Managing Pricing Complexity Can Become an Advantage

by: Stephan Liozu, Ph.D. CPP

There is no denying that pricing is the most complex discipline in an organization. However, your customers do not care about your complexity. They do not want to be on the receiving end of it. They have options and will clearly move on to another vendor. So how do you manage the pricing complexity that is increasing daily in these changing market conditions?

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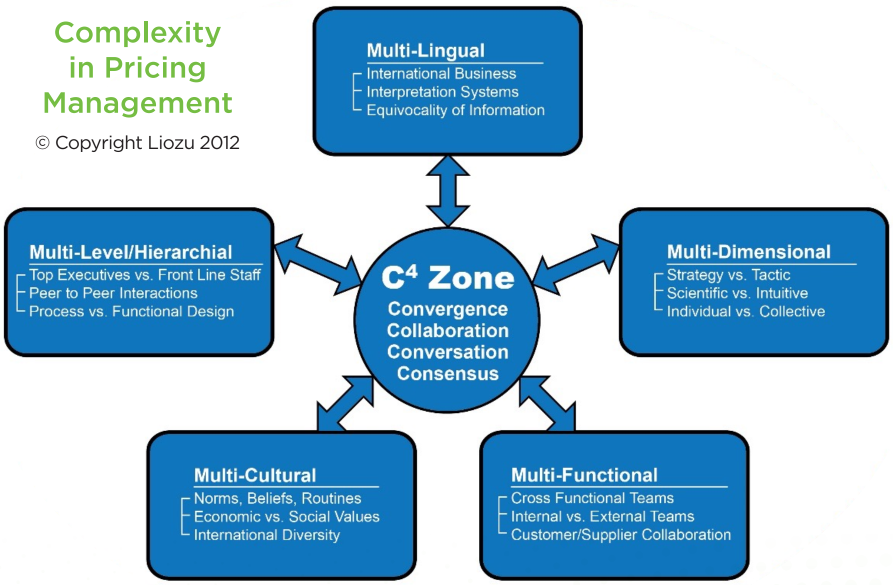
There is no denying that pricing is the most complex discipline in an organization. I put pricing in the same category as supply chain management and analytics. Why is that? When managed well, pricing is a dedicated function that intersects with multiple other functions. One can argue that pricing touches all departments and impacts some of the most critical organizational processes. In order to achieve or maintain pricing excellence, all functions must work together. And I really mean all functions! From supply chain to sales, to marketing, to accounting, and to customer success, teams need to converge, communicate, and collaborate in order to sustain their level of performance.

This is what I call the C4 zone in the following visual. In the visual, I try to map the level of complexity that pricing implies. Pricing is multi-functional, multi-cultural, multi-dimensional, multi-hierarchical, and multi-lingual when deployed globally. Put this in the perspective of a global pricing transformation, and you get the picture. It can be chaos if not managed by organizational experts.



Some of you may say that I am stating the obvious. I agree. But it is good from time to time to revisit this topic and not fall into the complexity trap. What I mean is that, while pricing is complex internally, customers do not care about our complexity and are asking for simple pricing strategies and models to integrate. There is no doubt that the last five years have made doing business very complicated. Most organizations face very challenging times and have had to make rapid changes to adapt.

Right now, the business world is changing at the speed of light. The digitization and globalization of business have transformed how business is conducted, how interactions are managed, and how business strategies are deployed locally and around the world. The end result of these mega-trends is an increase in competition, more sophisticated competitors and customers, and the emergence of complex problems.

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The questions then become: Are you ready to face more complexity? How good are you at managing complexity? Can you leverage this complexity to create differentiation and competitive advantage?

The Various Types of Complexity

Complexity can be simultaneously both good and bad. They are four types of complexity in business, and it is important to break them down to be able to understand them and eventually address them:

1) **Imposed complexity** is coming from regulations and mandatory compliance guidelines both at industry and governmental levels. It is typically not controllable and manageable, so it is best to prepare for it and find a way to minimize its impact on the business.

2) **Inherent complexity** is structural complexity that is inherited and well-rooted in the business. It can be addressed by making deep structural changes that might be painful but beneficial to the future of the business.

3) **Designed complexity** is based on the purposeful design of strategies and programs to support the long-term vision for the firm. This complexity is based on managerial choices aimed at creating a competitive advantage.

4) **Unnecessary complexity** is the result of legacy management design and structure that might not have been updated, eliminated, or refreshed. It is unnecessary because it brings no value to the business, and it exists solely because no one is paying attention to it.

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Pricing is not immune to increasing complexity. As a pricing leader of your organization and in the face of resource constraints, I highly recommend you start paying attention to these four types of complexity, assemble a process and team to review internal complexities, and engage in the design of strategies that will leverage complexity to bring differentiation to the market.

Here are some quick tips on how to do this:

1) **Design positive complexity to create differentiation**
That should be the main focus on your critical actions and priorities. Can you create complexity that differentiates your pricing strategies, your delivery of pricing to customers, your innovation in pricing, and your digital pricing tactics without overwhelming your customers? Can you create unique value selling propositions based on unique internal designs and systems?

2) **Quickly kill unnecessary complexity while reassigning resources and skills**
Unnecessary complexity might be inherited from legacy management designs or decisions. They might bring zero business value and need to be removed. Examples of unnecessary complexity include the thousands of pricing reports that are generated and never read, the endless pricing discussions that bring no value, the antiquated inter-company pricing mechanisms, and the analysis-paralysis mindset that delays business velocity. Be decisive and free up resources for something else.

3) **Transform internal complexity into simple value propositions**
Remember that internal complexity has to be transformed into simple offerings for customers. If, for example, you decide to propose structured pricing to your customers, do it by absorbing complexity and by offering both transparency in your pricing and also clear options on where to buy. Customers cannot shop around multiple places and find different products and pricing levels. Keep it simple stupid (KISS principle)!

4) **Focus on pockets of value-creating complexity for customers**
It is all about value. Complex designs have to bring value to customers. If they do not, they should not be implemented. As a leader, please make sure value is real and can be monetized through pricing. You might have the best supply chain management process, but will customers see the value in it and be willing to pay for some of the services?

5) **Assign your best talent to manage complex problems and initiatives**
The world is becoming increasingly complex. Solve

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complex pricing problems with the best thinkers and executors in your business. Complex problems need mindful problem-solving.

I will say it one more time. Your customers do not care about your complexity. They do not want to be on the receiving end of it. They have options and will clearly move on to another vendor. Satisfaction with a vendor's pricing is often a key differentiator for customers. Is it simple to understand? Can I get information in real-time? Are the sellers equipped with the latest and greatest pricing data? Can I get quotes in minutes instead of days? Investing in the right pricing technology can help manage complexity for simplicity. But do not forget the mindset as well!

Pricing Technology and Complexity

As the business world gets more complex, we respond by adding more complexity in our business as well. We create SKUs, launch innovations, penetrate new markets, and design new business models. With increased disruption, business complexity increases. The main issue is that, internally, we build complexity on top of complexity. Over time, it is not sustainable. Productivity starts to suffer as employees have to share their bandwidth with more and more activities and programs. We rarely take the time to clean up and remove all legacy processes and unwanted complexity. Of course, it is not easy to do. Everything is important or strategic. In the last ten years, the explosion of the software space responded to a need to reduce manual work and business complexity. This is the overarching benefit of investing in software solutions. These benefits are also relevant in the pricing space. From pricing analytics and CPQ to price optimization platforms, the pricing space is being transformed to accelerate business and commercial velocity and manage the complexity created by market disruption and innovation. There are concrete advantages of investing in pricing software to manage complexity.

YOUR CUSTOMERS DO NOT CARE ABOUT YOUR COMPLEXITY. THEY DO NOT WANT TO BE ON THE RECEIVING END OF IT. THEY HAVE OPTIONS AND WILL CLEARLY MOVE ON TO ANOTHER VENDOR. SATISFACTION WITH A VENDOR'S PRICING IS OFTEN A KEY DIFFERENTIATOR FOR CUSTOMERS.

1) **Manage millions of data points:** Of course, you can manage a lot of data in Excel. With the right analyst, you can get a lot accomplished using a less sophisticated platform. I do believe in the concept of bounded rationality. There is only so much the human brain can manage. There is a point after which algorithms and advanced analytics need to take over to accelerate analysis, leverage multi-dimensionality, and avoid manual errors.

2) **Automate the pricing and quoting process:** Quoting manually or sending quotes by email is no longer acceptable. The sales and quoting must be automated to respond to customers' increased need for speed. CPQ is the right technology to accelerate the response to customers' quotes and boost velocity.

3) **Remove manual intervention via process mapping:** A lot of the sales process is still managed manually. In fact, a 2021 paper published by ***Harvard Business Review*** (HBR, ***What's Your Sales Automation Strategy?*** by Doug J. Chung, Isabel Huber, Cuneyt Kayacan, Philipp Landauer,and Varun Sunku) reported that only 30% of the sales process is using technology and includes automation. With COVID and the emergence of virtual work environments, it is impossible to manage manual processes.

4) **Integrate all tech stack to increase velocity:** A fragmented technology stack combined with manual processes is a deadly combination. APIs and connectors must be used to integrate all systems smoothly. It is not unusual in large companies to have multiple ERP or CRM systems. It becomes a real challenge to deploy an advanced pricing system on top of this complexity. It can be done, but complexity in IT must be reduced to achieve business goals.

5) **Provide sales teams with one source of truth:** Multiple systems mean multiple sources of truth. It is amazing to see that salespeople can always get different numbers than finance or marketing. When systems are not connected or integrated, different reports circulate and/or manual integration must be done by analysts. This often happens in organizations where pricing is considered a black box.

6) **Provide the right price at the right time for the right product:** The future is all about micro-segmentation and personalization. This

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transformation started in B2C and with the use of AI in e-commerce platforms. Amazon is a good example of this sophistication with dynamic pricing tactics and a powerful recommendation engine. Industrial distributors have also had to adapt and embrace similar technologies.

Concluding Thoughts

IDC reports that businesses around the world are investing more than two trillion dollars per year in digital transformation and IT. This is a massive amount of money being invested into cloud, infrastructure, and software. Investments in pricing software are a small fraction of that (around $1 to $1.5 billion per year) highlighting the fact that there is a lot of potential to improve pricing power. A business investing heavily in digital transformation and not in pricing science and software is creating a big gap or roadblock in their go-to-market approach. Not having the pricing technology supporting sales and marketing slows down productivity, reduces sales velocity, and often frustrates customers. It is time to manage increased complexity with the right software stack. Pricing software is as important as supply chain and engineering software. It brings tremendous value to the organization, especially when it is combined with refreshed pricing process and pricing strategies. Doing things manually when complexity increases can lead to missed opportunities and human errors. Now is the time to invest!