Ten Things that Could Derail Your Pricing Programs and What to Do About Them

by Stephan Liozu, Ph.D.

In this article, the author outlines ten common reasons that strategic pricing projects get off track and what pricers can do to anticipate and prepare for the possible scenarios. 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.*

If you have worked in pricing for a while, you know that getting strategic pricing projects to the finish successfully is quite an accomplishment. These projects take time, require a winning coalition, and can be delayed or derailed for many reasons. From a change management perspective, there are plenty of detractors or resistors who will make your job difficult. We all know them and, hopefully, we have change resistance plans in place to handle them. Besides that, there are other reasons why strategic pricing programs and projects can be derailed. These reasons are less change management oriented and are more related to the business. They include a combination of internal business dynamics, executive leadership behaviors, and external factors. I list ten of them in this essay but I could easily come with another ten. For each of them, I propose some things you can do to anticipate and prepare for them.

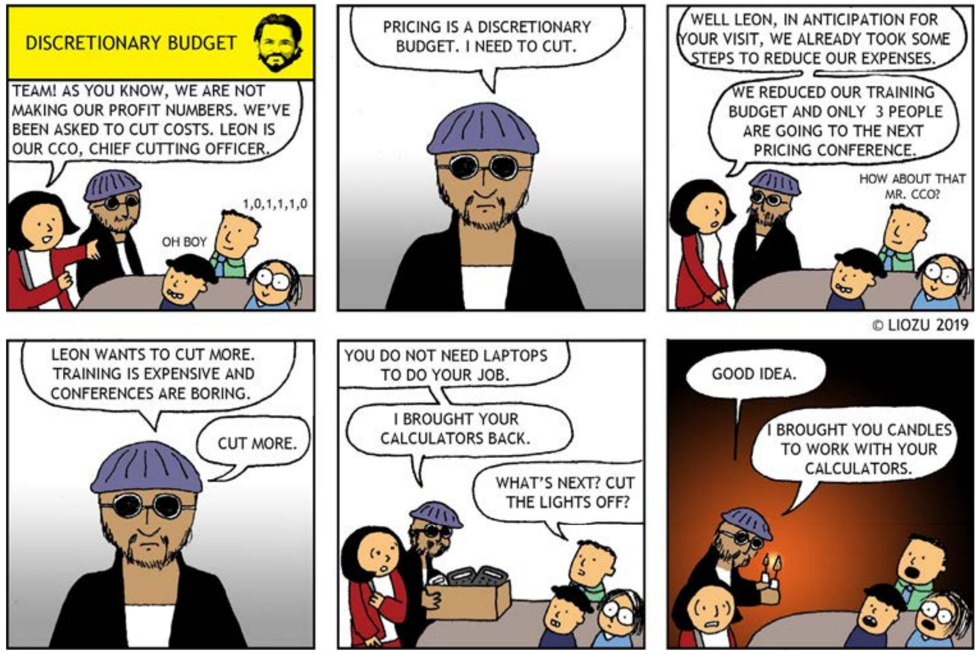
1) Short term volume and market share push: some firms still use market share as a strategic KPI. When this is the case, leaders will do anything to maintain their market share position or to remain number 1 or number 2 in the market. Other companies are obsessed with volume - especially at quarter's end. In both cases, the sudden need to boost volume and market share can have a devastating effect on all the good pricing foundations you have built over time. When sales people are given carte blanche to land any deal at any cost, it is open season. The end of the quarter push is the worst case scenario. Not only do customers get trained to wait for them each quarter, but the salespeople also wait for end of quarters to close unprofitable deals.

What you can do: of course it is not your first rodeo! You should see the red flags when a quarter is going bad. Your pricing dashboard should track the same KPIs and automatically flag market share and volume deviations. You should study your sales pipeline to identify deals that could be pursued without breaking the bank. It is important to stay close to the sales team and listen to how the push is going to look. Not every deal is a good deal - even at quarter's end. Be ready to propose a basket of them to reach the goal while protecting margin and profit.

2) Focus on irrational growth: I have written before on how irrational growth objectives can destroy a firm's culture and balance sheet. Non-stop high growth can have deadly implications, especially when you are burning cash and ramping fixed costs to support that growth. It is also irrational to think that explosive growth can last forever. There is a point in time when the focus needs to change to profitable growth. Some leaders get lost in growth addiction at the expense of profit. It is hard to manage pricing in that context. There are good reasons for years of explosive growth, such as in the tech industry where establishing first mover advantage and a large user basis are critical. But, at some point, profit and positive cash flow become important metrics as well.

What you can do: Managing pricing strategy in a context of irrational growth requires courage and perseverance. It is important to train people on the differences between irrational growth and profitable growth. Bring the outside in by showing examples of fast growing companies that collapsed very quickly once the growth stopped (WeWork and Forever 21 are good examples right now). The key message is that perpetual growth is not possible. Pricing can be used to accelerate and slow down growth when needed. Not every deal is a good deal!

3) Changes at the top and a new philosophy about pricing and organizational design: this is a tricky situation. Over the past few years, I have witnessed stark reversal from top pricing organizations on how important pricing is and how the pricing team is designed. This often happens because a new CEO comes in with different opinions about how pricing should be managed and prioritized. This can be a brutal awakening for pricing teams and



also sudden death for strategic pricing programs. The manifestation of this situation can result in the freeze of all pricing programs as well as a sudden shift in organizational structure (from centralized to decentralized most of the time) or in reporting line (from marketing to sales, for example).

What you can do: there is not much you can control in this situation. These changes could come in 90 days or a shorter period: changes in title, reporting lines, structure, etc. My recommendation is to network with HR on a regular basis to prepare your next career move. It might include moving from a corporate pricing leadership position to a divisional position. It is also important to constantly brush up the story of your contribution in the organization: your impact, ROI, visibility, skills. This is a situation you do not control but can prepare for. Read the tea leaves and anticipate leadership changes.

4) Sudden cost cutting efforts: this is the nature of business. We have to make the numbers. Our leaders choose the easy route to do additional rounds of cost cutting while at the same time leaving money on the table with inadequate pricing strategies. In many firms, cost management and cost excellence remain the primary focus. This can be partially explained by habits and routines in managing profitability. It can also be explained by the lack of courage necessary to address structural issues in a business such as segmentation, value, and strategic positioning. Continuous cost-cutting efforts distract teams and sometimes cut processes and budgets to the bone. Pricing is often impacted. Training sessions are postponed or cancelled because of travel freezes. Projects are delayed when consulting contracts are postponed.

What you can do: here again, it is best to be prepared with a prioritization of activities and expenses. You must have ROI estimations for each of your initiatives. You need to be able to constantly justify your existence. There is no need to get upset or to take things personally. When cost cutting is engrained in the culture, you have to accept it and focus on what you can control. Then, prepare a list of cashless activities you can deploy. You might have to be creative!

5) Lack of discipline in tactics and operational excellence: it is great to have the best intentions for improving pricing realization and pricing discipline. But pricing excellence requires operational excellence in the rest of the organization. The whole point of pricing transformations is to increase value capture from the market and control the number of unnecessary discounts given to customers. When customer deliveries are late, product defect rates are high, program executions are delayed, and customer experience is poor, it is impossible to say no to procurement teams requesting some sort of compensation in the forms of credits, discounts, and other freebies. Poor execution across the board invites customer complaints and compensation requests.

What you can do: you can start by encouraging improvements in operational excellence and execution. While mostly out of your control, it is important to advocate for that, especially if you have access to the C-Suite. You can also factor execution issues into your pricing discount strategy and the negotiation tactics of your sales force. Finally, poor execution and performance can also be included in the form of negative differentiation in your value-based pricing analysis. It is not ideal, but it is the reality you are facing.

6) When bosses get involved, they are the worst offenders when customers call: this is a difficult scenario but one I hear often, especially when C-suite executives are sales oriented or have a sales background. When customers do not get the deal they want from the sales and pricing organizations, they will make contact with C-suite executives and try to bypass everyone. I have heard horror stories of CCOs or CEOs directly approving deals that were highly unprofitable just to maintain the strategic customer relationship. The same situation might occur when price increases are executed and customers make direct contact with top executives. It is not easy for these executives to not give in when customers with whom they have a long standing relationship call for special deals. However, they should refrain from overruling their teams when they make tough decisions.

What you can do: these customer situations need to be flagged immediately and communicated to the C-Suite along with the decision rationale. Generally speaking, unhappy customers will voice concerns and mention that they might contact the bosses. Along with the thorough customer margin and sales analysis, executives might need to receive a range of additional discounting that might be acceptable. There needs to be a good faith effort to satisfy the customer and create a win-win situation in which everyone saves face. This might include special conditions, free goods, or other extra benefits aside from pure discounts. In the case of a price increase, I always recommend getting top executives involved from the beginning and encouraging them to visit or call strategic customers. Make sure you request their involvement when you anticipate tough discussions (strategic accounts or large distributors for examples).

7) Tolerance for bad behaviors and lack of accountability: that is a real killer. When your programs are in place and you have deployed advanced systems, you still have to face passive aggressive behavior as well as a tolerance from leadership for bad behavior. I define bad behavior as not respecting pricing guidelines, working around the approval process, and refusing to use technology. The issue arises when leadership tolerates these behaviors and fails to hold people accountable. Accountability is part of the Value Mindset 6A model I developed in 2016. It is essential for transforming mindsets and making change irreversible. When people are allowed to work around the system without consequences, it demonstrates a lack of leadership commitment to making changes. It can also stop the diffusion of change as people might not make the efforts any longer. Why should they? This is often why transformations derail and are stuck in the zone of good intention.

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What you can do: bring HR to the table to focus on performance management plans when designing your pricing programs. Make sure you conduct a deep RACI analysis (Responsible, Accountable, Consulted, Informed) and focus on A! Include the value mindset 6A model in your change management plan (Attitude, Ability, Action, Alignment, Adaptability, and Accountability). Finally, make sure you flag bad behaviors and their impact to the leadership team.

8) Leaders not walking the talk and not putting in the money when the time comes: during the first 12 to 18 months of your pricing transformation, you have probably done an awesome job at training lots of people, conducting pricing assessments, running small pilot projects, and selling the impact of pricing to the entire organization. The results are convincing and you are now ready to move into second or third gear. The issue is that you have not been convincing enough and leadership does not approve the significant investments needed to move along the maturity model. There can be multiple reasons for this. First, the firm's financial situation might not allow for such investments. Second, leadership may not be convinced about the effort/benefit ratio versus other investments. Third, they may lack the courage to tackle the hard work that is coming. Lastly, they may think you have done well and want to continue as is. This can be disappointing for pricing executives and their teams.

What you can do: you have to keep a cool head if you decide to stay in your role. Yes, there is the option of leaving and joining another organization. That option is always on the table. You can also reframe and re-scope your project to reduce the perceived risks and the level of requested investments. You could also refocus your program on regions or business units that are willing to go ahead. There are always more progressive leaders in any organization. Do not be defeated. Rebound quickly with alternative plans.

9) Doing things manually for too long and not scaling fast enough: I have said this time and time again: it is impossible to implement a pricing transformation with antiquated and inadequate tools. A strategic pricing IT platform needs to include all the relevant tools: CPQ, analytics, competitive pricing, deal management, and some more. These tools are the backbone of your transformation's ability to reach efficiencies at scale. Of course, you can get started with a partial toolbox and build it over time, but imagine driving a race car on three wheels! Integrating and scaling the right tool suite can lead to tremendous payback. It can also create long delays in reaching target ROI and severe fatigue in user teams that have to do things manually.

What you can do: when developing your technology roadmap, integrate all relevant tools with the expected benefits and the ROI in the full systems. Identify the pain points of conducting manual work in the transition and the impact on the payback should deployment be delayed. Make sure you prioritize the investments and deployments in the right order so that you build the toolbox incrementally without paralyzing the overall engine. Finally, do not forget to connect peripheral systems and processes in case they have an impact on your strategic platform (CRM, BI tools, infrastructure, connectivity, etc.).

10) Bad data across the board: most strategic pricing projects start with strong agendas, ambitious goals, and lots of good intentions. Pricing leaders map their desire to transform their pricing strategies and improve their level of price realization. That is awesome until they truly find out the quality of the data they have to accomplish these goals. I have spoken with pricing executives who had to put their programs on hold until they could clean, integrate, and connect all of their data. In other words, the data was so fragmented and unclean that the overall pricing programs had to be delayed.

What you can do: start your strategic project with a holistic data audit. This audit needs to identify the right sources of data, the data architecture, an integration map, and a test of cleanliness. For this, you will work with your IT and business intelligence teams. It is essential to have that view in order to gauge the task at hand and decide whether or not you need to conduct some purging and consolidation. The last thing you want is to run pricing optimization and analytics on bad data. You will lose the team's confidence very quickly.

Any transformational pricing journey or strategic pricing program will run into one or more of these issues. It is never a smooth ride. I often compare pricing programs to complex systems. There are a lot of moving parts and sometimes chaos is just around the corner! There are many parts of the system you cannot control, so you prepare for the worst and hope for the best. For each of these ten potential disruptions, I have proposed steps for anticipating uncontrollable elements and tackling the controllable ones. It is more a mindset that anything else.

Here are four key points summarizing what you can do:

▪ **Read the tea leaves and anticipate disruption:** be aware of how your company is doing, what is happening in the world, and who is getting promoted internally. Spend time on the intranet reading organizational announcements, investor's reports, and other formal communications.

▪ **Be ready and well prepared:** always be ready to justify your existence and your role in the organization. Refresh your ROI and impact presentation quarterly and tie this to the firm's KPIs whatever they are. If cash flow is a primary concern, address how you are helping the cause.

▪ **Have contingency plans in place:** for every strategic pricing program and platform, have contingency plans defined. What happens if your programs are delayed? What happens if your budgets are reduced by 50%? How could you accelerate one deployment versus another? How do you run the system with some missing part? You get the point. Having these plans ready will garner leadership appreciation and show your realistic approach to pricing transformations.

▪ **Be professional and over communicative:** you cannot take these disruptions personally. Stuff happens! Be professional when you hear bad news and be ready with plans and impact reports. Don't complain about change. Instead, focus on the implications and how you will get things done despite the change.

The only constant is that change is coming. Your change roadmap needs to account for that. Remember that pricing excellence is a journey, not a destination. So that makes you first a change agent, and second a pricing professional! ❖