// A PROFESSIONAL PRICING SOCIETY PUBLICATION //

The Journal of PROFESSIONAL PRICING

Volume 32 • Number 1

First Quarter 2023

PROFESSIONAL PPS PRICING SOCIETY™

THE WORLD'S LEADING ASSOCIATION DEDICATED TO PRICING MANAGEMENT

ENTERPRISE-READY

Commercial Excellence Platform

Intelligent negotiations.
Measurable value outcomes.

VENDAVO™

Vendavo powers the shift to digital business for the world's most demanding B2B companies, unlocking value, growing margin and accelerating revenue. With the **Vendavo Commercial Excellence platform**, companies develop dynamic customer insights and optimal pricing strategies that maximize margin, boost sales effectiveness and improve customer experience. With an annual margin improvement totaling more than $2.5 billion across companies in discrete manufacturing, wholesale / distribution, process manufacturing and aftermarket / spare parts, Vendavo delivers cutting-edge analytics and deep industry expertise that help companies stay one step ahead. Vendavo is headquartered in Denver, CO and has offices around the globe. **Learn more at Vendavo.com**

The Journal of Professional Pricing

The Journal of Professional Pricing™ is the world's leading quarterly publication dedicated to pricing management. If you have feedback regarding this publication or want to contribute an article, please email: editor@pricingsociety.com.

Editor: **Rebekah Wortman, PPS Marketing Publications Editor**

Publisher: **Kevin Mitchell, PPS President**

For all other inquiries, including subscription and PPS membership information, please contact us by:

contactus@pricingsociety.com +1.770.509.9933

Professional Pricing Society

3535 Roswell Rd., Suite 59
Marietta, GA 30062 USA

+1.770.509.9933

+1.770.509.1963

Info@PricingSociety.com

PricingSociety.com


HOLDEN
ADVISO
Price with confidence.
Defend your value.
Holden Advisors is a team of experts in pricing and sales performance development.
We help our clients identify their differentiating value, align their commercial organizations around those truths, and equip them to price and sell with greater confidence.
www.holdenadvisors.com

Pricing Through High Inflation

by Slobodan Farago

In an environment of entrenched inflation, those companies that can execute fast on price adjustments/increases will become the fittest to overcome the challenge. Reacting means already losing margins, and potentially even business and competitiveness. Managing in anticipation and swift execution are key to coping with an inflationary business environment. That said, price adjustments need to be fair, evidence-based, and transparent, and they need to be tuned to that level which allows for good competitiveness. This demands a high level of business agility, as the author explains. Slobodan Farago, Ph.D., MScM, CPP is Pricing Director at Sol-Millennium Medical Group in EMEA and can be reached at farago@bluewin.ch.

Before the recent inflation in 21/22 hit the global economy, most of the industrial world had enjoyed almost two decades of decent costs and price stability. This has created a whole generation of pricing folks that have excelled in dealing with many different aspects of pricing except the one that we are facing just now – adjusting prices to account for overly and broadly increasing costs.

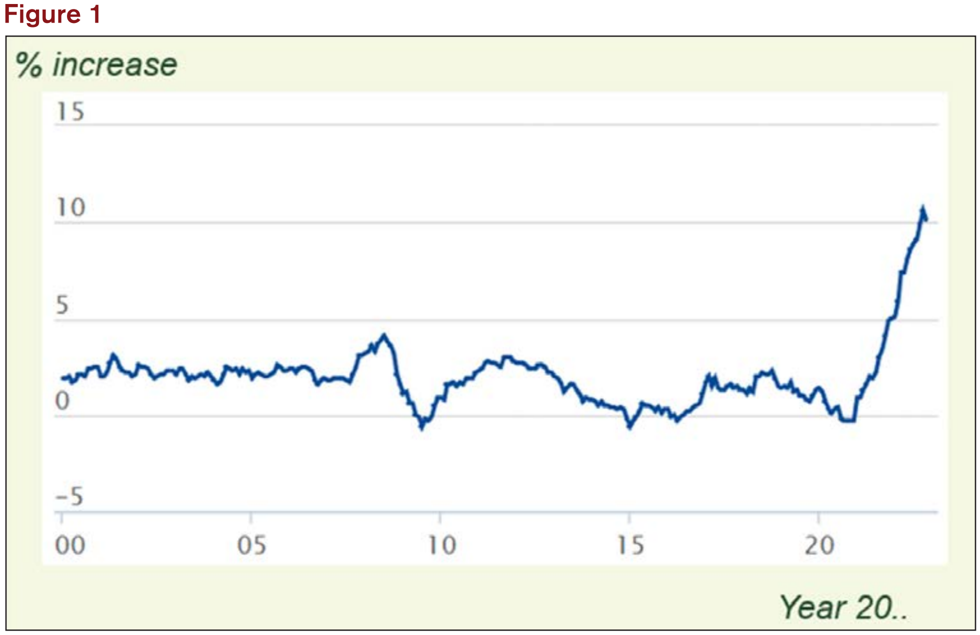
So, how will inflation change the markets and business, and what does it mean for pricing? The following article discusses some of the potential implications.

Different types of inflation

We all know that in a free-market economy, demand and supply will determine the price. This fundamental rule of pricing applies also during a period of inflation, and in fact, even defines price inflation when supply is disrupted or limited. See Figure 1.

Before the crisis in 2021/22, inflation in the industrial world was indeed very moderate, oscillating between 0-3%. This made planning and pricing quite reliable. As a result, in many situations costs of goods have often even decreased due to higher efficiencies achieved in sourcing, manufacturing, and transportation and due to higher volume demand/economies of scale - allowing for a regular supply of ever more affordable materials and goods at stable or even lower prices, cycle on cycle. At the same time, wages have gone up, unobtrusively, but constantly. Such moderate labor cost increases were often traded off with the economies of scale and through other optimizations related to volume manufacturing and supply, such as, for example, automation and digitalization. This positive balance of savings achieved gave room for even further price decreases which eventually occurred also as a result of the competitive dynamics. In sum, suppliers were still growing their businesses with good margins while at the same time benefitting customers and consumers with somewhat lower prices. In return, price stability allowed many businesses to further grow along with a higher willingness and ability to spend on value products. This positive development suddenly changed when a higher inflation hit, first in 2021, and then when it accelerated through 2022.

Figure 1



Inflation can have different root causes (Quantum Theory of Money - equation 1), and thus it may need to be addressed differently depending on the specific situation.

1) Temporary and limited inflation

Eventually, even over the past 20 years, we have seen here and there some short-term hikes in costs, quite limited in scope (e.g., affecting only a part of an industry or some specific materials), and often very temporary in nature.

In a competitive market, such temporary cost increases would usually not affect the prices as suppliers would not want to lose their market position based on a temporary cost development which may force them to reverse prices when costs soon after get back to previous levels. Often, sellers will swallow and absorb such short-term cost hikes to maintain their market and price position. When such cost hikes become irreversible, and if competitors are also affected, then this might be the opportunity for a market price adjustment. The profit requirements behind the affected products and services will usually define the need for and magnitude of such efforts. Further, the sellers' need to maintain a competitive position will also determine price adjustments. Usually, such price adjustments would be initiated and led by the market leader. See Figure 2.

ers. Hence, in a market where demand has not changed significantly from before, but money became more abundant (and hence the value of money became cheaper), and where supply became limited, prices went up.

In such a sensitive economic environment, not much more is needed to entrench the problem. For example, the crisis in Ukraine has had a significant impact on the energy markets. Energy affects almost every part of our lives as well as almost every part of the economy, such as extraction, transportation, manufacturing, etc. With this added strain, eventually, a broad range of goods and services will be also affected. Their costs will go up.

Figure 2: Quantity Theory of Money (mainstream) – Inflation as a consequence of money supply and velocity

$$\text{Aggregated Price Level} = \frac{\text{Money Supply x Velocity of Money}}{\text{Aggregated Volume of Transactions}}$$

2) Entrenched inflation

Different from temporary inflation is entrenched and broad high inflation. For it to occur across economies, a trigger of a broader spatiotemporal significance is needed. Such can be a regional or a global crisis, like the recent COVID-19 pandemic, a natural disaster of broader significance, a financial crisis that shakes the global economy, a war that impacts or disrupts global supply, or political (e.g. sanctions) and economic tensions (e.g. trade embargoes), which may also affect the overall global supply of critical goods.

Indeed, the COVID pandemic has shifted the equation of supply and demand significantly and in several ways. First, supply chains were massively disrupted, leading to a shortage of products and services. Secondly, governments had to provide financial support during the various lockdowns to cope with the spread of the disease, and in consequence, they expanded their monetary base.

Expansion of money alone would not have forcibly led to inflation, as debt can be reduced over a longer period of time. But in combination with limited goods, the two factors together caused a surge in prices. Prices will usually go up when customers begin to compete for limited supply. Conversely, they tend to go down when supply competes for the customers. Hence, in a market where demand has not changed significantly from before, but money became more abundant (and hence the value of money became cheaper), and where supply became limited, prices went up.

A persistent surge in costs will at some point have to be passed on to customers should suppliers be able to continue to operate profitably. And that means mostly higher prices for the broad consumer population. In consequence, wages and pensions will eventually need to be raised to allow workers, pensioners, and low-income households to cope with the higher cost of living.

The adjustment of wages and pensions to account for some of the inflation indeed marks a turning point from temporary to entrenched inflation. Because labor costs constitute a significant part of the equation in any process of an economy, it can be expected that an increase in labor costs will add to further and future increases in costs across a broad range of products and services. And so, the wages-price spiral will continue to fuel more cycles of inflation.

Besides that, once wages and pensions have been raised, the new prices will become the accepted benchmarks, as it cannot be assumed that wages and pensions will ever come down again, even not once a crisis is over. A new equilibrium will eventually settle in. For entrenched inflation to ebb away, it usually takes a few cycles (years) of hiking costs and prices combined with rising wages.

The new equilibrium with zero or moderate inflation (0-3%) will not come by itself. Central banks need to carefully manage and balance money supply. Much of it depends on whether or not the underlying crisis that caused the problem in first place will go away and if more problems arise that may hamper the effort.

There are different ways to manage inflation, but the possibilities are limited and always painful. They depend mostly on the very specific economic situation of a country. In the UK, for example, the government has refused to raise wages for public services with the consequence that workers have taken industrial actions. The US has raised interest rates making borrowing more expensive, etc.

Is the 21/22 inflation over?

The impacts of COVID-19 on global economies are easing. Supply is coming back to normal. Transportation costs have fallen back to pre-inflation levels, and the energy crisis – an additional impact of the Ukraine conflict – is turning out to be less expressive than originally anticipated.

Further, central banks have taken measures to fight inflation. All this may indicate that inflation will ebb away at some point, and it probably will. The question of how long it will take for it to reach acceptable levels will mostly depend on the third factor, which is labor costs.

An inflation rate of 10% means that consumers are left 10% poorer if their wages are not adjusted. For pensioners and those already at the edge with their living costs, an increase in pensions or salaries could be unavoidable. Moreover, in a labor-drained market, as we observe it in many industrial economies today, and under inflationary pressure, it is difficult to believe that the amount on the paycheck will not make a difference to attract or retain talent. Employers may have to compete for workers by providing even more competitive salaries. As outlined above, a wage-price spiral might be the consequence. Hence, the answer is, we should hope inflation will ebb away soon, but we should not take it for granted that it will be very soon. See Figure 3.

The Impact of an Entrenched Inflation on the Market

Going through a period of entrenched inflation, one of the main questions is, how is that impacting the markets and how can we expect those markets to respond?

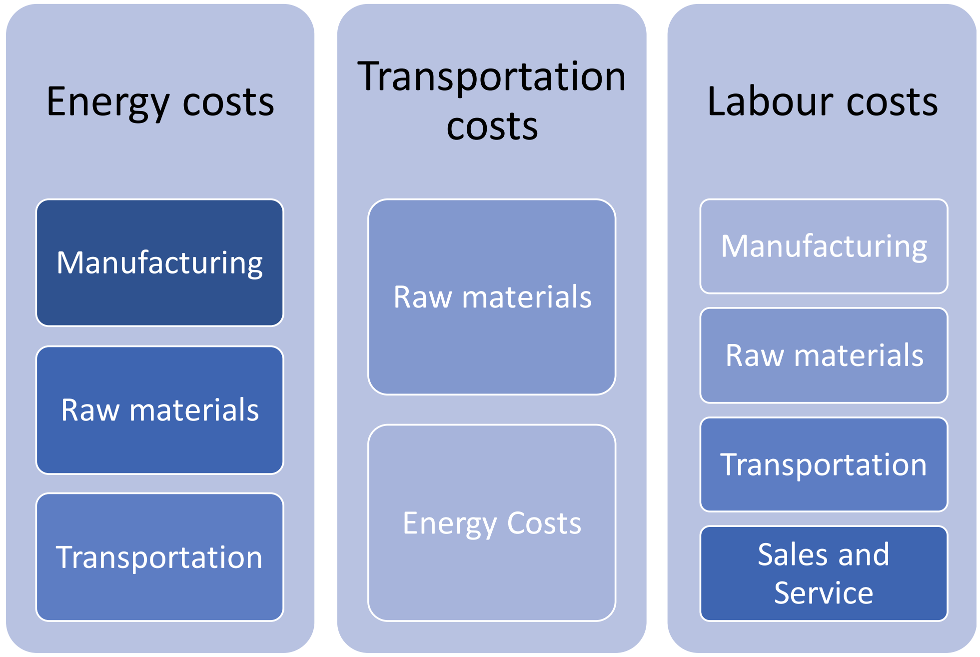
One answer is that there will be a shift towards essential needs as the purchasing power of consumers will become smaller. This is usually expected even if wages and budgets are increased as they will rarely be increased to fully account for inflation.

Essential products and services that cannot be deleted from the shopping list will be the ones where price increases will be easiest to implement. Nice-to-haves and value-adding products may still be purchased if budgets can accommodate for those, but with reduced purchasing power overall, it is likely that they won't enjoy focus and priority for the majority of customers. In other words, there might be less eating out and more home cooking. What applies to private households will apply to businesses as well.

Further, as necessities are often commoditized goods, and their margins are usually low, the impact of energy, transportation, and labor on their costs may also turn disproportionally higher than for higher-value products which often better absorb cost increases. Hence, prices of commoditized products may experience higher hikes. That may disrupt the value propositions of value-adding products. Unless they provide immediate economic benefits and savings, value-adding products may be indeed parked or de-prioritized at large. That said, purchasing of some high-value or value-preserving goods might be less affected than others, or even experience temporarily higher sales as those consumers who can afford them may even see them as an investment (buy cheaper now as tomorrow it may cost more). This may apply to high-end niche products such as expensive watches and jewelry, luxury cars, real estate, or art.

If the supply of essential goods is also becoming limited, the market may shift its focus from price to supply reliability, even if a product gets more and more expensive.

Figure 3: The major drivers of inflation



By this, price and supply reliability, the two major focus areas of procurement, may change priorities. If supply is abundant, the primary focus is on getting a good price. If supply is, however, limited and not guaranteed, pricing will come second. That opens room for higher pricing in re-negotiations of essential goods, where customers may accept a price premium for a more reliable supply in return.

For example, a limited supply may cause customers to stick with their current suppliers, because having a long-run relationship with a supplier can make a difference in getting access to the necessary goods and services. Switching to a new supplier in a supply-drained environment will mean the customer potentially queuing up at the end of a new line. Such an action bears significant risks. Even if prices might be more favorable with a different supplier than the one who has been supplying to date, customers may choose not to switch.

Another issue for businesses is cash flow. Where customers will also need to reprice their goods and services and pass cost increases to their customers, they first will need to swallow higher prices from their suppliers. The time between paying more before charging more will affect the cash flow. If cost increases are significant, margins are small, and the time to realize price increases is long, these factors may have a potentially negative impact on solvency. In such a situation, plenty of anticipation and risk adjustment is needed. Building a case for price increases on retrospective and past evidence may not work any longer. One may need to start thinking in scenarios of how to get ahead of the game, eventually also taking their suppliers and customers along on that journey of thought. Strategic partnerships will be crucial for overcoming such a difficult situation. Overall, anticipation and risk management, while necessary, may further fuel inflation as additional premiums might need to be baked into the price.

How will Inflation Affect Sales Activities?

Market focus shifting means a change in sales activities. It is likely that there will be less push for new products and innovations. Instead, more focus will be given to the existing business, managing difficult supply situations, negotiating price adjustments, documenting the justifications for price increases and communicating these changes to customers, shaping agreements to account for price adjustments and other terms to reduce business risks, etc. The focus of sales on introducing new products and driving adoption of value with customers will yield some ground to those activities.

In a business environment where supply is potentially limited, uncertain, or at risk to become unprofitable, management focus will need to shift from top to bottom line. Such re-shifting of priorities will also affect the incentives provided to sales. Growing on volume is only seen as good when the required profitability can be maintained. An increase in costs will eventually erode profits, and a significant increase in costs may even make a business unprofitable. Selling more unprofitable products may accelerate the problem dramatically. Hence, in an inflationary environment, the primary growth in revenues will have to come first from price and only secondarily from volume. Volume growth can be pursued, but only if margins can be maintained. That new focus and mindset need to be set by the management with new sales incentive plans with profitability and price in focus.

Another important refocusing of sales facing an inflationary business environment is on initiating and managing strategic relationships with customers. First, by engaging with customers to understand the situation, second, by implementing new terms and conditions for sustainable supply as well as for price adjustments, and third, by changing procurement focus from price to supply reliability, establishing processes to share important information early on, such as forecasts.

Such refocusing of sales activities can become a substantial change management task as different sales skills from those usually needed in regular, non-inflationary times are required. Reinforcing sales teams with such new skills might be needed.

The New Role for Pricing

Any company that maintains a pricing department and that has been applying an annual price adjustment process knows that this is one of the heaviest processes an organization can have. The reason is that price adjustment decisions affect almost every part of a business, starting with sales teams that need to source relevant pricing information, and also ending with sales by implementing new prices with the customers. In the middle of the process, marketing needs to ensure value structures are maintained and product strategies can be executed. Procurement and operations need to provide price adjustment evidence and communication details to support case-building and negotiations. Finance will have to make sure profitability and transfer pricing requirements are provided for and balanced accordingly, and that the new prices are reflected in budgets and projections. Customer service will need to change the new prices in the systems for execution, etc.

Businesses with a price adjustment process will usually start such an initiative 6-9 months before new prices are implemented beginning with the underlying analysis and proposals, often undertaken by pricing, which may also be leading the process by coordinating and mediating between the marketing, sales, and finance functions.

For organizations that already maintain a price adjustment process, things may play out easier these days than over the years before because they have already gone through cycles of optimizations and adoptions. Others may have even software in place that would support such activities through simulations and systemic alignment. These types of platforms are most helpful if supplying companies distribute thousands of line items and services in multiple markets on a global scale.

Price adjustments will need to be implemented by market and eventually also by product group or even at the line-item level. Not every market has the same inflation nor the same competition dynamics, and not every product group will experience the same cost increases. The differences can be significant, and so need to be the price adjustments applied.

A balance needs to be pursued between the complexity of communicating price increases to customers and the level of necessary distinctions that need to be made. Any evidence provided needs to be solid and digestible. For example, a flat inflationary price increase might be easy to communicate, but it may make certain products look disproportionally expensive compared to the competition or to other benchmarks of the portfolio. This could cause unnecessary losses. Further, certain markets may get a higher price increase than others, which may change the price structure in a region and induce parallel imports, etc. There are many aspects that have to be taken into consideration in order to bring an organization behind price adjustments.

Another complexity is with multiyear contracts. Occasionally, such contracts will not account for price adjustments, or if they do, they will be often capped or tied to certain indicators. They may only allow for price increases at defined times of the calendar. Companies that maintain a contract management system that allows for retrieving information according to such terms and conditions may benefit enormously these days from such an investment. Those without a system in place might be overstretched by reading through hundreds, if not thousands, of contracts just to identify the actionable ones.

Where it is discussed that price adjustments in a high inflation environment may have to occur more frequently than just annually, quarterly, or even monthly, it becomes obvious that for many suppliers without proper systems and processes in place, such adjustments could be an overwhelming and unmanageable task.

Thus, the role of pricing will also need to shift towards supporting the organization more on the establishment and execution of the price adjustment process. Where companies had maintained pricing before as part of marketing (strategic pricing), in supporting, for example, new product pricing, or as part of sales by supporting deal

For organizations that already maintain a price adjustment process, things may play out easier these days than over the years before because they have already gone through cycles of optimizations and adoptions.

desk activities, or as part of the finance function in price setting or price governance activities (operational pricing), the new role of pricing may transition more to a project or process management role of continuous price adjustment support across the whole organization. This would also ask for new skills such as project management, process engineering, system implementation, advanced analytics, and last but not least, change management skills.

Conclusions

In an environment of entrenched inflation, those companies that can execute fast on price adjustments/increases will become the fittest to overcome the challenge. Reacting means already losing margins, and potentially even business and competitiveness. Managing in anticipation and swift execution are key to coping with an inflationary business environment. That said, price adjustments need to be fair, evidence-based, and transparent, and they need to be tuned to that level which allows for good competitiveness. This demands a high level of business agility.

In support of this business agility, efficient systems and processes will be needed to quickly respond to changes in costs and the overall business environment. Terms and conditions of contracts need to account for regular price adjustments, and customers need to be convinced to accept those and refocus their attention from pricing to supply reliability. For all this, customers need to be engaged in strategic partnerships. Transparency, exchange of information between supplier and customer (and vice versa), and efficient communication links need to be established in support.

In times of entrenched inflation, where agility is needed, there is a good chance for pricing to emerge as an own, independent function and discipline within an organization whose activities would go beyond the usual marketing, finance, and sales support. Such a new role would be put in charge of driving and owning the continuous price adjustment process, including the execution of the related pricing strategy, pricing analytics, assembling supporting documentation and data, leading negotiations and communications, and mediating between the functions. Further tasks would be maintaining prices in the various systems as well as providing pricing performance monitoring and price impact simulations.

Such a new pricing department would need to be initiated and established high up within an organization with a strong mandate from the board to lead and direct the pricing process across the businesses and different functions. ❖

Best Practices in Developing Training Programs to Boost Pricing Execution

by Stephan Liozu, Ph.D.

In this article, the author presents a roadmap and critical steps for implementing effective and impactful price education training in your organization. Stephan M. Liozu, Ph.D. (sliozu@gmail.com), is the Founder of Value Innoruption Advisors, a consulting boutique specialized in value-based pricing, industrial pricing, digital and subscription-based pricing. He is also a Research Fellow at the Case Western Research University Weatherhead School of Management. He is a Certified Pricing Professional (CPP), a Prosci® certified Change Manager, a certified Price-to-Win instructor, and a Strategyzer Business Model Innovation Coach. He has authored seven books: "The Industrial Subscription Economy" (2022), "Pricing: The New CEO Imperative" (2021), "B2G Pricing" (2020), "Monetizing Data" (2018), "Value Mindset" (2017), "Dollarizing Differentiation Value" (2016), "The Pricing Journey" (2015), and "Pricing and Human Capital" (2015). Stephan sits on the Advisory Board of the Professional Pricing Society. He is a Strategic Advisor at DecisionLink and Monetize360 and a Senior Advisor at BCG.

The development of people skills through a thorough training plan is essential to proper pricing execution. Whether we are discussing the deployment of a tool, the assimilation of a new pricing method, or a large-scale pricing execution program, pricing training is the engine of the pricing transformation. Training is how we establish a growth mindset in the organization and tap the potential of people when embracing pricing activities. It is how we impart the organization's new vision, objectives, concepts, approaches, and tools to each rank-and-file employee, each team, and each executive throughout the business. Your company deserves this investment in dedicated training.

At the same time, how do we distill and pass along best practices for pricing training when every business is different? Differences in scope, culture, and market mean that every pricing training program requires customization. Meeting that challenge is not easy, but it brings great rewards when you meet or exceed your pricing-implementation targets. You will have more dedicated, aligned, productive employees who see that you've invested in their futures.

Despite – or perhaps because of – this demand for customized training, we have developed a list of training best practices that can help you achieve the results that your team and organization expect and deserve. These lessons are based on a career of initiating pricing and value transformations, coaching people in organizations across the world, and helping them take advantage of new tools and ideas (as well as harnessing the ones they already have access to).

The goal is to train and retrain, constantly checking in with the individuals to reinforce the values of the challenging work done in the original training. Remember that the point of a pricing transformation is to better ourselves and our performance, individually and as an organization.

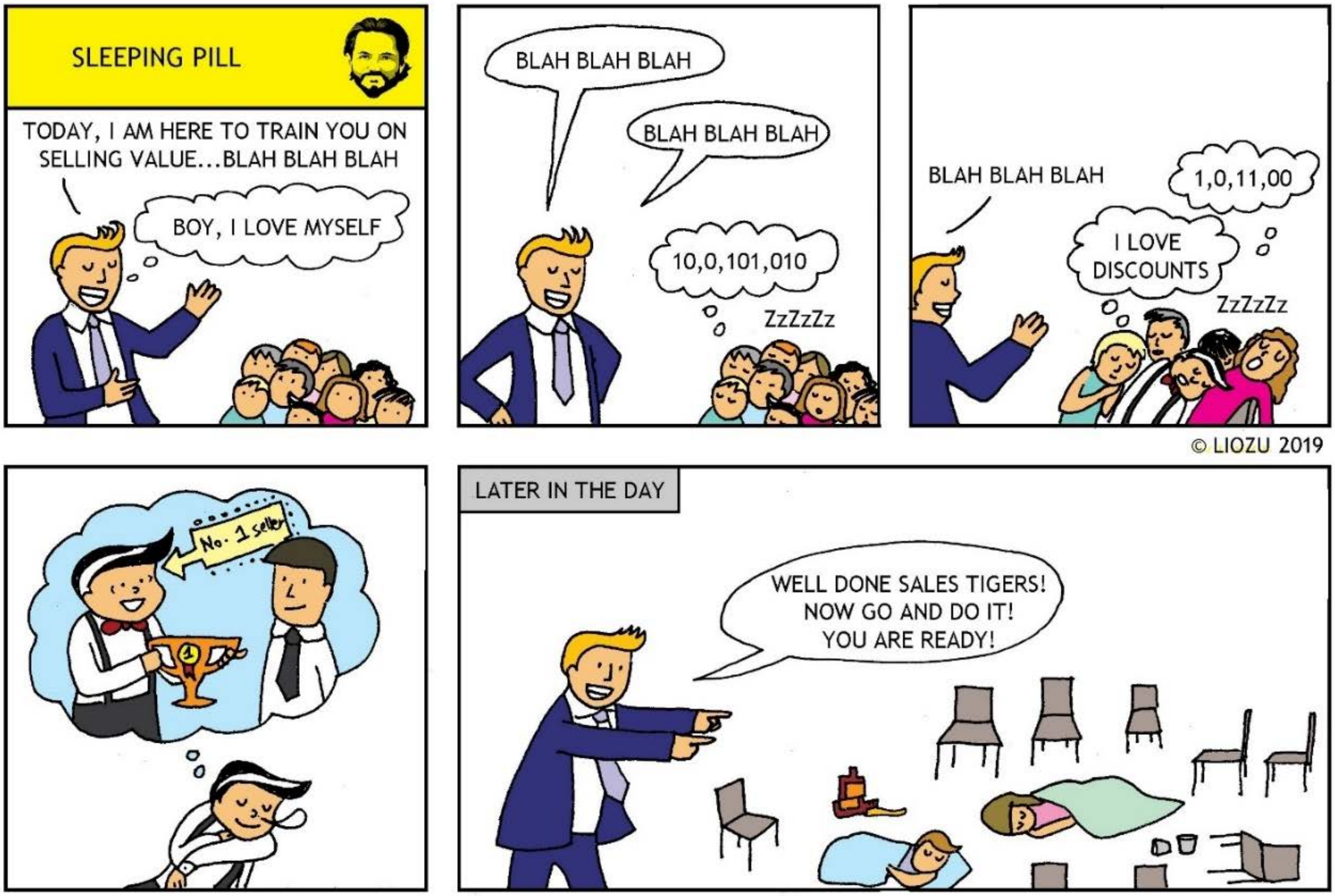
Step 1: Rethink How Pricing Training Works

Let us be realistic about the scope here. We will be training many different people on many different things. This cannot occur overnight, nor can it occur using conventional methods. The best-practice model we will use instead is a total re-design of the traditional lecture-class approach. We must stop carpet-bombing people with information then releasing them back to their own devices to sink or swim. Feedback and follow-up are critical.

Instead of relying on day-long boring and hypnotizing lectures or a PowerPoint overdose, a formal training session is only the beginning. Training should take place over a period of three to six months or even a year, during which time we will collect multiple data points and have multiple contacts with each trainee to reinforce the execution and full assimilation of concepts. Training never ends, just as the pricing transformation never ends. The roadmap needs to account for many touchpoints of reinforcement. New people will come and go in your organization, requiring frequent training blitzes.

Step 2: Plan and Create a Roadmap

Over time and on a regular schedule, the trainer must be in contact with the trainees. To ensure that you stay on schedule, first design a rough draft with a timeline for your training. Then, create a list of touchpoints based on the deployment and execution plan. Before you attempt to merge these tools into a roadmap, create



a template or a document for this roadmap in simple spreadsheet software. List the weeks along the top and the touch points along the side.

To produce the time plan, begin by listing things like in-house obligations that can help you define available time. You will need to account for webinars, monthly meetings, weekly sales calls, email blasts, text campaigns, daily reminders, and so forth. With these in mind, you can map out when the training (and the transformation steps) can occur. This will help you set a timeline for how long the training process will take and what formats you might follow.

The touchpoints for follow-up will reinforce the initial pricing training content. The number of touchpoints is important: the more, the better. You are not trying to minimize or optimize the number of touchpoints right now. The objective is to make the content stick. Saturation and the constant backing up of this knowledge are crucial.

I recommend having **10 touchpoints with each trainee** in a space of three to six weeks after the original presentation of the material. This is much stronger reinforcement than what you achieve over the span of two hours at a conference or a national sales meeting, for example. You might ask why 10 touchpoints. Well, it is quite simple: repetition, repetition, and more repetition. Since you are dealing with super busy professionals who have been in business for quite a while, they might be distracted and forget the content of the training. In fact, after 31 days they might only retain 20% of what they learned, as shown in Figure 1 on the next page. So, you repeat to retain.

The 10 touchpoints are spaced in a way that allows for memorization and assimilation into the knowledge bank, as shown below. You fight the forgetting curve and move assimilation upwards after the fourth reminder. When you get to the tenth touchpoint, you can assume the knowledge is assimilated. See Figure 2 on the next page.

There is a difference between plain repetition and spaced repetition. And that difference can make or break your overall goal is transforming the mindset.

"Spaced repetition…[is] extraordinarily efficient. In a four-month period, practicing for 30 minutes a day, you can expect to learn and retain 3600 flashcards with 90 to 95 percent accuracy. These flashcards can teach you an alphabet, vocabulary, grammar, and even pronunciation. And they can do it without becoming tedious because they're always challenging enough to remain interesting and fun." (Fluent Forever: How to Learn Any Language and Never Forget It, Gabriel Wyner)

To keep these 10 touchpoints from becoming a monotonous burden, you should include a mix of delivery methods in your roadmap, including virtual and in-person methods as well as hybrid forms. Watch a video in a classroom, then get out of your seats and complete an exercise based on the information presented. You may also have multiple trainers connecting to a single platform, using their different coaching skills in a single setting. You can use something as simple as a phone call plus an accompanying video.

No matter how you perform the task, the key to absorption is to engage trainees over the space of three to six months. Use all available technologies at your disposal and be creative. Focus on the critical aspects of your pricing-execution plan. If three or four key pricing tactics need to be changed or introduced, they will be the heart of the training program and will need to be repeated multiple times.

Figure 1

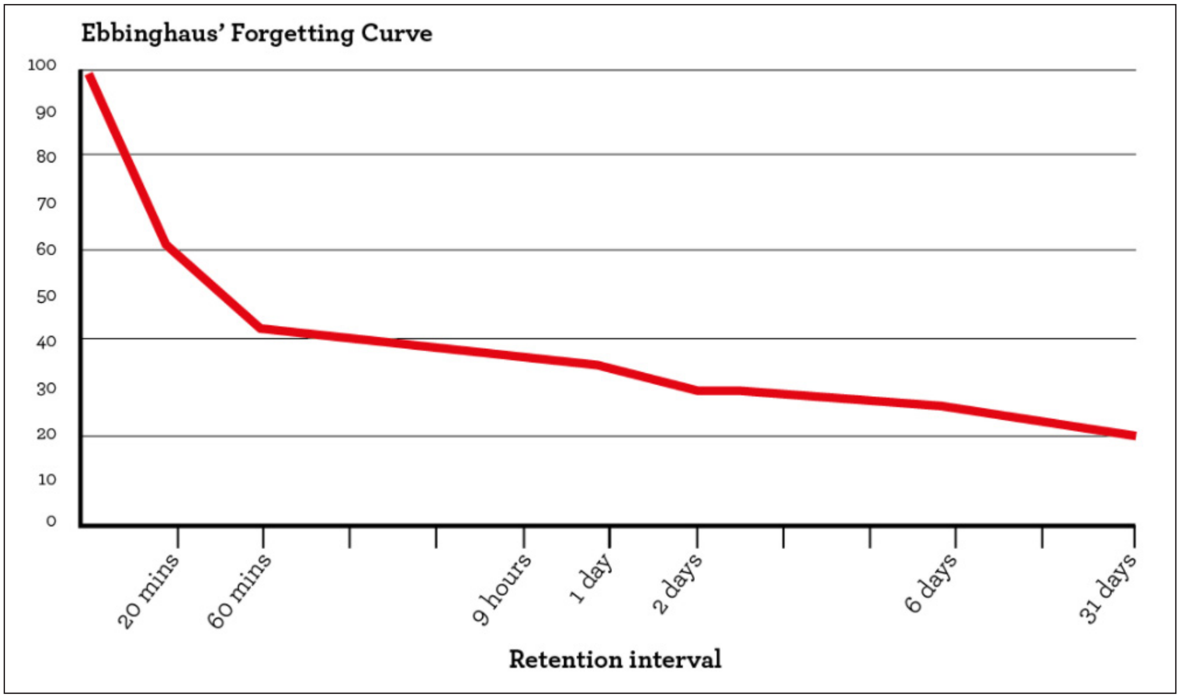
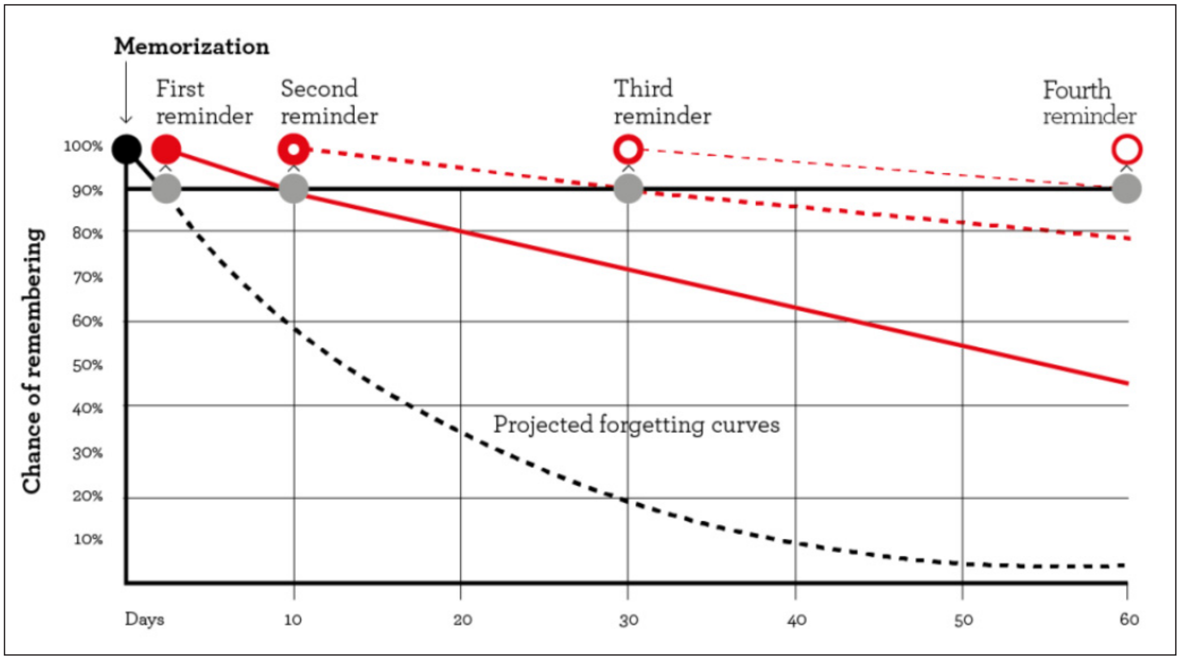


Figure 2



Source: The Spacing Effect: How to Improve Learning and Maximize Retention - Farnam Street

Step 3: Get the Blend of Methods Right

Flexibility is essential to finding the right blend of methods for successful pricing-transformation training. With today's ever-increasing levels of technology and globalization, you cannot expect to have all the people you need in a room whenever you need them. In fact, apart from an initial meeting, it may be logistically impossible to get the entire group together again. You have no choice but to find alternative approaches.

We must diversify and be flexible in our delivery methods. As their pricing coach and leader, you must be in contact with them any way you can and avoid using technology or timing as an excuse. Whatever the method, proper use of time is essential to achieving the maximum number of touchpoints in the amount of time provided.

Think beyond traditional methods and look for openings in people's schedules. Take advantage of something as simple as a layover between flights for a quick trainer call. Or you can record podcasts for trainees to listen to while commuting. Take advantage of local team meetings or gatherings to hold peer discussions on value. There are many options to weigh and leverage without having to wait for a conventional two-hour meeting when they are in town or trying to wedge a full-day workshop into people's busy lives.

You also need to vary the style and voice of your follow-ups. This is another reason we need to have several people involved as leaders, coaches, and trainers. You cannot have the same person giving the entire training over a period of months. People need variety to maintain focus and absorb information. Here you can look at internal options first. There is no reason every level cannot participate, from the CEO down to the trainees' peers.

We are using the available time of all these opinion leaders to ensure that we deliver the messages consistently. You can use an external coach or trainer to deliver the initial message or concept, but the best follow-up is constant reinforcement from within the organization. Include managers, some coaches, executives, value experts, direct supervisors, and peers. Peers should not be just any peers; they should be value leaders themselves, well versed in your value message, and will have ideally performed a similar task in a previous job. These individuals are perfect for delivering messages and training.

You might be surprised by the number of people in your organization who are already pricing and value experts and who are willing to function as an energizing force to support your execution efforts! In any organization, there are always several people who have received recognition for "best in class" training at some point in their lives. These individuals are everywhere, and their value experience can offer you a massive boost in training other employees. Even better, they are often eager to assist and spread their positive attitude. This is highly valuable when motivating others to commit to a plan and targets. Identifying these individuals early in the planning process is important. Often you only need to ask a few simple direct questions to discover whether a candidate has any such experience.

One unbeatable advantage these peers can have is their ability to tell a story about their previous pricing successes. They can share the pragmatic pains and gains of their own journey. Storytelling is in vogue as a training approach, and it should be an important form of training in any extensive, broad-based program. The stories these individuals can share about their individual transformation will add an individualized touch to the journey. It gives their peers something to identify with and commit to. It gives them hope that it can be done. Hope, in turn, brings confidence to act. If you have all of these value managers eager to share their stories, why not use them to your advantage?

Storytelling and training approaches do not always need to come from within, though. To supplement your own pricing and value leaders, you can get creative here as well. Retired executives, professional athletes, coaches, military veterans, and even your own customers and suppliers can add invaluable insights to the content you want to convey and do so in a way that no classroom teacher ever could.

Retired executives, professional athletes, coaches, military veterans, and even your own customers and suppliers can add invaluable insights to the content you want to convey and do so in a way that no classroom teacher ever could.

You can also use online resources and platforms to supplement your own approaches and stories. Online cloud platforms can encourage ad-hoc interaction, which can be valuable far beyond your planned training. They offer file and slide sharing so that colleagues can interact and offer each other advice and feedback. These platforms can also connect them with their trainers and coaches. We cannot capture these touchpoints in our roadmap in advance because they are spontaneous and help new internal networks grow organically.

You can also tap into websites with reinforcement training. One such site is Khan Academy, a non-profit educational organization created in 2006 by educator Salman Khan with the goal of creating an accessible place for people to learn. The organization produces short lectures on a broad range of topics in the form of YouTube videos. The website also includes supplementary practice exercises and tools for educators. This is just one example of a tool that could be set up internally to add extra touchpoints.

Step 4: Work to Help Each Individual Absorb the Material

Think about how you might help your kids when they are doing their homework, or how teachers are trained to differentiate between students of varying abilities. They must deliver the same subject, and the same topic, but must work harder with some students to make sure they absorb the material. They figure out a blend of techniques over time with concepts that resonate best with each individual student. They must make the material relevant and interesting.

Why should the business world be any different?

Getting an organization of diverse individuals to absorb the same ideas is challenging, but possible. Everyone learns differently, and each may be captivated by different things. They may even have different capacities to process information, sometimes referred to in academia as "absorptive capacity." We want to transform peoples' mindsets and get them into "transformational change" mode. Begin simply and increase complexity over time. You do not want to overwhelm them with too much work initially. We want to ensure that the knowledge they are getting sticks, and there are proven and universal best practices on which we can capitalize. Here is a basic approach to concepts and application:

- **Begin with a 50/50 mix:** In the first wave, present 50 percent exercises and 50 percent concepts. The concepts should be delivered like emails, tips, small items to read, training, and ideas.

- **Aim later for an 80/20 mix:** As you progress in the pricing execution, 80 percent will be exercises and 20 percent will be concepts. This depends on the project, of course!

- **Continue with 100 percent coaching for reinforcement over time, especially focusing on those who are** a bit behind.**

- **Keep it relevant:** Deliver concepts that are relevant to people's daily work and not theoretical. This is one of the most important filters you have. Focus on your key goals and objectives.

- **Experiment:** One effective exercise is speed roleplaying, where you give the audience a little exercise and within five minutes, they must roleplay it.

- **Play and test:** Have the trainees roleplay using the pricing tools. These skills will be directly transferrable and critical to reinforce.

- **Help people feel comfortable:** During roleplay exercises, no supervisors should be in the room with subordinates. The idea is to create a comfort zone.

- **Have fun:** You cannot be serious or intense all the time.

The point of these exercises is to create confidence in the processes, in the new pricing tools, and between colleagues. We even had a stomach-bump competition in one program. We set up a jury and awarded prizes to the winners. This event had nothing to do with value, but it allowed the participants to bond and relax. You cannot expect to keep the trainees serious and under pressure. You want them to want to be there!

Even with this approach, you can still lose your trainees if your priority is to stick to an agenda. You must be agile and flexible. When leading pricing training and finding that something works well, I adjust the tempo and agenda to encompass more of this successful aspect. If something is not working, I change the agenda, delay some points, or even cancel a section if necessary. The priority should be group flow and collective confidence instead of sticking to the agenda and trainer's ratings.

At the end of the day, collaboration and cooperation keep interest alive and speed absorption. This applies to the team as well as to the coach with the group. Having that intimacy and that bond is much more important than religiously following an agenda. You are building lasting confidence and a sense of trust. Your agility in setting up these training programs and in modifying them reinforces that you are focused on the trainees and their welfare and progress, not on your agenda. Remember that executing pricing programs requires collective confidence and collective action. Do not leave anyone behind!

Summarizing the Training Best Practices for Pricing Execution

Let us review the best practices for training to superior pricing execution:

- **Plan on at least 10 touchpoints:** Conventional classroom instruction is not sufficient, and face-to-face follow-up is often impractical in our global world. You must stay connected, and the more frequent the connection, the better.

- **Mix delivery methods:** Transmit your methods virtually, physically, or as a hybrid.

- **Mix up your training environment:** Training can occur in a classroom, in the field, at home, or even in the car.

- **Use your pricing and business leaders:** The person reinforcing the message can be a manager, coach, team leader, or peer. Each may have a success story to tell.

- **Account for different absorption levels:** Some learn best from seeing; others from reading, doing, listening, or taking actions.

- **Trainers and coaches must energize the troops. Energy and positive levels must be significant and genuine. They should feel exhausted at the end of each day.**

With that said, it is time for our own finishing touchpoint for this chapter. The key point from this section is that training is now about delivering knowledge: a vigorous, never-ending exchange among multiple trainees and trainers. Because your goal is to get things done and execute well, your priority is to increase your team's absorptive capacity. The faster you can get to this point, the greater your pricing execution level will be. So, it is not about conventional lectures and workshops. Training is a continual commitment, and there is no longer time for excuses.

You will get out of the pricing execution plan what you put into it. We are doing a lot of rewiring, not only creating new connections for these individuals but rewiring their brains to make sure they have the confidence and the will to execute what we want them to do. We are systemically altering belief systems and instilling a mindset based on growth. We are building their confidence and giving them a platform for success. Success stories are essential, from peers, from people who have done it, and from the organization's application of their new knowledge, tools, and techniques.

We must all increase the openness of everyone in the organization, urge them to commit, pique their interest, get things done and sustain the transformation. Getting 100 percent success in pricing execution requires all the things we have touched on in this article. It is not business as usual. You will need to collaborate with your leadership development team and your learning organization and add your own touch to make it a differentiated learning plan. ❖


HORVÁTH
Optimize pricing
Improve earnings
Maximize profit
During these challenging times, HORVÁTH brings innovative, leading practice solutions to help you solve your pricing problems
Learn more about our pricing approach at horvath-partners.com

Excerpt from 'Digital Pricing: A Guide to Strategic Pricing for the Digital Economy'

by Frank Frohmann

This article is an excerpt from the author's successful pricing book - "Digital Pricing: A Guide to Strategic Pricing for the Digital Economy" – the second edition of which has recently been released in English and is [now available for purchase](). The excerpt focuses on how digitization influences all aspects of price management, enabling new business models, additional revenue streams, greater integration of customers into business processes, innovative price models, and more. Frank Frohmann is a Senior Advisor at GT Partners, a European management consulting firm, and a seasoned pricing professional with more than 25 years of experience. He can be reached at Frank@frohmann.onmicrosoft.com.

Introduction: Digitization and Pricing

The potential for price optimization has increased exponentially in recent years due to digitization. Digitization enables new business models, additional revenue streams, greater integration of customers into business processes, innovative price models, etc. It influences all aspects of price management and enables innovation across the individual stages of the pricing process.

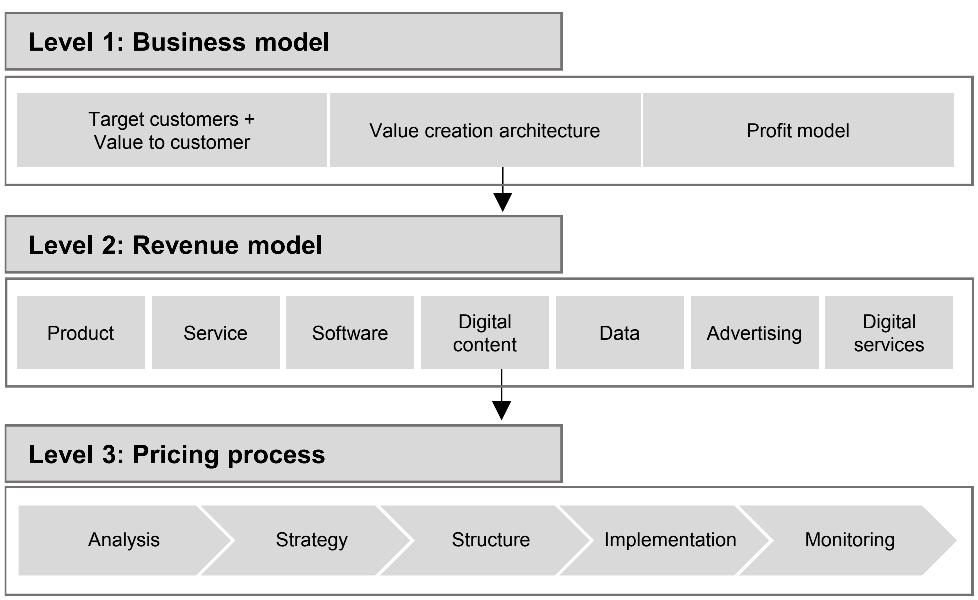
However, the enormous opportunities of digitization for price management have not yet been comprehensively covered in corporate practice. This is very surprising against the background of the following contexts:

1. The characteristics of digital offerings lead to specific pricing challenges. Information goods offer outstanding potentials for price optimization.
2. The enormous dynamics in digital business models, revenue sources and the resulting price models are significantly broadening the spectrum of pricing.
3. Digitization offers a wide range of opportunities, especially in terms of dynamic pricing, price differentiation as well as revenue and price models.
4. Generating new revenue opportunities is critical to success in order to amortize the extensive investments in digitization.
5. Pricing must play a much more important role in corporate processes. This is because price optimization is preceded by important business decisions: firstly, the definition of revenue sources (revenue model). On the other hand, the definition of customer value as the central pillar of the business model. Both of these overriding decisions are an elementary component of price management for digital offerings.

The Business Model as Starting Point of Digital Pricing

Setting prices for products is not sufficient for profit optimization. Critical to the success of digital pricing is the consideration of all four components of the business model (especially the "value to customer"). According to Hermann Simon, the most important aspect of price management is "value to customer." If the customer's subjective perception of value is the starting point for pricing, professional price management must necessarily start with the higher-level **business model (Level 1)**. See Figure 1.

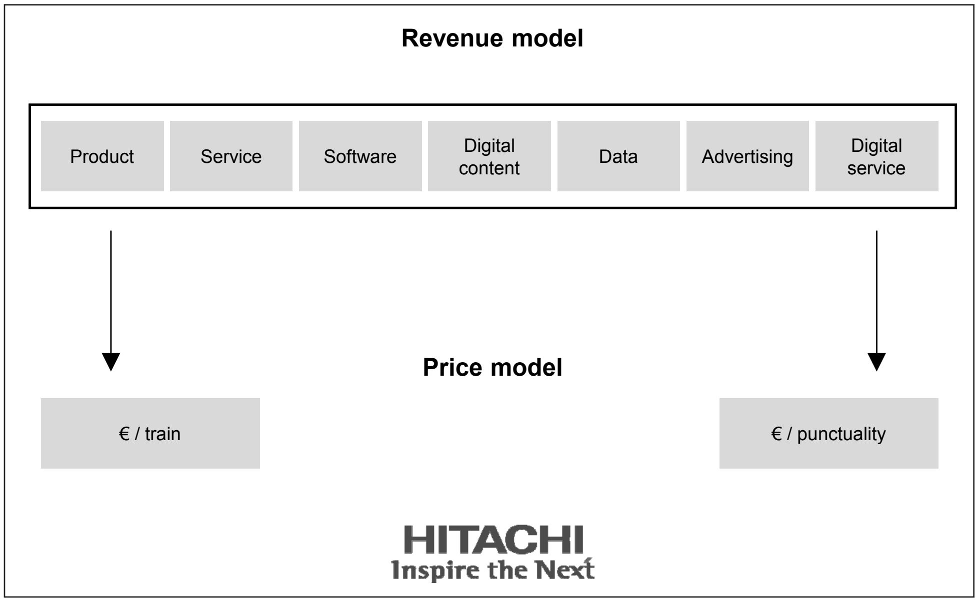
Figure 1: The three-level approach "digital pricing" in detail (source: own representation)



However, the linkage occurs in both directions. Creative pricing measures are one of numerous examples of this principle. Innovative price models not only lead to a better monetization of the benefits ("value capture"), but are also an independent value driver for the customer ("value generation"). Creative price models increase the value to customer (and thus enhance the business model)! So price management is by no means just monetization. Digital pricing can also contribute to value generation.

Here is a practical example: Hitachi (B2B). Hitachi changed the value creation architecture ("operating model") in one of its B2B business units a few years ago. The latest sensor technologies were integrated into Hitachi's train systems. These new measurement methodologies allowed a significant improvement in the punctuality of trains (value to customer). The business model was transformed from "selling products" to "offering software-based services." B2B customers (such as UK Rail Networks) were offered "punctuality" in the sense of a "train as a service" concept. The consequence of the business model innovation: the revenue model changed from one-time payments for products to continuous payment streams for a software-based service. The price model is outcome-based. It is derived from the overarching revenue model as follows: the better the on-time performance rate, the higher the price. See Figure 2.

Figure 2: Outcome-based price model (source: own representation)



In digital business models (platforms, marketplaces, ecosystems, etc.), price is no longer a reliable metric for competition. Two main reasons are:

1. Many companies (like Alphabet, Amazon, Alibaba, or Tencent) cross-subsidize parts of their business. Not all business units have to contribute to profit. Services are therefore often offered for free (Google: search engine) or below cost (Amazon: Kindle).

2. Traditionally, monetization models are based on the exchange of a good for money. In digital business models, customers can pay with an exchange value other than money. The equivalent can include non-monetary components or be entirely without monetary payment. Modern monetization models increasingly include non-monetary counter-value components. Example include:
    - Attention in the context of freemium models (example: Spotify). Here, users accept advertising in order to be able to use the "free" digital service component free of charge.
    - Users pay with their data (as in the case of Meta (Facebook) and Alphabet).

Revenue Models in the age of digitization

The revenue model is defined on the basis of a clear understanding of a company's added values ("value to customer") and the underlying value creation processes ("operating model"). Digital business models are leading to a major shift in the revenue models of companies. In most sectors, revenue shares are shifting from products (hardware) to online services, software, and digital content. Online advertising (e.g., Google, Facebook, Amazon) and data have also gained importance as sources of revenue. The revenue model (level 2) defines the sources of revenue (i.e., the company offerings to be priced); this includes, among other things, defining the company offerings that – measured in monetary units – are offered free of charge. See Figure 3 on the next page.

The core decisions within the pricing process (level 3) are derived from this: price strategy, price structures and models up to concrete price levels.

The consequence of the significant expansion of revenue models is that there are many more challenges for pricing. In more and more cases, the first question is which potential revenue sources should be priced at all. This challenge must be optimized before the details of the pricing process (including strategy, price level, price model, rebates, discounts, and incentives) can be addressed.

The decisive factor for the clear separation of **levels 2 and 3** is: Most companies work with multi-part revenue models! In the case of digital enterprise groups in particular, these are based on the conscious decision not to generate revenues with certain offerings. This explains the integration and logical linking of levels 2 and 3: for all offers that are not to be monetized, the pricing process (level 3) is not relevant!

Price model optimization as a major challenge within the pricing process

The pricing process in my book is based on the following process steps: analysis – strategy – structure – implementation – monitoring. It begins with a comprehensive analysis of all pricing-relevant data. See Figure 4 on the next page.

The integrated process translates the pricing strategy – which follows the analysis – into structural pricing decisions (price points, differentiation approaches, innovative price models, etc.). These form the starting point for the design of price negotiations and the enforcement of prices on the market. Internal and external price communication is also part of the cross-functional discipline of pricing. The process comprises a very large number of detailed tasks and process steps. As a central process phase, the optimization of price levels is of particular importance for value monetization. However, price management goes far beyond setting prices. Among other things, it is also about creating value for the customer, e.g., by introducing creative structures and price models.

Price models ("**how to charge**?") define the qualitative basis on which quantitative price levels ("**how much to charge**?") are based. Price models are systems with multiple interacting parts. "How to charge" offers particular differentiation potential in price management. The explanation for this is as follows: increased price transparency in the course of digitization increases the likelihood that competitors will undercut each other. Many companies are subject to the temptation to give in to price pressure via automated processes. However, pure price reductions are rarely successful. Prices are data: quickly copied and interchangeable! Price models are systems: difficult to imitate and potentially unique.

The Six Pillars of a Price Model

A price model is based on the overarching revenue model definition. It is created by logically linking six pillars. The six dimensions of a price model can be defined using the following questions:

- Are company offerings (e.g. products/services) combined into a package or is an individual product/service billed? → Scope
- What does the customer pay for? → Reference base
- How many components are included in the price? What is the unit of measurement? → Price metric
- How does the customer pay? → Form of payment
- Who sets the price? → Degree of interaction
- At what time is the price determined? →

Figure 3: Five selected revenue models (source: own representation)

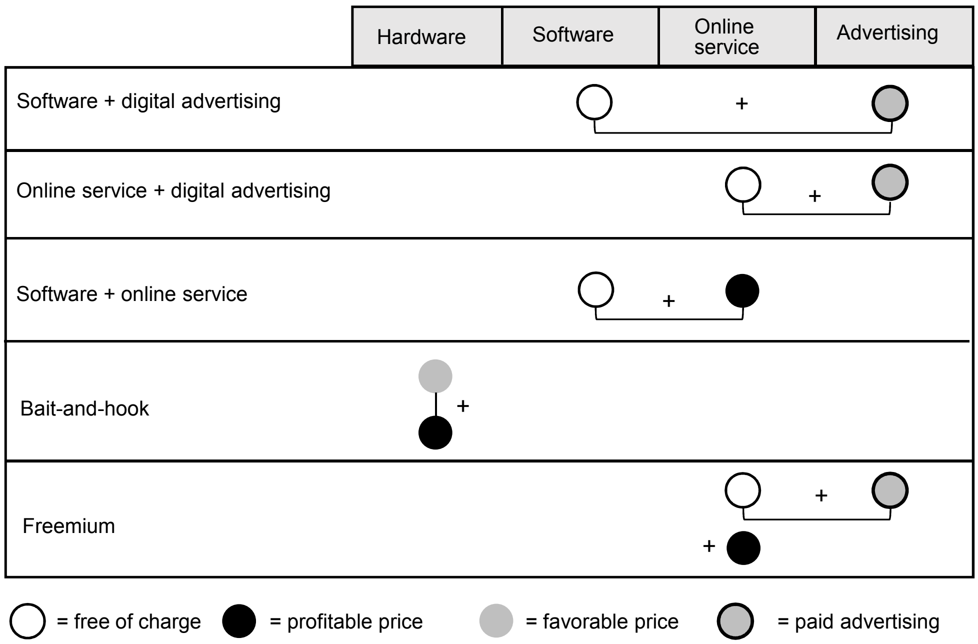
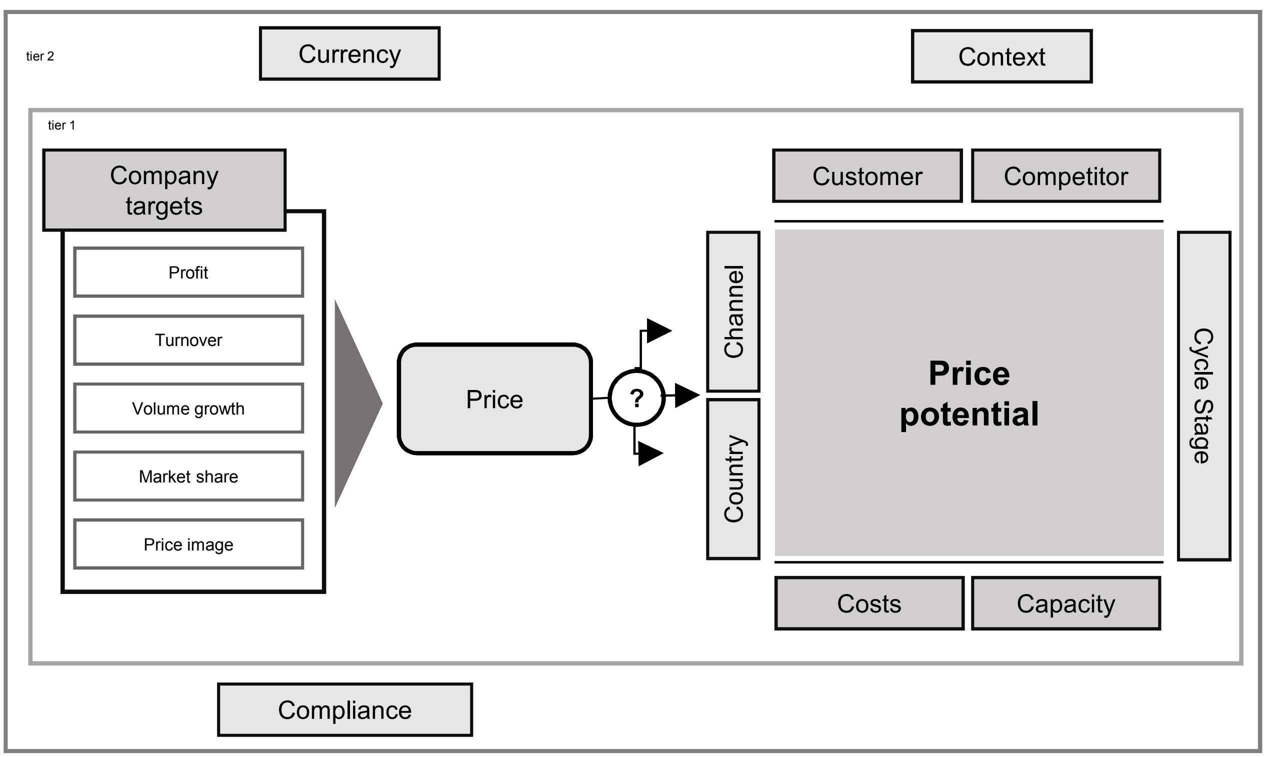


Figure 4: The 11 determinants of pricing (source: own representation)



Time of the price setting.

All six dimensions of a price model are logically connected. The first two pillars (scope and reference base) are of outstanding relevance in the age of digitization.

Pillar 1: Scope

The logical link between the revenue model (digital pricing, level 2) and the price model (level 3) is made via the "scope" dimension. As a direct consequence of the overarching revenue model definition, the number of revenue sources is defined. In many cases, several revenue sources are bundled. The entertainment company Disney sells musical tickets and cruises (services) as well as merchandise (products) in connection with its streaming service Disney+ (digital service). Another example is the price model "Apple One." This involves the bundling of six different revenue streams (music streaming, video streaming, newspapers and magazines, games, and others). Apple One bundles Apple Music, TV+, Arcade, and News+ and two additional offerings in one price model.

Figure 5: Pricing process and pricing psychology (source: own representation)

Pricing process (stage)	**Challenge**	**Price psychology**
B. Structure		
• Price differentiation	Bundling vs. unbundling?	1. Mental accounting
• Price models	What time-price structure?	2. Price level effect
• Price optimization	What price level?	3. Anchoring
		4. Value effect
	Odd vs. smooth prices?	5. Price threshold effect
• Portfolio pricing	How many value-price alternatives?	6. Compromise effect
		7. Decoy effect
	Form of price presentation?	8. Price figure communication
B. Implementation		
• Condition systems	What discount frequency?	9. Tiered discounts
	Price discounts or discounts in kind?	10. Endowment effect
• Tactical pricing	Price adjustments	11. Loss aversion

Pillar 2: Reference Base

The reference base of a price model is based on the question: for what does the customer pay? Innovative price models focus neither on a transaction (product, service, software) nor on access or usage. In creative approaches, the reference basis of the price model is aligned with the value drivers of a product. When it comes to "value-based" reference bases a distinction must be made between outcome-based and success-based price models.

The basic idea of an outcome-based price model can be described using a case study from the B2B sector. In mechanical engineering, pricing is traditionally done on a unit basis: the business customer pays for a machine or the purchase of certain components. The backbone of an output-oriented price model is then no longer the machine, but its performance. The performance is operationalized via the products manufactured or the number of operating hours. In success-based price models, the revenue is based on the economic benefit that the customer derives from the company offering. The reference value is the economic success from the interaction between provider and customer. Billing is not based on a discrete unit (e.g., time or data volume). Customers pay a price only in the event of economic success.

Integration of pricing process and price psychology aspects

Innovative price models not only lead to a better monetization of benefits, but are a value driver in their own right for the customer: they increase the value to customer (and thus enhance the business model)! The consequence of this is that price management is not just "value capturing" (monetization). Pricing can also contribute to value generation.

The immediate consequence of this is that professional pricing must incorporate the latest findings in behavioral psychology. Since customer behavior is the most important factor influencing profits, especially in the digital age, the perception of benefits and prices is of paramount importance. Therefore I present the latest findings from brain research as the final chapter of my book. See Figure 5.

Against the background of the challenges of the pricing process, it is shown how the perception of customers can be controlled with the help of price-psychological levers. Eleven principles of pricing psychology are assigned to the point in the pricing process where they can be applied in terms of process sequence and content. ❖

Innovative Pricing Models: The New Source of Competitive Advantage

by Dan Zatta, Ph.D.

In today's rapidly changing economy, the most successful firms are those that have as their number one priority a total comprehension of the value perceived by their customers combined with innovative approaches to monetization, as the author explains. Dan Zatta, Ph.D. is the author of the international pricing best seller "The Pricing Model Revolution" (Wiley, 2022), which will be translated into 12 languages, and "Revenue Management in Manufacturing" (Springer, 2016). As a pricing management advisor with nearly 30 years of experience, he helps companies grow their revenues and profits. He can be reached via LinkedIn.

The most successful companies – those with above-average profits – have discovered the new source of competitive edge: pricing and, along with it, the way they can capture the value they provide to their customers through innovative monetization approaches.

Despite being the main and most powerful profit driver, in many companies pricing still remains at the stage of mere potential. This does not enable full profit to be obtained, whilst in the worst of hypotheses an inadequate pricing model results in losing customers, revenues, and profits.

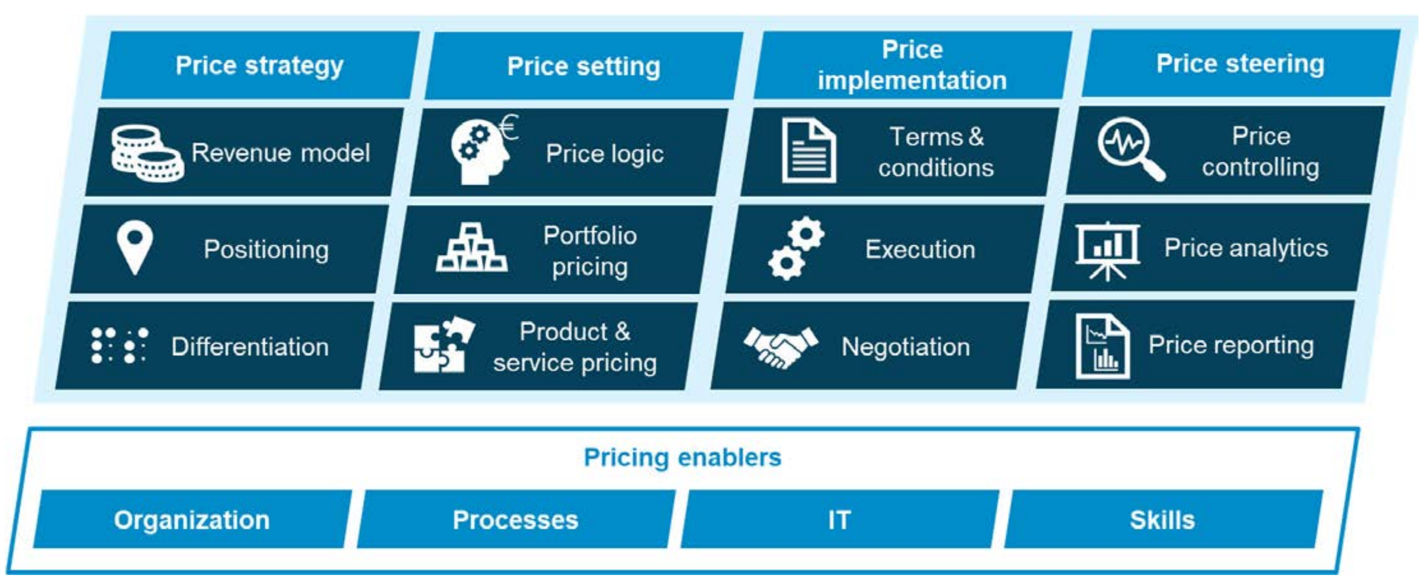
We set prices "as we always have done" or by "adding our margin to the base cost." These are typical statements from the old world when sales were purely transactional. The mantra then was "I give you a product x and you give me y dollars." In a context where demand outweighed supply, where customers' demands were unsophisticated, or where competitors were more or less analogous and technology not widespread, this might have been a sustainable approach. Not today. The time has come for a change.

The most successful firms are those that have as their number one priority a total comprehension of the value perceived by their customers combined with innovative approaches to monetization.

One of the first things they are quite clear on is that price is the main profit driver.

Once companies understand the power of pricing, they next ask themselves which levers to activate to improve their monetization skills. The answer to this question is that there is not a single pricing lever, but several levers that can potentially be activated, as indicated in the Pricing Framework presented here (Figure 1). These levers can be assigned into four categories.

Figure 1: The Pricing Framework – From Price Strategy to Price Steering



The first category is related to **Price Strategy** and contains several facets, such as the revenue model, positioning, and differentiation. Moreover, the direction set by the company in relation to its monetization priorities is part of this first category. One of the issues to address is the question of whether the company would be prepared or reluctant to sacrifice market share in order to increase its profits. In the automotive industry until a few years ago, the answer to this question was a clear no: volume and market share ruled. Today, the view on this changed quite drastically.

The second category is about **Price Setting**. Price logic, portfolio pricing, and product and service pricing are key facets here. If we take price logic as an example, we will find several possible approaches, from cost-plus pricing to competitive pricing or value pricing, based on the pricing maturity of a company, as indicated in Figure 4.

Once the price strategy has been defined and prices are set, in the sales process we see prices moving from the initial list price to the final transactional price. This is the essence of the third category – called **Price Implementation** – which contains elements such as the terms and conditions provided by the company to its resellers and distribution partners, execution strategy, and price negotiation.

Finally, companies need to monitor and ensure that the target profitability is reached at the end of the year. To ensure this, **Price Steering** is needed, as indicated in the last category, where price controlling, price analytics, and price reporting come into play.

To ensure that pricing becomes an integral part of the company and is properly embedded, there is a supporting layer called **Pricing Enablers**. A clearly structured pricing organization, defined pricing processes (for example, those related to yearly price reviews and increases), pricing IT systems, and pricing skills are all relevant enablers.

To demonstrate the many diverse pricing levers companies can activate, review the examples displayed in Figure 2 and where their typical profit impact is shown. These elements can vary from industry to industry and in terms of single elements and profit impact. However, the same key learning holds true for all industries: to become more profitable, there is a single, stand-alone element to be activated on the revenue side. Several pricing levers can and should be optimized and the sum of the impact each of them generates can result in substantial profit improvement.

Triggers of the Price Model Revolution

In the last several years, we observed companies changing their monetization approaches. The most profitable companies were capable of assessing where value was coming from in the eyes of their clients and adapting their monetization approaches accordingly – creating a sustainable competitive advantage.

The period of the 2020-2022 pandemic gave a further boost to change and digitization, opening businesses up to pricing and new models of revenue and removing barriers that previously seemed impossible to overcome.

The basis of this ground-breaking change in the way companies monetize the value they provide to their customers is comprised of particular triggers that we have organized into four groups: these are the accelerators of the price model revolution (Figure 3). They are now and will increas-

Figure 2: Pricing Framework – Key Elements and Profit Impact

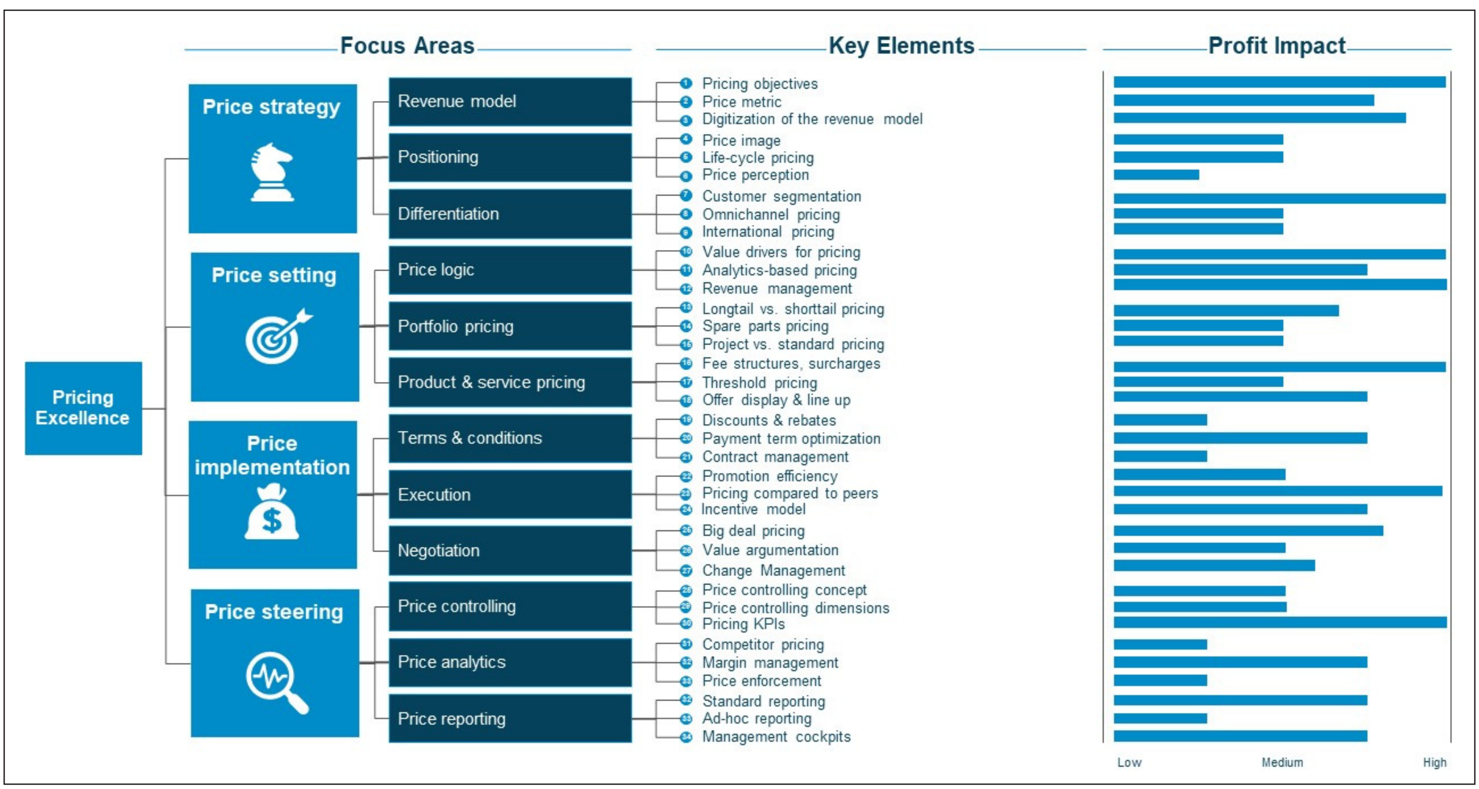
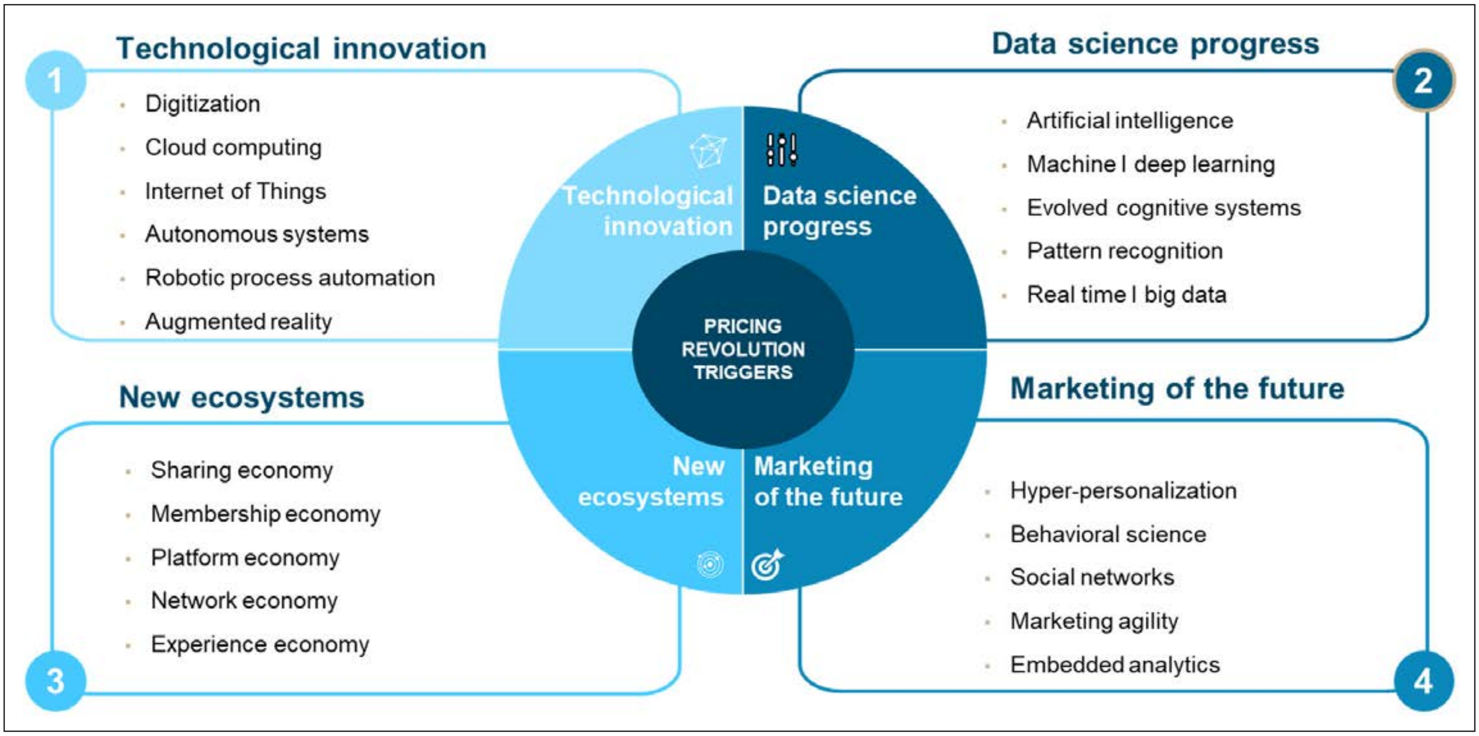


Figure 3: The Four Triggers of the Price Model Revolution



ingly change the way firms extract value from the market.

The **technological innovation** of the last few years is the first trigger: it has laid the bases for raising pricing to a new level: digitization, cloud computing, the Internet of Things (IoT), autonomous systems, robotic process automation (RPA), and augmented reality. New cloud applications or digital pricing are often the prerequisites for holistic, data-oriented price management.

Data science progress is the second trigger: there are new quantities and quality of data that create completely new potentials for setting prices. Think of the huge quantities of big data now available and how these data can provide real-time elasticity regarding individual products or optimal discounts thanks to artificial intelligence. What data science can generate today in terms of knowledge in the field of pricing seemed like science fiction only a few years ago.

Today, this also happens within **new ecosystems**, the third trigger, centered on the sharing or repeated use of products rather than the purchase or possession of products. This type of ecosystem requires new pricing models that did not exist in the old world of transactional pricing.

Marketing of the future, or Marketing 5.0, concludes the series of the four triggers: hyper-personalization, timidly initiated with the introduction of revenue management systems in the service sector, assumes new dimensions thanks to the happy combination of technological innovation and progress in data science. The same is true of inspirations coming from the behavioral sciences and agility in marketing.

These four triggers are the basis of the Price Model Revolution.

The Pricing Model Revolution

The transactional model based on the possession of a product is a thing of the past – an inferior pricing model in many cases. New and more innovative price models focusing instead on the monetization of use or the result produced by the product have proven clearly superior. Their introduction has allowed companies undergoing crisis to reinvent monetization, doing away with resistance to purchasing and welcoming the customer's readiness to pay. How then is the management of this most important profit driver changing?

In Figure 4 on the next page, we see how pricing has evolved. Companies using basic pricing are the least profitable. Here we find the absence of any consistent pricing logic: the same price is maintained for a long period. With cost-plus pricing, the price setting is purely based on internal reasoning and calculations: a target margin is added to the cost, which equals the requested price. It is easy to calculate if the cost structure is solid, but again, it is limited to an internal perspective that ignores competitors and customers.

Although competitor pricing does look further, it ignores the value "perceived" by its customers. All this is taken into consideration in value pricing, which is the most complete and promising approach of all those described up to now.

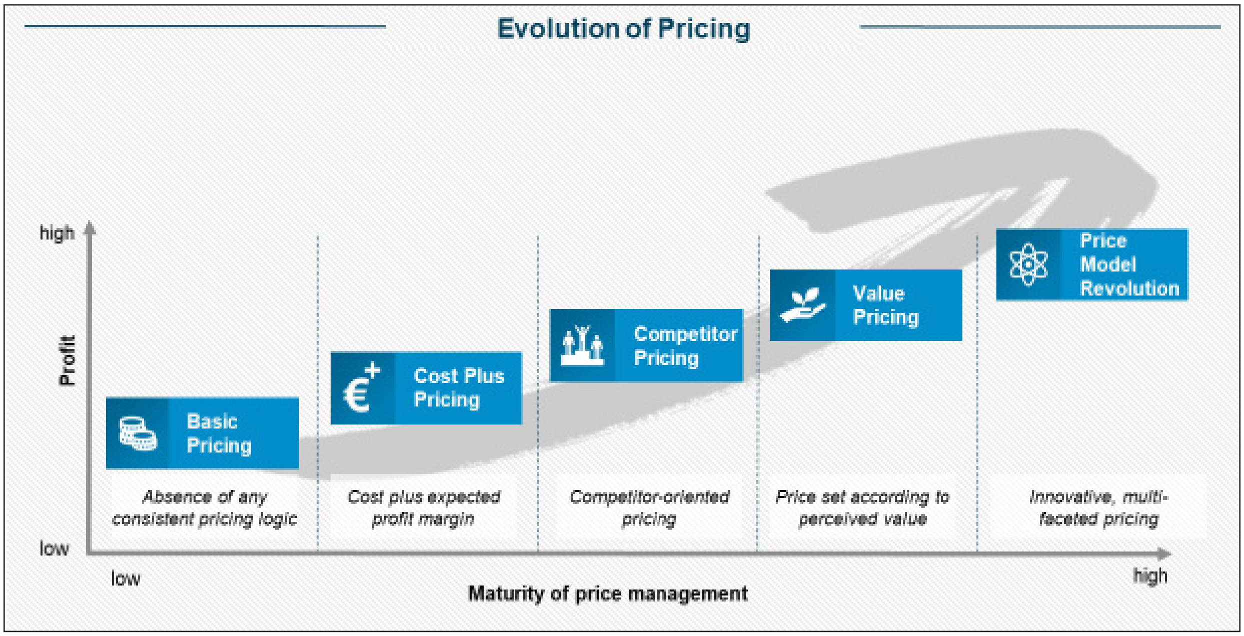
It is with the Price Model Revolution that we attain the Olympus of Pricing. It represents the evolution of pricing based on value, and pricing strategy that grows and becomes more sophisticated thanks to new approaches to monetization which, in an innovative way, create a firm competitive edge.

Elements that denote innovative monetization approaches and represent key pillars of a company's competitive advantage are, for example:

- Pay per use

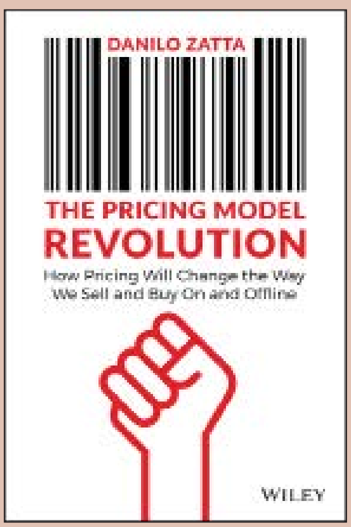
- Subscription
- Outcome-based pricing
- Psychological pricing
- Dynamic pricing
- Pricing based on artificial intelligence
- Freemium
- Sympathetic pricing
- Participative pricing
- Neuropricing

Figure 4: Evolution of Pricing – From Basic Pricing to Advanced Monetization



These new approaches to monetization are not limited to certain industries or geographical areas. They are all-pervasive and will continue to evolve, increasingly changing the rules of the trading game. They create transparency in terms of customer needs, product use, and readiness to pay that has never been available previously. Products are transformed into services. Their value is translated into measurable units of performance.

The Pricing Model Revolution establishes a strategic imperative: a new way of pricing is here and it is the new and unstoppable source of competitive advantage. ❖



"Danilo Zatta's book *The Pricing Model Revolution* features the latest strategies, tactics, and best practices that you and your organization need to increase your performance with a detailed focus on monetization. His global, cross-industry experience, along with a great focus on qualitative and quantitative acumen, will lead you to help exceed your company's goals."

– Kevin Mitchell, President
The Professional Pricing Society

Wiglaf Pricing™

Helping Executives Manage Price Better™

Executives engage Wiglaf Pricing to

- identify launch prices for new products and services
- define price structures to profitably segment markets
- conduct deep-dive pricing analytics
- execute corporate training and keynote speaking
- develop organizational capabilities through people, process, and tools

Executives choose Wiglaf Pricing as their pricing advisory because we are

- thought leaders in pricing, and staffed by experienced professionals
- committed to integrity and constructive dialogue in every engagement
- energetic and flexible enough to nimbly address your needs

Wiglaf Pricing | 2607 W Augusta Blvd | Chicago IL 60622 USA | www.wiglafpricing.com | +1 773 395 2983

PPS December 2022 Survey of Today's Pricing Professional

by The Professional Pricing Society

The Professional Pricing Society's December 2022 survey of pricing professionals received 743 responses from a cross-section of industries across the globe. The mission of PPS is to nurture a growing community of pricing professionals committed to disseminating pricing expertise throughout the business world. As part of this mission, PPS conducts surveys with the hope that this information provides a good synopsis of where pricing stands as a career option while also providing a good demonstration of pricing's status in the business world. contactus@pricingsociety.com.

The Professional Pricing Society (PPS) has been surveying the pricing community since 1998 as a service to our global membership and the business community worldwide. We use responses to analyze the growth of pricing as a profession and to continue to develop resources to help pricers in the areas they identify as opportunities for professional development.

In December 2022, we again surveyed pricers as well as professionals in similar fields, receiving 743 responses from the global business community. Since PPS is the center of the pricing discipline worldwide, our survey results are widely used as a benchmark for a variety of pricing queries: salaries, reporting structures, career opportunities, pricing software usage, and key components of job satisfaction from both positive and negative standpoints. Our organization acquires survey data as a free service to our members and those interested in demographic trends for pricing and related functions. Past surveys are available to our members via the PPS Publications Archive (https://publications.pricingsociety.com). We hope that this information provides a good synopsis of where pricing stands as a career option and a good demonstration of pricing's importance within the business world.

Pricing Demographics

Almost 79% of our survey respondents work for medium-large or very-large corporations: 38.6% work for companies with annual revenues of more than $5 billion (or equivalent), and the largest segment at 40.1% report that their company annual revenues are between $500 million and $5 billion. A significantly sized, but smaller group (21.3%) are from companies with less than $500 million in annual revenue. When compared to our last survey in December 2021, the largest group (over $5 billion revenue) was larger this year, the middle group (between $500 million and $5 billion) was slightly smaller, and the smallest group (under $500 million) shrunk by about 4%.

The number of employees in the respondents' companies devoted primarily to pricing in Full-Time Equivalent (FTE) employees shows that 42.2% responded that their companies have fewer than 10 pricing FTEs – this is much lower than our last survey. 32.1% report having between 10 and 49 pricers – slightly lower than last year. 25.7% stated that their organizations have at least 50 employees dedicated to pricing – this is much higher than our December 2021 survey. The most significant shift is a decrease from the smallest group in favor of larger numbers – therefore a significant migration in favor of more Pricing FTEs per company.

Respondents from American companies reported an average of 4.14 Pricing FTEs per billion dollars in annual revenue, while European companies reported an average of 3.29 Pricing FTEs per billion euros in revenue. Given the dollar-to-euro exchange rate during the survey period, American organizations have about 18% more Pricing FTEs than their European counterparts.

> **Given the dollar-to-euro exchange rate during the survey period, American organizations have about 18% more Pricing FTEs than their European counterparts.**

Salaries

Survey respondents in the USA reported moderate salary increases at all the major job titles surveyed: Analysts reported an average salary of $104,594 which is an increase of about 2% versus our last survey, but over 10% versus two years ago. In the USA, Managers reported similar increases with an average salary of $134,304 (up

2.1% over last year and up 12% over two years) and Directors earned $184,762 (up 1.4% versus last year and almost 10% over two years ago). Vice Presidents reported salary increases as well, with an average of $258,761 – up 3.1% versus our last survey. This year's survey showed much smaller increases than last year's survey, but American salaries did grow across the board.

In the Euro Zone, reported salaries were higher for Analysts, but Managers and Directors did not have large increases. European Analysts earned €67,250 which was 8.9% more than our survey from a year ago. Managers reported €94,788 which was virtually the same as last year. Toward the top of the organization chart, Directors averaged €137,167 (up 1.9%).

Across all categories and regardless of title, the average pricer now earns $160,583 in the USA and €99,910 in the Euro Zone. See Figure 1.

Salary Trends by Industry

There is a very wide range of reported salaries by industry according to our survey respondents. Those in Consulting ($218,143), High Tech ($192,438), and Transportation ($183,607) reported the highest average salaries. B2B, Healthcare and Pharmaceuticals, Financial, Services, Industrial, Retail, and Telecommunications businesses all reported average salaries between $160,000 and $180,000. The lowest reported average salaries were in Manufacturing, Distribution, and Hospitality organizations. See Figure 2.

Job Title Mix

Senior Management (Presidents, Vice Presidents, and General Managers) accounts for 15.5% of overall Job titles. Managers are the largest individual group (38.1%), followed by Directors (27.6%), and Analysts (14.6%). "Other" job titles totaled 4.2% of survey respondents. See Figure 3.

Reporting Structures and Experience in Pricing

More pricers report to Senior Management (27.5%) than any other function, followed by large groups that report to Finance (21.6%), Marketing (18.6%), and Sales (11.4%). Smaller groups report-

Figure 1: Salary Excluding Bonuses by Pricing Title

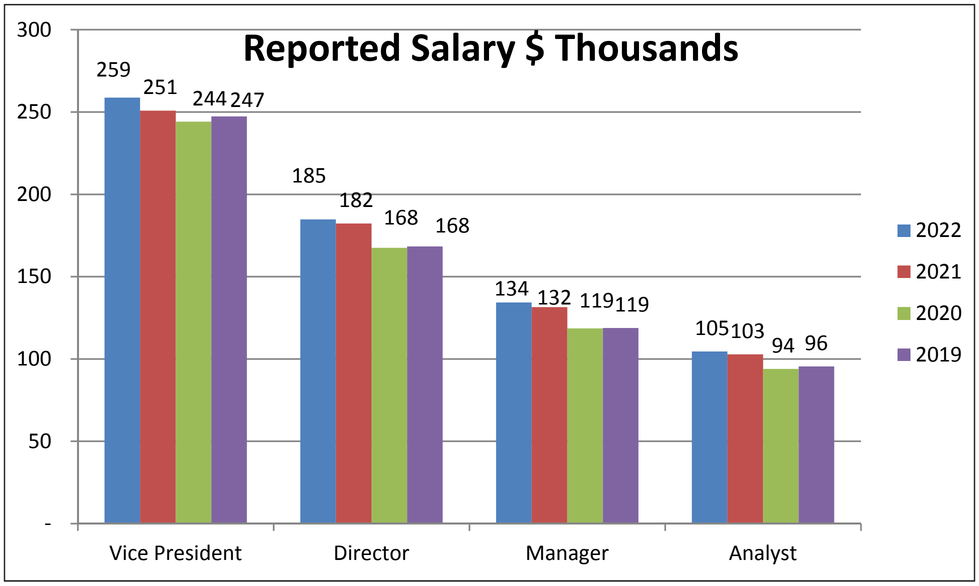


Figure 2

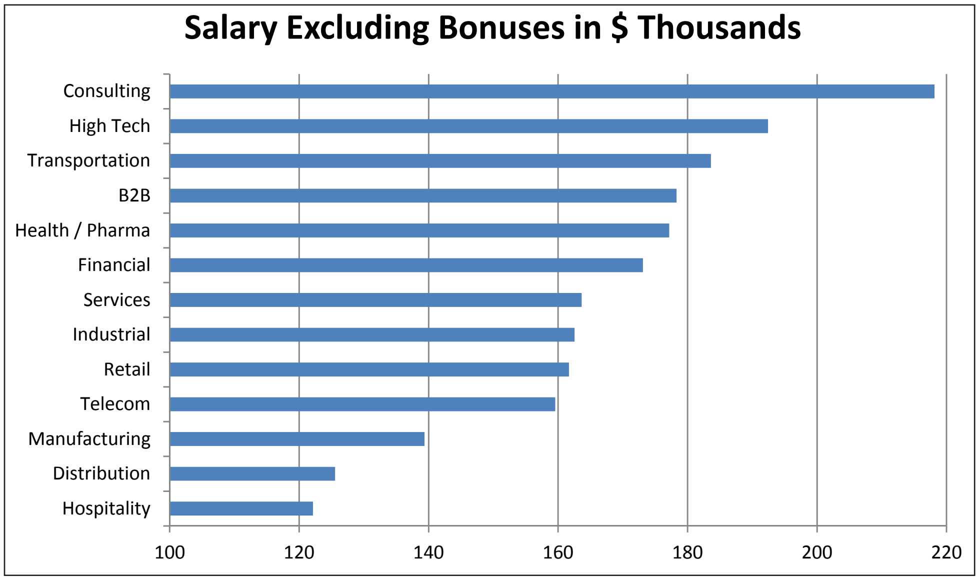
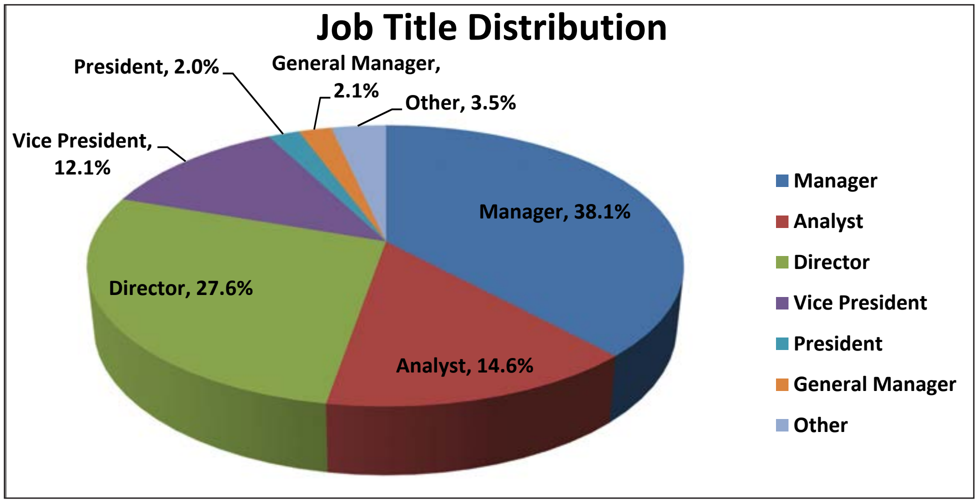


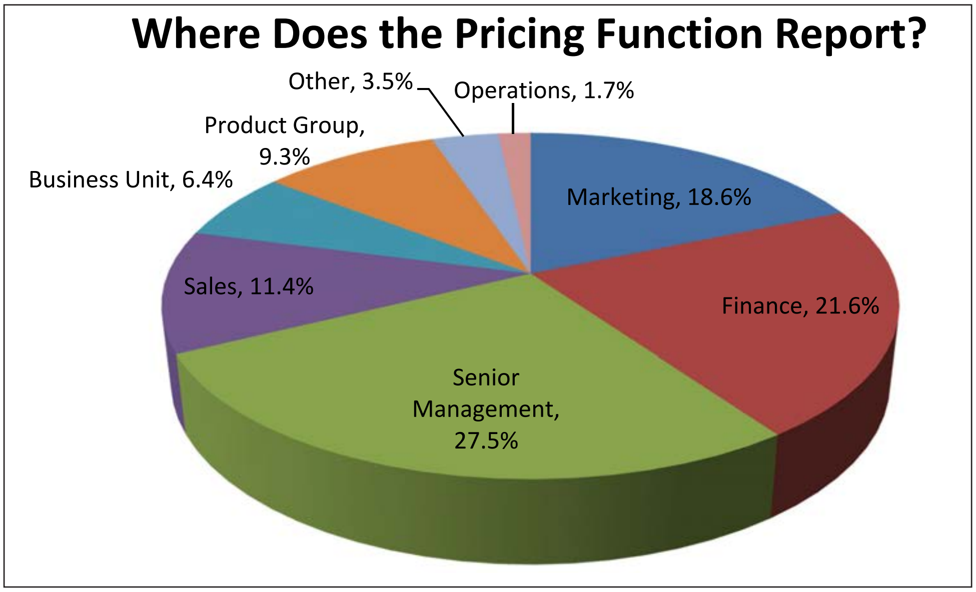
Figure 3



ed to Product Groups or Product Management (9.3%) and to a Business Unit (6.4%). About 5.2% reported a combination of the above or a different reporting structure. The most noteworthy trend in reporting structures is a shift from reporting to Business Units and Product Groups in favor of Senior Management, Finance, and Marketing.

With regard to our respondents' range of experience within pricing, 5.5% claimed that they had two years or less experience and 13.1% stated three to five years of experience. The largest groups were 11-20 years (41.4%), six to ten years (22.4%), and more than 20 years of experience in pricing (17.6%). See Figure 4.

Figure 4



Overall Job Satisfaction

This is the 12th survey in which we have asked respondents how satisfied they are with their jobs and about unmet wants and needs. On a scale of 1 (very dissatisfied) to 10 (very satisfied), pricing professionals rated their jobs 7.03, which was much higher (+0.24) than our last survey. Vice Presidents were lower than average with a reported overall job satisfaction of 6.79. Directors reported the same overall rating, which was very slightly higher than last year (+0.01), while Managers were much higher at 7.32 and Analysts were lower at 6.65.

PPS Pricing Power Index

Our December 2022 survey was the fourth iteration in which we asked respondents about their assessment of their company's pricing power to determine the PPS Pricing Power Index. This year's overall average was 6.47 on a scale of 1 (no pricing power whatsoever) to 10 (absolute and complete pricing power), which represented a small decrease from last year's overall average of 6.50.

There was an interesting mixture of reported Pricing Power when broken down by Job Title: Vice Presidents reported the lowest Pricing power at 6.14, but Directors were highest at 6.56, closely followed by Managers with 6.54. Analysts reported the lowest Pricing Power at 6.11. Therefore, the middle sections reported significantly more pricing power than those at the extremes.

There was also a significant deviation in the PPS Pricing Power Index depending on Industry. Utilities (7.51), Wholesale (7.24), Education (7.17), and Leisure / Hospitality (7.05) businesses reported higher than average Pricing Power, while High Tech (6.39), Healthcare / Pharma (6.35), Industrial (6.13), Distribution (6.05), and Agriculture (5.80) all reported lower than average Pricing Power. Telecom, Services, Financial, Retail, Logistics, Transportation, B2B, Consulting, and Manufacturing were all in the middle range and close to the overall average Pricing Power.

On average, respondents from the Euro Zone (6.38) reported lower average Pricing Power than those in the USA (6.47). Canadians (6.68) and those in Great Britain (6.61) reported higher than average Pricing Power (7.20) while those in Brazil were lower (6.16).

Other Elements of Job Satisfaction

We asked pricers to rate their feelings about certain elements of the profession. 92.5% reported satisfaction in knowing that pricing is strategically important for their companies (this is up from 90.7% in our last survey), and 73.9% find their careers intellectually stimulating (up from 70.1%). 70.5% of respondents find their careers challenging (down from 72.1%), but more than half (55.2%) felt that they were underappreciated by their firms (down from 61.4%). Only about half (49.0%) described their jobs as "rewarding."

"Training Opportunities" received a higher average score of 6.14 on a 10-point scale, up from 5.71 last year. "Recognition and Acknowledgement Received from Employers" was rated 6.05, which was slightly higher than last year (6.02).

The highest–rated elements of job satisfaction were "Communication within the Pricing Group" (8.01) and "Amount of Influence" (7.61). "Communication with other Groups" received 6.79 and "Career Advancement Opportunities" increased slightly over our last survey (6.36 vs. 6.28).

The most satisfying job aspect for pricers was "Increasing Company Profitability" (64.7% of survey respondents) and the least satisfying was dealing with "Corporate Politics," mentioned on 56.8% of all responses, followed by "Being Understaffed" (40.7% of all responses).

Software Use

More survey respondents say that their companies are using externally designed pricing-specific software (35.7%), passing those who primarily use Microsoft Excel or something similar for pricing (29.9%). 13.7% use internally developed, or in-house, pricing software, and 8.7% say that they are in the process of changing software tools. 6.6% claim that they do not use pricing software and are not considering adopting software soon.

Other Items

We also asked our members for qualitative answers on how to improve their pricing power and job satisfaction. The most common answers centered on:

- Better pricing tools and analytics.
- Increased hiring to reduce being overworked.
- More training, either inside or outside of the organization.
- Executive support to remove politics and departmental silos.

Many respondents also reported that their company salesforce is moderately to very heavily involved with pricing decision-making with high levels of authority for discounting.

We asked a question about gender on this year's survey. Of those respondents who chose to answer (slightly more than one-third), 32.6% were female, a slight decrease from 33.6% in our last survey. 67.4% were male.

As the only professional association dedicated to supporting the development and expansion of the Pricing profession worldwide, we always encourage your feedback regarding your professional development needs, career satisfaction, obstacles you are facing, and requests for any other assistance we can provide to help you achieve your career and advancement goals. Please feel free to contact us at any time with questions, feedback, or any other inquiries. ❖