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## The Case for Pricing as a Formal Discipline

In times of economic uncertainty, business owners and leaders spend most of their attention on managing growth and on extracting as much cost as possible. Both are necessary to maintain profitability. Most times, pricing is a neglected element of the puzzle which is often delegated to sales or financial teams.

Most leaders do not realize the tremendous potential pricing can have on the bottom line. In this short executive brief, we make the case for more attention to pricing as a formal discipline in the marketing mix. We show the potential impact of pricing on the bottom line, and we also propose some practical actions to get started.

### The Discipline of Pricing

Pricing is a discipline. That discipline has existed for over a century and has

evolved from a pure economics discipline to be part of the marketing construct. The reality is that pricing is still a fairly neglected element of the marketing mix (the 4 Ps) and that most firms ignore the need to embrace pricing as a discipline.

Only 5% of Fortune 500 companies have a dedicated pricing team. Just 9% of business schools teach a dedicated pricing class. Top executives dedicate but a fraction of their attention to pricing programs. **The end result is that pricing activities are fragmented and allocated to various departments in the firm: sales, accounting, finance, marketing, business operations and, in smaller businesses, top management.**

What is pricing then? I find this definition very relevant as it depicts pricing as a multi-disciplinary function in the firm.

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### Upcoming Events

[13th Annual European Pricing Workshops & Conference](#) – Fairmont Rey Juan Carlos I Hotel – Barcelona, Spain / 6-8 December 2017

- 4 Full-Day Workshops on Wednesday 6 December
- 4 More Full-Day Workshops on Thursday 7 December
- Conference Keynotes and 3 Breakout Tracks on Friday 8 December

For the most up-to-date information about PPS events and programs, please visit our website at [pricingsociety.com](http://pricingsociety.com) frequently.

It also acknowledges both the importance and the complexity of the pricing function, and hints of the powerful impact it can have on organizations.

*Pricing is the process of determining what a company will receive in exchange for its products. Pricing factors are manufacturing cost, market place, competition, market condition, and quality of product.*

*Pricing is also a key variable in microeconomic price allocation theory. Pricing is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix. Price is the only revenue generating element amongst the four Ps, the rest being cost centers.*

There are entire books dedicated to the discipline of pricing. As a matter of fact, there are more than 80 of them. Some are highly technical and some simply relate stories about pricing, but nearly all recognize the nature of pricing as a science as well as an art. They also reinforce the need to adopt pricing as a discipline

that requires executive attention and sustainable investments.

**1. Pricing Science:** with the emergence of data analytics, the science of pricing has become more robust and sophisticated. Mining your data can lead to better segmentation, to greater deal win/loss ratios, and to price optimization.

**2. Pricing Strategies:** pricing strategies have also evolved to find a clear place in the marketing mix. Value-based pricing is increasingly being adopted by firms wanting to set prices based on customers' perceived worth for their product and services. Pricing models are a core component of business model canvasses and are making inroads in the M&A world as tools to help with valuation and product/sales integration analyses.

**3. Pricing Tactics:** pricing execution in the field is crucial to pricing success. Supported by strong data analytics, scientific selling is emerging as a core trend among companies seeking to increase



pricing and sales effectiveness.

**4. Pricing Organization:** pricing teams are formed in organizations to support the transformation of go-to-market strategies. Pricing experts become critical allies of the sales and marketing teams. They diffuse knowledge across the organization and provide the knowledge and experience to support key decision-makers.

**5. Pricing Psychology:** a strong body of knowledge is emerging on the topic of the psychology of pricing. Whether in B2C or B2B environments, buying behaviors are impacting the way companies price their good and services.

So you get my point. Pricing can no longer be ignored. **When firms face severe competition, irrational negotiation pressures, and shrinking demand levels, pricing as a discipline can provide a set of scientific tools to make better decisions.** All firms, whether small, medium or large, can benefit from paying attention and adopting basic pricing tools and models.

### The Impact of Pricing

The power and impact of pricing on the bottom line cannot be denied nor ignored. There exists a large body of academic

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Figure 1

Companies	% Increase	Pricing Strategy	Year
Simon-Kucher & Partners	35%	Increase in EBITDA for firms with higher pricing power.	2012
Deloitte	3.2%	Average operating margin increase of 3.2% for pricing initiatives after 18 to 24 months of implementation.	2012
Deloitte	26%	Companies that are pricing leaders are 26% better at managing true profitability.	2012
Gartner	2-4%	Pricing optimization software leads to average total revenue improvement of between 2 to 4% and a payback of under 2 years.	2012
Innovation Insights	15%	By 2015, best-in-industry enterprises will increase revenue by up to 3% and profits by up to 15%, due to improvements made using price optimization technologies.	2012

and practitioner research demonstrating the positive impact that pricing can have on firms' gross margins and also on bottom line profits. Pricing is actually considered by many experts as one of the most powerful levers of profit improvement. McKinsey reported that a 1% price increase, all things remaining equal, increases operating income by 8%. Other consultants also report the impact of pricing investments in strategies and in software as shown in [Figure 1](#).

Pricing projects and proper emphasis on value management lead to an immediate positive impact for the organization. When pricing becomes a topic of interest, there are quick wins to be captured from the get go. Leaders are able to see and understand some of the dysfunctional pricing levels emerging from data.

In a matter of a few weeks, mindful and actionable pricing decisions can improve bottom line results. Reaching greater pricing power is the ultimate goal for many firms. Reaching pricing power is a journey that may take several years and require investments in pricing science and technologies. The impact of such initiatives is realized on multiple levels:

- The bottom line improvements are real. For every dollar invested, you should expect a \$7 return at a minimum.
- Take control of your pricing destiny, giving you the ability to proactively manage market volatility. Control what you can control and better understand how to weather market turbulences.
- Educate your customers on the value of products and offerings, especially in firms with innovative products, and generate additional excitement in the market.
- Invest smartly in sales growth by adding resources in areas where you have greater ROI and pricing realization.
- Increase customer satisfaction with your pricing tactics. Offering the right



product to the right customer at the right price has been proven to build customer loyalty.

Once again, the impact of pricing is real. It is clearly demonstrated. There are many success stories presented every year at pricing conferences. Leaders from firms of all sizes gather in one location to share best practices and to discuss pricing and profit successes.

As a "Pricing Evangelist" I am dedicated to showing the power of pricing versus other traditional profit improvement activities. When leaders have exhausted their cost cutting potential or when growth opportunities are scarce, the pri-

ority should be to find pockets of price opportunities in their existing business and to increase pricing power.

## Get Involved and Get Started with Pricing

Warren Buffett recently said: "The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business." Yet, in most companies pricing receives scant attention. Are you paying enough attention to your pricing strategy? Who is managing pricing in your firm? How do you get started?

Over the past four years, my dissertation work has focused on understanding better how firms manage their pricing strategies. First, I interviewed 44 managers—from CEOs and CFOs to heads of business units and professionals—in 15 U.S.-based industrial companies. These varied in size from a few hundred to thousands of employees and, notably, differed dramatically in pricing capabilities.

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Figure 2





In conducting this research, I identified common features of companies that have deployed pricing approaches as a key profit driver. Most important was that in successful companies, top management was attentive to two areas of their pricing function: the development and practice of skill in price orientation (or price setting) and price realization (or price getting). Armed with these qualitative findings, I asked more than 8,000 CEOs, presidents, and business owners around the world a series of questions relating to pricing. The findings revealed some interesting myths and facts. Of the 100 points of attention allocated between cost-cutting, price-management, and growth strategies, pricing received only 16%. Most attention, as expected, focused on cost-cutting (55%). While these top leaders indicated that pricing was strategically important, they paid little attention to it.

A commonly held belief that emerged from the research is that pricing is expensive, requires tremendous resources and is only for large firms. Au contraire!

There are several stages in the pricing maturity progression model, but you can get started by following some simple steps:

1. Create a pricing council that meets every month just to discuss price trends, competitive pressure, and new-product pricing prior to launch. Invite your marketing, sales, and finance leaders and champion the process. Cost = \$0.

2. Buy several copies of the best pricing book and give it to your staff to read. Then meet to discuss what you learn, what you can quickly adopt in your firm, and what the gaps are. Cost = \$300.
3. Send your marketing managers to a pricing conference. There you will learn from the best, meet top pricing professionals and get lots of insights. Cost: \$2,500.
4. Take your best costing or financial analyst and give him or her respon-

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sibility to apply the basic techniques you will have learned in the book and at the conference. Cost: \$0 incremental (part of your fixed cost).

5. Join your regional or local pricing group and other social media groups. These groups most likely gather pricing and marketing professionals from your region. They meet on a regular basis, share best practices, and learn from each other. Cost: \$200 in gas and food.

There you have it. You are at Level 1 of the pricing-maturity process. You have

spent \$3,000 in total to get started with pricing. You are already better off than the average small and medium business and you will start seeing changes in how pricing is managed in your firms. Of the 15 firms we studied in 2010, 11 did not have a pricing function and did not manage pricing with intention. A staggering fact.

## Conclusions

Pricing is a multi-disciplinary function that touches every team in the organization: sales, accounting, marketing, IT, innovation, and management. Pricing

can be complex but it does not have to be. There are proper processes and tools that can be used to support your sales and marketing teams in making better decisions on how to price your offering.

By just paying attention to simple pricing issues, you can see immediate impact to the bottom line and bring greater rationality and discipline on how you make pricing decisions in the field. Pricing and sales effectiveness are closely related. Many companies have started the journey towards pricing excellence. Are you ready to get started?