Fighting "Greedflation" With Value-Based Pricing

by: Pete Morelli

Virtually every type of business is feeling the effect of current inflation levels and is being forced to raise prices in order to continue operating profitably. Although most customers understand the current economic pressures and see that prices are increasing everywhere, where things can get messy is in the "how" and "how much" behind these increases. In this article, the author provides best practices for avoiding the appearance of "greedflation."

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The effects of inflation are inescapable right now. Recently, the ***Wall Street Journal*** reported the inflationary impact on summer expenses like bicycles, beer, and propane. Not the propane!

It's no surprise that companies are instilling price increases—and in most cases, these changes are essential to profitability and fairly running a healthy business. Customers keenly observe these changes, and in most cases, they reluctantly show understanding. Where things can get messy is the actual "how" and "how much" behind these increases—or as noted in the ***New York Times***, the dark side: "greedflation."

My mind's telling me no. But my margins...

As a knee-jerk reaction, many companies implement a price increase as an average across all products. While it's important to act quickly, increasing prices across the board typically isn't the best approach. The main problem is that this tactic uses inflation as an excuse to increase pricing on products and services, many of which may not have been affected.

Broad, opportunistic price gouging damages company credibility with customers and paints future interactions with mistrust. It sacrifices the partnership (and your business' long-term growth strategy) for short-term gains. This is never a good look, but more importantly, it risks losing customers once they're able to shift purchasing towards other suppliers.

THE CONCEPT OF VALUE-BASED PRICING ALLOWS COMPANIES TO BE FAIRLY COMPENSATED FOR INVESTMENTS THEY MAKE TO IMPROVE QUALITY AND SERVICE, AND ULTIMATELY DELIVER HIGHER VALUE TO CUSTOMERS.

One size fits none

A price increase should rarely be a one-size-fits-all approach.

The concept of value-based pricing allows companies to be fairly compensated for investments they make to improve quality and service, and ultimately deliver higher value to customers. This enables businesses to thrive by differentiating which customer segments they serve with which offering.

Value-based pricing also goes both ways. Low-value, low-cost services can be designed for price-sensitive customers. It's important to create options for your customers, so if they have budget constraints, there's a solution that fits their needs. For lower-value products or lower spend customers, working to meet the market by limiting or even rolling back price increases can be the right thing to do from both an economic and a fairness perspective.

Think about the bigger picture

Even for cases where price increases are inevitable, it's worth noting the difference between being compensated for the extra value your customers voluntarily choose vs. increasing prices on customers who are effectively locked in today but may leave you as soon as they have another supplier lined up.

Think about hurricanes, where (right or wrong) businesses can be shunned for "price gouging" in the face of extreme demand and supply shortages. This is where a longer-term horizon of the customer relationship should be considered to balance the

▶ CONTINUED ON PAGE 2

importance of short-term increases against lifetime value.

Ways to implement value-based pricing on your upcoming price increase

Market volatility will continue to be unpredictable. Companies may even find themselves needing to implement multiple price increases in the coming quarters (I hope you don't).

Here are some ways to avoid "greedflation" and keep your customers in the foreground:

1) **Create tiered offerings.** Make sure customers who focus on cost have a way to continue to do business with you. Create a low-value, low-cost option with fewer features that still serves a need for your client.
2) **Take the sting out of price increases.** Limit price increases on the most popular items, which means that when customers pay more, it's on items they don't buy every day.
3) **Connect price changes with reality.** If your business relies on transportation and logistics to ship products, a fuel surcharge makes sense. But if you're a software company with a remote workforce, the same rationale won't work. Communicating transparently can allow your customers to prepare and genuinely partner with you for the long term.