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Pricing as a driver of profitable growth: An agenda for CEOs and senior executives

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Abstract Most CEOs take a narrow, tactical view of pricing and delegate pricing to lower levels of the organization. This myopic approach is costly, as it prevents companies from realizing their potential. In the hands of the best-run companies, pricing is not a battlefield tactic to win a particular competitive skirmish but a transformative long-term strategy for sustained competitive advantage. We present an agenda of six specific action items that defines how to unlock the power of pricing. CEOs and senior executives, our research suggests, should not set prices, but instead, they should create the context, the capabilities, the behaviors, the infrastructure, and the aspirations that enable their organization to excel in pricing.
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1. Pricing: Important, but not on the agenda of senior executives

Many companies are significantly less profitable than they could be. The obstacle is what we call pricing myopia. How big is the obstacle? A growing body of academic and practitioner research shows that pricing has greater power to drive profitability than any other managerial instrument, including revenue growth or cost reductions (Kohli & Suri, 2011). Numerous studies also show that small changes in selling prices—too small to matter to most customers—can nevertheless have a huge influence on profitability (Indounas, 2006; Liozu, 2019). For a company with operating profitability of 10%, a 1% increase in net selling prices leads to a 10% increase in operating profits. Pricing is characterized by small size, huge effect. Large-scale pricing transformations increase profits by a substantially larger amount over several years, as our examples below show.

The problem is this: Pricing is not anywhere near the top of the agenda for CEOs and senior leaders. Pricing is "boring" and "trivial" according to a CEO we interviewed, a fairly typical

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representation of how senior managers view pricing. Senior managers generally underestimate what pricing can do (Nagle & Müller, 2018). Some CEOs, however, recognize that pricing requires attention from top management. Steve Ballmer, then-CEO of Microsoft, put it this way: "This thing called 'price' is really, really important. I still think that a lot of people under-think it through" (Sawers, 2014, p. 2). Thus, we're left with this question: How should CEOs and senior executives approach pricing?

2. Pricing: The hidden treasure

Our research (see Appendix) over the last 10 years—consisting of a survey of 557 CEOs followed up by 49 interviews with CXOs, VPs of pricing, and pricing software vendors, plus a separate survey of 443 pricing professionals—reveals that CEOs and senior executives regard pricing mainly as a tactical activity. Therefore, it is delegated to lower-level functions (e.g., customer service representatives, controllers, key account managers, sales managers, marketing managers) as one might delegate the maintenance of heavy equipment or the management of office space.

An even more discouraging finding is a substantial gap between pricing approaches that companies put in practice and pricing approaches recommended by current academic research. In our survey of 557 CEOs, we asked the respondents to indicate their current pricing approach and most CEOs indicated that their companies practice cost- or competition-oriented pricing, with value-based pricing being least prevalent. This is in marked contrast to recommendations from the research: Marketing textbooks since the 1980s and a score of articles, including ones published in these very pages (Forbis & Mehta, 1981; Hinterhuber & Liozu, 2014; Nagle, 1983), argue that value-based pricing is the pricing approach that companies should implement to increase performance.

A weakly developed understanding of pricing directs CEOs to see pricing as a tactical way to increase volume, meet quotas, or gain market share and not as a strategic driver of long-term profitability. The consequences are quite real. In 2007, when Bob Lutz—then vice chairman of General Motors (GM)—was asked why GM had again offered large discounts to retail buyers and car rental companies despite the company's stated intention of cutting back on discounts, he offered what many would consider a perfectly good explanation: "We had to keep the plant going and pump out vehicles to meet the market plan" (Simon, 2007, p. 22). GM did indeed pump out vehicles, but it also eroded its profits, brand value, and share price by taking that approach. In the end, the company declared bankruptcy.

Other organizations are not subject to this limited, myopic view of pricing. Their leadership understands that pricing has a much larger role to play as the key driver of sustained profitability. For these companies, pricing is not a battlefield tactic to win a particular competitive skirmish, but instead a transformative long-term strategy for sustained competitive advantage. The CEOs of these companies—which we refer to as *pricing champions*—make it their top priority to raise company-wide awareness of pricing and to foster the development of company-wide pricing capabilities. This combination allows them to develop and maintain their company's pricing power.

Parker Hannifin, the $14 billion U.S.-based world leader in motion and control instruments, vividly illustrates how CEOs can unlock the power of pricing. Ever since its foundation in 1918, and for as long as anybody in the company could recall, pricing was cost-based. Donald Washkewicz, the company's CEO, had his pricing epiphany in 2001 after realizing that the company, after driving down costs and then adding a flat margin to the newly lowered costs, was giving away all its gains with this pricing approach (Rodengen, 2009): "The pricing scheme was crazy" (Aeppel, 2007, p. 1). Washkewicz hired consultants and instructed them to divide the company's product range into buckets, ranging from commodities to specialties that only Parker produced. Washkewicz discovered that about one-third of the company's product range fell into buckets where competition was limited and where Parker offered unique customer value (i.e., higher reliability, higher ability to withstand pressure). Literally overnight, the company changed its pricing approach from cost-based to value-based, raising prices anywhere from 5% to 60%, also cutting prices where the prior cookbook approach to pricing had led to unjustifiably high prices (Aeppel, 2007). A critical step was to get engineers who were working on the company's future product range out in the field—a small revolution for a highly technical B2B company. Craig Maxwell, corporate vice president of technology and innovation (Rodengen, 2009, p. 147) described the shift:

> You must be able to clearly articulate the unfulfilled customer need. We had a lot of engineers working on a lot of things, but when you looked at the top line, it never

> moved. It's not that they're not working hard or are working on the wrong things. They're not focused on value. The value comes from the customer's eye.

Customers talked openly with engineers—but not with each other, being competitors—whom they saw as a neutral business party. These direct interactions between customers and engineers working on future products enabled the company to weave together a "very convincing tapestry of what's really significant to the market," recalled Maxwell (Rodengen, 2009, p. 147).

Subsequently, Washkewicz appointed pricing experts in each of the company's 115 divisions and elevated strategic pricing to one of the company's key strategic growth pillars. Remarkably, strategic, value-based pricing is still a key company priority in 2020 for Thomas Williams, the current CEO, close to 20 years after Mr. Washkewicz first made it a key priority. Value-based pricing is now deeply ingrained in the company's culture. The company restricts the pricing authority of sales managers, builds company-wide pricing capabilities, uses pricing dashboards that allow it to measure win rates, deal quality, and uses scoring models to develop and implement a pricing plan for each major customer with customer-specific pricing targets and hard floors. As Richard Braun, the head of strategic pricing at Parker Hannifin, said: "You're messing with a company's DNA when you change how you do prices" (Aeppel, 2007, p. 1).

Parker Hannafin's pricing is delivering results: The company's CEO reported a 7-year, cumulative profit improvement of $1 billion "through execution of strategic pricing" (Washkewicz, 2011, p. 20). Put in perspective, this amounts to about 13% of the company's annual average operating profit over that period. Even for a highly profitable company, as Parker Hannifin is, the execution of strategic pricing adds a substantial amount of incremental profits to the bottom line— an amount that is bound to be higher for companies with merely average profitability. This is what happens when leaders dig out a hidden treasure.

Still, CEOs as passionate pricing champions remain a rarity. Although the field of pricing has certainly advanced both academically and in practice over the past 20 years—nudged forward significantly by the emergence of affordable pricing technology and the increased scholarly attention on pricing—it continues to be neglected. Every year, the American Marketing Association (AMA) asks chief marketing officers for which activities in their companies the marketing function takes the lead. For pricing, the answer is 20% (Moorman, 2020). This is staggering; pricing is part of the marketing mix. Nevertheless, marketing does not lead pricing. Marketing should lead pricing. If marketing does not lead pricing, then nobody leads pricing. Most of the hidden treasure of pricing power is still in the ground.

In this article, we present six key action items that CEOs and senior C-suite executives need to use in order to drive profits and to implement a transformative long-term strategy for sustained competitive advantage. A word of caution is due: Pricing is all about value capture, ensuring that the company earns a share of the customer value created (Nagle & Müller, 2018). Pricing cannot fix a broken business model or compensate for a company's inability to create customer value. Thus, understanding customer needs and developing competitive advantages to meet expressed and unexpressed customer needs are the necessary prerequisites that must be in place before CEOs and senior executives can implement the six action items outlined. Value capture follows value creation. Without value creation in the first place, there is no value to be captured via pricing.

3. An agenda for CEOs and C-suite executives: Six key action items to drive profits via pricing

Just as coaches do not shoot the baskets, pricing champion CEOs should not and do not set prices. What they do—not unlike what a good coach does—is create an aspiration that pricing will support their organization's transformation and drive greater and more sustainable profits. They lead the creation of the necessary mindset, infrastructure, capabilities, and tools. At the same time, they provide direction and create the context for pricing as a transformative long-term strategy. That sounds like a lot—and it is—but it can be boiled down to a list of six action items for the CEO and their C-suite executives (see Figure 1).

3.1. Action Item 1: Champion pricing to put pricing on the organizational radar

An organization may pay more or less attention to what the CEO says but is sure to be guided by what he or she does. Therefore, a CEO who wants to transform the organization through pricing—which should be every CEO—must first put pricing on the radar for the whole organization. The pricing

Figure 1. Six actions CEOs should take to transform organizations via pricing

champions we observe in our research continually insist that their company's pricing is what matters strongly for profitability and competitiveness. Furthermore, they make sure the leaders below them echo that message so that discussions about pricing, the creation of additional customer value, price execution, and price controlling are on everyone's agenda. Leaders at any level can always point to the fact that the CEO is passionate about pricing.

Jim Loree, CEO of the U.S. tool and hardware manufacturer Stanley Black & Decker, is an excellent example of this type of price champion. He passionately promotes price and margin excellence as key corporate initiatives to drive profit growth (Loree, 2019). He champions the company's Pricing Center of Excellence, established in 2004, and supports the center's dual mission of implementing value-based pricing across the company and proactively using pricing as a strategic lever to drive profits. Pricing excellence is one of the four high-priority value pools of the company—alongside industry 4.0, functional excellence, and next-generation procurement.

Kenneth Sundh, president of Sandvik Coromant, a Swedish tool manufacturer, is another example. In a communication to customers, which he was careful to title "High Price, High Value," he did not mince words as he defended the importance of pricing both for the company and its customers (Sundh, 2005, p. 2):

> An important part of our solution for creating value for you as a customer is that we remain bold enough to charge enough for our products to allow us to continue leading R&D and to produce products and processes that further reduce your costs [of ownership].

Championship like this does make a difference, although the CEO must back it up by promoting the pricing function, dedicating resources, and encouraging business unit heads and sales and marketing managers to become pricing experts (see Sections 3.2.—3.6.). A quantitative study on the relationship between CEO championing of pricing and company performance found that the more intense the CEO's championing of pricing, the higher the company performance (Liozu & Hinterhuber, 2013). Pricing starts from the top.

3.2. Action Item 2: Create a value mindset

Next on the pricing champion's agenda should be the creation of a value mindset throughout the organization. The value mindset can never be the responsibility of one unit or function. Every unit and every function—however removed they may seem to be from the company's product or service—is either contributing to its value or undermining it. The value mindset is based on two premises. First, value is more important than price. Second, price is more important than volume. Our research tells us that most companies have the wrong idea on both counts. Many companies obsess about price and neglect value and produce undifferentiated products that customers do not buy. Furthermore, many companies obsess

about market share and neglect price and, thus, discount excessively to meet volume targets (Hinterhuber, 2016). GM is an example of a company that got it wrong on both counts.

The truth is just the opposite: Price becomes secondary once customers perceive distinct value (Smith, 2020). Therefore, to achieve pricing power, the CEO must focus organizational efforts on creating unique customer value. If a company creates unique, differentiated value in the mind of the consumer, price becomes secondary.

That is why companies led by pricing champions do not discount their products. Tesla is a prominent example. Elon Musk (2016) said:

> There can never — and I mean never — be a discount on a new car coming out of the factory in pristine condition, where there is no underlying rationale.... The acid test is that if you can't explain to a customer who paid full price why another customer didn't without being embarrassed, then it is not right.... Finance will also be reporting every case of a car sold for less than list price, along with the reasoning for doing so, which I will be reviewing personally. Although this appears to be limited to a small number of cases worldwide, it needs to be zero cases.

As CEO, Musk is a champion of pricing. Musk passionately exemplifies the value mindset: no discounts.

The second principle—that price is more important than volume—will come as a surprise (perhaps even heresy) to a great many CEOs and their sales, marketing, and finance executives. The battle cries in most companies—"Get the deal" and "Make the quota"—even at a much-reduced price. CEO champions and their companies, however, recognize that this approach undermines profitability because it teaches customers to always ask for discounts, knowing that sales managers will oblige. Put another way, it teaches customers to discount the value they receive from you.

But does holding the line on price for value really work, or is it sales suicide? Our research shows that it works. Although it may well be that sales are lost and volume drops, profitability will rise. Norbert Reithofer, then CEO of BMW, put it this way (Seiwert et al., 2012, p. 1):

> A premium positioning does not go well with discounting. We have therefore decided that in Germany we will not defend our market share at any price this year and that profit is more important than sales volume. That is why we have reduced our sales volume.

Ivan Menezes (2013, p. 10), CEO of Diageo, one of the largest beverage alcohol companies globally with about US$ 16 billion sales, echoed that view: "We're also holding out to ensure we get our pricing and [are] not chasing volume."

Understandably, C-suite executives find a policy like this frightening. They have to wonder what will happen to them if important clients decide to take their business elsewhere for lower prices. That is why an organization-wide value mindset requires the CEO to lead by example and set the tone. The organization watches, listens and acts on the critical message given by the CEO. Take Lanxess, a highly successful European chemical company. The company's CEO at that time, Axel Heitmann, noted that its sales representatives were so busy chasing volume and granting price concessions that they "neglected to talk about value" (Sebastian & Maessen, 2015, p. 3). As CEO, he passionately promoted a value mindset. Heitmann implemented his company-wide price-before-volume strategy, limiting aggressive growth and steering the company towards higher-value products and customers. During his tenure as CEO, company margins more than doubled, and the share price quadrupled.

These two guiding principles—value is more important than price, price is more important than volume—work across industries. Carlos Tavares, in his role as CEO of Peugeot Citroen Automobiles (PSA Group), passionately stressed the role of pricing as a key driver of sustained profitability, obsessively focused on creating pricing power, increased prices; he was perfectly happy to let the company's market share slip from 11% to around 9.5% from 2014—2017 (Galliers et al., 2021). The signal: Price is more important than volume. Operating profitability substantially increased from 2014 to 2017 and reached 8.5% in 2019, comfortably exceeding the profitability of premium car manufacturers including Audi, for example, an impressive achievement for a mass-market car manufacturer. This is the power of focusing the organization on value and price.

3.3. Action Item 3: Replace ad hoc pricing practices with a strategic pricing infrastructure

Although pricing power requires companies to revise or even reverse elements of their long-standing mindset, one thing remains true:

Companies must measure what they manage. Further, they must collect and use that data company-wide. But in fact, measurement is a key obstacle to the implementation of pricing power. One reason is that a company's pricing practices are frequently ad hoc and generated as needed by whoever needs to put a price on something. Another reason is that, despite all the excitement and more than a little hype concerning artificial intelligence and big data, we were somewhat surprised how often our research revealed global companies with revenues in the billions that were unable to calculate gross margins on a product basis, let alone on a customer basis. How can such companies ensure that they are compensated profitably—not to mention as profitably as possible—for the value they deliver?

Pricing champions must invest in the infrastructure, governance, and research that will give managers at any level full visibility on profitability by product, customer, channel, and sales territory. Without this data, no one knows how prices paid by one given customer compare to prices paid by other similar customers. That, of course, means that the company does not know what it should charge. Research by McKinsey and Company found that "successful companies deliberately build a strong pricing infrastructure that underpins and sustains pricing excellence" (Baker et al., 2010, p. 2). This infrastructure—automated, as opposed to manual, price quotation; pricing analytics software; pricing dashboards; tools measuring pricing power; tools measuring willingness to pay; value quantification tools—is critical to improving pricing discipline.

Even as a savvy and reliably profitable organization, The Walt Disney Company found new profits in untapped value by using pricing research. In 1985, shortly after becoming CEO, Michael Eisner raised admission prices at Disneyland from $19.50 to $24.50 after research revealed that customers were willing to pay more. Attendance increased, proving that tickets had indeed been underpriced all along. Of course, as noted above, volume is not the same as profitability. But in fact, Disney's profits increased by $150 million in 1986. How was Eisner able to find an additional $150 million in profits that no one had suspected existed? By researching to understand customer willingness to pay versus actual prices paid. Pricing research helped to identify incremental profits while keeping customer satisfaction high. This approach is by no means limited to consumer markets. In the iron ore industry, leading producers calculate value-in-use prices and adjust price premiums based on properties such as the ability to directly feed into lumps and pellets (Ridsdale, 2011). Value quantification tools translate a company's competitive advantages into customer-specific monetary value, demonstrating that economic customer benefits are larger than price differences vis-à-vis competing products.

Intelligent market segmentation tools are another essential element of transformative pricing (Pitt et al., 2001; Potter, 2000). Most companies either do not segment markets at all or, at best, use crude approaches to market segmentation like customer demographics (B2C) or industry (B2B). The best companies use two- or three-dimensional matrices reflecting need states, consumption occasions, product criticality, or other value drivers to adapt offers to segments and to align prices with value. Rexel, a supplier of electrical products, uses a three-dimensional matrix classifying customers based on historical purchase volume, potential future purchase volume, and price sensitivity to fully adapt the offer, the price, and add-on services (for cross- and upselling) to specific segments that differ in their perception of value and, thus, willingness to pay (Provoost, 2016). In very simple terms: market segmentation allows to adapt offers and prices to the needs of different customer segments; the more customers in these segments perceive that their unique needs have truly been met, the lower their price sensitivity. Intelligent market segmentation is thus a powerful competitive differentiator and it requires a strong strategic pricing infrastructure.

The need to invest in these back-office systems is greater than ever with companies in almost all industries pivoting their business models to more e-commerce sales, direct-to-consumer models, new consumption-based business models, and more granular versioning strategies to address new customer segments. The move toward digital business models requires an infrastructure of data, systems, and tools that by far exceeds simple Excel tools still in use by many companies (Montealegre & Iyengar, 2021; Tekic & Koroteev, 2019). Table 1 provides an overview of tools and systems leading companies use to implement intelligent pricing strategies.

3.4. Action Item 4: Build pricing capabilities

Pricing capabilities represent a set of skills, systems, know-how, and coordination mechanisms related to setting prices, understanding competitive price tactics, understanding customer needs and customer willingness to pay, and defending prices vis-à-vis customers. The relevance of pricing capabilities is a relatively recent academic discovery (Dutta et al., 2002, 2003). Hence, a

Table 1. Tools and systems used by pricing champions

Strategic priorities	Pricing tools & systems	What is it?	How does it enable pricing power?
Rapid revenue recovery	Scientific segmentation	Methodology using data to classify customers into homogenous segments based on behaviors, customer needs, and pricing historical data	Define pricing strategy by segment / develop good-better-best approach / uncover segment value drivers / define segment-specific pricing and revenue models
Agile & disciplined pricing	Pricing analytics platform	Pricing software focused on critical pricing analysis: pricing cloud, pricing waterfall, margin bridges, price sensitivity, price elasticity	Uncover pricing opportunities / identify price outliers / discover profit leakages / extract pure price effect / report discount effectiveness
Sales and pricing efficiency	Pricing optimization software	Pricing software using data, algorithms, and mathematical analysis to determine how customers will respond to different prices through different channels and for various segments	Identify areas of pricing power / define targeted price increases/model outcome of pricing choices/model pricing level of product versions
Value realization	Value-based pricing software	Cloud-based software to manage the process of value-based pricing and publish dollarized customer value propositions for the sales team	Systematize the quantification of customer value / calculate the customer value pool /assist in price premium justification/model value in the new product development process
Sales automation	Configure-price-quote system	Configure, price quote software helps B2B sellers quote complex and configurable products	Automate and accelerate time to market and time to market for complex offering/manage product and offer complexity to empower sellers

substantial stream of research involving both qualitative studies (Hallberg, 2017) as well as surveys of thousands of executives (Flatten et al., 2015; Hogan, 2008; Liozu & Hinterhuber, 2014; Raja et al., 2020) document a positive relationship between pricing capabilities and firm performance. Put simply, the higher the pricing capabilities, the higher the company's performance. Top performing companies recognize that building pricing capabilities, developing pricing as a core competency, can give companies a true and lasting competitive advantage.

Cemex, the Mexican building materials company, is an example. Juan Pablo San Augustín (2013, p. 15), executive vice president, wants to "build pricing as a core competence." A company's senior executive puts it this way: "Achieving pricing excellence is our #1 goal going forward" while reporting at the same time that pricing contributes several hundred million dollars in profits (Watson, 2015, p. 15). Cemex has achieved record levels of profitability in what many consider a commodity industry: cement. Similarly, Ian Cook (2013, p. 18), CEO of Colgate, said:

> We are building pricing excellence into our culture. We have developed global guidelines with performance measures against those guidelines that are reviewed regularly throughout the year. We have also developed a standardized training program, which includes interactive workshops to share ideas and best practices.

Stanley Black & Decker, mentioned earlier for its CEO's championing of pricing power and the Pricing Center of Excellence, develops world-class pricing and negotiating capabilities in sales and marketing managers worldwide.

3.5. Action Item 5: Build a plan and a team for price execution

Execution is the task of translating potential into results. It starts with clearly stated and convincingly justified goals and plans. In our research, we learned—unexpectedly—that many companies have not even taken that important step toward pricing power. They lack pricing goals and pricing plans. Instead of pricing goals, there are usually volume, quota, or market share goals, and anything goes in order to meet those goals. Discounts proliferate, and profitability suffers. Even if the company is profitable, it is not as profitable as it could have been, nor is its profitability as secure as it should be because it is not based on customer value—over which the company has considerable

control—but rather on whatever is driving customers or competitors at a given moment.

Pricing goals can and should be set for each major customer, ideally as a result of the annual account planning process. As illustrated in the opening example, Parker Hannifin exemplified this approach, setting customer-specific pricing goals and hard floors. Factors that influence these customer-specific pricing goals and hard floor are, for example, pricing power and risk (i.e., a combination of customer, product, and deal attributes). Prices are thus de-averaged and adjusted based on these attributes following simple, but consistent rules.[1] As a result of aggregating the pricing goals set at the individual customer level, executives can thus set pricing goals at the business unit and company level.

HeidelbergCement (2012) publicly commented about company-wide pricing goals. In 2012, it announced a target of improving earnings before interest, taxes, depreciation, and amortization (EBITDA) by €350 million through the use of pricing initiatives. In early 2015, Bernd Scheifele, group CEO, reported industry-leading levels of profitability for the company, with pricing as the most significant contributor to profitability (Scheifele, 2015). This is what happens when a company sets pricing goals and implements a pricing plan.

With a goal in place, the next question is: Who is going to execute this plan? Most companies have some type of pricing structure in place. If there is a price on an invoice, then someone is setting that price on some basis. In fact, in large companies, it is common for several different individuals belonging to different organizational units to be making pricing decisions—but team-based pricing decisions are not inherently superior to pricing decisions made by one intelligent, articulate, analytical and independent thinker. In our research, we found that CEOs frequently did not know how or by whom specific pricing decisions had been made and didn't consider it something they needed to know.

The first step for a pricing-focused CEO to bring a situation like that under control is to conduct a company-wide pricing assessment. CEOs should task leaders in marketing to create pricing process maps that document the chain of decisions, approvals, and information exchanges that occur in between the initial price quotation, the price invoiced and the final, net pocket price paid by customers (= price after end-of-year bonus payments, cash discounts, freight, product returns, marketing allowances, and supplementary services not charged out). A typical result of creating these pricing process maps is the finding that customer service representatives—that is, the rank and file employees with no formal training in pricing—exercise an outsized influence on company profitability under their power to grant, unsupervised, discounts of up to 20% if they perceive the need to do so. For many companies, this, sadly, is the rule: low hierarchical level, huge influence on profitability through a discretionary authority on pricing that is too large to handle—even for senior executives—without IT tools, processes, and pricing capabilities. Senior executives should create action plans to ensure that discretion in pricing—in setting (1) offer prices, (2) invoice prices, and (3) net selling prices—is supported by IT tools (i.e., algorithms that specify conditions under which price concessions are granted), by robust processes, and by pricing capabilities. The near trivial rule of thumb is this: the more advanced the IT tools, the pricing processes, and the pricing capabilities, the higher the pricing latitude granted to pricing decision makers. It is perfectly fine to let customer service reps make pricing decisions if these decisions are based on IT tools/algorithms, processes, and well-developed pricing capabilities.

Pricing cannot be based on human experience and intuition alone, since this is "not a scalable model," as Puneet Bhasin, CIO of Waste Management, puts it (Murphy, 2011, p. 78). This is especially true for companies with a large number of products (e.g., retailers, B2B companies selling customized products), for companies with frequent price changes (e.g., gas stations), or companies with both a large number of products and frequent price changes (e.g., airlines, online retailers).

With pricing established as a company-wide priority—because it is clearly the CEO's priority—the next step is to create a pricing council. The membership typically includes divisional presidents along with top sales, finance, marketing, and relevant pricing leaders. The council should then devise a roadmap focused on short-term and mid-term pricing improvements with the associated profit impact. CEOs should then attend pricing council meetings to personally support the execution of key pricing initiatives and to ensure that pricing delivers the desired profit impact.

3.6. Action Item 6: Ensure the responsible use of pricing power

At the highest level of pricing excellence, it becomes necessary for the CEO and the C-suite to

[1] For example, customer switching risk: high → price decrease; pricing power:high → price increase; deal size: low → price increase

plan not only for the development and deployment of pricing power but also for the responsible use of that power. With power comes responsibility. As we have seen, pricing power drives a company's profits—but it can also be abused in a way that brings the company down. Jeff Musial, Burgundy Asset Management, provides the following example: Procter & Gamble (P&G) has long been widely admired for its ability to use cheap razors and a succession of ever-more-expensive blades to drive profits (Dhebar, 2016). P&G's pricing power was superb—the envy of many—but short-lived. The company's market dominance drove an increase in private labels and the growth of subscription-based competitors—companies with a very different pricing model. In 2017, P&G announced an average price cut of 12% in its U.S. men's razor business. As a result, revenues in its grooming division are expected to fall by about 30% (equivalent to about $1 billion). Financial analysts attributed P&G's declining performance to—of all things—weak pricing, along with a competitive entry in the U.S. razor business (English, 2019). P&G's pricing power had been quite real and had unquestionably and powerfully driven short-term profitability, but its overuse drove customers away and invited new competitive entry. P&G continued with its policy of aggressive price increases even though the company no longer delivered breakthrough innovation (there is a natural limit to the number of blades fitting on a razor, after all). The fact that P&G increased prices but failed to deliver more value caused its customers to defect and enabled the growth of private labels. Abuse of pricing power increases the risk of new competitive entry.

Abuse of pricing power increases the risk of price unfairness perceptions by customers: The pharmaceutical industry provides a cautionary tale. Value-based pricing is currently the standard approach for new product pricing in all major markets globally, with some country-specific differences (Jommi et al., 2020). The widespread adoption of value-based pricing can be traced back to the publication of a seminal article in 1977 on the use of incremental cost-effectiveness ratios allowing to compare value (i.e., quality-adjusted life years) with costs (i.e., prices) across diseases (Weinstein & Stason, 1977). More recently, scholars have argued that value in the pharmaceutical industry is multifaceted and includes elements beyond improved health outcomes, such as insurance, hope, scientific spillovers, improved diagnostic certainty, and real-option value (Garrison et al., 2017). Pharmaceuticals unquestionably deliver substantial customer value. There is, however, a very important caveat: Value-based pricing can induce managers to set prices high in all those cases where customer value is high (Hinterhuber, 2004). High prices can lead to negative fairness perceptions. Public perceptions of the pharmaceutical industry are, in fact, unfavorable (Balotsky, 2009). In a survey of more than 1000 patients with cardiovascular diseases, drug affordability was the main concern with 56% of patients reporting difficulties in paying for prescription drugs (American Heart Association, 2010). Pricing power is real in the pharmaceutical industry, but its use and abuse raise important ethical questions on affordability and access.

3.7. Driving profits via pricing: A summary

In sum: The abuse of pricing power can invite new competitive entry (as the example of Procter & Gamble suggests) and it can lead to unfavorable fairness perceptions resulting from ethical concerns regarding access and affordability (as the example of the pharmaceutical industry suggests). Only the responsible use makes pricing power sustainable. CEOs and senior executives should thus compare the benefits of using pricing power against the short-term risks of unfavorable customer perceptions and the long-term risk of new competitive entry.

4. Conclusion

Larry Bossidy, CEO of AlliedSignal, described the job of a CEO as follows (Tichy & Charan, 1995, p. 70):

> The leader's job is to help everyone see that the platform is burning, whether the flames are apparent or not. The process of change begins when people decide to take the flames seriously and manage by fact, and that means a brutal understanding of reality. You need to find out what the reality is so that you know what needs changing.

A CEO identifies a key issue that the organization does not recognize as important, elevates the issue to capture universal attention, and coaches the organization towards change by creating the context, the capabilities, the behaviors, the infrastructure, and the required aspirations. One such burning platform where the flames are not apparently visible to all organizational members is, we argue, pricing.

As the examples of Parker Hannifin, Lanxess, PSA Group, Tesla, and others suggest, using pricing

to drive profits and transform organizations requires a commitment from the CEO and senior executives. The development of pricing power has strategic relevance. CEOs cannot and should not delegate this to rank and file employees. If they do, they risk destroying their company, as the case of General Motors vividly shows.

We have outlined six key steps: CEOs and senior executives should (1) act as pricing champions, (2) develop a value mindset, (3) build pricing governance systems, (4) develop company-wide pricing capabilities, (5) focus on a pricing execution plan, and (6) ensure the responsible use of pricing power.

CEOs and their senior teams will therefore need to act as guardians of value and price, not just when an initiative is launched, but constantly and with an eye to a constantly changing environment. Acting as guardians of value and price allows CEOs and senior executives to awaken the sleeping beauty of pricing. This, as the examples suggest, transforms organizations and drives results.

Appendix. About the research

Over the past 10 years, we have conducted several surveys exploring how CEOs and senior business leaders drive profits via pricing. In a 2012 quantitative survey of 557 CEOs and business owners, we explored the impact of CEO championing of pricing on company performance. In 2018 and 2019, we conducted 49 interviews with CXOs, VPs of pricing, and CEOs of pricing software vendors to understand how the best-performing companies use pricing to drive profits and select pricing technologies. Finally, supported by the Professional Pricing Society, the world's largest organization dedicated to pricing, in 2020 we surveyed over 400 pricing professionals to understand the perceptions of pricing in the C-suite and the way top executives prioritize pricing investments. We complemented our research with an analysis of publicly available data, analyst presentations, and public comments by CEOs on pricing.

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