

Managing the ups and downs

Be strategic — make your price changes proactively

More than 100 times, I've heard senior leaders say, "Our margins are eroding due to cost pressures. We need to raise prices as soon as possible." To this statement, I generally responded, "It's already done!"

Managing price changes requires both a nontraditional and a strategic approach. Top leaders generally pay attention to price changes when there is an emergency, or when it's too late and the strategic window has closed.

This is especially true when you don't have a dedicated pricing team. And even if

you have a pricing team, the change process may be quasi nonexistent or, at best, barely documented. That might explain why companies only capture 53 percent of their intended price increase, according to a 2011 Simon-Kucher & Partners study.

Managing price changes — on the way up or down — need to adhere to these five characteristics:

Process-oriented

This is an area ripe for improvement. The price increase or decrease must be properly documented with a step-by-step process, specific guidelines, defined responsibilities and robust logistics. Then, post the documented process on a shared site.

Training also must be conducted regularly, and top management needs to support the process.

Proactive

Proactive price changes must be based on a combination of customer, cost and competitive information. Being proactive means taking the lead and educating the market with the relevant industry pricing dynamics.

Grounded in science, data

Price changes must be conducted at micro levels. One-size-fits-all price increases or decreases no longer work.

Price target levels must be analyzed, and set by both SKU and customer.

To that end, pricing analytics is critical to derive the pockets of opportunities, to identify products with greater pricing

power and to measure the true profitability of your products and services. Scientific support also gives your team confidence that you have a rational approach.

Team based

Price changes must be multifunctional. Sales play a key role driving the process, so make sure the entire sales force buys in for better results.

Both price increases and decreases require the mobilization of marketing, customer service, supply chain management, top management, sales and operations. For example, everyone must know their role in the event of a rush of orders and a flood of inquiries.

Adaptive, flexible

The first price increase or decrease exercise might feel painful and lack good workflow. The process gets better as you integrate best practices, lessons learned and continued refinements. As such, it must be flexible and adaptive.

Most companies have experience with price increases, and they do a pretty good job. By contrast, more advanced pricing teams have a documented, shared process, and world-class pricing teams have a similar process for price decreases.

With decreases, though, you need to manage customer expectations, as well as train the sales force on when and where to reduce prices and how to communicate to customers.

Managing price changes requires an intentional, proactive approach that cannot be done in emergency or reactive mode, as you might erode your pricing power. Be bold — join the pricing revolution. ●



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