com

INTRODUCTION

It is no surprise that 'pricing' is increasingly being discussed in the boardroom, where monetization is high on the agenda. Pricing is one of the main shareholder value drivers, as top management increasingly recognizes. And there is more; we also receive regular questions from due diligence teams who have increased attention today on unexplored pricing (and profit realisation) potential during mergers or acquisitions. And there are many reasons.

Digitalisation is driving pricing to an even higher priority setting. Leading digital enterprises to embrace advanced pricing technology. More 'traditional' organisations (e.g. many retailers and B2B organisations) need to match the speed and agility of organizations that are born digital. However, we see large, incumbent businesses with legacy systems struggling to move at the same rate as those "born" digitals. The change into digital enterprises is on, and priority setting where to invest is key. And we experience that many organizations are focusing their digital investments on sales and marketing – and many of them find out that the value of digitalization is very much in pricing.

Over the last few years, we've also seen an explosion of technologies enabling managers to turn huge amounts of data to insights supporting fact-based price-decision making.

Increased 'intelligence', delivered by machine learning supported software, enhances e.g. an improved price guidance in B2B quoting, micro-segmentation enabling personalised marketing and price basket optimisation. The same intelligence, enhanced by online price watch engines, also enables more and more industries to implement dynamic pricing. Dynamic price changes become more and more 'the new normal' at e.g. fuel stations, car rental, parking and of course e-commerce channels and b2b market places. Consumers get more and more used to it – and although the acceptance is not that fast, it keeps growing¹

Organisations who fall behind in their pricing capabilities are increasingly struggling to compete against more advanced digital enterprises.

Therefore, many successful companies are looking for a fast and effective implementation of best-in-class pricing processes, tools and systems to improve profits. But at the same time, we observe that when implementing the pricing improvement initiatives, many of them struggle to prioritize well. Many organisations are searching for a structured approach to quickly guide their organizations towards higher pricing maturity.

That's why, during the last 10 years, so many organisations contacted EPP and asked: where do we need to start, what are the priorities - and from whom should we learn: McDonald's? Bose? Uber? Audi? Microsoft? Michelin? Hilti? - or maybe Taylor Swift?² How can we design a concrete and successful pricing maturity roadmap and where to get started?

The recurring question: 'Is there a proven, successful path towards peak performance in pricing?'
The answer is YES! There is indeed a proven pricing maturity development path - and the roadmap is described in this playbook.

¹ Although there still seems to be quite some 'resistance'... even with a small group's enthusiasm, a majority of younger millennials still don't care for the practice – 61% don't like it, and almost half of those actually hate it. Older generations are even more against the practice, with 80% of Boomers showing no enthusiasm for it.
Source: <https://www.forbes.com/sites/nikkibaird/2017/04/18/dynamic-pricing-when-should-retailers-bother/2/#2aaf40316323>

² The Financial Times estimates that Swift made an additional \$1.4 million per show on her 2018 tour as a result of the changed price policy, despite the fact that, on average, over 600 tickets were still available at the time of each show.

THE STRUCTURE OF THIS EPP PRICING MATURITY PLAYBOOK

The focus of this e-book is to give actionable insights in a practical, hands-on and proven way to increase profits by investing in organisational pricing maturity. It is about doing the right things right, at the right moment.

In the first chapter of this book, we introduce you to the EPP Pricing Maturity Model to help you identify where you are today in your pricing journey, which areas you need to prioritize and improve to lead your company to the next level of pricing maturity (and profit optimization). In the second chapter, we zoom into the status of each pricing maturity level so you can easily benchmark and assess where you are.

The third chapter is about moving ahead and taking transactional control – the chapter explains in detail your priority settings, enablers - and concrete actions - to make it happen.

The fourth chapter explains in detail your priority settings, enablers – and concrete actions – to implement a value strategy and realise full value capturing in our organisation.

The final chapter covers the change needed from pricing leaders to really implement a value strategy (it's one of the biggest challenges in pricing : crossing the pricing chasm - meaning ; not realizing the change moving ahead towards full value capturing.)

The insights derived from the EPP Pricing Maturity Model have also resulted in developing skill cards to help define the capabilities needed on each pricing maturity level. These skill cards are the fundamentals of the EPP Certification Programs (Certified Pricing Manager®)³. If you are looking for in-dept learning on the techniques, tools and best practice sharing we recommend you to join the EPP Certified Pricing Programmes.



The EPP Pricing Maturity Model describes not only what to do, but also how to do it - and as important, in what sequence to do it.

Joining the EPP CPM programme will accelerate your project deployment with actionable insights and world best practices.

³For more info on the EPP Certification Programs: visit www.pricingplatform.com

CHAPTER 1

THE EPP PRICING MATURITY MODEL

A QUICK OVERVIEW OF THE 4 STAGES IN THE PRICING MATURITY MODEL

The EPP Pricing Maturity Model helps you to not only determine which maturity level you are operating on today, but also to set your pricing aspiration and how to prioritize your efforts.

We consolidated real-life best practices and advice from pricing leaders, experienced in pricing maturity development, across all industries into the EPP Pricing Maturity Model®. Each stage in the pricing maturity roadmap has its own challenges and companies operate at different maturity levels across regions or business units. Wherever you are in your pricing maturity, the model functions as a compass needle to guide your through the journey.

The model consists of 4 stages which will be described in detail in the next pages:

- Level 1 - Price list maintenance
- Level 2 - Gaining transactional control - PRICING AS A PROJECT
- Level 3 - Achieving full value-capture - PRICING AS A PROCESS
- Level 4 - Deploying pricing science - PRICING AS A SYSTEM

LEVEL 1 PRICE LIST MAINTENANCE

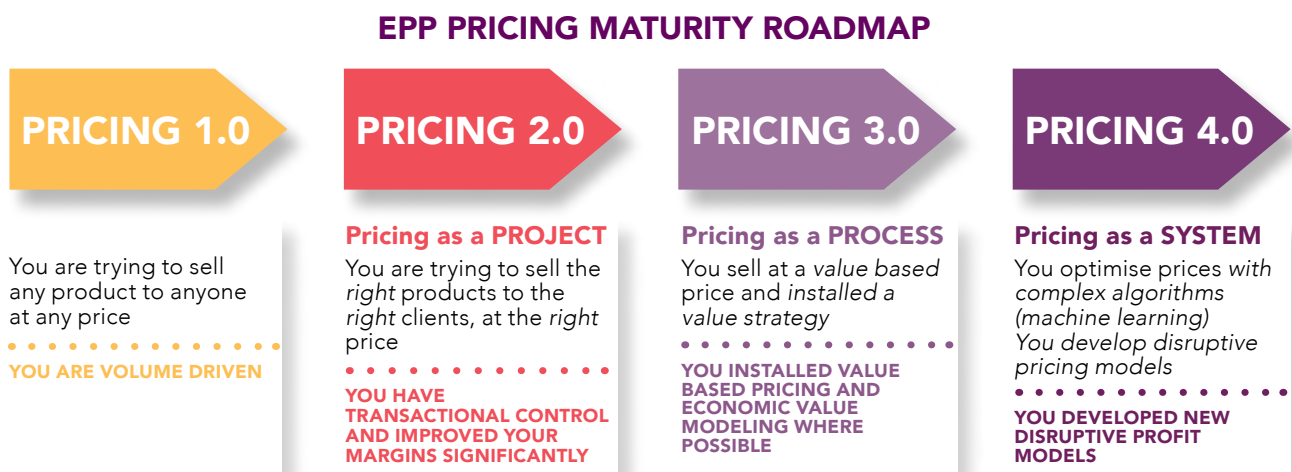
Companies operating at pricing maturity level 1 are very often volume driven (and trying to sell the same product to almost everyone at every price) - or have uncontrolled pricing due to historical negotiations resulting in inconsistencies in price levels.

Sales targets are typically on volume or total revenues only, and most management reports also focus on volume or revenues versus budget targets only as well.

Pricing responsibility is typically scattered within the organisation, with mainly product managers setting the list price, on cost plus basis, with sales controlling the net selling prices (including discount and channel policy).

Our 2019 Global Pricing Maturity survey shows that approx. 25 % of companies operate on pricing maturity level 1. While companies at level 1 are forgoing significant profits, the good news is that the steps to get to level 2 are clear.

Figure 1 - The EPP Pricing Maturity Model®



LEVEL 2 TRANSACTIONAL CONTROL

These companies have implemented vital pricing reports, based on reasonable complete and 'trusted' data. Pricing initiatives have been completed that have further improved data quality and visibility. The pricing initiatives focused on margin realization and improved pricing processes (price deviation process, discount- and surcharge policy) with consistent pricing metrics in place.

These initiatives are very often triggered and supported by finance and led by a commercial manager (enabled by a strong business analytics). And the margin improvement is proven and visible.

However, some companies risk to regress since pricing is seen as a one-off project– hence 'pricing as a project'. Therefore, once the projects are delivered, the risk of regression (falling back on the old habits) needs to be tackled.

Companies at level 2 have therefore typically a dedicated pricing manager who supports pricing decisions and manages the core pricing processes. It's important to mention that this person is definitely not a policeman, but needs to be a trusted advisor of the commercial teams!

You can never walk alone in pricing!

The pricing managers' role is to support the sales teams in closing more deals at better prices/margins. Getting this trusted advisory role means working every day on building trust, step by step, together.

With focused efforts, most companies can reach this level in 12-24 months.

Our 2019 Global Pricing Maturity survey shows that approx. 60 % of companies work towards operating on pricing maturity level 2.

LEVEL 3 FULL VALUE CAPTURING – PRICING AS A PROCESS

For companies operating at level 3, consistently identifying how their products and services create value, and capturing a fair-share of that value are central to their pricing success. That means that price segmentation, price elasticity and value needs to be fully and consistently understood. At this level, pricing becomes part of the commercial (excellence) organisation and fully aligned with commercial strategy.

Powerful pricing research techniques are appropriately used, with the pricing team involved early in the innovation process. Insights in (micro-) segments and price elasticity triggers testing and implementation of more innovative pricing models such as first-generation dynamic pricing (automated rules based), subscription based pricing, performance based pricing, etc.

Implementing a value strategy goes of course far beyond value based pricing; you will also need to implement value communication, value selling, value research, value management. This requires a leadership focussing on a value culture. Maintaining full value capture is an ongoing activity.

It is important to note that this level 3 of pricing maturity is not the necessary, desired, target for the whole company. Probably not every region or business unit needs to perform at level 3. That's why a corporate pricing maturity roadmap, focusing on doing the right things right is so important.

Our 2019 Global Pricing Maturity survey shows that approx. 15% of companies work towards operating on pricing maturity level 3.

LEVEL 4 PRICING AS A SYSTEM (OR SCIENCE)

Level 4 - B2C (B2Me) - companies are mostly young, digital born, enterprises. Pricing is using highly sophisticated pricing software and online price watch engines delivering predictive analytics (on price elasticity, demand, sales etc).

Advanced machine learning algorithms, driven by big data collection, enables second generation dynamic pricing models (beyond automated rules based pricing). Recent and very visible initiatives like Amazon's predictive pricing or Uber's dynamic pricing models are examples of very advanced machine leaning supported pricing models.

Level 4 - B2B - companies further explore disruptive new pricing models; i.e Michelin selling airlines tires at a price/landing, or introducing token pricing, etc.

Pricing is at the core of the business model. Most companies will not aim for level 4. But if you compete against Uber, Alibaba or Amazon, you better be ready.

Our 2019 Global Pricing Maturity survey shows that approx..2 % of companies work towards operating on pricing maturity level 4.

CAPABILITY MATURITY MODEL CONCEPT

The pricing capability maturity model roadmap is based on the organizational capability model; a concept to enhance organizational capabilities, popularized by the Carnegie Mellon University in the 90's. Their first Capability Maturity Model* (CMM) was developed for IT management, but subsequently, nearly every management domain has maturity models to draw upon. A maturity model defines a set of structured levels that describe how well the behaviours, practices and processes of an organization can reliably and sustainably produce required outcomes.

**The Capability Maturity Model was initially funded at the Carnegie-Mellon Software Engineering Institute to create a model (abstract) for the military to use as an objective evaluation of software subcontractors. The result was the Capability Maturity Model, published as Managing the Software Process in 1989. The CMM is no longer supported by the SEI and has been superseded by the more comprehensive Capability Maturity Model Integration (CMMI).*

IMPROVING THE WHOLE PRICING FRAMEWORK

Improvements do - of course - not come from better price setting alone. You have to develop and align your capabilities in all pricing related activities. We visualise this via the EPP Pricing Framework®.

There are five core processes:

- Price Strategy
- Price Policy & Setting
- Discount Policy
- Execution
- Monitoring/KPI's/Analytics

The five core processes are supported by two supporting building blocks :

- Organization/People
- Governance/Tools & Systems.

The building blocks underpin the definitions of each pricing maturity level. In chapter two, where we zoom-in on each pricing maturity level, we will give actionable advice how to improve at every maturity stage. It is important that you balance the different building blocks of the pricing framework. Pricing organisation in a level 2 pricing organisation is organised in a different way than a level 3 organisation and it is important to have the right fit (centralised or local, or hybrid, in finance or commercial, etc). The same for all the other building blocks. That's why we advise what to do on each pricing maturity stage on every building block. That should help you make the right choices and balance your pricing framework.

Figure 2
The EPP Pricing Framework®



WHY HAVE A PRICING MATURITY ROADMAP

In the latest EPP Global Pricing Maturity Survey⁴, a score that got our attention was the 2.04 (on 5) low score on the question 'do you have a pricing roadmap'? This means that many companies still have a limited view on the road ahead.

Organisations that are executing solid pricing maturity roadmaps make huge steps forward, demonstrated by their superior profitability. We regularly see Certified Pricing Managers making huge progress in advancing the pricing capabilities in their organisation, delivering impressive ROI's. But the reality is that still approx. 60 %⁵ of our companies struggle to get 'transactional control' over their pricing. In other words, they still struggle to understand what happens and why it happens when it comes to prices (and margins)...

We strongly recommend these companies to invest immediately in vital pricing reports with integer data as the basis to start margin optimisation projects. This first pricing maturity step is for that reason often defined as ; "pricing-as-a-project".

Pricing at level 2 is mainly focussing on margin improvement projects and embedding the pricing rules, discounts and authorisation rules in the sales process. Under optimal conditions, it will take you about 12 months to bring your organisation from level 1 to level 2, installing the vital margin improvement projects (read further for a concrete action plan).

It is important to stress that without transactional control, supported by trusted data and successful implementation of the vital margin improvement projects (realised on level 2), the level 3 maturity is harder to reach and the risk of regression (falling back in the old habits) is real. Believe us; ensuring 'transactional control' is a must to embed the essential pricing rules and authorisation process in your systems.

The good news is that the level 2 margin improvement projects deliver concrete, measurable and fast profit impact. But, what happens when these projects are successfully delivered? You do not want that the pricing maturity roadmap stops.

Indeed, the next step in the pricing maturity development is often more challenging: embedding the pricing know-how into all commercial processes (moving away from pricing-as-a-project only), heading towards a value and profit strategy and culture.

You will need a strong vision, leadership support and change management skills to realise this next step in the organisational pricing maturity. Closing the margin leakages and (even) pricing on value are indeed relatively easy steps. However, aligning your product innovation around value and willingness to pay, turning your sales force towards value selling and your marketing on value communication - and implementing a value/profit culture is another thing.

Different studies show that a strong profit culture really makes the difference between low and high performers in any industry⁶ - and we see that pricing managers can be important change agents to lead the organization towards such a value and profit orientation culture. Many pricing professionals have come to recognize that realising this impact requires a comprehensive approach, based on a long-term roadmap.

Most companies need at least 3 to 7 years to bring their organization from pricing maturity level 2 to level 3. This is what many pricing professionals mean with 'pricing is a long-term journey'. Make sure you have a solid pricing maturity roadmap.

Do the right things right at the right moment - and never walk alone; if you keep these two key things in mind, the likelihood of success in your pricing journey increases significantly.

⁴ The EPP Global PMI survey is a 3-yearly international pricing maturity survey. The full 2019 EPP Global PMI survey report can be downloaded from the www.pricingplatform.eu portal.

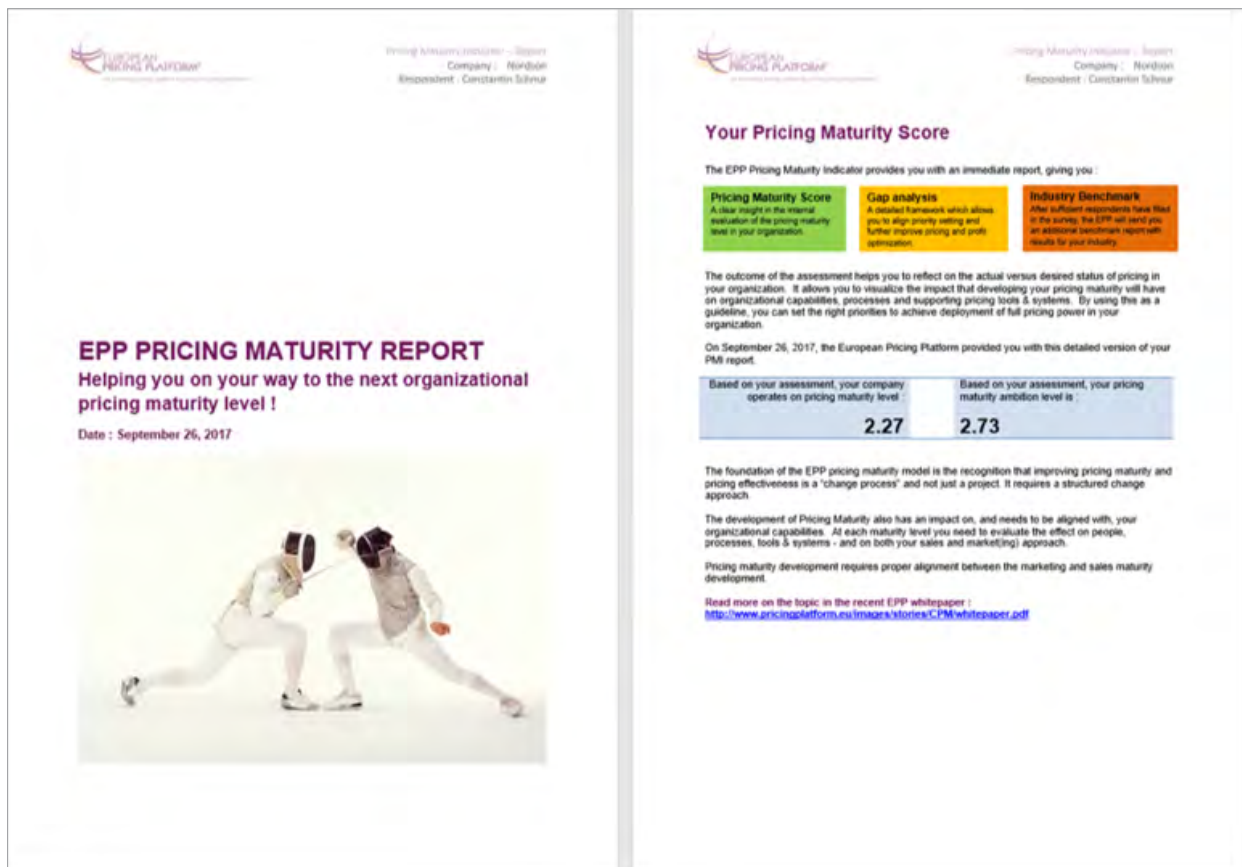
⁵ 2019 EPP Global Pricing Maturity Survey

⁶ Different studies show that organizations with a strong top management involvement in advocating a profit orientation culture realize up to 25% higher return on sales- SKP Global Pricing Study 2012

Your FREE Pricing Maturity Assessment



To help you start the discussions in your organisation, we developed the EPP Pricing Maturity Indicator; an online - and free - assessment on the 'as-is' and 'to-be' pricing maturity level in your organisation. The EPP Pricing Maturity Indicator (PMI) is a free online tool, use the following link to get access. You receive an automatic PMI® Report to start your journey increasing your organisational pricing maturity.



Start your PMI here

For a customized pricing maturity assessment, contact:
Ripsime Matevosian - Learning and Development Manager
ripsime.matevosian@pricingplatform.com

**TAKE YOUR
PRICING MATURITY
ASSESSMENT HERE**



THE IMPORTANCE TO TAKE METHODOICAL STEPS

You have probably seen - or been in the middle of - typical pricing project kick-offs in organisations where margin objectives were under pressure. Typically commercial management starts to investigate if a margin improvement project should be started - but there is no one to do a proper analysis. The right data is not available or worse; people simply do not trust the data in the spreadsheets.

The organisation decides to bring in external expertise and a pricing audit is conducted. The audit reveals that 'there are a lot of improvement opportunities'. The outcome is a long list of capability gaps and organizational challenges.

As a result, the organisation struggles to allocate the right priorities in the long list and, unfortunately, often choosing the wrong projects: those projects which, at first sight, are evaluated as 'easy to implement, but with high margin impact'.

Many organisations chose to do 'the wrong things first', focussing on the wrong pricing projects or tools for the maturity level they are in - and the initiatives fail... We have seen many good people focussing on the wrong things.

Examples of the wrong sequences:

- Installing value based pricing, but without having a good insight in market segmentation.
- Implementing a 'value based price' methodology, with sales teams not involved (reacting with, "How in the hell did the pricing team decide on such a price?") and thus not able to sell or defend the value.
- Installing a new sales incentive plan, sticking to volume and revenue focus, while pricing teams focus on price realisation and margin improvement.
- Implementing a target price, but sales regions barking that 'they have their own P&L responsibility' to manage - and as a result do not want any guidance from anyone (especially not from HQ).
- Over-investing in pricing software when the basics are not in place.

All these organisations had a false start in their pricing maturity development.

These organisations finally get confronted with quickly melting commitment and trust within sales, leaving them with very low enthusiasm to go on with new pricing initiatives. Pricing teams get frustrated, leave the company, or leave the pricing role or worse; get fired.

You can avoid all this by doing the right things right, at the right moment.

CHAPTER 2

ZOOMING IN ON THE PRICING MATURITY MODEL

In setting your roadmap and creating a vision about the next steps, it's helpful to understand where you are now to determine your pricing priorities for the next 12 months. It's of course very normal that different divisions in your company work on different pricing maturity levels. The nature of your business and the difference between international markets drives it and it's ok. You do not expect (and it's not recommended) to have every business unit or region to work at the same pricing maturity level.

As long as you know where you can gain in increasing the organisational pricing maturity - and have a plan to do it; great. But we strongly recommend working on a level 2 everywhere in your business.

There are many consultant firms that can support you with pricing maturity assessments, or you can use the free EPP PMI survey - see Box 2.

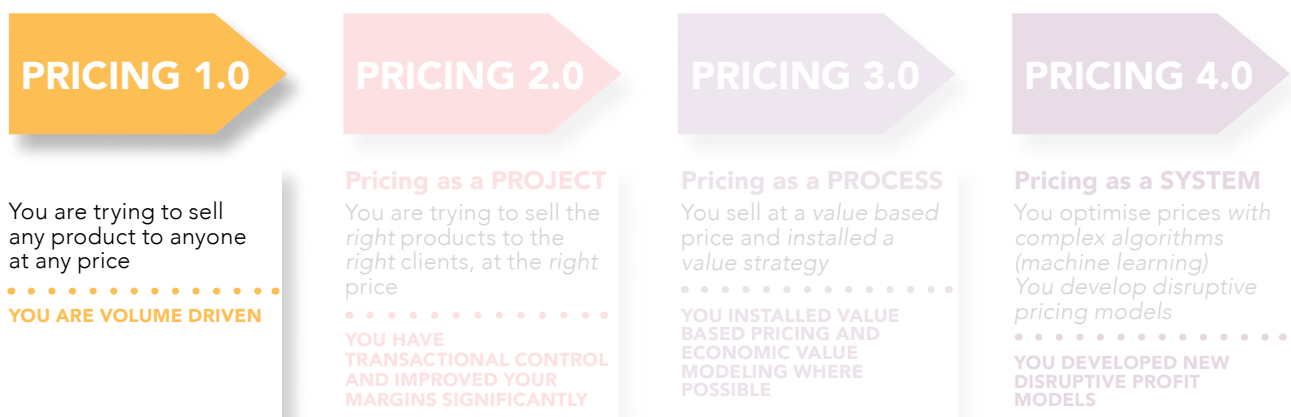
Below, we describe what you observe in your company at each pricing maturity level.

LEVEL 1 PRICE LIST MAINTENANCE

Organizations operating at this level are typically mainly focused on revenue. Typically product management sets a cost-plus based price, trying to align with the market positioning, but international (gross and net) price levels are controlled by regional sales. And since volume is one of the key performance drivers at this stage, **sales in these companies try to sell everything, to (almost) everyone, at (almost) every price.**

Sales 'owns' the pricing decision making (on the street) and gets no or very little price guidance. As a result, prices vary widely across the customer base, resulting in a very wide price band. Potential risks emerge as customers start to find out about these large, difficult to explain, price differences.

But in these companies, there is at that moment often simply no sense of urgency to change the pricing practice ; sales teams tell you that they 'deal with these price problems' on an ad hoc basis and they feel that pricing is well-managed and under control. They often do not yet see the need to implement any drastic changes. Especially when the margins are 'on target'. However, with sales getting no price guidance on target prices it's not the ideal situation. This freedom is leading to wide price bands which will likely lead to pricing conflicts between regions or channels, which can result in increased price pressure.



THE LEVEL 1 OBSERVATIONS

We have gathered the observations around the main pricing framework building blocks:

Price Strategy

Strategy

- Product management tries to align prices to the market positioning.
- However; international (gross and net) price levels demonstrate very wide price bands, based on local go-to-market strategies – and product portfolios in different regions can show huge price differentiations.
- There is limited customer classification.

Price Policy & Price Setting

- Prices for new products are mainly set on a cost-plus, more mature products are often market driven.
- List prices are set by product management, but street prices are controlled by sales.
- Prices are adjusted typically once a year and mainly triggered by cost changes or as a reaction to price level adjustments by price leaders in the market.
- Price elasticity insight is weak.

Discount Policy

- Discount structure is historical, with the design bearing little relationship to pricing goals.
- Since the organization is mainly revenue driven, the discount structure is driven by sales opportunism, triggering potential channel conflicts, channel consolidation and gray market activities.

Price Execution

- Authorizations for deviations from list prices are often already in place, but not always effective; e.g. deviations are only visible long after the deals are closed. Approval is still very often ad hoc.
- Price increases are poorly prepared, execution is often weak and not well monitored.

Monitoring

- Sales is often only monitored on turnover (and sometimes also on overall gross margin).
- Only weak price reporting installed, with many internal discussions on the quality of data (reported cost prices, margins, price definitions).
- Very weak insight on price and margin performance on a more granular level: product, channel, segment or account level profitability.
- Price - and target margin deviations are not well monitored. There is very little, or no monitoring, of price adherence by sales teams.
- Cost to serve data is not available.
- There is no systematic monitoring of competitor pricing & promotions.
- Deviations from general contract conditions are poorly monitored.

People & Organization

- There is no dedicated pricing function; pricing roles are generally dispersed throughout the organization.
- Product Management controls the list prices, while Sales takes the final pricing decisions (with a large degree of freedom).

Tools & Systems

- Sporadic or no use of pricing research tools.
- No BI tools in place to access price and margin reporting.
- Sales department is often using 'several' price lists, stored in excels, for different customers, countries, etc.
- Contracts are managed in Microsoft Word or Excel.
- No system prevents sales from offering 'bad prices' or 'bad configurations'.

LEVEL 2 TAKING TRANSACTIONAL CONTROL – PRICING AS A PROJECT

At a certain moment the organization becomes aware that there are many profit leakages - and commercial managers are committed to do something about it. The pricing journey can start.

The initiative is often triggered by finance manager and sometimes by (new) commercial directors who see what is happening and what needs to be improved. Unfortunately there is very often no experienced pricing manager around to guide them through the roadmap... This is for many the first obstacle: who should lead and support the project?

We observe that many pricing initiatives at this stage are driven by finance, enabled by strong data analytical capabilities, with commercial directors leading the project.

Transparency on (activity based) cost prices and real cost-to-serve of customers becomes clear. Net margins are visible on product and customer level – with granular views on segment, application, product or channel level.

The organisation is now monitoring which products are sold at what prices and to whom (customer groups). They now fully understand what is happening - and why - when it comes to pricing. Very importantly: everyone is confident that the data is correct; **the vital margin improvement projects can start.**

Obvious price and margin leakages are tackled, discount and surcharge policies are improved - price and value differentiation are deployed (avoiding selling anything to everyone at the same prices) – price elasticity is understood – and although most pricing is still cost plus (but with differentiated plusses) some of these organisations already install **first-gen, rules based, dynamic pricing** (based on instant insights in actual demand, price elasticity, own inventory, competitive prices and promotions - and out-of-stock tracking).

At the same time, during the margin improvement projects, more strategic questions are raised : when do we focus on volume and when on margin? Where should we attack, defend or harvest? For which segment do we choose which strategy?

Pricing practitioners’ important role is now also to get connected with sales and marketing teams. **The pricing team becomes a trusted partner of commercial teams; helping them to sell more, at healthy margins.**

It is therefore extremely important here to stress that pricing teams need to get ‘in business’ and involved in the marketing and sales discussions: **never walk alone from here!**



THE LEVEL 2 OBSERVATIONS

We have gathered the observations around the main pricing framework building blocks:

Price Strategy **Goal setting for pricing is mainly driven by margin improvement project target settings.**

Price Strategy

- More in-depth price strategy discussions are triggered during the margin improvement projects, helping to make the right choices aligned with the market/corporate strategy.
- Regional and global price strategy is in deployment.

Price Segmentation

First price segmentation discussions are started with sales and marketing.

Price Policy & Price Setting **Vital pricing analytics/reports are in place and margin improvement projects are frequently discussed during commercial/sales meetings.**

Pricing analytics

- You have installed the vital pricing reports. (see further)
- Your price and margin data is integer – everyone agrees on what happens and understands why the prices (margins) are what they are.
- You have defined margin improvement projects and sales teams have active discussions to improve the margins.

Still mainly cost-plus, but value based pricing pilot projects started

- Although price setting and price changes are still mainly cost driven (or competition based), value components per segment are being explored. Even some first value based pricing pilot projects are started.
- The first EVC (Economic Value Calculation) models are developed and used to support the sales process.
- Discussions are triggered by Product management and Marketing around the understanding of value: is there an in-depth understanding in customer's value drivers? How do our customers perceive our value? Does our price reflect customer's willingness to pay – and these questions trigger pricing research.

Price and Value Differentiation

Price and value differentiation is implemented in the offering where possible. Tiering (good/better/best) is installed where appropriate.

Floor and target prices/margins

Floor and target prices/margins per product group and/or customer group are installed and monitored. A target price recommendation helps sales to target the ideal price to offer.

Portfolio alignment

Portfolio price alignment is considered.

Price corridors

Regional price corridors are installed to avoid cross-border selling.

Discount and Surcharge policy

The discount and surcharge policy is updated and structured.

Price approval process

In addition, the pricing approval process is being improved and the systems are installed (CPO software, see further) to support the authorisation process to avoid 'bad sales'.

Dynamic pricing

- Price elasticity is discussed, researched and better understood. This can lead to the introduction of dynamic pricing, based on actual demand monitoring and competitive price watch.
- Price lists are maintained multiple times per year.

THE LEVEL 2 OBSERVATIONS

Pricing becomes a management topic	<ul style="list-style-type: none">▪ Because several margin improvement projects (“quick wins” in pricing - or the so called “low-hanging fruit”) are now successfully executed, the successes result in a very important boost of trust in the pricing organization.▪ Pricing has now a higher priority on the management team’s agenda.
Discount Policy	<ul style="list-style-type: none">▪ The discount structure is improved (without too many unconditional discounts now) - and no longer triggering channel conflicts.▪ Surcharges are reviewed and charged.
Price Execution Price Guidance for quoting	<ul style="list-style-type: none">▪ A CPQ tool supports sales with price guidance for deal making.▪ The CPQ price guidance includes price guidance adjustments based on risk and pricing power variables.
Price increase process monitoring	Price increases are better prepared and monitored on their effectiveness in the market.
Deal making team	A Deal Making Team discusses the strategic deal making.
Value selling starts	Sales force starts to increase the focus on ‘value selling’.
Monitoring	The organization now has transactional control: they understand what happens and why when it comes to pricing.
Vital pricing reports installed	<ul style="list-style-type: none">▪ The vital pricing analytics are installed and reported.▪ Pricing and margin data is accurate and trusted.▪ Margin improvement projects are monitored.▪ Deviations from general contract conditions monitored.
Pricing KPI’s	<ul style="list-style-type: none">▪ Deviations from target prices are measured:<ul style="list-style-type: none">- % deviation from target price/margin (+ or -)- % volume with deviations below target price/margin▪ Price authorisations below floor prices are monitored.▪ Price/margin realisation is monitored and periodically discussed during sales meetings.
Promotional effectiveness	Effect of promotional (discount-) activities (also of competitors) are analysed.
Price elasticity insights	Insight in price elasticity increases.
Win/loss analysis	Win/loss analysis is put in place and evaluated regularly.

People & Organization

Pricing team

- Pricing function is very often embedded in the Finance Department, with the team mainly organised around pricing analysts.
- A Pricing Team is installed and acts as the sponsor for margin improvement projects and price strategy discussions.

Deal making team

A Deal Making Team is installed to discuss strategic deal making.

Capability development

Sales, Product Management and Marketing have followed a pricing training to create awareness about roles and added value of pricing.

Tools & Systems

Data visualisation tool

Vital pricing reports, in addition to financial reports, are now available and accessible in BI tools.

Pricing software

- Some organisations have already installed pricing software modules to support their pricing analytics.
- The advantage of installing the pricing software is that with more extensive forecasting the impact of different pricing scenarios can be quickly assessed.

ERP integration

Price lists and discount grids are centralised and linked to ERP system.

CPQ & CRM

A CPQ (configure-price-quote) system is in place, connected to a CRM system to embed the pricing processes!

Research techniques

Research tools such as: conjoint analysis, Van Westendorp Price Meter, Brand/Price trade-off, etc. are being explored. They bring new insights in value perception and provide input for improved value propositioning.

LEVEL 3 FULL VALUE CAPTURING - PRICING AS A PROCESS

Now the margin optimization projects during the 'transactional control' (level 2) are successfully delivered, the organization is ready to take full advantage of value capturing. It is important to stress that without transactional control (established on level 2) enhanced by trusted data, level 3 maturity is hard to be reached.

Configure-To-Quote software is implemented and fully integrated with the ERP system, embedding the pricing rules and authorisation processes to support effective price guidance during quotation.

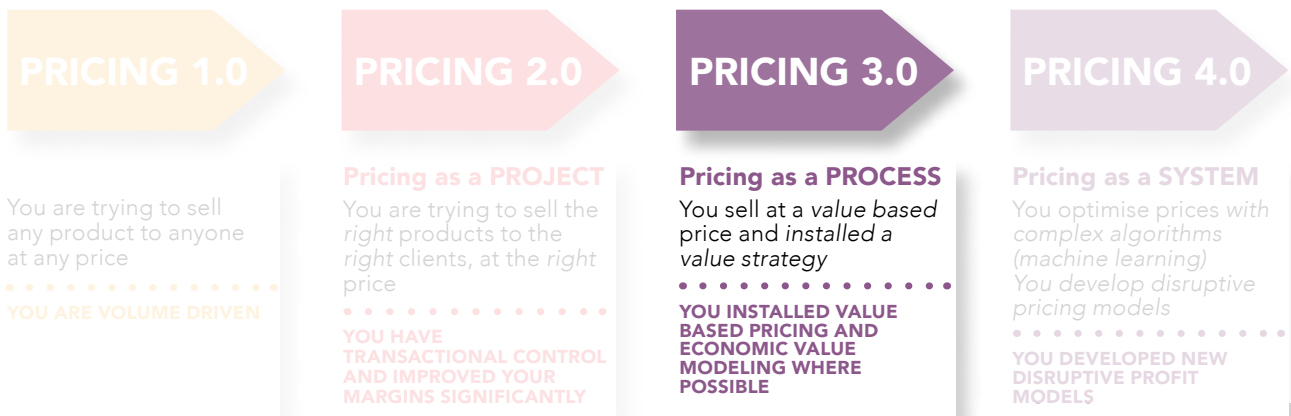
The organisation now has a common understanding of the chosen market strategy per segment – a solid insight in how value is captured in the full value chain - and a common understanding of the price premium drivers (and value) per segment.

The innovation process is organised around insights in the value drivers and willingness to pay for the chosen market segment within the full value chain. Pricing is now directly, and early, involved in the innovation process.

Price setting for innovations is as much as possible value based and marketing supports the commercial strategy with a strong value communication.

In sales, value selling is the new normal and sales teams are equipped to defend the value and the price.

Direct to consumer brands install online price watches delivering important new insights in promotional initiatives, market launches, unauthorised dealers and out of stocks in the channels. This information is of huge value for both pricing and marketing teams, aligning both functions even more than before. With these improved insights, first generation of dynamic pricing is implemented. This first generation of dynamic pricing is 'rules based'; using insights in actual demand, competitive price settings and promotions, price elasticity and actual inventory levels (and out-of-stocks) are aligned with the market strategy, positioning and targets.



THE LEVEL 3 OBSERVATIONS

We have gathered the observations around the main pricing framework building blocks:

Price Strategy

Price strategy, price goals and target prices versus competition are documented per market segment.

Alignment with go-to-market strategy

Alignment around the go-to-market strategy – and goals - leads towards optimization of the price strategy and price goal setting per segment/product group and channel.

Price positioning

- Price positioning per segment and channel is defined with price distance vs competition rules.
- Regional price bands, with floor and target prices are fully installed and monitored.

Price segmentation

Price segmentation is fully accepted by marketing, product management and sales - and deployed.

Product life cycle pricing

Product life cycle is part of the pricing strategy.

Price Policy & Price Setting

Price Setting is value based where appropriate and possible

- In B2C markets: improved insights into the value attributes and price elasticity of demand lead to the introduction of new pricing models, effective bundling, improved options pricing and first dynamic price tests.
- In B2B markets: the portfolio is split between a low added-value portfolio (mainly still cost-plus pricing) and the added-value products (where value-based pricing is implemented now).
- Product life cycles are taken into account in the pricing strategy.

Economic Value Modelling

Price setting in B2B markets is increasingly using Economic Value Calculation to better understand value creation, used for improved value based price setting and value innovation.

Price setting becomes more dynamic, based on micro segments

Deep analytics highlight micro-segments with different pricing behaviour and price elasticity. These insights improve the price guidance/pricing rules.

Services are better monetized

Additional services are 'productized', listed and priced.

Subscription based pricing models

Because clients value 'ownership' less than before and in digital markets/products; new subscription-based pricing plans are offered.

Dynamic pricing tested

First gen of 'rules based' dynamic pricing⁸ is explored where possible based on increased insights in price elasticity and micro segments.

Dynamic marketing tested
Basket optimisation

Dynamic marketing supports the value proposition (e-commerce webpages) and the basket optimisation.

⁸First gen of dynamic pricing is rules based; using insights in actual demand, price elasticity, competitive price behaviour and inventory levels/out-of-stocks to make prices dynamic to realise market targets, aligned with the chosen market strategy and positioning.

THE LEVEL 3 OBSERVATIONS

Discount Policy	The channel (partner) discount system is aligned with the go-to-market strategy, resulting in a performance-based discount model which is reviewed annually.
Price Execution	The organization as a whole is in transition. The concept of TVO - Total Value of Ownership - now replaces the TCO (Total Cost of Ownership) models.
Selling on value	<ul style="list-style-type: none">▪ Selling on value requires a very close collaboration and alliance between marketing, product management, R&D, operations and sales.▪ Sales developed user-cases, demonstrating the economic value.▪ The new value selling approach requires a better understanding and communication of the value to a specific customer group (segments and decision-making units).
Price guidance	<ul style="list-style-type: none">▪ The aligned price channel strategy (and discount structure) is installed in all the regions.▪ B2B sales teams are now supported by a fully deployed CPQ (configure-price-quote) system to prepare offers and tenders. Sales teams receive price guidance per segment, and their performance is monitored.
Improved tender process	The tender process is revised and improved by the pricing department. Margin recovery plans in place.
Improved value communication	Marketing is improving the value communication in order to support Sales to sell on value and to defend the price.
Innovation around WTP	R&D is better connected with the pricing team than ever before. Pricing is now embedded in the earliest stages of the new product development process; the organization innovates around a deep understanding of value and willingness to pay.
Sales incentives plans optimised	Sales incentive plans are not only based on volume and revenue objectives, but also based on price realisation and margin objectives.
Monitoring	<ul style="list-style-type: none">▪ Pricing software or solid BI tools make it possible to generate automatic, customized reporting on price and margin effectiveness.▪ Sales is supported with detailed volume and margin performances, per product group, customer group or segment.▪ Price guidance per segment is monitored and individual sales representative performance is made visible.▪ The pricing team maintains a competition price watch and performs regular price reviews together with sales/marketing to optimize prices.▪ A pricing dashboard is installed with regular reporting to the commercial, financial and top management functions.

People & Organisation

For the chief pricing officer, this is an important moment in the change process. He/she needs to take a good look at the pricing team and invest in embedding the value culture.

- Pricing no longer reports to the Finance department, but is embedded in the Commercial Organisation. Commercial Excellence is supporting best practice implementation.
- A Chief Pricing Officer (or Revenue Manager) is appointed to lead the Pricing team.
- It's important to have the right people on the boat! Experienced, level 3 pricing managers, working on level 2 organisations is not optimal.... They often get frustrated quickly and leave. Putting level 2 experts within a level 3 company can be a challenge too, they will need appropriate training to match the required maturity level.
- The first 'price science' team members are added to the pricing team.
- Continuous training and coaching of the pricing and commercial team.

Tools & Systems

Pricing Software

- Pricing software is managed by the pricing team and used for effective reporting, monitoring, price guidance and deal decision-making.
- Contract management is fully digitalised and deviations from general contract conditions are monitored.
- Online competitive price watching is installed.
- First generation of 'rules based' dynamic pricing software is deployed and tested.

Research Techniques

Price/value positioning - and price perception - are checked via research.

LEVEL 4 PRICING AS A SYSTEM (OR SCIENCE)

Level 3 companies are in full transition, implementing a value and profit strategy.

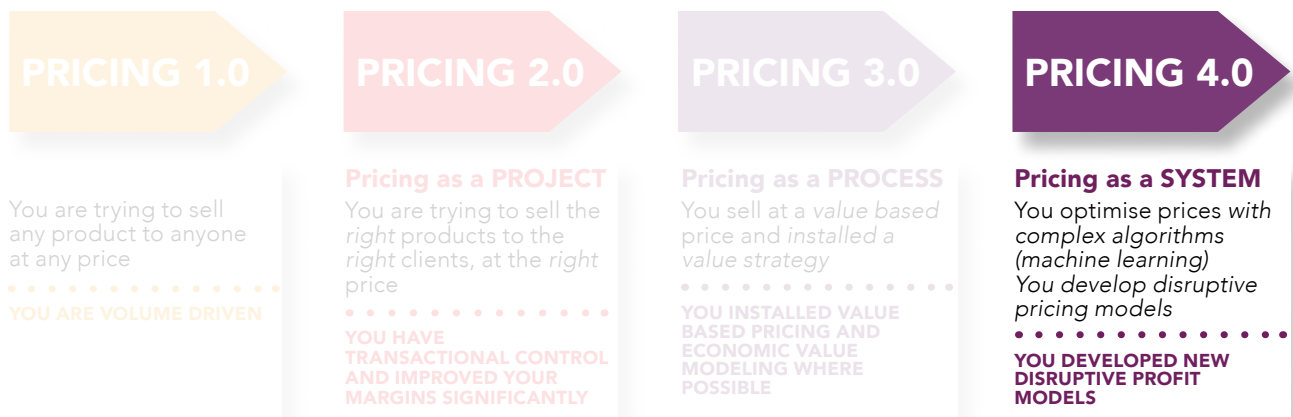
B2C Level 4 companies are digital enterprises. Pricing is heavily supported by highly sophisticated pricing software, CPQ tools and online price watches delivering continuous price elasticity and market insights. All these insights are connected into an integrated view.

Advanced machine learning algorithms, driven by big data collection, supports quoting and pricing setting and enables second gen dynamic pricing models.

Recent and very visible initiatives like Amazon’s predictive pricing or Uber’s dynamic pricing models are examples of very advanced machine leaning supported pricing models.

B2B level 4 companies also explore disruptive new pricing models; e.g. GE is no longer only selling jet engines to their airline customers, but they can also charge a price/hour, including operation of the jet engine, maintenance and other services – or Michelin is no longer only selling tires, but introducing a performance based €/kilometre price; or Suez, no longer selling pure engineering to install power plants, but offering complete city heating and power development, including the maintenance and financing for a period of time. A city now buys ‘security of energy delivery at lower (fair) prices’. Such differentiating profit models create potential higher profits but come with higher risk-taking too. In these companies, pricing is now an essential, and very strategic, component of the business model.

It is important to note that for many organizations, this level 4 pricing maturity is not the necessary, desired, end state. Most companies will not aim for level 4. But if you compete against Uber, Alibaba or Amazon, you better be ready.



THE LEVEL 4 OBSERVATIONS

We have gathered the observations around the main pricing framework building blocks:

Price Strategy

- The pricing team is deeply involved in business model innovation and new business/revenue model development.
- Sophisticated machine learning and algorithms drive pricing.

Price Policy & Price Setting

Sophisticated, machine learning enhanced, micro-segmentation is the basis for dynamic and personalised pricing.

Second gen dynamic pricing

Statistically designed micro-segments (based on willingness-to-pay and price elasticity insights) are the foundation of second generation (machine enhanced) dynamic pricing.

Disruptive new pricing models

And new disruptive pricing models are the 'new normal' in this maturity level.

Discount Policy

-

Price Execution

Continuous (many times a day) price assessments and adjustments are performed with regular feedback from consumers/end-users to adjust value propositioning and price setting when necessary.

Monitoring

- Digitalisation drives real-time (multi-channel) data insights in the price and margin realisation.
- Online price watches offer real time insights in price elasticity, competitive promotional offering, out-of-stocks, unauthorised dealer networks and more as input for commercial actions.
- Pricing dashboards are visible online in pricing war rooms.

People & Organization

Pricing science teams replaced the classic pricing teams.

Tools & Systems

- Sophisticated – often in-house built - algorithm enhanced pricing software installed.
- Online price watch software installed.

CHAPTER 3

MOVING AHEAD: TAKING TRANSACTIONAL CONTROL

This book wants to help you with a concrete roadmap and priority settings to improve your pricing maturity. If your goal is to bring your organisation (or business unit) to level 2, this is what we recommend to do – remember it's important to do the right thing right, at the right moment.

INSTALL THE 10 VITAL MARGIN IMPROVEMENT PROJECTS

Great, you want to move your organisation towards higher pricing maturity and decided to take the lead.

Two things are extremely important:

First: act as a trusted advisor, you are not a policeman... Your role is to support your sales/commercial teams in order to help close more and better deals. You need to become a trusted advisor!

Secondly: it's important to do the right things right, at the right moment. Taking these 2 important points into consideration; best practice implementation of level 2 pricing maturity journey means realising 10 vital pricing projects.

PROJECT 1 INSTALL VITAL PRICING ANALYTICS

First things first: to be effective at level 2, it is important to have the vital pricing analytics in place. Pricing is fact based. Avoid the 'story telling approach', promote fact based management. Every price point has it's history and story behind it. And yes, it's important to listen and understand the history why the prices are the prices, but you will need to move on.

And the only way to move on is to ensure :

- everyone trusts the data
- everyone understands what happens and why it happens
- sales is fully 'in the game'

A typical set of pricing analytics are described in the 'box': *Essential Pricing Analytics: a typical set*

DATA INTEGRITY

First of all; the data integrity is extremely important. The first time you will show the numbers and graphs, you know what will happen: sales will challenge the data. And they are right. Remember, everyone needs to agree on what happens and why it happens first. Data accuracy is important to build the necessary trust and data integrity is often an important obstacle. If your cost price is not the real cost price, or if your net price is not really the net price (...); stop.

Thus; improve your data integrity first before you move on.

Gartner recently reported that 91% of organisations haven't reached the point of effectively using their data and analytics... so you are at least not alone.

DATA STRUCTURE

Secondly, it is important to ensure that the data has the right structure. Make sure the right product aggregation is done, that all customers are linked to the right segment etc. It is very often necessary to do a data cleaning first before showing the insights. Take sufficient time to do it right.

Although many businesses choose to start this journey with spreadsheet-based analytics, supported with data visualisation tools, investing in pricing software/technology can yield benefits too at this stage.



GET 'SALES ON-BOARD'

Read this again: you need to get your sales teams on-board. Make sure you have a commercial director taking the project ownership.

You will need a commercial decision maker to support the sales teams taking the next step, give them the trust they need to make the change. If you do not get your commercial director on-board you will fail, make sure you have her/him on the drivers' seat.

PROJECT 2 CORRECT SYSTEMATIC MARGIN LEAKAGES IN YOUR CUSTOMER PORTFOLIO

It is the easiest part of your journey; based on your data insights you will need to discuss with your sales teams the 'obvious' low margin customers and ask them an action plan how to improve the margin with the 'bleeders' (e.g. negative margin customers). You will notice that the discussions will be of great value, e.g. to find out the history of 'bad' sales (sometimes it was part of a volume strategy and perfectly aligned with the strategy, maybe it still is).

The outcome of this exercise will be margin improvement actions on customer level, driven by sales and monitored/supported by the commercial lead.

PROJECT 3 CORRECT OBVIOUS MARGIN LEAKAGES IN YOUR PRODUCT PORTFOLIO

Identical as project 2, but on a product level. Watch out; sometimes your corporate strategy requires to emphasise on product profitability above customer profitability, but this will become clear during your discussions, when strategy will need to be discussed to define the 'desired state' of your pricing.

PROJECT 4 DEFINE FLOOR AND TARGET PRICES

An important step forward will be to define floor and target prices per segment/channel.

Remember, the target prices will probably still be mainly cost-plus, but that's ok, you get transactional control and it will be a great step ahead.

PROJECT 5 INSTALL PORTFOLIO PRICE CONSISTENCY

Many companies experience large inconsistencies in their portfolio pricing, both vertical inconsistencies (within the product line) and horizontal (between channels/markets). It's important to get your portfolio consistency back in control.

PROJECT 6 INSTALL PRICE/VALUE DIFFERENTIATION WHERE APPROPRIATE

In order to benefit from different willingness to pay between segments, applications (or regions) – value differentiation is a must, price differentiation (selling the same product/service at different prices, but with ‘fences’ between the segments or channels) is another option.

PROJECT 7 IMPROVE YOUR DISCOUNT – AND SURCHARGE – POLICY

Level 1 companies have ‘historical’ discount grids with many different discount applications, often including many non-conditional discounts, that need improvement. Installing a new discount policy/grid will help taking transactional control and will partly define the rules of the price deviation process. Surcharge policies that are often not officially written or not systematically invoiced will need to be officialised and improved.

PROJECT 8 IMPROVE YOUR PRICE DEVIATION PROCESS

With floor, target prices and discount/surcharge policies in place you are able to define the price deviation rules.

PROJECT 9 EMBED THE NEW PRICING PROCESSES AND RULES IN A CPQ TOOL

You are almost there! We recommend you to embed the pricing rules in a configure-price-quote tool. Adding both ‘risk’ and ‘pricing power evaluation’ questions will support your sales teams to set the ‘best price’.

PROJECT 10 INSTALL YOUR BASIC PRICING KPI'S

To make sure you monitor your effectiveness: put your basis pricing KPI's in place and make them visible throughout the organisation. You should see clear positive return on your investment within the end of the first 12 months.

AND FINALLY: CONTINUE TO EDUCATE THE TEAMS!

**If you want to get an in-depth training how to deliver the vital margin improvement projects and how to bring your organisation to level 2 in pricing maturity; we strongly recommend to follow the EPP CPM-2 level (Certified Pricing Manager).
All info on: www.pricingplatform.eu**

Essential Pricing Analytics: a typical set

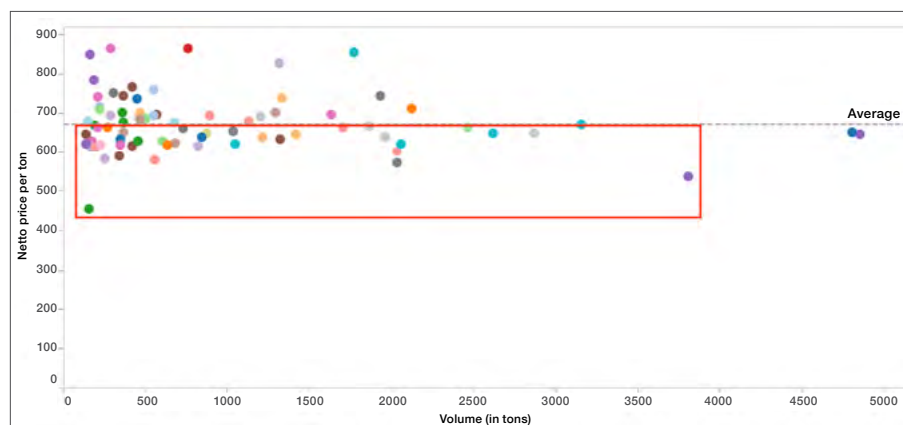
There are typically 6 types of reports needed to get a full insight in your price/margin getting. Standard pricing analytics include:

1. Price band analysis
2. Profitability analysis
3. Price waterfall analysis
4. Portfolio analysis
5. Variance tree analysis
6. Price elasticity analysis

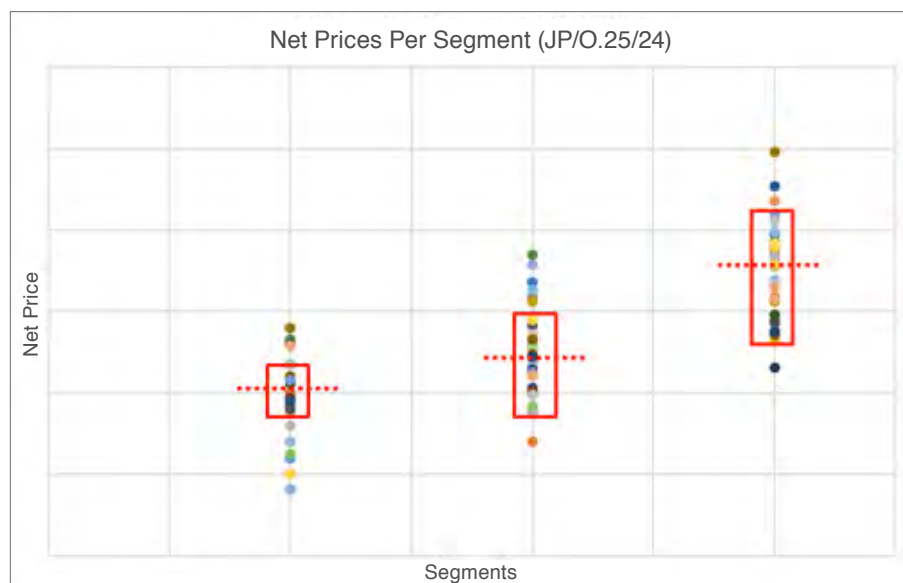
1 PRICE BAND ANALYSIS

Price bands show the range of prices for specific products/applications/customer segments/channels etc. It's the ideal starting point to align pricing, sales and product management about understanding what really happens – and discuss why it happens. You can then look at price leakages (small volume customers enjoying the same low prices as high-volume customers).

Examples:



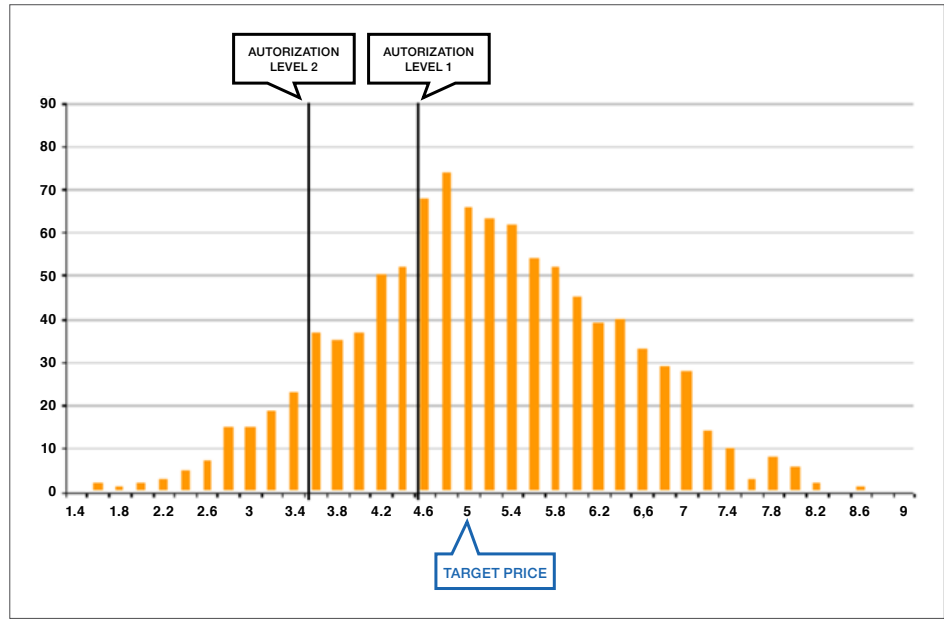
Graph 1 - Measuring net price band per product group (in function of volume)



Graph 2 - Measuring net price band per segment (per product)

BOX 3

Graph 3 - Measuring % discount versus list prices

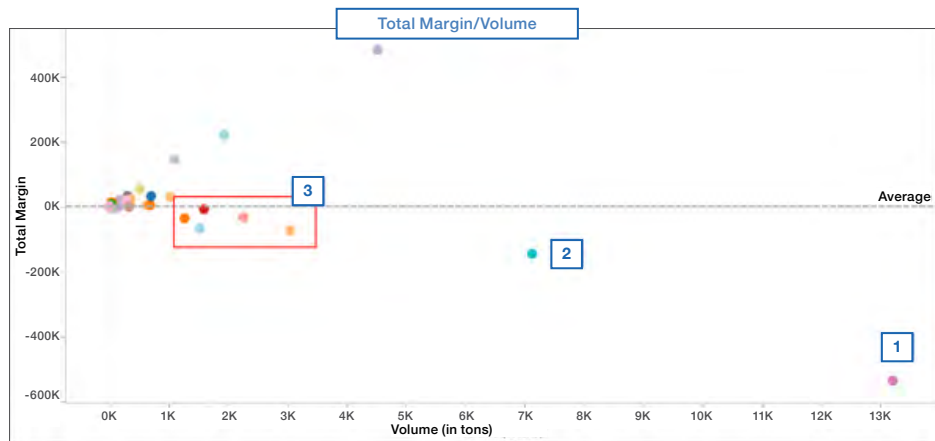


2 PROFITABILITY ANALYSIS

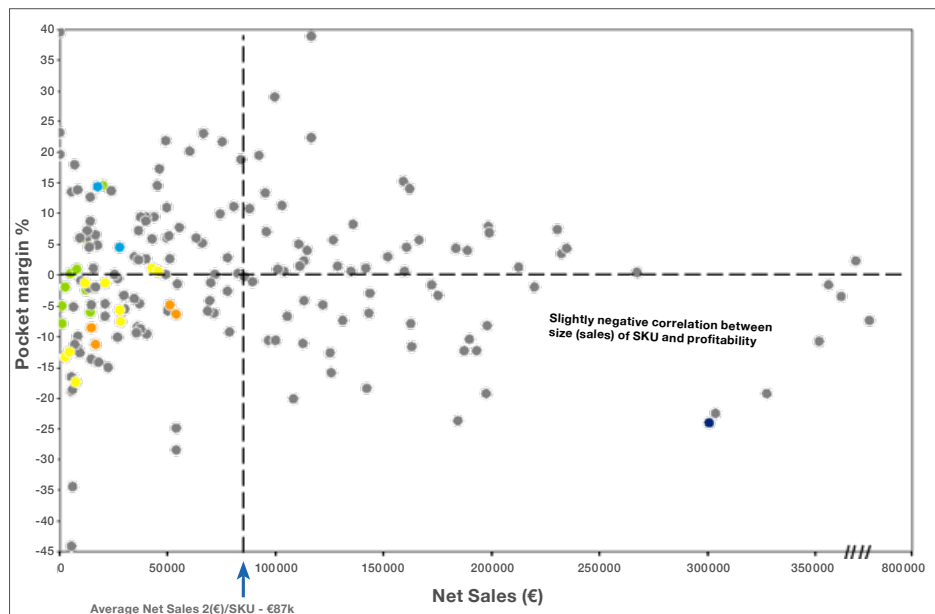
Profit plots give insights in possible margin leakages per product or customer.

Examples:

Graph 1 - Measuring net margin, customers per product

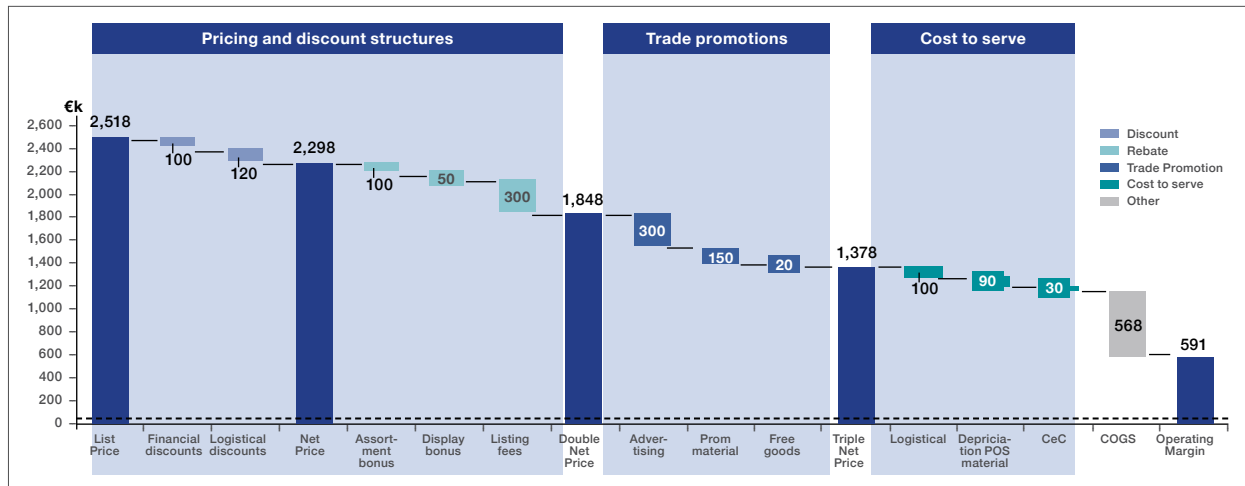


Graph 2 - Measuring net margin, per customer (all products)



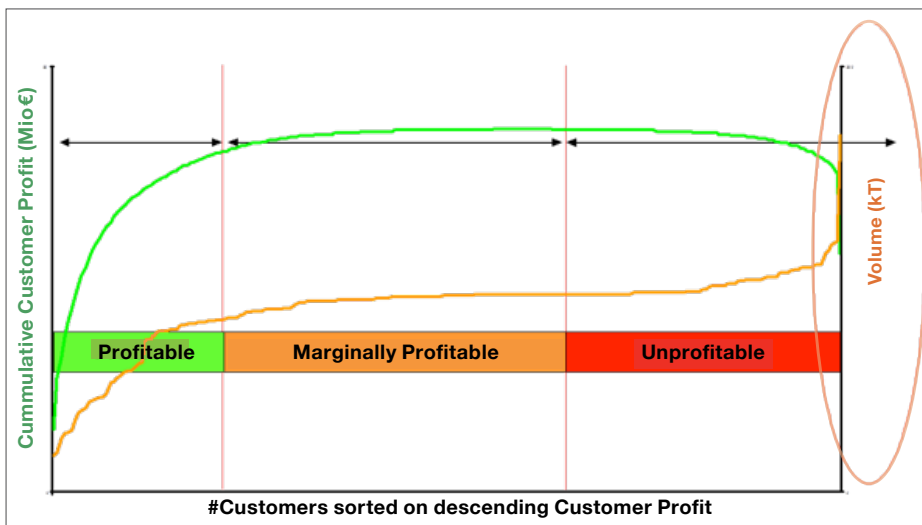
3 PRICE WATERFALL ANALYSIS

Price waterfalls give insight in the price erosion from the list price and shows possible margin improvement opportunities.



4 PORTFOLIO ANALYSIS

Profit plots give insights in possible margin leakages per product or customer.

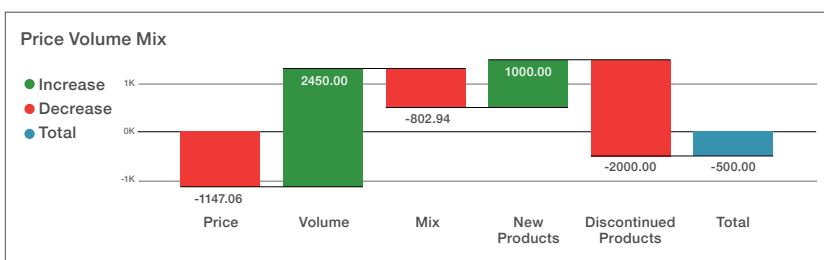


Graph 1 - Profit Spread Analysis, per product (or customer)

Also known as the 'whale curve': showing the net margin spread within your product portfolio – and the margin bleeders (unprofitable products at the right – attention here showed for customers instead of products).

5 VARIANCE TREE ANALYSIS

This is a typical revenue management graph, showing the revenue variance in previous periods as a result of price, volume (number of customers x volume/customer) and mix changes.

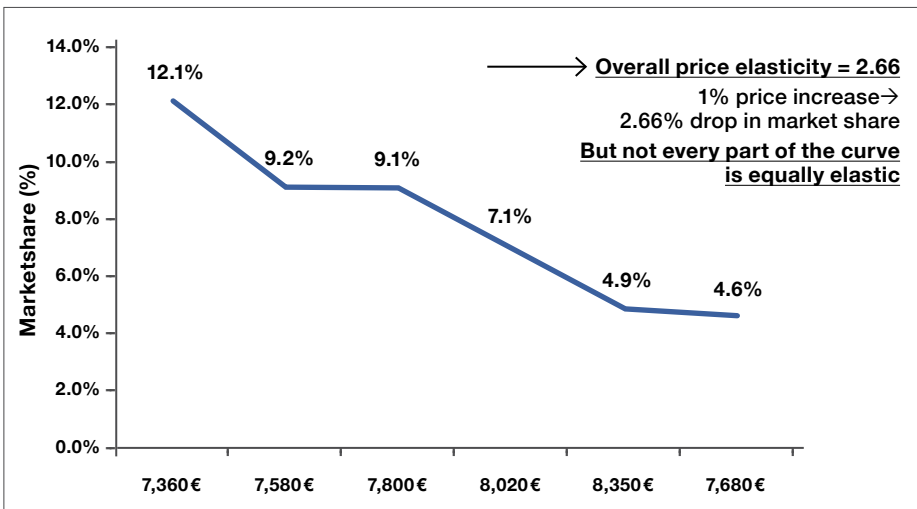
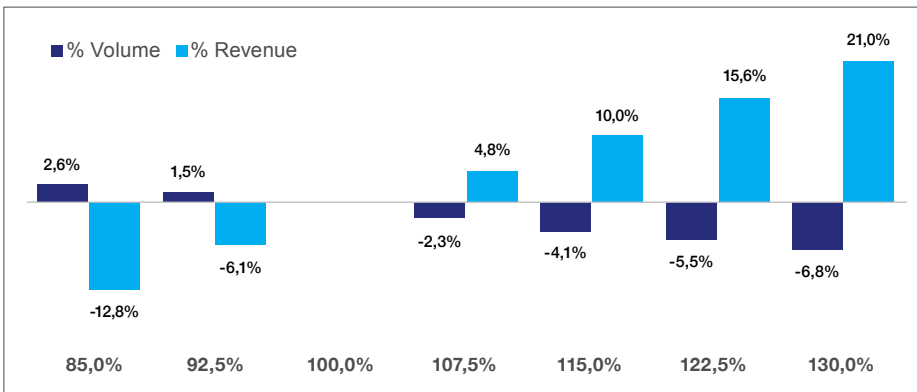


6 PRICE ELASTICITY ANALYSIS

While the concept of price elasticity seems to be straightforward, in practice elasticity is often quite complex for a couple of reasons :

- Price sensitivity varies per customer segment. Different segments exhibit differing awareness of prices - and different consciousness of price.
- Price elasticity varies within your portfolio.
- Price elasticity is rarely linear. I.e a price can get so low that customers suddenly start questioning credibility, or so high that customers cannot believe that any product benefit could be worth that price.
- Price elasticity should be seen in a wider context. Price elasticity is influenced by a lot of factors, including; price awareness and perception, price communication, price/value perception, buying behaviour, seasonal influences, channel, etc.

But it's definitely worth doing the research (keeping in mind the complexity).



MOVING AHEAD: TOWARDS FULL VALUE CAPTURING

We already mentioned implementing a value strategy goes of course beyond implementing value based pricing; you will also need to implement value communication, value selling, value research and value management. And it requires a leadership focussing on a value culture.

We also said that this level 3 of pricing maturity is not necessarily the desired target for the whole company. Probably not every region or business unit needs to perform at level 3.

This is important to keep in mind to ensure that your level 2 processes and systems stay in place! That needs to be your first attention. But there is more to do...

A SHORT LIST OF LEVEL 3 TO DO'S:

1 **Install a (global/regional) price strategy**

Deployment of a regional price strategy, aligned with your corporate and market/brand strategy, reflecting in a competitive reference price positioning is important to get global/regional alignment. Typically, ensuring strategic control in the value chain is also an important challenge.

2 **Install regional pricing champs or even better, install regional pricing teams**

You want pricing champs in every country/region. Of course it will not always be possible to have pricing teams everywhere, but have a dedicated pricing champ is necessary.

3 **Develop a 24 months pricing maturity roadmap per region/team**

When you are in a global/regional HQ pricing team, you will need to align your pricing champs around a concrete pricing priority roadmap.

4 **Continue to support sales teams to sell more at better margins, stay in your trusted advisor role**

5 **Lead the implementation and the use of pricing software across the organisation**

You have probably selected and installed pricing software to support your data analytics and you are using new modules such as price elasticity, value pricing modules, etc. It is important to ensure the software is used in a standard and aligned way!

6 **Install Economic Value Calculation to support sales teams (if you are in B2B)**

7 **Align with marketing to develop effective value communication to support sales teams (B2B)**

8 **Support value selling capability development**

9 **Influence to improve sales incentives, connected to the pricing objectives**

10 **Be part of the value innovation** – and ensure you are involved early in the value innovation process.

11 **Explore new pricing models/plans** (including dynamic pricing, subscription plans, performance based pricing, etc). Also monetization of data and services are typical new initiatives.

12 **Improve your pricing dashboard**

You will need to monitor if you price strategy, your price getting and your pricing process is on target. Installing visible pricing KPI's within the commercial organisation is important.

13 **Continue to improve the pricing capabilities in your pricing team:** continue to educate/train them – get everyone certified (Certified Pricing Manager: see www.pricingplatform.eu)

CHAPTER 5

CROSSING THE PRICING CHASM

WATCH OUT FOR THE 'PRICING CHASM'

Bridging the gap between level 1 and 2, taking transactional control, can be seen as a 12-month project. A project with desired outcome, the margin improvement, and deliverables that are set in advance (the 10 typical margin improvement projects described in chapter 3). Typically, the organisation is happy with the progress made. Top management recognises the margin improvement made and can see the embedment of the new pricing approach in systems and tools. Sales teams are happy with the data driven insights, structured discount approach, portfolio optimisation and price guidance in CPQ. The pricing team is seen as a trusted advisor.

With pricing sometimes still part of finance – but already very often embedded in the commercial department - the team is growing. But that does not mean that pricing is really 'in business'. Once the core margin improvement projects have been effectively deployed, top management might perceive the job as done. In other words, they think they can move on to the next (non-pricing) priority on their list. The pricing chasm becomes real.

It could mean that there is no future roadmap for the pricing function anymore – the pricing leadership is not able to bring the pricing team a step further, supporting and advocating a value and profit culture. The organisation is still only making small steps towards a value strategy with marketing, sales and operations not fully aligned on market segmentation, value innovation, value communication and value selling. Innovative pricing models and technology gets not further deployed.

The team continues to work well on transactional control level, but without a future roadmap on how to bring the organisation to the next level.

The company needs strong price leadership with change management skills to tackle the most important obstacles moving forward to the next level of Pricing maturity (level 3). Pricing is no longer a project, it's a change process. This challenging gap between level 2 and level 3 is what we call the "Pricing chasm". Crossing the pricing chasm can take 5 to 7 years. So you can better have a roadmap and be dedicated to make it happen.

KEY SUCCESS FACTORS IN CROSSING THE PRICING CHASM...

The most important reason for 'regression' (falling back on old habits) is typical for every unsuccessful change initiative: the key stakeholders fail to communicate the next steps towards their goal. Crossing the chasm demands substantial change management skills and a clear roadmap. The vision and next steps need to be made crystal clear by the change leaders.

We have all seen change processes fail – and we all know what it takes to make a change management successful – but still 70% (!) of all change programs fail.⁹

⁹ Yet despite the huge investment that companies have made in tools, training, and thousands of books (over 83,000 on Amazon), most studies still show a 60-70% failure rate for organizational change projects — a statistic that has stayed constant for decades now.

Therefore once again, the recommendations:

6 enablers to take care about to realize your level 3 change/roadmap :

1 Leadership: get an experienced change (pricing) manager on board

The foundation of the EPP Pricing Maturity Model is the recognition that improving Pricing Maturity beyond level 2 requires a “change process” – it’s not just a project anymore. It requires a structured change approach. You will need to evaluate the impact on people, processes, tools & systems - and the impact on both your sales and market(ing) approaches. An experienced (and trained) pricing manager, leading you through the change, makes a huge difference.

2 Vision: make sure there is a solid roadmap and business case

You will need a solid long term maturity roadmap to grow the pricing team (in people, systems, tools). Make sure you have defined clear milestones with deliverables - and impact on your business - to convince top management to invest. Installing a more granular KPI dashboard make sense too to measure your progress.

3 Alignment: align stakeholders, organizational capabilities and strategic direction

Successfully moving to the next level in Pricing Maturity requires organisational alignment. If not, departments remain siloed. Make sure you have all your dominant stakeholders (marketing, sales, finance) on board – and again: never walk alone and continue to communicate (and educate).

4 Structure: bring pricing into commercial excellence – or the commercial department

Pricing cannot continue to be part of the finance department or in the Project Management Office (PMO) any longer. The pricing team should be part of the commercial team, including marketing (product management) and sales. Alignment is everything. The value of connecting data insights between pricing data and marketing data will make a huge impact.

5 Capabilities: skillsets and systems to execute the change

Imagine what happens if there is a lack of advanced pricing skills in the organisations. You may have a strong desire to improve your pricing performance and drive the KPI increase, but what if the organisation lacks the necessary skills to lead economic value modelling workshops, conduct price elasticity research or drive pricing software implementation. No matter how much your leadership wants to change, it will be difficult to make it happen without certain skill levels. The development of Pricing Maturity also needs to be aligned with your organizational capabilities. Educate and train your teams.

Working on a level 3 pricing maturity also means you will have to invest in more advanced pricing tools. Your CPQ needs to be connected with your CRM (you need one...) – and more sophisticated analytics are necessary to give you the (micro)segmentation insight you need to drive basket value, bundling and building your new pricing models (e.g. subscription plans) or monetizing data. When installing subscription plans, your challenge is even bigger: installing a subscription model means you will have to think about even redesigning your business (...).

6 Commitment: keep your top management on board and celebrate success!

You will need the direct and full support of top management. Make sure your top management continues to ‘sponsor’ the pricing team. Show progress, show success and celebrate success!

CONCLUSION

Pricing Power is one of the most important key value drivers on the stock exchange; higher pricing maturity leads to sustainable value capturing based on fair value sharing principles. **Developing your pricing maturity means you have to do the right things right - at the right moment. Finally bringing the organisation towards a level 3 or 4 pricing maturity level requires significant change management efforts to succeed.**

Developing your organisational pricing maturity needs a change roadmap

First things first; companies that begin their journey towards higher pricing maturity need a pricing roadmap. The most important lesson we learned is that 'Doing the right things right, at the right moment' is crucial.

Priority setting is important and depends on your current pricing maturity level. Incorrectly identifying your pricing maturity level can lead to poor pricing team performances and wrong investments – and a loss of faith in the pricing function.

The thrill and danger of the quick wins

Companies' first pricing focus is to get transactional control, enhanced by in depth data analytics and visualisation of the price/margin realisation, resulting in vital margin improvement projects. These are the 'quick wins' to get your management support. It's great, but do not stop your efforts here – pricing is not just a project. If you do not evolve, the efforts will have a limited effect on time and value creation – and the risk of 'regression' (falling back in the old habits) is real. You will need to embed the pricing processes in your commercial processes and take the next step.

Crossing the chasm

Going for 'transactional control' towards a value and profit strategy means you need to cross the "pricing chasm" ... and it requires extensive change management skills from the Pricing team manager(s) and top management commitment. But companies who have followed the pricing maturity path can confirm its effectiveness. Just read the CPM¹¹ alumni stories.

What it takes

Going beyond 'pricing as a project', taking the next step towards full value capturing (level 3), and embedding the role of pricing in the commercial organization requires an alignment of organizational maturity development between pricing, marketing, sales and finance. It means moving the whole organisation towards a value and profit strategy and culture (unless you have a volume strategy, what also makes sense for many).

The impact

Going through the pricing maturity development process leads to a wide recognition in the organization that Pricing is one of the key profit drivers and that everyone can and has to contribute.

A level 3 pricing organization is focused and aligned around a profit culture, focused on value innovation, value communication, value selling and value management.

Increasing your organizational pricing maturity results in improved profitability and market (brand) positioning.

¹¹ CPM: Certified Pricing Manager - it is the global certification standard for pricing maturity development - more on www.pricingplatform.com

Looking to accelerate your pricing maturity roadmap?

CERTIFIED PRICING MANAGER® PROGRAM (CPM)

based on the capabilities needed to perform optimally at each pricing maturity level.

The CPM® (Certified Pricing Manager) Program is the global standard for pricing maturity development, based on the body of knowledge described in this white paper, with input from world leading consultants and cross-industry business. Through its Certified Pricing Program (EPP CPM® Program), EPP offers widely recognized skills and competencies practitioners.

The EPP CPM® Program puts a personal career and development plan forward for those involved in the pricing profession and in doing so increases the employability and recognition of these pricing professionals in Europe.

The program delivers extraordinary margin improvement opportunities to companies who send their professionals to the certification program, because successful completion of the program also involves a concrete business project delivery. ROI of these projects are impressive.



read more on the CPM 2 and CPM 3 programmes [here](#)



read more on the CPM Pharma edition [here](#)



More info on the certification programs:

contact Ripsime Matevosian, Learning and Development Manager
ripsime.matevosian@pricingplatform.com
or visit www.pricingplatform.com

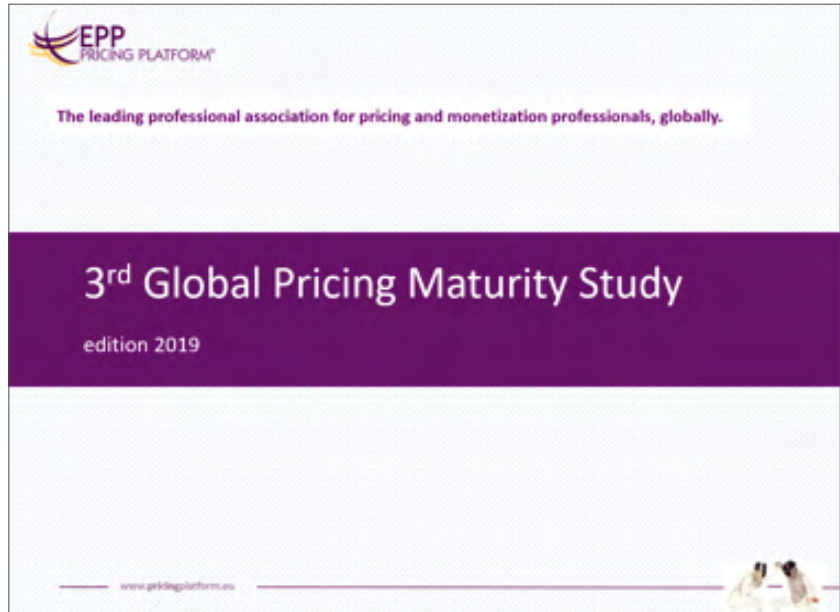
APPENDIX

THE 3RD EPP GLOBAL PRICING MATURITY STUDY INSIGHTS

Every 3 years, EPP conducts a global pricing maturity survey to evaluate the pricing maturity in more than 200 organisations.

It's a global, cross-industrial, survey and the interesting thing about it is that at the start of the survey, organisations are asked about their perceived organisational pricing maturity - which is then compared with the outcome of the actual status, assessed in the questionnaire.

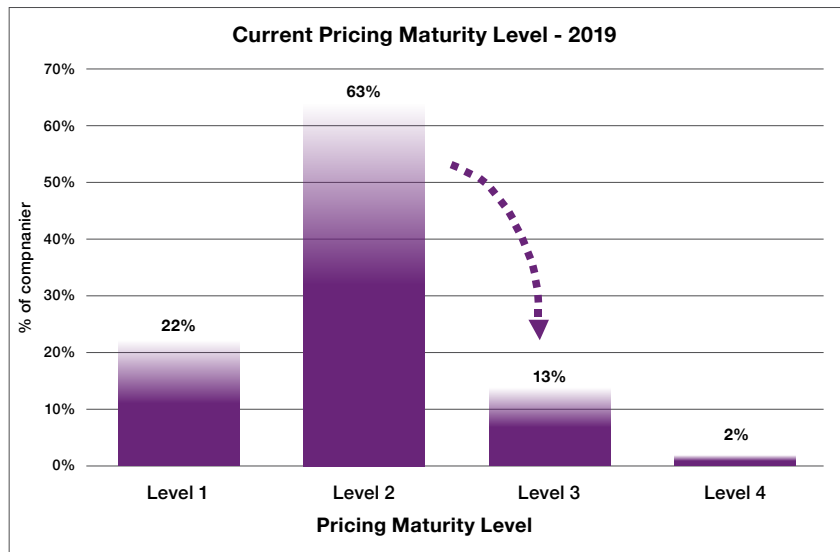
Also the future desired state (within the next 24 months) is assessed.



8 KEY FINDINGS OF THE EPP GLOBAL PRICING MATURITY STUDY (2019)¹²:

1 The overall pricing maturity score was just below 2.0, meaning that 'on average' the companies in the survey work on a relatively low pricing maturity level.

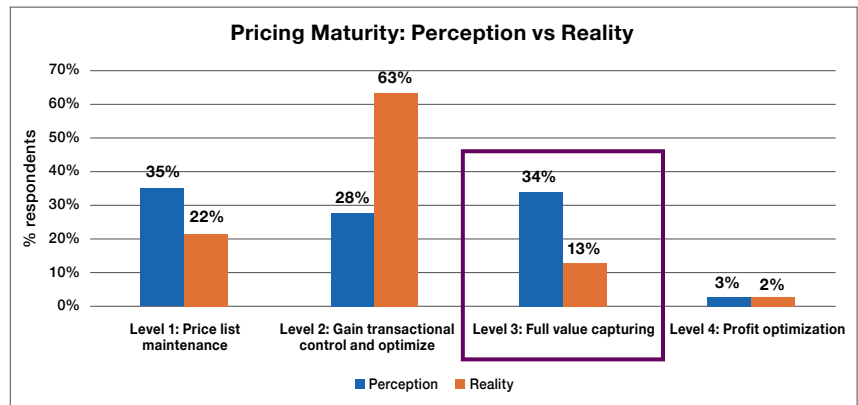
This is mainly because in the last survey quite some 'new-comers' were in the survey; companies that were not yet in the previous study. These newcomers are still working hard on their pricing roadmap.



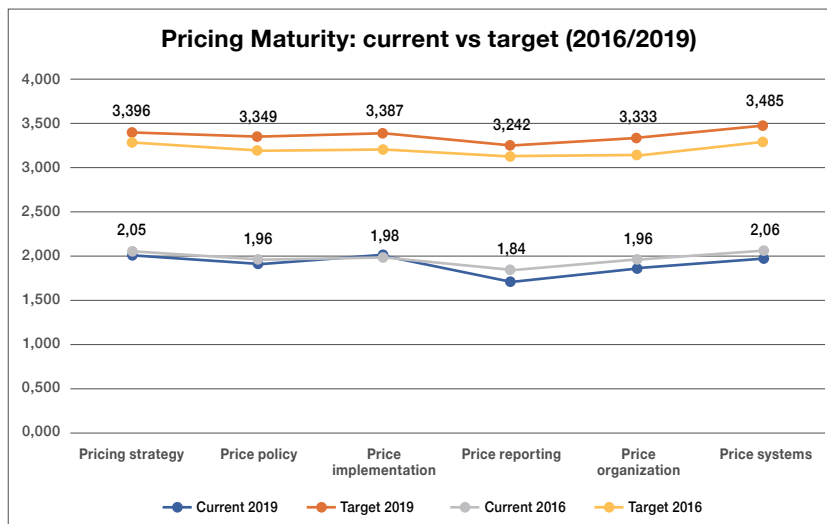
¹² The full EPP Pricing Maturity Study can be downloaded for free on the EPP portal website: www.pricingplatform.com

2 Many companies tend to overestimate their pricing maturity level.

Especially the 34% of the companies that estimated to work on a level 3 (full value capturing) – but only 13% work on that level 3. Most organisations still work on a level 1 or 2 and benefit from designing a solid pricing maturity roadmap to boost profits.



3 A stunning low score in the pricing maturity assessment is for 'price reporting' (1.84). This means that many organisations still struggle to install vital pricing analytics based on trusted data.



Only 12% of the organisations in the survey have insights in net customer profitability (taking cost-to-serve into consideration). The biggest delta – and thus challenge - is in the data quality.

It's no surprise that 73% wants to install a centralized database for all relevant pricing data with key price, cost, market and segmentation information in the next couple of years.

And **61% is considering an integrated configure-pricing-quoting infrastructure for sales, partner or end-customer with system-controlled exception handling and tracking workflows.**

Excel is still a very important pricing tool, with 80% using Excel or home-developed software to produce pricing reports. There are still many companies struggling to move from Excel spreadsheets to more advanced pricing (analytic) tools. **47% are exploring more sophisticated pricing software to implement.**

4 Only half of the organisations (50% exactly) say to have effective price escalation processes – and 65% is struggling to monitor compliance to terms and conditions!

5 Almost 80% of the companies say to 'struggle with pricing portfolio inconsistencies'

6 For the third time in a row: effective sales incentives, linked to the pricing strategy, are by far the weakest part in the pricing maturity (score of 1,77).

7 Very challenging: more than **50% of the organisations in the survey (52%) have no vision how to develop their pricing capabilities.** But 97% say they should have one...

8 **The lack of learning opportunities** is stunningly high in many companies: 42% stated 'to have very little or no training options/budget'... This is really worrying.

Organizations building their organizational pricing maturity realize incremental revenue and profit from improved price and discount discipline, better price setting and sales support/alignment with improved price getting. And it's clear; a solid foundation is necessary to make progress.

Taking transactional control - enabled by vital pricing analytics and reports based on integer data and good visibility in reports of the margin leakages - with the capability to provide context specific floor and target price guidance to the front-line and defining continuous margin improvement projects - are very important. It's only a first step, but a very essential step to take for still many organizations.

This 3rd EPP Global Pricing Maturity Survey clearly shows that pricing managers need an effective pricing maturity vision, a roadmap, with clear target settings for their pricing department to tackle the dynamics of the new market reality in the digital enterprises.

We also observe that the seamless working together - as well as holistic data exchange - between Marketing, Sales, Finance and Pricing is a quest to get to the next level of pricing maturity.

Also embracing the newest pricing technologies, developing AI enhanced dynamic pricing practices, new pricing models (subscription based models) and deep data insight enhanced micro-segmentation create a competitive advantage for those who master them.

The best news from the latest global pricing maturity study is that pricing managers are ambitious about the future state. There is a clear determination to become a true driver of change and to lead the organization towards a true value and profit driven organization.

WANT TO EVALUATE YOUR COMPANY'S PRICING MATURITY?



TAKE YOUR PRICING MATURITY ASSESSMENT HERE

INFO

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About the EPP - PRICING PLATFORM

EPP is the leading professional association for pricing and monetization professionals, globally.

EPP is a not-for-profit organization, focused on advancing the pricing management and monetization profession. Our mission is to support our members to dramatically improve top line revenues and profitability through personal and organizational pricing maturity development.

We expose pricing professionals around the world to state of the art processes, techniques, tools and network. More on www.pricingplatform.com

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