Status of the Pricing Function in Large Firms

by Stephan Liozu, PhD

In this article, the author presents the findings from his recent pricing industry research study implemented to determine the growth of pricing in large organizations. Stephan M. Liozu, PhD is Chief Value Officer of the Thales Group (www.thalesgroup.com) and an Adjunct Professor & Research Fellow at the Case Western Research University Weatherhead School of Management. He holds a Ph.D. in Management from Case Western Reserve University (2013), an MS in Innovation Management from Toulouse School of Management (2005), and an MBA in Marketing from Cleveland State University (1991). He is a Certified Pricing Professional (CPP), a Prosci certified Change Manager, and a Strategyzer Business Model Innovation Coach. He authored five books, including his most recent entitled Monetizing Data *(2018). He sits on the Advisory Board of LeveragePoint Innovation and of the Professional Pricing Society.*

In 2011, Kevin Mitchell was quoted saying that only 5% of Fortune 500 companies had a dedicated pricing team. Since then, that number has been widely used in practitioner and academic papers as a supporting statistical anecdote showing that pricing is not widely adopted in large organizations around the world. Over the past 8 years, this number has not been further investigated nor updated to show progress of the penetration of pricing in large organizations. In fact, there is a general lack of benchmark data showing how much progress the pricing function has made compared to other functions, such as data analytics and supply chain for example.

To close this information gap, and with generous support from Professional Pricing Society, I conducted a secondary research project over 8 months to assess the number of Global Fortune 500 and industrial firms in the United States who have dedicated pricing roles and have a dedicated pricing team with more than 20 full time pricing professionals. My intention is to develop new benchmarks for the adoption and penetration of pricing in large organizations and to inform the pricing community of the progress we have made with regards to the adoption and professionalization of the pricing function.

Research Objectives

The overarching research objective for this research inquiry is to quantify the penetration of the pricing function in large Global Fortune 500 firms and in top US 500 manufacturing firms in order to establish a benchmark that to which other types of organizations can refer. Specifically, I would like to answer the following research questions:

1. How many firms have a dedicated pricing organization?

2. How many firms have dedicated pricing roles or titles?

3. When firms have dedicated pricing titles, what are the types of titles?

4. What is the size distribution of these pricing teams in total and by region?

About the Research

To fulfill my research objectives, I followed a methodological approach consisting of a thorough secondary search across multiple proprietary and public databases. The data collection and investigation lasted over eight months in 2018 and 2019 using the Global Fortune 500 list published by *Fortune* at the beginning of 2018 and the IndustryWeek US 500 list published by *IndustryWeek* at the end of 2018.

Data Sources

For the purpose of data collection, investigation, and validation, I secured access to the following professional databases:

1. Zoominfo, a professional B2B database provided by Zoominfo, a company founded in 2000 that specializes in the management and marketing of B2B professional databases, with more than 19 million company profiles (www.zoominfo.com).

2. The Professional Pricing Society, a global professional organization dedicated to the management and development of the pricing profession, with a proprietary database of tens of thousands of contacts from around the world (www.pricingsociety.com).

3. LinkedIn, a division of Microsoft, with a public database of 450 million members (www.linkedin.com).

Definitions

Before conducting secondary research, I held a series of conversations with experts in order to agree on the most critical definitions. These definitions guided the research in the databases and informed the process of validation of all positive cases.

- Pricing Organization: I define a pricing organization as a team of 20 pricing professionals located at the corporate level or within business units or regional divisions, and led by a Vice President of Pricing, a Director/Head of Pricing, or a Pricing Manager. Global Fortune 500/ IndustryWeek US 500 firms with these three characteristics are classified as a positive case for having a pricing organization.

- Dedicated Pricing Titles or Roles: The pricing title or role includes the traditional pricing titles of Pricing Analyst, Pricing Specialist, Pricing Administrator, Pricing Actuary, Pricing Coordi-

nator, Pricing Supervisor, Pricing Manager, Pricing Director, and Vice President of Pricing. I also included other nontraditional titles if pricing was mentioned in the title and it was a full-time role. I excluded from our data collection the following dedicated titles: margin, value, revenue management, and transfer pricing.

Figure 1

USA IW500	Number	Total
Dedicated Pricing Titles	305	61%
No Dedicated Pricing Titles	195	39%
	500	100%

The definitions were validated in the Fall of 2018, after which our data collection began. More information about the methods can be available upon request.

IndustryWeek US 500

In 2018, the top 500 industrial firms listed in the IndustryWeek US 500 ranking represented $5.4 trillion in sales revenues, $440 billion in net income or 6.7% average return on sales, and an average revenue growth of 13% versus 2017. My research shows that these top 500 industrial firms employed 2631 pricing professionals in total. Sixty-one percent (61%) of them have dedicated pricing tiles or roles.

This proportion of pricing titles decreases from 94% in the top 50 industrial firms to 61% in the top 500 firms indicating an even lower penetration of pricing roles in the top 1000 firms should I extend the research.

Out of the 500 industrial US companies, 305 had dedicated pricing titles for a total of 2,631 pricing professionals employed. The average number of pricing professionals per industrial company stands at close to 9. A distribution of the number of pricing professionals shows that 91% of pricing teams are comprised of under 20 professionals. Only 12 industrial firms have more than 101 pricing professionals in their teams. The largest pricing team stands at 225 professionals.

The database search allowed for identification of pricing titles as shown below. Forty-seven percent (47%) of teams are led by a Vice President, Director or Manager of Pricing. For 12% of the industrial firms, we could only find the title of Pricing Analyst or Specialist.

With validation from PPS, I defined a pricing organization or team as a team with a minimum of 20 professionals that is led by a Vice President or Director level position. The research shows that only 15% of top 500 US industrial firms fall into that definition.

The table below shows that the proportion of these top industrial firms that have pricing teams under my definition falls sharply after the top 100 mark. In fact, only 5% of the last 300 industrial firms out of the top 500 have a dedicated pricing team.

The analysis of the IndustryWeek US 500 firms revealed two important statistics: 61% of them have dedicated pricing roles and only 15% of them have a dedicated pricing team with 20 pricing professionals led by a Vice President, a Director, or a Manager.

Global Fortune 500

The Global Fortune 500 firms represent a total of $27 trillion in annual sales revenues with annual sales ranging from $485 billion to $21.6 billion. The research shows that these firms employ 9,266 pricing professionals in total. When they have dedicated pricing professionals, the average size of pricing teams stands at 30 people. To establish firmer adoption statistics, I decided to conduct the same research and analysis with the Fortune Global 500 ranking published in mid-2018 for 2017. The research shows that 63% of Fortune 500 firms have dedicated pricing roles or titles.

Figure 2

USA - IW500	%
Top 50	94%
Top 100	86%
Top 200	81%
Top 300	75%
Top 400	69%
Top 500	61%

This proportion is higher in the top 100 global firms with 77%. It is interesting to note the drop between the top 100 and top 50 from 77% to 72%. This is because none of the Chinese companies listed in the top 50 have dedicated pricing titles.

The largest pricing team identified in the database stands at 573 professionals. The analysis reveals that 85% of global fortune 500 firms have pricing teams that are sized under 20 professionals. Only 5 of these firms employ more than 200 pricing professionals.

An analysis of the top 50 global firms reveals that 50% of them have dedicated pricing titles or roles and that they employ 1,791 pricing professionals for an average of 71 professionals per team. That average

Figure 3

Size - USA IW500	Number	Total
No Pricing Role	195	195
1 to 10 Pricing People	192	63%
11 to 20 Pricing People	88	29%
21 to 100 Pricing People	13	4%
101 to 200 Pricing People	11	4%
Over 200 Pricing People	1	0%
	500	100%

Figure 4

Titles - USA IW500	Number	%
No Pricing Role	195	195
Vice President of Pricing	46	15%
Director/Head of Pricing	99	32%
Pricing Manager	122	40%
Pricing Analyst/Specialist	38	12%
	305	100%

Figure 5

USA IW500	Number	Total
Pricing Teams (>20 people)	75	15%
No Pricing Teams (>20 people)	425	85%
	500	100%

Figure 6

USA- IW500	Pricing Titles	Pricing Teams
Top 50	94%	68%
Top 100	86%	50%
Top 100-200	77%	18%
Top 200-300	63%	4%
Top 300-400	49%	1%
Top 400-500	30%	0%

number rises to 73 for the top 100 firms. A search by title shows that Director or Head of Pricing are the most common titles in global fortune firms. Only 25% of them have pricing teams led by Vice Presidents.

Finally, only 22% of these global fortune 500 firms have a dedicated pricing teams as defined jointly with PPS. That number rises to 40% in the top global fortune 100 firms.

The analysis of the Fortune Global 500 firms revealed two important statistics: 63% of them have dedicated pricing roles and only 22% of them have a dedicated pricing team with 20 pricing professionals led by a Vice President, a Director or a Manager.

Limitations

Despite my intention to triangulate and improve the quality of the data, my research faces a series of limitations:

- Accuracy of databases: Databases are never the cleanest or most precise sources of data. Triangulating with the PPS database and the LinkedIn database helped with accuracy, but we cannot be 100% sure of the accuracy of our benchmarks.

- Issues with spelling of company names and abbreviations: Some of the Global Fortune 500 firms were difficult to identify and required an online search, especially those in Asia Pacific. For all cases, we were able to find the relevant websites but not necessarily detailed information about their pricing activities.

- Issues with groups and holdings: Some of the Fortune 500 firms are diversified groups or holding companies (Berkshire Hathaway or Alphabet, for example).

- Variations in title definition: Despite the conversations with PPS and the elaboration of proper definitions, it is challenging to gauge whether a professional with a pricing title does pricing full-time or part-time. It is possible that titles might be defined differently across companies.

I believe that we have taken the appropriate steps to mitigate these limitations. I call other pricing scholars to conduct additional validations of these benchmarks by conducting similar triangulated secondary research.

Implications for the Pricing Profession

My intention was to establish some new and updated benchmarks for the penetration of the pricing function in top industrial firms in the USA and in the Global Fortune 500 firms. Now we can formally say that 22% of Global Fortune 500 firms and that 15% of the top 500 firms in the USA have dedicated pricing teams. This research makes several contributions to the pricing community.

First, it is important for all of us to understand how much progress we have made in the last decade and to demonstrate that pricing is no longer the orphan of the marketing mix. So the good news is that the numbers are higher for both listings than what Kevin Mitchell reported in 2011. We are making great progress! We see more and more dedicated pricing roles and we can be proud of the advancement of the pricing profession under the PPS leadership. The bad news is that we have some ways to go both in terms of reaching the medium sized firms and in the average size of the pricing teams. In absolute terms, having a team of 20 pricing professionals can be considered a good accomplishment. But when compared to the sales revenues and the organizational structures of these very large firms, the pricing teams are relatively small. Can you truly manage pricing for a $350 billion organization with all the complexity that comes with it with only 20 or 30 pricing professionals?

Second, the research also reveals how far behind the manufacturing and industrial sectors are with the adoption of pricing. We can see that after the top 100 or 200, the penetration of the pricing function is quasi non-existent. That also potentially means that the next 500 industrial US firms do not have dedicated pricing teams. They might have pricing roles under marketing but no sizeable pricing teams. One can only assume that the responsibility of pricing falls under marketing managers, product managers, and sales leadership.

Third, I wanted to establish multiple benchmarks that can be used for pricing professionals to compare themselves against. PPS reports that a large number of or-

Figure 7

GF500	Number	Total
Dedicated Pricing Titles	316	63%
No Dedicated Pricing Titles	184	37%
	500	100%

Figure 8

GF500	%
Top 50	72%
Top 100	77%
Top 200	69%
Top 300	65%
Top 400	62%
Top 500	63%

Figure 9

Size - GF500	Number	Total
No Pricing Role	184	184
1 to 10 Pricing People	168	53%
11 to 20 Pricing People	100	32%
21 to 100 Pricing People	24	8%
101 to 200 Pricing People	19	6%
Over 200 Pricing People	5	2%
	500	100%

Figure 10

Titles - GF500	Number	%
Vice President of Pricing	79	25%
Director/Head of Pricing	130	41%
Pricing Manager	81	26%
Pricing Analyst/Specialist	26	8%
	316	100%

Figure 11

GF500	Number	Total %
Pricing Teams (>20 people)	112	22%
No Pricing Teams (>20 people)	388	78%
	500	100%

ganizations are new to pricing and that some are just getting started. Now they can use some of these statistics to convince top management to invest in pricing and to staff according to the target we propose depending on their sales revenues and ranking.

The fact that more than 60% of firms have dedicated pricing titles can help business leaders justify the creation of pricing titles and roles. Finally, we can see that having the right title is important for the credibility of the pricing function. I believe that a Vice President or Director title is essential to get the pricing transformation underway and to have the pricing agenda heard across the organization.

Lastly, I intend to publish detailed findings for both data sets in academic papers to that they can be cited and promoted in marketing and pricing academic circles. It is essential to publish these types of benchmarks and to have them taught in business schools. Future business leaders need to read about the role of the pricing function in global firms. It is important to continue research on the penetration of pricing and to see how much progress we can make over the next five years. This research should be repeated at regular intervals to show the result of the hard work of the pricing community!

Concluding Thoughts

This research project took over eight months of detailed work searching databases and social media. It is not a perfect process, but it was very rigorous in nature which is why it took so long. It was essential to have the collaboration of the Professional Pricing Society to be able to use their database to triangulate findings. ❖