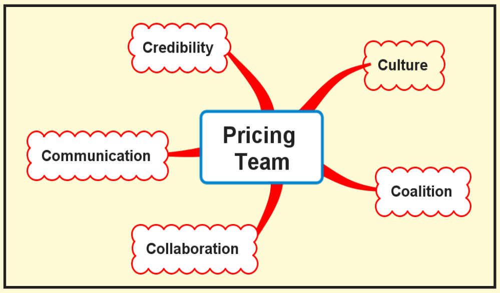
Where Should the Pricing Function Report Into?



In this article, the author examines common questions that arise for pricers around reporting lines and which department pricing should report to. He also explains how, as the pricing function gains success and credibility within an organization, reporting lines gradually become irrelevant. Author Stephan Liozu, Ph.D., CPP, (www.stephanliozu.com) is the Founder of Value Innoruption Advisors and specializes in disruptive approaches in innovation and value management. He earned a PhD in Management from Case Western Reserve University and can be reached at sliozu@case.edu. He conducts numerous pricing research studies both independently and in partnership with Professional Pricing Society.

Some questions about pricing never go away. One very good question is: "Where should the pricing function report into?" Although not much has been written about the subject in either academic or practitioners' papers historically, recently, Tim Smith wrote a very interesting piece on who should control pricing in an organization.[1] Granted, control of pricing and pricing reporting lines are quite different topics but Tim made some very important points. I encourage you to read his position paper published in the September 2013 issue of *Pricing Advisor*.

I am writing this short essay to shed some light on the reporting question and to, hopefully, generate some exciting exchanges during pricing meetings and conference discussions.

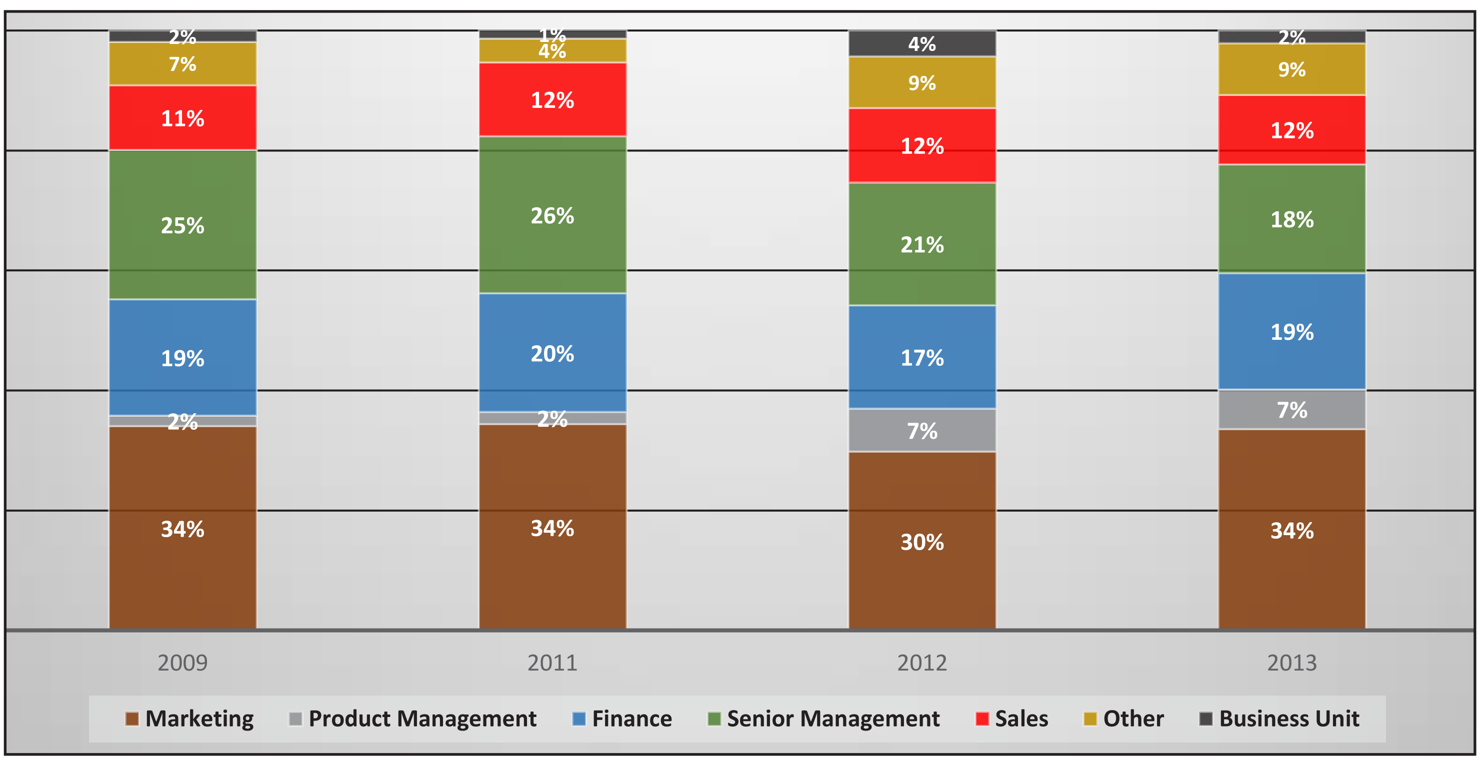
Trends in Reporting Lines

Every year, Professional Pricing Society conducts a year-end survey. In this survey, they gather over 1000 responses from pricing professionals related to salary levels, promotion and advancement, and their reporting line in their organization. Looking at the results of the past four surveys, and over time, reporting trends for the pricing function emerged.

Here is what we can conclude from the trending information:

1. Marketing and finance are the most common reporting lines for pricing with over 50% of the responses. This is not surprising considering the pricing maturity of PPS members and supporters.

Figure 1: Pricing Reporting Line 2009 - 2013 (PPS Year-End Survey)



2. Marketing and product development also represent 41% of the reporting lines in 2013 supporting that pricing is an integral part of the marketing construct. Let me say it loud and clear: pricing is part of the marketing construct.

3. The share of pricing teams reporting to senior management is slowly shrinking from 25% in 2009 to 18% in 2013. Perhaps, as pricing becomes more accepted in organizations, there is less of a need to make it report to senior management. Chances are that smaller organizations might have more of a need to report to top managers.

4. Surprisingly enough, pricing does not seem to report much into the Information Technology function (IT). When it is the case, pricing becomes a support function for pricing technologies being deployed to optimize pricing decisions.

5. Over the past five years, the proportion of pricing professionals reporting into sales has remained stable at 12%. I might argue that all participating enterprises might have a dedicated pricing team which generally will not report into the "evil empire." I conjecture that, if we conducted a survey among firms with no formal dedicated pricing teams, the pricing responsibility would most likely fall under sales or sales leadership (to be confirmed).

It Depends

The fact of the matter is that they is no clear answer to this very existential question. My position is that there are no right or wrong answers. The best answer is "it depends." It depends on a multiple of factors including but not limited to the following ones:

Your current organizational architecture for pricing-related activities: If business and financial analysis teams currently report to the finance organization, it might be hard to move the pricing reporting line away from finance. The reality is that, if you are assembling a new pricing organization, you might have to leave the accountability and responsibility where it currently is. Pricing responsibility might be fragmented but someone is currently conducting some form of analytics and "controlling" on pricing decisions.

Your pricing maturity level: In some firms, pricing might exist as a discipline but not yet as a function. In firms with greater pricing maturity, the reporting line might fall under marketing, finance, and business analysis/analytics. That makes a lot of sense. If your firm moves from a decentralized to a center-led organizational design for pricing, the pricing team will most likely report into a process function such as marketing or commercial excellence. My recommendation at the beginning of the pricing journey is to embed the pricing team with a respected and powerful team. If pricing is a brand new discipline to an organization, it will already face enough headwinds both internally and externally. Do not add additional complexity.

Your organizational culture: Culture might be the greatest influencer of where pricing reports into. If your firm has a strong cost or manufacturing culture, I would recommend that pricing report into finance. On the contrary, if your culture is customer-focused and market-based, then pricing should report into marketing or sales operations. Remember what Peter Drucker famously said: "culture eats strategy for breakfast." My recommendation is to gauge the primary orientation of your culture (cost, competition or customer) and to match the reporting lines to this orientation.

The importance of pricing in the strategic agenda: When a firm's strategic agenda includes pricing as a core priority, chances are the reporting line will be very close to the C-suite and will most likely be into finance or marketing. When this happens, it immediately raises the visibility of the pricing function and the performance expectations. I recently conducted a change management workshop and one of the participants reported directly the CEO. That change occurred after the CEO got frustrated with the lack of progress with pricing programs. There are pluses and minuses to this and we will discuss them later in the paper.

The background and emphasis of top leaders: You might be surprised but the background and emphasis of your top leaders, including your CEO, will influence reporting lines. A CEO coming from manufacturing or finance will place pricing under finance, IT or Six Sigma for example. A CEO who moved up the ranks of marketing or sales will integrate the pricing function within the commercial or marketing organization. So ask the right question about the background of your top leaders and what they pay attention to. When the CEO changes, so does his or her emphasis. That might trigger a change of reporting lines.

Who runs the show in your organization? That is another crucial question. In any organization, there are formal power lines and informal ones. A C-suite is a very political environment where top guns lobby for power and influence. It is important to find out who has the ears of the CEO. Who calls the shots and makes things happen. That will influence the reporting lines as well. So if your organization is finance-dominated because the heir-apparent is the CFO, then pricing should report into finance. Things will get done there. If sales calls the shots in the C-suite, having pricing in the marketing organization might be a waste of time.

So you get my point. All of these factors influence the reporting line of the pricing function. That is why there is no right or wrong answer to the reporting line question. This is also why there are no silver bullets. In addition, reporting lines will change over time. Organizational design change on a regular basis based on strategic moves, with new leaders coming in and others leaving the organization, and with new businesses entering the portfolio. The pricing team might be reporting into the marketing organization today and then moving into a process role a couple of years later. Things are dynamic and fluid in the field of pricing. That is why I highly recommend that pricing professionals learn about the science of change management so that they can better navigate the power dynamics of their organization.

Pros and Cons of Reporting Lines

In case you are asked the question internally (where the pricing team should report into?), I propose pros and cons of the most common reporting lines for pricing: marketing, finance, sales, IT, and CEO/top management. I recognize that I am missing the analysis for the product development function but I am taking the position that product development can be considered a marketing function.

Reporting into marketing offers a lot of pros. The biggest one be-

Figure 2

	Pros	Cons
Marketing	Natural & traditional place as one of the four P's	Often considered as a "qualitative" function (credibility)
	Traditional strong place in the C-suite & visibility	Lack of analytical skills including pricing ROI calculations
	Access to customer, product, market, competitive information	Often works in silo & too process oriented
	Availability of market research data and science	Often disconnected from the reality of the front lines
	Easier to integrate pricing in marketing strategies	Often perceived as only a marketing communication group
Finance	Access to all relevant costing information	Heavy focus on cost-based pricing
	Strong financial analytical and reporting skills	Often seeing things in "black & white"
	Traditional strong place in the C-suite & high visibility	Limitations of cost accounting science & systems
	Access to and strong relationship with IT teams	Often disconnected from the reality of the front lines
	Strong attention to details & scenario planning for pricing	Might take too much of a tactical approach to pricing

ing the access to market information to feed into the price setting process. Since pricing is part of the marketing construct through the 4P's, it is also more logical to include pricing strategies in the overall marketing strategies.

However, very often the marketing function might only include packaging and marketing communications. Also the marketing function might be viewed as lacking analytical capabilities or as being too qualitative in nature.

Reporting within the finance organization offers real advantage to pricing professionals. They are embedded in a powerful and well respected organization and have access to all financial information. The fit with the analytical requirements is great. On the other hand, working within finance might strongly influence the type of pricing strategies that are selected for the business and might lead to pricing being considered as a tactical function.

In my experience when pricing reports into the sales organization, it might be perceived as too biased towards customers. Additionally, most sales leaders have not received advanced pricing training which might limit the development of the organization's pricing capabilities. But working within sales accelerates the pricing decision-making process thus creating competitive advantage. The sales team is close to the market and able to give quick feedback on pricing strategies and tactics. In some industries, speed is essential.

Most pricing teams reporting into the IT organizations tend to be focused on deploying and supporting advanced pricing systems and analytical tools. Pricing strategies are rarely designed and executed within the IT organization. So the pricing team might be separated between an IT pricing team and an operational pricing team with separate reporting lines. One of the key reasons for this is that the IT function is far removed from business operations and have very little knowledge about customer activities and market segments.

Finally reporting into the office of the CEO or another top executive might strongly increase the visibility of the pricing function especially when pricing is a strategic priority. Things might get done faster and resources might be allocated with greater urgency. The pricing team might also be able to pull support from the CEO to accelerate some of the most difficult change management activities. But reporting to the top might create some tensions with the rest of the organization especially with teams that are most impacted with the pricing changes.

The most dangerous reaction might be a general passive aggressiveness within teams and a need for compliance because of the specific reporting lines and not because people are sold on the project. The pricing team might also suffer from the style of the CEO or top leader they report into. A top executive with micro-managing tendencies might greatly complicate pricing projects and might introduce additional workload that brings little value to the organization. So reporting to the top leader might work for a while but I generally do not recommend it.

Figure 3

	Pros	Cons
Sales	Closeness to the market for more dynamic pricing	Often not represented in the C-suite as a dedicated function
	Speed of response to competitive pricing moves	High level of fragmentation in the organization
	Access to customer knowledge, data, and pricing history	Lack of overall knowledge & capabilities in pricing
	Ownership of pricing would facilitate required changes	Often resistant to progressive value & pricing changes
	Greater adaptability to regional cultural differences in pricing	Tactical/clerical approach to pricing limits strategic pricing
IT	High ownership of the data & pricing systems	Lack of overall knowledge & capabilities in pricing
	Ability to customize pricing solutions to support business operations	Very little knowledge about customer & commercial process
	Experience in designing & deploying technology solutions	Often not represented in the C-suite as a dedicated function
	Technical & analytical skills in pricing systems	Often works in silo & too process oriented
	Excellent relationship with pricing vendors	Distance from key business decision-makers in the organization
CEO/President	High visibility of the pricing function	Limited amount of attention received due to time constraints
	Pricing becomes a priority for the organization	Pricing projects might get done for compliance only
	CEO championing of pricing accelerates organizational change	Political tensions leading to non transparent pricing actions
	Greater strategic approach to pricing & value management	Confusion in the C-suite about who owns the pricing function
	Strong message sent to the market about the importance of pricing	Background & style of the CEO might influence outcome

What Matters in the End?

Because "it depends" is not the answer everyone likes to hear, my recommendation is to choose between marketing or finance. These are the best choices and they are supported by the PPS year-end surveys. Reporting lines do matter, as you have read earlier, as they might shape the types of strategies that are deployed, the access to resources and power, and the respect the pricing team might receive from the rest of the organization. Reporting lines matter at the beginning of the pricing journey when pricing professionals are establishing their presence and credibility. They matter from a change management perspective to get projects launched and put quickly on the right track. However, once the pricing journey and the related programs are well on their way and pricing teams have demonstrated their value, reporting lines start to matter less. And that is a good position to be in.

What really matters in the end are the following organizational factors:

1. **Culture:** Can the pricing team shape the pricing culture of an entire organization regardless of where it reports into? Establishing a strong pricing culture with a corporate culture is the end game for a pricing team. At that point, pricing is accepted as a discipline, respected as a function, and adopted as both an art and a science.

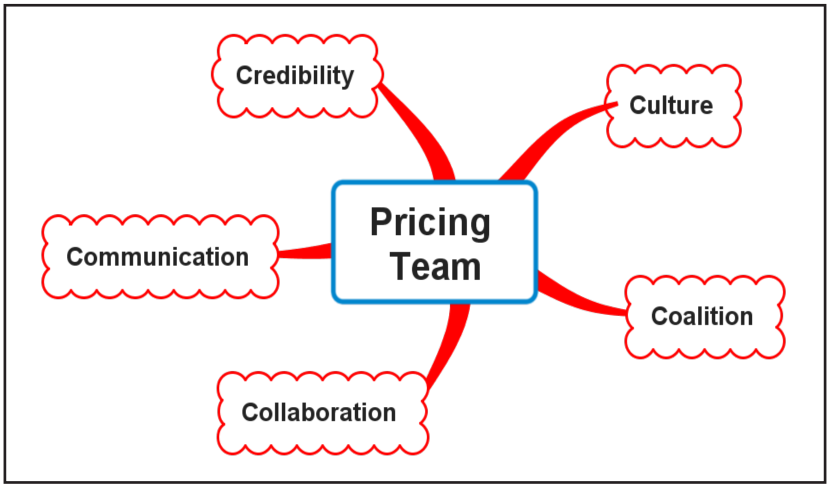
2. **Coalition**: As change agents, can pricing professionals bring together a powerful coalition of business professionals to deploy pricing projects and make the necessary pricing changes internally and externally? With the hard-earned respect from the organization, pricing teams can demonstrate the power of cross-functional team work to reach consensus on strategic pricing decisions. Established pricing teams can build a coalition of the willing whether they report here or there.

3. **Collaboration:** In a culture of collaboration, reporting lines and silos disappear. Then it really does not matter where pricing reports into. Collaboration and alignment are critical conditions for the success of a pricing transformations. Without both, progress is not made and full success is not reached. Best-in-class organizations understand this concept and set up cross-functional pricing councils to manage pricing activities collaboratively.

4. **Communication:** With a strong coalition and a culture of collaboration, the communication of relevant information to make the right pricing decision is fluid and unbiased. The information entering the organization through many touch points are quickly communicated to the right pricing experts. Sales, marketing, and finance teams share cost, competitive and customer-related information to increase pricing success.

5. **Credibility:** With track record of success, pricing teams earn credibility within their organizations. Then the pricing function finds its natural place in the organization. Success erases barriers, doubts and resistance to change. The greater the credibility of your pricing organization, the more irrelevant the discussion of reporting lines becomes. So if, as a well-established pricing team, you are involved in reporting line discussion, you might have to ask yourself existential questions: Did we achieve our commitment? Are you bringing the right level of value to the organization? Are we credible as a team vis-à-vis other functions?

Figure 4



The main purpose of this position paper is to shed some light on the question of the reporting of the pricing team. When pricing folks ask me that question, I usually try to probe what is behind the question. Is it a lack of respect or credibility? Is it that they are facing a change in reporting lines in their business? Is it insecurity or lack of conviction to convince their superior that pricing is what they should invest into? For all of us, the question of reporting lines is an important one. But I conjecture that once a pricing team is established with a track record of success, it should not matter. I would argue that pricing professionals should focus more time and attention on measuring and tracking their impact and selling internally their contribution to the business. With success comes credibility and stature in the organization. Reporting lines then become irrelevant.

References

1. Tim J. Smith, PhD, "Who Should Control Pricing? Sales, Marketing, or Finance?", *The Pricing Advisor*, September 2013, http://media.pricingsociety.com/publications/Who_Should_Control_Pricing.pdf.