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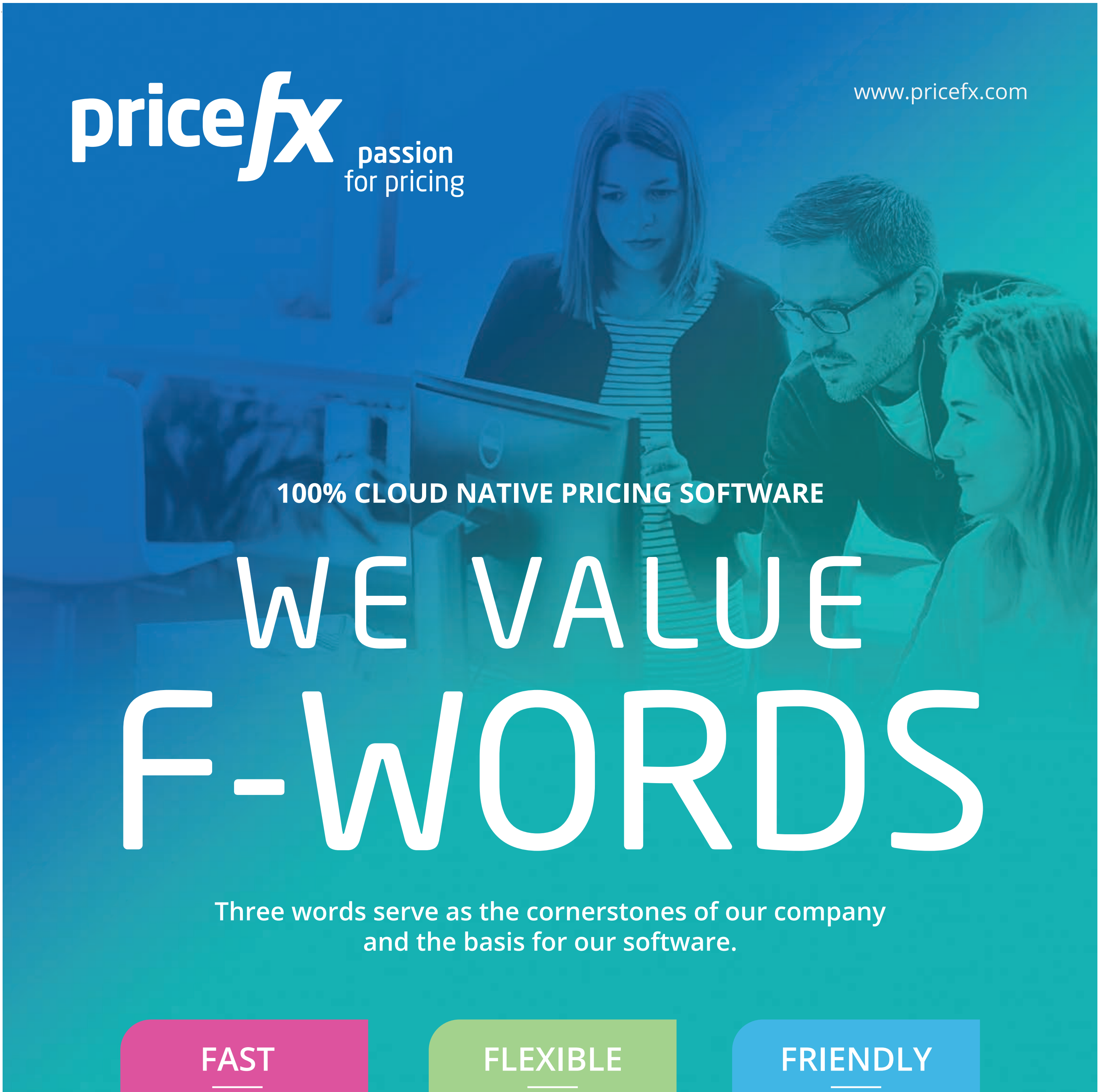

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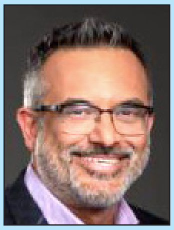
Pricing and Commercial Agility in Volatile Markets



by Jeet Mukherjee

With market volatility continuing for the foreseeable future, leaders need to play both offense and defense at the same time. Make sure you are approaching each offering in a distinct way and not using a "one size fits all" approach to your strategy. Your profitability depends on it, as the author explains. Jeet Mukherjee is the Vice President and Head of Pricing at Holden Advisors and the co-author of the recently published ***Pricing With Confidence: 10 Rules for Increasing Profits and Staying Ahead of Inflation*** *(co-author Reed Holden). He will deliver a keynote presentation at the PPS Fall Conference in Atlanta (October 10-13). He can be reached at jmukherjee@holdenadvisors.com.*

Executives are leading through the most unpredictable market conditions in recent history. Supply chain challenges are forcing leaders to pass costs to their customers, implement price increases, and find new ways to drive profitability while maintaining relationships and innovating to keep up with competition.

> "I've never developed plans with such a span of differentiation. The pet category could be up 8-10% next year … But at the same time, there is a catastrophic view that there is zero growth. I've never had as broad of an array of outcomes."
> – Ron Coughlin, CEO of Petco

This commercial volatility is not driven by what label the media slaps onto the current market conditions, but is largely driven by two main factors: cost and demand. Leaders need an effective approach that accounts for rapid change in these areas. We can no longer use one pricing strategy across all business units and products, and as a result, we must be prepared with flexible strategies that can address changing dynamics and volatile markets - not just overall as a business, but within each product line.

The matrix in Figure 1 can serve as a framework for commercial strategy depending on the cost and demand of your offerings, and this paper will provide tactics to improve profitability within each situation.

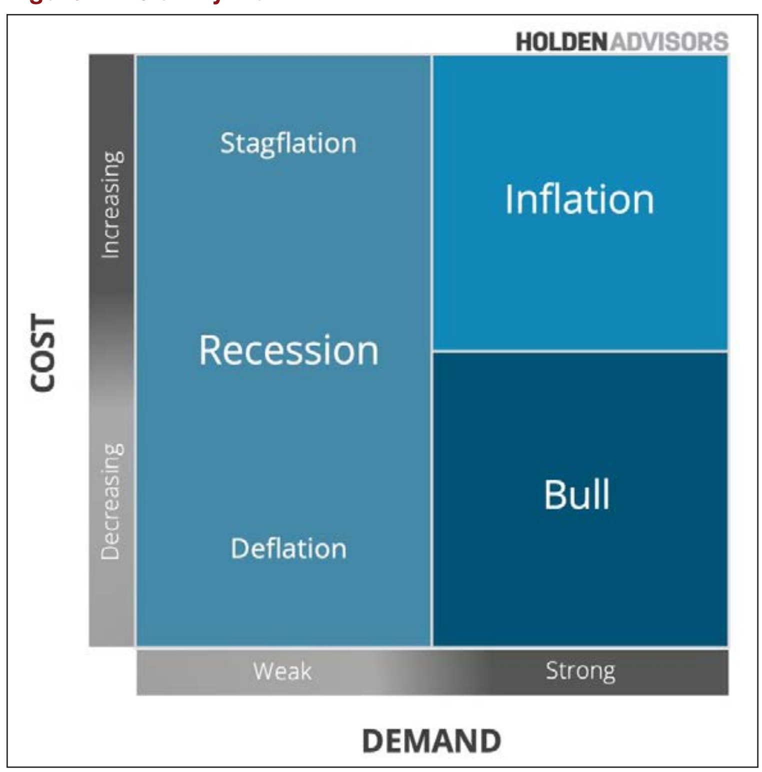
Bull Market: Focus on the long-term optimization of value

When demand is strong and costs are stable, leaders are advised to focus on new products, investment strategy drivers, portfolio gaps, and maximizing synergies. Read: look at the big picture!

Profitability serves as a margin of error, and in a bull market, you have that margin - which gives you the ability to take on more risk and look long-term. Make sure you're maximizing revenue per transaction and look at correcting legacy discounts to capture more value and share of wallet. Improvements in value for your customers falls under one of three categories:

1. Increased revenue
2. Decreased costs
3. Mitigated risks

Figure 1: Volatility Matrix



Use these three categories as anchors for your fair pricing. Do the research by having conversations with your customers to figure out what value you provide today and in the long-term, and the dollar amount of that value (keep it simple!). In this situation, while many other companies are driven by costs, focus on building a long-term value-based organization where value is not just used for pricing but other key business activities like sales, marketing, R&D, and product management.

Inflation: Focus on speed and defending value

In my experience interviewing C-Suite executives in the last year, nobody has been surprised by inflation levels. What have they been blindsided by? Their ability to react to it quickly. As an example, many executives didn't realize that they had long-term contract pricing set in place that prevented any kind of price deviations.

Efficiency is a critical focus area when demand is high and costs are increasing. In this situation, look for areas to automate to expedite your price changes. Focus on more efficient delivery of products and services, and make sure to implement your price increases by product/offerings affected by cost increases, and not across the board.

While an overall price increase may improve profitability in the short term, partnership trust will ultimately take a hit. Keep the long-term relationship in the foreground, and focus on taking care of your customers during turbulent times as part of the value you're delivering.

Customer Profitability

When costs are high, it's a good time to review your customer base. Identify the accounts that take up the bulk of your resources as an organization. From our research, most businesses find that the majority of their profits come from the top 20% of their customers. Calculating your cost to serve can assist in creating a chart like in Figure 2, to better understand profitability by account.

For customer accounts "in the red," how can you make those accounts profitable? This is a situation where price increases become necessary. When positioning a price increase, keep the following considerations in mind:

- There is always a line in volatile markets where customers will start looking for other solutions. Figure out where the line is. It's typically on the third increase in a short period of time where customers will get price sensitive.
- Don't justify your increase based on value, as it antagonizes customers.
- Look at contracts with 6-12 months remaining. Request to change the terms so you can both renegotiate given the current environment.
- Give the customer something in return when you implement an increase.
- Focus on consumption instead of capacity and use costs to justify a price increase (but don't make that the reason).
- Customers are more inclined to partner on price increases when they feel like you are sharing in the risk with them.

Introducing Give-Gets to your conversations can help buyers decide between cost and value and provides choice for them about how to move forward. As always, transparency is key.

Recession: Focus on demand creation through value alignment

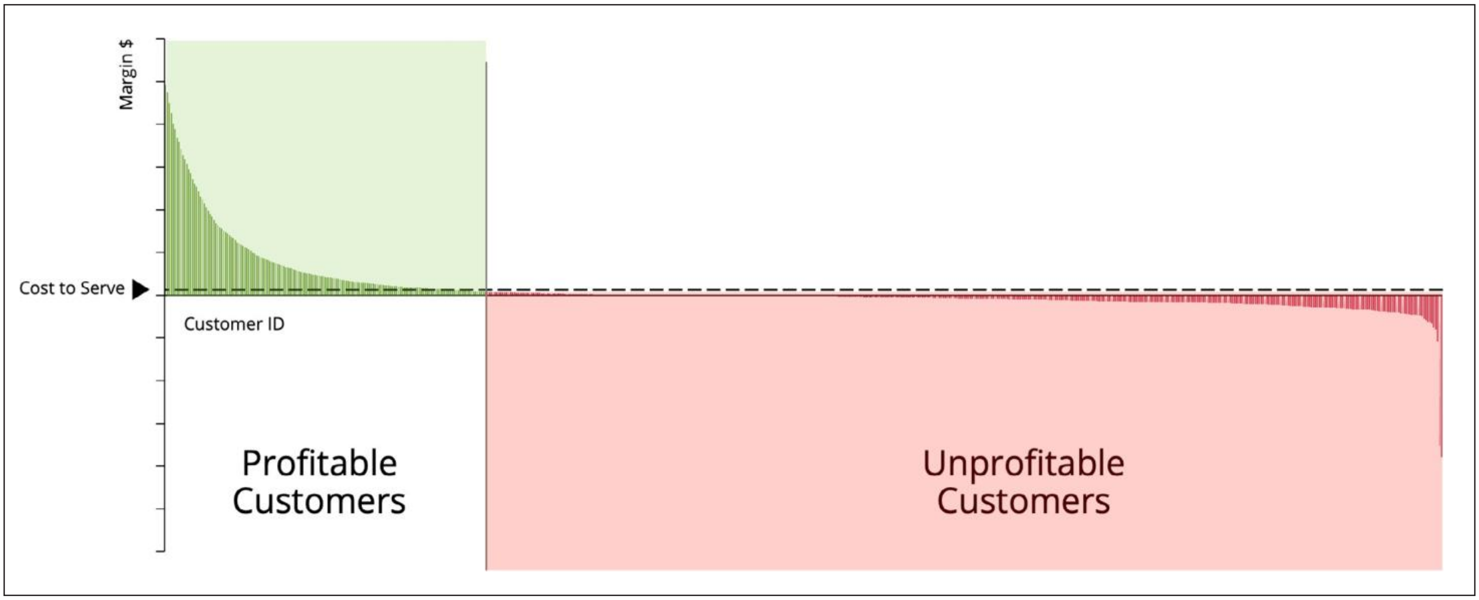
A recessionary environment is defined by one thing: a shrinking market. The focus here will be on creating ways to increase demand and prevent customer churn. Specific strategies will vary depending on if costs are decreasing (deflation) or increasing (stagflation).

Similar to an inflationary market, when costs are increasing, this is a good time to assess the profitability of your customer base. Start by reevaluating the partnerships dragging your profits down the most. In addition to obvious or necessary price increases, consider other ways to impact profitability. You may be able to renegotiate partnership terms based on what customers are sensitive to or value most.

Examples:

- Rush/no rush
- Net 30/60/90 payment terms
- Shipping fees

Figure 2



Deflation: Focus on demand creation through differentiation

Decreasing-cost and low-demand environments are extremely rare. Japan has experienced deflation for decades, but in the U.S., demand is still largely high as a result of momentum created during the pandemic.

In a deflationary environment, companies are looking to remove as much cost as possible. This can be a good time to hire specialized labor or find partners to break into new markets. This is also a time to innovate and expand your portfolio in order to create more value for customers.

In a recessionary market, many businesses are looking for solutions rather than products, and partnerships between companies can help provide a fuller solution to the end customer – in turn, creating more differentiated value and thus demand. Old mindsets will tell you that partnerships slow down the sales cycle – but keep in mind that they keep you out of procurement, because you're not seen as a commodity.

Stagflation: Focus on profitability and demand creation

When demand is decreasing, customers will often be asking for discounts. Make sure you have flanking products – a low cost, low value solution to keep your customers from leaving you. These low-cost alternatives are where ankle biter competitors enter markets and they grow from there. It's important to keep customers within your four walls as much as possible, and flanking products can be a great way to meet budgetary needs. There may also be cases where customer profitability is not acceptable. Where appropriate and necessary, be honest with yourself about who you need to fire as a customer. This strategy can free up your internal teams to better serve your profitable accounts—and provide a better return for the business. In most cases, it will be a huge relief for your employees as well.

Conclusion

With market volatility continuing for the foreseeable future, leaders need to play both offense and defense at the same time. Make sure you are approaching each offering in a distinct way and not using a "one size fits all" approach to your strategy. Your profitability depends on it. ❖

10 Propositions To Drive and Monetize Sustainability Transformations

Fabien Cros

Stephan Liozu

by Fabien Cros and Stephan Liozu, Ph.D.

Fabien Cros is Co-Founder of Pricing for the Planet (www.pricingfortheplanet.com), which specializes in the monetization and the pricing of sustainability. Currently serving as Data and Measurement Lead at Google France, he leverages his expertise in data and AI to drive growth and analytics. He is a recognized thought leader in pricing and sustainability, dedicated to building a more sustainable future.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.

It is becoming increasingly clear that urgent action is needed to address the pressing environmental issues facing our planet. Climate change, pollution, deforestation, and biodiversity loss are just a few examples of the complex and interconnected challenges we are confronted with. The need to think and act differently has never been more urgent, as our current ways of living and consuming are unsustainable and are rapidly degrading the natural systems that support life on Earth. The impacts of these issues are already being felt by communities around the world, and if we do not act now, the consequences will be catastrophic for future generations.

During our latest Pricing for Planet summit, we conducted several working sessions with two dozen thought leaders from the Pricing, Sustainability, and Marketing world, focused on three key questions:

1. How might we define monetization for sustainability?
2. How might we align sustainability and business outcomes?
3. How might we engage the C-suite to join this movement?

This summit provided a platform for stakeholders to share their knowledge and ideas on innovative approaches that can lead to a more sustainable future. We believe that the time for incremental change has passed. It is time for bold actions, radical ideas, and a complete transformation of the way we live and interact with the natural world.

10 Propositions for a Sustainable Future

This group of thought leaders identified ten propositions aiming at creating a more sustainable future for all.

1. Companies need to expand the scope of their sustainability and ESG programs from a pure compliance play to a fully monetized compliance approach. This means that instead of just focusing on meeting regulatory requirements, companies should also consider the financial benefits of sustainable practices. By incorporating sustainability into their business strategy, companies can create new business models and revenue streams, reduce costs, and improve their reputation. For example, investing in renewable energy sources can reduce energy costs in the long term, while also demonstrating the company's commitment to environmental sustainability. Adopting a monetized compliance approach encourages companies to view sustainability not as a cost, but as an opportunity to generate value. **By embracing sustainability as a business imperative, companies can create long-term value for both their shareholders and society as a whole.**

2. Adopt a "true cost" approach. This involves disclosing the actual impact of business activities, including the impact of raw material extraction, and developing holistic key performance indicators (KPIs) and metrics that accurately represent the real footprint of business activity on the natural and social ecosystem. As an illustration, it is imperative to consider the impact of greenhouse gas emissions, water pollution, and air pollution for example on the entire society (related health issues cost, cost to regenerate soil, cost de depollute, cost of landfill, etc.). By doing so, companies can gain a comprehensive understanding of their impact and make informed decisions that are aligned with sustainable development goals.

3. Embrace the circular economy as this concept is crucial for companies to improve their sustainability footprint while maintaining financial stability. By transitioning from the traditional linear model of take-make-dispose to a circular model of reduce-reuse-recycle, companies can create value from waste, conserve natural resources, and reduce carbon emissions. The circular economy also encourages collaboration and innovation, allowing companies to find new ways to create products and services that are both profitable and sustainable. Ultimately, embracing the circular economy can lead to a more resilient and sustainable business model that benefits both the company and the environment.

4. Embrace the concept of regeneration. Regeneration can track the actual outcomes (net net impact) of companies, promoting a role in improving the environment and social spheres. By implementing a regeneration-based approach, companies can move beyond just reducing their environmental impact and strive to have a positive impact on the ecosystems and communities in which they operate. This approach allows for a more holistic view of a company's impact, including its positive contributions (and not a corrective one on the damage it is creating), and can serve as a powerful tool in promoting sustainable business practices.

5. Companies need to adopt a "true price" approach, which goes one step further than "true cost" accounting by incorporating the value of regenerating the planet and replacing what we are taking away. This approach also involves charging consumers the full value they are willing to pay for products and services that support sustainability. A "true price" approach is crucial to drive sustainable consumption and production patterns, which will enable a more equitable and sustainable future. However, to implement this approach, companies need to be advanced in customer segmentation. By segmenting customers based on their willingness to pay for sustainable products and services, companies can align and price their offerings accordingly, which not only encourages sustainable consumption but also rewards companies that are committed to sustainability.

6. Implement 3P Pricing which incorporates the triple bottom line of People, Planet, and Profit, as it is a powerful tool to align sustainability and business outcomes. This pricing model allows consumers to have access to information about the real impact of their purchases, not only on their wallet, but also on the environment and society. By incorporating this information into purchasing decisions, consumers can steer the discussion and influence companies to prioritize sustainability in their operations. This can ultimately lead to a shift in corporate incentives and help to promote a more sustainable and equitable economy.

Companies have a responsibility to dedicate time and effort to schools and universities to equip the next generation with critical thinking skills necessary to consider 3P (People, Planet, Profit) in their decision-making process.

7. Reshuffle corporate incentives to align sustainability and business outcomes and make them long-term-based, expanding incentives to include social and planet-related goals, in addition to financial performance. By doing so, companies can be encouraged to prioritize the environment and society, not just profits, and work towards achieving a sustainable future for all.

8. Breaking down silos between departments is necessary to enable knowledge sharing and to identify solutions. The HR, Pricing, Marketing, Finance, Operation and Sustainability teams must work together in a multi-functional collaboration to ensure a successful transformation towards sustainability. Cross-collaboration among teams allows for a more holistic approach to sustainability, which leads to better outcomes for the company, the environment, and society. By fostering a culture of collaboration, companies can tap into the collective intelligence of their employees to create innovative and effective solutions to complex sustainability challenges.

9. Invest in the next generation. Companies have a responsibility to dedicate time and effort to schools and universities to equip the next generation with critical thinking skills necessary to consider 3P (People, Planet, Profit) in their decision-making process. By promoting critical thinking and curiosity, future leaders can question businesses that prioritize only one of the 3Ps and demand more comprehensive approaches. Therefore, it is essential for companies to not only focus on short-term financial gains but also on investing in the future generation, which will ultimately play a significant role in shaping a more sustainable world.

10. Welcome and be part of the effort to develop regulatory frameworks that promote the alignment between sustainability and business outcomes. The focus should be on creating a simple and generalized framework that applies to various types of companies, making it easier to compare them from different regions of the world. It's important to ensure a fair playing field for all companies anywhere in the world. Additionally, these frameworks should ensure that end consumers worldwide have access to the same level of information regarding sustainability and business practices. Let's work together with regulators to create a sustainable future for everyone.

By implementing these propositions, we can create a comprehensive approach to monetizing sustainability that aligns with the values of the company, its customers, and the wider community, and achieve true alignment between sustainability and business outcomes. Collaboration between pricing, marketing, finance, and sustainability professionals will be crucial to drive this change and create a positive impact on our planet and society.

How might we define monetization for sustainability?

A common definition and language will help steer the conversations that all business leaders will have around profit, planet, and people. Innovative approaches to monetization and pricing must be a central element in these conversations, so we have defined the what and the why.

What is "monetization for sustainability"?

Monetization for sustainability is the act of incorporating sustainable business practices that promote environmental and social responsibility into a company's operations in order to generate profits. This approach involves implementing business practices that are consistent with the principles of the ESG framework, which stands for Environmental, Social, and Governance. ESG considers how a company's activities impact the environment, its social impact on communities, and the governance practices that ensure the company operates with integrity and transparency. This approach involves building brand equity, gaining competitive advantage through differential value, creating new revenue streams, and improving pricing. This allows us to get a reward for those in the value chains that create a true positive impact through sustainability solutions. To succeed in this endeavor, organizations must possess mature value and pricing capabilities, as well as leverage true cost accounting to understand direct and indirect costs and externalities associated with their offerings. New business models, value models, revenue models, and price models should be experimented with to create a more sustainable business model. Customer segmentation and willingness-to-pay research should also be implemented and improved to focus on profitable segments. Finally, organizations should make strategic pricing choices, such as building premium positions or other unique strategies that will effectively monetize their sustainability efforts.

Why do we, as business professionals, have to care?

Business professionals should all care about the sustainability transformation because it presents an opportunity to create change with a significant impact. Pricing professionals who can lead organizations to align sustainability outcomes with profit-making will catalyze the most important change in modern history. Businesses with European activities will also be obligated to comply with ESG. Designing and deploying innovative price models to align with new value models will be the strongest profit lever for business professionals, while implementing systematic and agile pricing capabilities will build resilience and agility. Finally, business professionals have always been responsible for driving cultural change around value and profit-mindset and aligning sales, finance, marketing, product, and operations. Adding a dimension of sustainability will only strengthen this cultural responsibility.

But the success of monetization for sustainability depends heavily on pricing, marketing, operation, finance, and sustainability professionals working together collaboratively. By combining their respective areas of expertise, these professionals can develop new approaches that create value for both the company and society as a whole. Pricing professionals can bring their knowledge of revenue management and pricing strategies, while sustainability professionals can provide expertise in environmental and social impact assessment, for example. Marketing professionals, in turn, can help to shape the narrative around sustainable business practices and communicate the value of these practices to customers. By working together, pricing, marketing, operation, finance, and sustainability professionals can create a comprehensive approach to monetizing sustainability that aligns with the values of the company, its customers, and the wider community.

How might we align sustainability and business outcomes?

In order to achieve a true alignment between sustainability and business outcomes, there are several key areas that require attention.

First, a more rigorous measurement framework is needed that links business and sustainability more closely. Companies should adopt a "true cost" approach that discloses the real impact of their activity, including the impact of raw material extraction. KPIs and metrics need to be more holistic and representative of the real footprint of business activity on the natural and social ecosystem.

Second, regulations will play a critical role in ensuring alignment between sustainability and business outcomes. While the EU's CSRD is a step in the right direction, other regions must follow suit and develop frameworks that are less complex and more generalized across different types of companies.

Third, the circular economy needs to be widely adopted to give companies space to find solutions to improve their footprint while staying financially afloat.

Fourth, new concepts such as regeneration, with for example regenerative farming or regenerative fishing, should be better utilized to track real outcomes of companies. It is crucial for companies to play a role in bettering the environment and social circles rather than simply causing less damage.

Fifth, a new way to organize incentives is needed to ensure sustainability and business outcomes are aligned. Corporate incentives cannot be solely based on financial performance; they need to be expanded to include impact on social and planet-related goals.

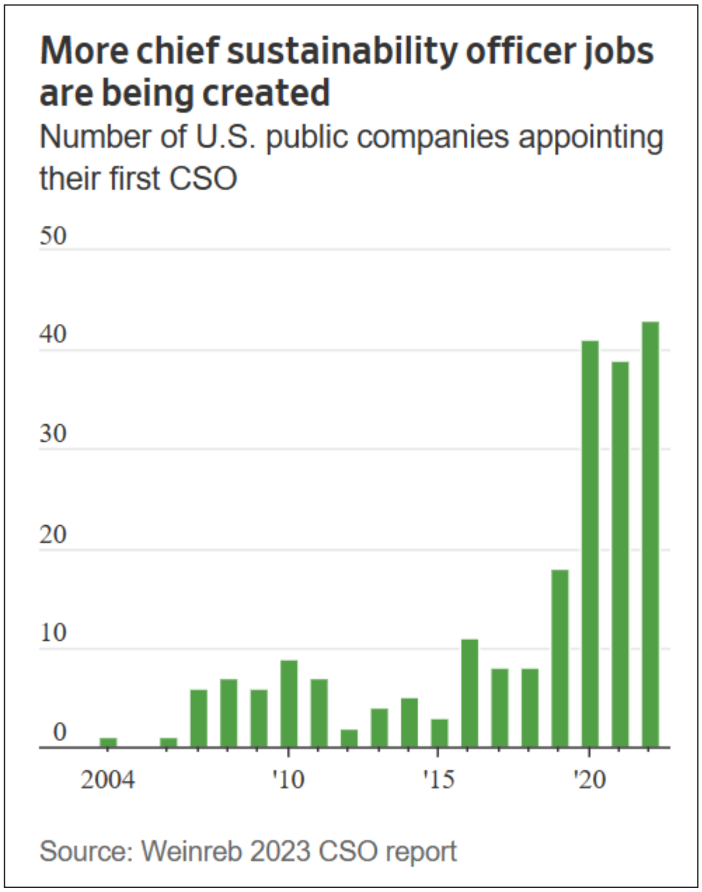
Sixth, a very pragmatic way to achieve this goal is to mainstream the concept of 3P pricing. Consumers should have access to the real impact of their purchase on their wallet, social community, and the planet. Without this 360-degree view of their purchase, we cannot steer the discussion and align sustainability and business outcomes.

Seventh, a more long-term approach is to invest in the next generation. To achieve alignment between sustainability and business outcomes, significant time and effort must be dedicated to schools and universities to ensure the next generation has critical thinking skills to consider the 3P and the curiosity to question businesses that prioritize only one of the 3P.

How might we engage the C-suite to ignite a movement?

No transformation of any sort is done without the engagement of the C-suite. This has been a top 5 item for many years whether it is digital transformation, an IT transformation, or a marketing transformation. The same goes for a sustainability transformation. It goes without saying that adding a Chief Sustainability Officer in the C-suite is going to dramatically change the game. This is what many companies have done over the past few years. As a result, by 2022, 95 of the Fortune 500 companies had a Chief Sustainability Officer (CSO) (How Many Chief Sustainability Officers In Fortune 500 Companies – ictsd.org) and the number of sustainability officers tripled in 2021 alone (Number of company sustainability officers triples in 2021 – study | Reuters). See Figure 1.

Figure 1



Having a CSO is not the magic bullet though. There needs to be engagement from all C-suite functions and strong championing from the CEO. Individually, each member of the C-suite has different needs and motivations with regards to sustainability and ESG work.

▪ CEO: top of mind for the CEO is staying compliant to be able to play in the sandbox. The most progressive ones care about boosting competitive advantage in their industry as well as improving their reputation.

▪ COO and CFO: both have the same motivation to pursue a sustainability transformation. First, they want to reduce supply chain risks. Then they care about cost and waste optimization. The CFO has ROI and impact in mind at the corporate level. Bottom line, sustainability is about internal financial impact.

▪ CMO: the CMO has a different perspective. They also aim at boosting differentiation and brand equity. They also want to develop new business models and marketing campaigns to promote a sustainable brand. For a few of them, sustainability might lead to pricing and margin power.

▪ CPO: The Chief People Officer sees great opportunities with sustainability transformations. They want to be able to attract and retain talent. They see it as a way to promote a corporate culture focused on key values.

▪ CSO: For the newly appointed Chief Sustainability Officer, the motivation is to succeed in their transformation while making a difference for the planet. They want to be best-in-class with best practices, automated reporting, advanced capabilities, and resounding impact. They are the heart of transformation.

Other C-suite functions want to achieve other goals. The CEO's role is to make all these needs and motivations converge with a compelling and inspiring vision. For that, the sustainability team must embrace advanced change management concepts to reach a fully aligned C-suite.

We list some of the tools, actions, and programs that might help convince C-suites around the world to fully embrace sustainability transformations. Here are our top eight things that sustainability teams should consider to get the C-suite on board and to engage all stakeholders.

⬩ Create a strong sense of urgency: bring the outside in with competitors' case studies, industry benchmarks, mega-trends, compliance updates, and success stories. These need to be credible and more than one anecdote here and there. We show high level trends and research findings from the most credible sources.

⬩ Bring in the experts: invite key thought leaders, professors, and other visionary executives to speak to your C-suite. Focus on experts to convey strong and threatening messages. The cost of doing nothing or being late in sustainability is high. Greenwashing is no longer an option.

⬩ Conduct deep customer research: conduct specific voice of customer research to demonstrate the shift in customer perceptions and preferences. Again, here, one or two customer stories are not sufficient. Conduct a barometer survey to track shifts in customer perceptions over time.

⬩ Define key performance indicators: these indicators need to connect with all C-suite stakeholders. They cannot just be compliance or financial outcomes. They must include talent and brand impact. They must cover the technological and legal landscape as well.

⬩ Develop a sustainability maturity roadmap: show the C-suite participants the roadmap for capabilities and systems development. Not everything will happen overnight. Show them how other peers do it. That includes product, technology, monetization, and skills roadmaps over the long-range plan.

⬩ Train the C-suite on key concepts: make sure all members of the C-suite receive appropriate training on key sustainability and ESG concepts: circular economy, carbon accounting, net zero programs, etc.

⬩ Focus on monetization: by proactively monetizing the impact of sustainability, you can bring the sales, marketing, and innovation stakeholders to the table and get their attention. If you can show the impact on pricing power, NPS, customer retention and sales growth, then the battle is won. Your CMO and CCO will be fully on board. For that, you need to develop a monetization strategy and invest in operationalizing it in the go-to-market process.

⬩ Speak the right language: each C-suite executive uses a different language formally linked to their area of responsibility. Tailor your language to relevant stakeholders and keep it simple and pragmatic. Avoid buzzwords or "pie in the sky" presentations. People get to the C-suite because of their achievements and skills. ❖

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How to Play the Pricing Game

by Mark Chussil

Why do people disagree on what prices to charge? Because pricing is a game, in the game-theory sense, and by definition a game cannot be solved. In this article, the author explores why we might be startled, even shocked, by disagreements when making pricing (and related) decisions, using over 16 billion simulated futures from the Top Pricer Tournament™, based on pricing strategies submitted by 2,239 executives, managers, consultants, students, and professors. Mark Chussil is the Founder of Advanced Competitive Strategies, Inc. He has studied competitive strategy for 45 years: conducting research, working in industry, facilitating business war games, and developing computer-based strategy simulators. He can be reached at mchussil@whatifyourstrategy.com.

Why do people disagree on what prices to charge? Yes, yes, different markets, businesses, products, and competitors. But why do we disagree about what a specific business, in a specific market, should do?

We know the usual suspects. Differences in mental models, risk tolerance, measure(s) of success, time horizons, incentives, experience in related businesses, experience in unrelated businesses, and so on. Many moving parts, not always visible, not always manageable, often only anecdotal.

Of course, pricers don't disagree willfully. They're not like the comedian Groucho Marx, who sang "Whatever it is, I'm against it." Rather, pricers are passionately confused. Stakes are high, careers are at risk, everyone has an opinion, and no one knows the answer.

Why? Because pricing is a game, in the game-theory sense, and by definition a game cannot be solved.[1]

In this article, I'll suggest why we might be startled, even shocked, by disagreements when making pricing (and related) decisions. I'll rely on over 16 billion simulated futures from the Top Pricer Tournament™, based on pricing strategies submitted by 2,239 executives, managers, consultants, students, and professors. Their decisions, and the resulting simulated futures, startled and shocked me, and I'm the guy who wrote the Tournament.[2]

Tournament entrants' decisions

The Tournament entry form provides key information — market growth rate, customers' sensitivity to price, businesses' mix of fixed and variable costs, etc. — for the generic, fictitious Ailing, Fast Growth, and Mature industries.

Each entrant made key decisions for a business in each industry.

- How much the entrant cares about goals; here, profitability and market share. Each entrant weights each measure of success according to the entrant's preferences.
- What price move to make in quarter 1, year 1 of the simulation. Q1 options are to cut, hold, or raise the entrant's prices by a fixed amount.
- What pricing strategy to select for quarters 2-4, year 2, and year 3. Entrants select any combination of pricing strategies (Q2-4, Y2, and Y3) from 17 options.[3]

With three options for Q1 and 17 options apiece for Q2-Q4, Y2, and Y3, entrants can devise a pricing strategy based on any of 14,739 combinations (3 x 17 x 17 x 17 = 14,739). With 2,239 entries currently in the Tournament, each entrant's pricing strategy gets simulated in about 2.5 million futures, using all unique combinations of entrants as competitors.[4] With 2,239 entries per industry, and 2.5 million futures based on competitors' strategies, each industry runs about 5.6 billion simulations. Bonus: The Tournament gets smarter and smarter as more entrants enter strategies.

Measures of success are scaled relative to the range of performance among strategies with similar preferences. Each strategy's score can range from 0 (worst of the strategies with similar goals) to 100 (best of the strategies with similar goals).

Differences in strategies' performance come solely from differences in entrants' pricing strategies.

Implicit beliefs

Given the differences among the industries, it's no surprise to find corresponding differences in entrants' first price move (see Figure 1 on the next page). Note that Q1 moves could shape subsequent competitive action and reaction, depending on Q2-4, Y2, and Y3 strategy decisions.

Conventional wisdom

In the bleak Ailing industry, 31% of the 2,239 entrants chose to cut their prices in Q1. Another 43% chose to hold, and 25% chose to raise. That's the most evenly distributed industry. Some entrants saw opportunity, others saw peril, and a plurality coasted along with the same old price. Perhaps some entrants even considered

Ailing unworthy of serious attention. Who, after all, aspires to make their mark in an industry melting away?

Frisky Fast Growth split almost evenly between cutting and holding prices, with raising prices a distant third. Consider conventional wisdom: Gain share when growth is fast, and cash in later. Or the other conventional wisdom: Don't be first to cut prices, and don't make yourself uncompetitive by raising. Or the other *other* conventional wisdom: Why cut prices when demand is growing and fortunes are to be made?

Bland Mature was indecisive between holding and raising prices with cutting a far distant third. Should we stimulate the market with lower prices? Should we wait for someone else to show us the new way forward? Should we milk the market for all it's worth? Should we aspire simply not to ruin a good thing? Don't snatch defeat from the jaws of victory.

Key point: There's **always** conventional wisdom. And if not, there's always a reassuring and/or supportive anecdote.

Conventional predictions

Consider Figure 1 from a different angle. Each entrant was one of 2,239, and each entrant would compete with all 2.5 million unique two-business combinations of the other entrants.

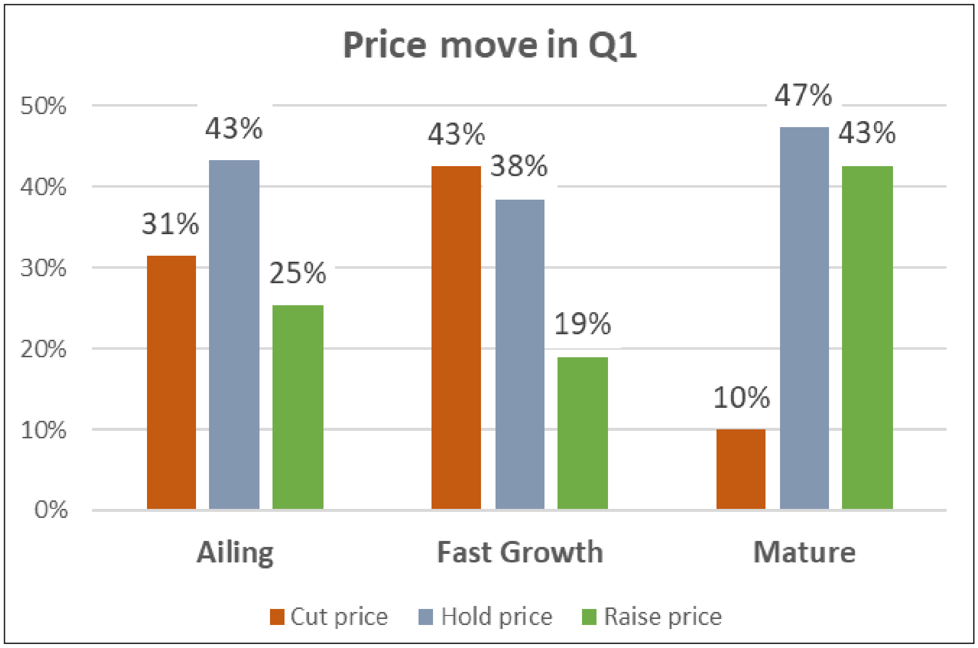
If you're thinking about the Mature industry, what would you predict your competitors would do? Your best guess would be that they'd hold their prices in Q1 … but you'd probably be wrong, because 53% of other entrants would *not* hold their prices. You would, though, have a good clue that Mature competitors wouldn't start by cutting their prices.

It's fairly predictable that Fast Growth competitors would want to cut their prices to gain market share… but 57% of Fast Growth entrants chose to hold or raise their prices.

In the Ailing industry, anything could happen. Just like the other industries, though with different probabilities.

Or consider Figure 1 from an obey-conventional-wisdom perspective. Go for share in fast-growing markets. Harvest profits in mature markets. Scrounge for scraps in ailing markets, then walk softly away. Of course, your competitors know the conventional wisdom too. Should you try to buck convention? Should they? Is it better to risk a price war or to leave money on the table? Whatever entrants guessed their competitors would do, they're probably wrong, because no Q1 price move was chosen by more than 50% of entrants.

Figure 1



Source: The ACS Top Pricer Tournament

Key points: Those Q1 patterns echo a lesson I learned in live-action, role-playing business war games. Strategists often think there are just a few possible futures or that they can accurately forecast what competitors will do. What they discover is that there are many more possibilities than they anticipated. In one war game, the company imagined 3,938,220 possible futures… in fifteen minutes.

There's no such thing as **the** singular future. We can predict weather because we have a science of meteorology. We cannot predict price (and other) moves because pricing is a game-theory game. That doesn't mean we're helpless. It means we must think like game-players.

There's not even such a thing as **the** singular past. If hindsight were 20/20, why do we tell such different stories about it?

What do you want?

Entrants indicated how much they cared about two goals: market share (the business' percentage of units sold in the industry) and profitability (the business' profit divided by its revenue), both measured at the end of the Tournament's three-year time horizon (see Figure 2 on the next page). Entrants declared their goals by how they weighted market share and profitability. Weights of 100%/0% mean an entrant cared only about market share. Weights of 0%/100% mean caring only about profitability. Weights of 50%/50% mean caring equally about the metrics. And so on.

There were entrants in all three industries who put 0% weight on market share and 100% on profitability. There were entrants in all three industries who did exactly the opposite.

Entrants' price strategies reflect what they thought would help them achieve their goals. The differences in price moves (Figure 1) strongly suggest that entrants developed narratives of how their strategies would play out. In my conversations with entrants, all could recite their rationales, their stories, of how they'd thrive over the next three years.

Key point: Be wary of assumptions, especially those that work in your favor. Your competitors' goals might be wildly different from, or wildly similar to, yours.

I've conducted business war games in which the home team (the people role-playing the client company) asserted that competitors wouldn't be able to match the home team's price. Then their own people, role-playing competitors, concluded that competitors couldn't afford **not** to match the home team's price. Those insights led to actions that made or saved hundreds of millions of dollars.

How groups' strategies performed

The very first group of Tournament entrants came from the attendees of a pricing conference that I addressed 16 years ago. Subsequent groups came mostly from executive programs and classes at various universities. In all, 36 groups each had at least 20 entrants, sometimes many more.

Figure 3 shows the Tournament scores for the best- and worst-performing groups. Individual entrants' strategy-success scores range from 0 (worst) to 100 (best); the group averages show how well the members of the groups performed. The green, red, and yellow markers show the average scores of the best-performing group, the worst-performing group, and all 2,239 Tournament entrants.

The differences in performance can be large, with the best groups' strategies outperforming the worst groups' strategies by about 60%. That's a big deal, and that's why it's so important to develop and adopt good pricing strategies.

Group 1, the participants at the pricing conference I addressed, got the highest average scores in two industries, and it missed a clean sweep by falling less than 1% below the best in the third industry. Strategies from three different groups, one corporate and two from universities, performed the worst.

But there's more. The groups aren't homogenous. There's variation within the groups. A lot of variation.

Each industry has a best group and worst group, shown in Figure 3 as the highest- and lowest-average group. Figure 4 on the next page shows the variation **within** those groups. The average strategy-scores from the best and worst groups appear as the yellow markers in Figure 4. The green and red markers indicate the best and worst **individual** scores within the group.

Figure 4 shows that:

▪ Every best-group had at least one entry (the red markers) that performed badly. Someone's strategy worked not-so-well, despite the good company it kept.

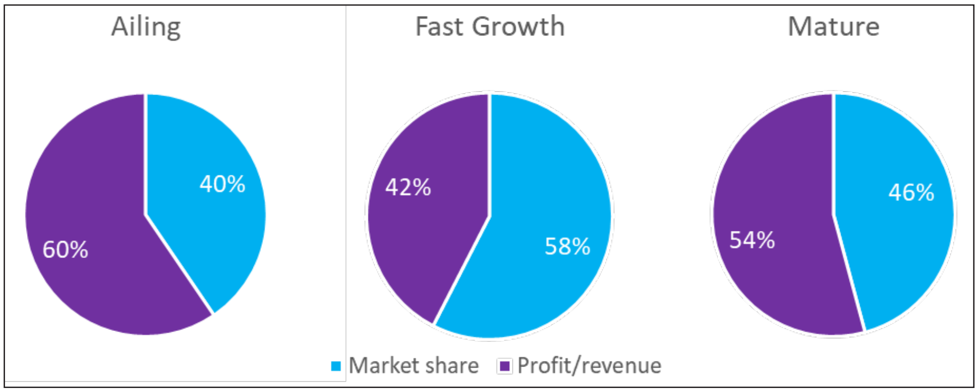
▪ Every worst-group had at least one entry (the green markers) that performed well. Someone's strategy worked well, despite the bad company it kept.

▪ The action is in the yellow markers. The average strategies from the best groups were clearly higher than those from the worst groups, even though each group had winners and losers.

In statistical terms, there's abundant variance within groups. In business terms, there's a lack of unanimity among the entrants of a given group. It's hard to know whether an entrant was smart or just got lucky. It's hard to know whether an entrant was not-smart or just got unlucky.

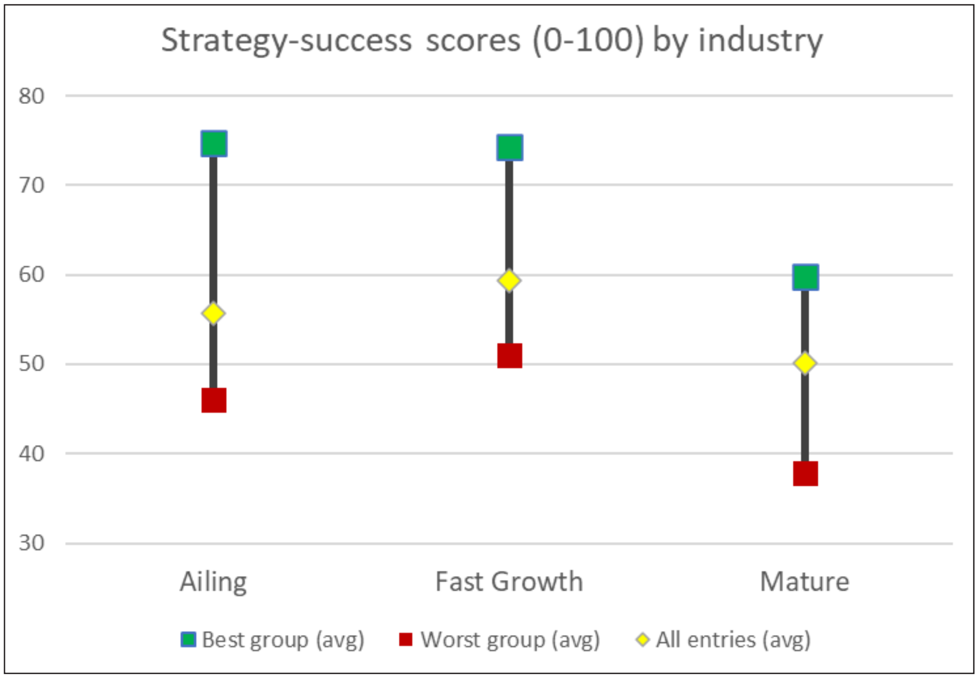
Key point: In a way, we don't really care whether an entrant was smart, lucky, not-smart, unlucky, or a combination. We care a great deal, though, about making good pricing-strategy decisions. We can make better pricing-strategy decisions by test-

Figure 2



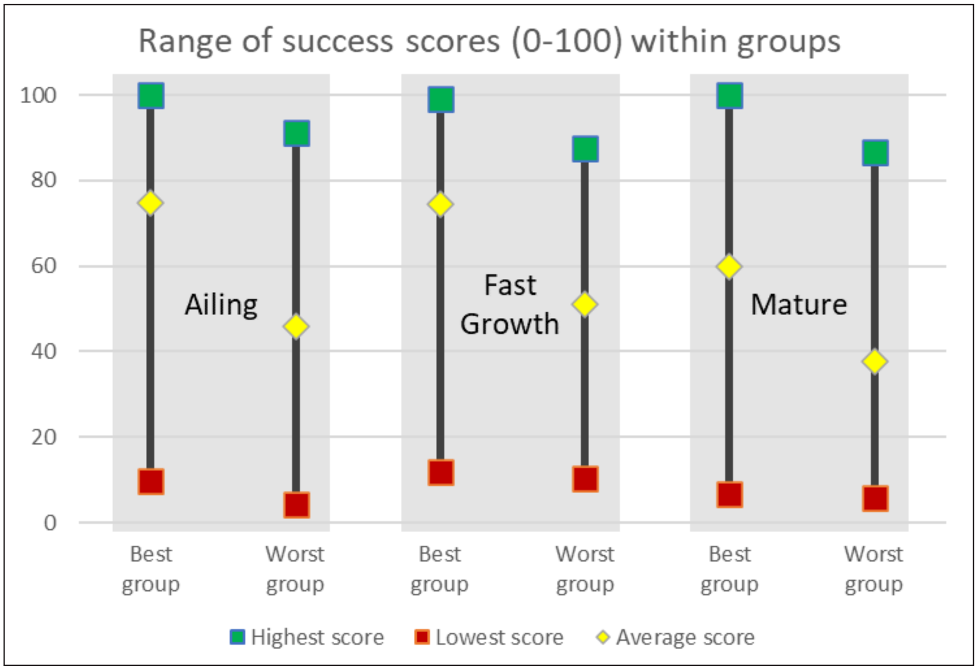
Source: The ACS Top Pricer Tournament

Figure 3



Source: The ACS Top Pricer Tournament

Figure 4



Source: The ACS Top Pricer Tournament

ing many candidate strategies in simulated industries.

Strategy tests: Hold-still and do-nothing

I inserted two special strategies in each of the three Tournament industries. One special strategy moves only to maintain its position at the market-average price. We'll call that the hold-still strategy. The other special strategy does nothing at all; it's blissfully calm while competitor strategies risk life and P&L for competitive advantage. We'll call that the do-nothing strategy.[5]

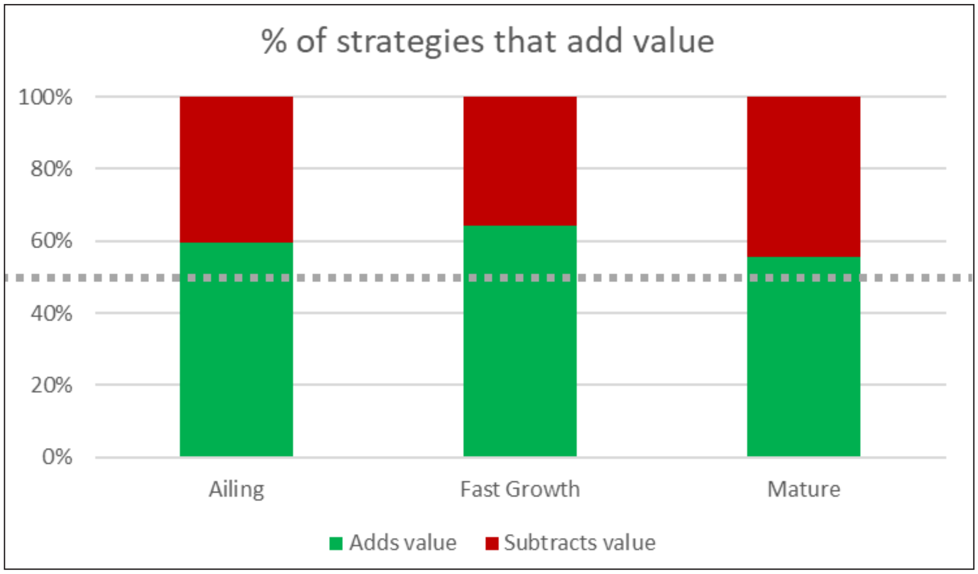
If a given strategy's score beats the hold-still and do-nothing strategies, then the given strategy adds value. If it doesn't, it subtracts value. It's not a strategy guarantee, but it's simple and sensible, and it seems that at the very least we ought to expect a strategy to beat hold-still and do-nothing.

Figure 5 shows that, on average, entrants in all the industries add value to their businesses.

We'd expect that most strategies would add value, meaning that entrants' strategies made their businesses better **including competitors' actions and reactions.** Still, a sobering 40% of strategies made their businesses worse. That's startling and shocking. After all, no one says, "I've got a good strategy and a bad strategy, I think I'll take the bad strategy." But 40% of the time, the strategies performed worse than hold-still and do-nothing.

The key, then, is to compare the high-performing strategies to the low-performing strategies. Were the latter strategies dysfunctional? Were they too aggressive and triggered retaliation? Were they too bashful and let competitors get ahead? Did they underestimate competitors?

Figure 5



Source: The ACS Top Pricer Tournament

There is a clue. Figure 2 showed that entrants valued market share quite a bit more than they valued profitability in the Fast Growth industry. (I'm not saying that they should or shouldn't do so.) Since price was the only way they could gain share, and since there's **always exactly** 100% market share to go around, share-growth strategies would often achieve no share-growth advantage.

Key point: The analysis in Figure 5 compared strategies to what would have happened **otherwise** (in this case, "otherwise" is the hold-still and do-nothing strategies), as opposed to comparing a strategy's outcome to a previous point in time. **Otherwise** might seem subtle and unconventional, especially when management wants to see bottom lines go up, up, up. But comparing outcomes to **otherwise**, rather than to **yesterday**, is the better way to judge a strategy.

Is there a best strategy?

Despite sifting through billions of simulations while wearing my strategy-wizard hat, I cannot definitively answer the best-strategy question. Pricing is a game, and there is no definitive solution. But we can improve the odds of making better decisions.

Making better decisions means, in part, setting better expectations. "Success" involves goals, and by definition we cannot hit unachievable goals. Thus, there are exactly **two** ways to fail: performance too low and expectations too high.

Dominance

Game theory includes the concept of dominance.

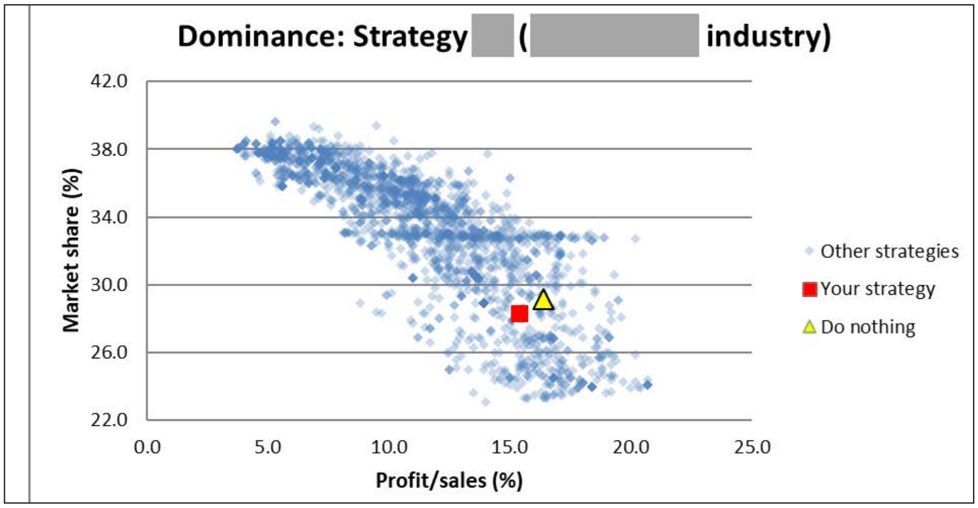
- Strategy X "strictly" (or "strongly") dominates Strategy Y if X is at least as good as Y on all relevant criteria and X is better than Y on at least one criterion. If X achieves market share of 35% and profitability of 15%, and if Y achieves share of 30% and profitability of 10%, then X strictly dominates Y. With those numbers, there is no reason ever to select Y.

- Strategy X "weakly" dominates Strategy Z if X scores higher than Z despite tradeoffs. If X achieves share of 35% and profitability of 15%, and Z achieves share of 30% and profitability of 16%, then X weakly dominates Z if management cares more about market share, and Z weakly dominates X if management cares more about profitability.

The Tournament summarizes the performance of all 2,239 strategies in a dominance graph (Figure 6). Each blue dot shows the average market share and profitability for one strategy, averaged across all 2.5 million of its competitive futures. Darker blue comes from dots piling up. The red square highlights the performance of a single strategy in its 2.5 million futures, and the yellow triangle indicates the average performance of the do-nothing strategy.

In Figure 6 we can see:

Figure 6 (Greyed areas conceal confidential information.)



Source: The ACS Top Pricer Tournament

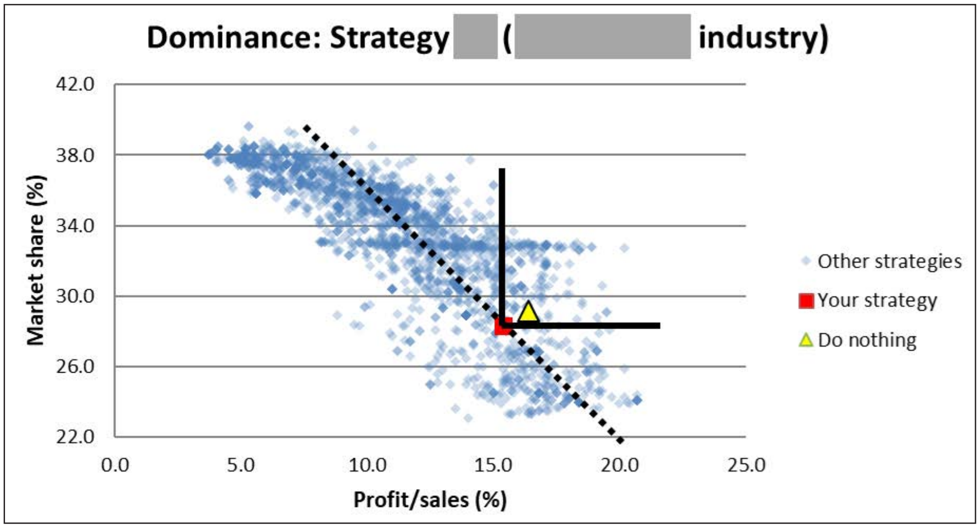
- "Your strategy" performs worse than "do nothing" on both measures of success, share and profit. "Do nothing" strictly dominates "your strategy."

- Many strategies strictly dominate "your strategy."

- Many other strategies weakly dominate "your strategy."

Figure 7 is just like Figure 6 except that it highlights strict and weak dominance. Strategies strictly dominate "your strategy" if they fall to the northeast of the L-shaped solid lines. Strategies weakly dominate "your strategy" if they fall to the northeast of the dotted line.[6]

Figure 7 (Greyed areas conceal confidential information.)



Source: The ACS Top Pricer Tournament

I should stop calling the red square "your strategy" because it is actually my strategy.

I entered strategies for the three industries, and the dominance graph showed that my strategy for one industry was, charitably, not impressive. That was one of the great experiences of my professional life. First: I learned a key lesson about better strategizing by comparing my strategy to those that outperformed mine. Second: My technology, with the help of a couple thousand people, taught me.

Key point: What I learned about strategy from the Tournament changed how I think about competitive strategy. I know I wouldn't have learned that lesson without the Tournament.[7]

The best strategy

Some strategies add value while others don't (Figure 5). Some strategies add more value than others (Figure 4). Some strategies are more robust than others; they perform well against more of the 2.5 million futures that the Tournament simulated. Some strategies dominate others.

But strategy is complex, and there are no guarantees. The Tournament simulated billions of simulations, which seems rather a lot, but we could nominate and test more. I had the Tournament test strategies that no human has entered yet. Some of those strategies outperformed all strategies that humans have chosen so far.

We can go deeper. You've probably come

across the Prisoner's Dilemma, a simple-yet-unsolvable problem in game theory. The Top Pricer Tournament is like a three-player iterated prisoner's dilemma, made extra-complicated by having two measures of success (market share and profitability) as opposed to one (years in prison), and even more extra-complicated by having 14,739 pricing strategies as opposed to two (cooperate or defect) available to the three identical businesses.

Game theory includes equilibrium. An equilibrium is a state of affairs in which none of the game-players — businesses or prisoners — can improve their outcomes by switching to another strategy. That doesn't necessarily mean everyone is happy. As in the prisoner's dilemma, it means only that no one can do better through unilateral action.

I adapted the Tournament to see whether it could find equilibria, given three initial pricing strategies for the three businesses in an industry. Here's the process. First, the Tournament tested all 14,739 strategies for the first business while the other two retained their current strategies. Next, it tested all 14,739 strategies for the second business while the first and third used their current strategies. Finally, it tested the 14,739 for the third.

If any of the three businesses found a better strategy, it would switch to the better one and the test would run again. No equilibrium yet. If none of the three found better strategies, that reached an equilibrium. The test stops.

Did it find equilibria? The answer: maybe, sometimes.

I ran a series of simulations for strategies that Tournament entrants chose for the Mature industry.

Experiment 1. All strategies cared only about profitability. The search for equilibrium stopped after just 16 iterations. (Each iteration ran 44,217 simulations; 14,739 x 3.) But it hadn't found an equilibrium; it had found a loop. In each iteration, at least one strategy could do better by switching, and the businesses' profitability would twitch a bit. The good news for the businesses: They alternated gently between slightly different levels of profitability.

Experiment 2. Different Mature strategies, with entrants who all cared equally about market share and profitability. The test ran 315 iterations before discovering it had found a 255-iteration-long loop. If they stopped where the loop began, they'd have been okay. But if they continued to tweak, their market shares could lurch up and down by 10 percentage points, and profitability could quake by about 20 percentage points, including some painful losses.

Experiment 3. Still in Mature, the businesses cared only about market share. This one matched the clue I mentioned near Figure 5: The three businesses cared only about market share, and they quickly started a price war that everyone lost. No one gained share. Everyone lost money.

Key point: Don't mess it up. You can lose a lot of money trying to make a little more money.

Conclusion: Like AI, only better

The inevitable disclaimer. Do not consider anything in this article to be a recipe for your business' success. The Tournament was calibrated for specific conditions, and those conditions might not apply to your markets. It is possible to calibrate simulations for real-life businesses, but that's not what's shown here.

Key point: The casino has an edge of only a few percentage points, but that's what makes the casino rich. We don't need perfection to improve. The experiences I related here have moved hundreds of millions of dollars up, up, up.

Key point: Strategy tournaments are not a battle between humans and computers. Humans have judgment and imagination, without which computers are useless. Computers have precision and speed, without which humans can only guess. Humans and computers are natural partners.

Humans have judgment and imagination, without which computers are useless. Computers have precision and speed, without which humans can only guess. Humans and computers are natural partners.

Final key point: We can experiment, we can simulate, and we can learn. We can make better decisions. ❖

The Top Pricer Tournament is ongoing. You and your colleagues can enter. All entries are confidential. Please contact TopPricer@DecisionTournaments.com.

Endnotes

1 See *Prisoner's Dilemma: John von Neumann, Game Theory, and the Puzzle of the Bomb*, by William Poundstone. Extraordinary book that even I could understand, including von Neumann's distinction between puzzles (solvable) and games (not solvable).

2 Inspired by *The Evolution of Cooperation*, by Robert Axelrod of the University of Michigan. He won a well-deserved MacArthur "genius" award for that book.

3 The entrants' Q2-4, Y2, and Y3 decisions are quarterly actions such as "be average", "always raise", "emulate profit" (do whatever the most-profitable competitor did in the prior quarter), "be unpredictable" (cut, hold, or raise, at random), "follow down" (if a competitor cut its price then cut yours, otherwise don't change price), and more.

4 That works because each industry's businesses start from identical positions.

5 For simplicity, I averaged the do-nothing and hold-still strategies.

6 The angle of the dotted line depends on how much you care about the two metrics. The more you care about market share, the closer to horizontal the line should be; the more you care about profitability, the closer to vertical.

7 See "Don't Let Your Mistakes Go to Waste", Mark Chussil, *Harvard Business Review*, March 1, 2016.

Excerpt from ‘Pricing Architects’

by Frederico Zornig

This article in an excerpt from the book “Arquitetos do Pricing” (The Architects of Pricing), which has recently been translated and released in its first English edition. In this book, the author interviews 20 senior pricing professionals in Brazil representing multiple industries and global corporations. Frederico Zornig is a founding partner of Quantiz. He has over 30 years of professional experience with the leading companies in various industries in Brazil, the United States, and Latin America. He can be reached at fzornig@quantiz.com.br. “Pricing Architects” (English version) is available for free download here.

Pricing and Revenue Management have become top priorities for the biggest and best companies in the market. It is curious to think that fifteen years ago, when Quantiz was founded, the CEO of a large company discouraged us from pursuing consulting support for pricing determination, believing that the task was too simple.

While setting a mark-up over cost may suffice for a simplistic internal desired profitability point of view, it is not enough to guarantee the best results in an increasingly competitive, volatile, integrated, and dynamic business environment. The answer to whether this approach alone can provide optimal results is a resounding “no.”

Currently, many companies recognize Pricing and Revenue Management as critical strategic areas for their organizations and have robust structures, personnel, and tools to ensure that these processes work and prices are optimized. In line with current market trends, the book “Pricing Architects” aims to highlight the field of Pricing and Revenue Management by sharing best practices, opportunities, and risks offered by the area.

The book features in-depth interviews with some of the most renowned professionals in the field who are shaping Pricing history in Brazil, hence the use of the word “Architects” in the title.

Of course, selecting twenty pricing professionals to be part of this project was a subjective activity, but we brought some objectivity to the selection by requiring interviewees to have a minimum of ten years of experience in the field and hold a managerial title (or a position above that). Even after filtering by these requirements, there were still many other great professionals that were left out of this book because we had to limit the list while still offering readers answers from a variety of different industries and sectors.

The questions that we asked in this book were chosen by me after an exercise we conducted with everyone at Quantiz. I started by making a list and then asked each consultant and manager to think about what they would like to ask the main Pricing/RM executives of each company. With all in hand, I selected the ones I considered most relevant, and they were used as a guide for the interviews.

Pricing and Revenue Management are disciplines that can take on a very holistic dimension, as you will notice in the interviewees’ answers. Through this book, we wanted to bring readers a realistic and current perspective of what is being done in the market in various sectors. We interviewed professionals from the banking sector, retail sector (food and construction), various manufacturing industries (food, pharmaceutical, etc.), hospitality, and the medical/laboratory services sector.

It was an extraordinary privilege to be able to meet and talk for a few hours with each one of these experienced and talented professionals. I hope you, the reader, will find assertive, intelligent, and articulate answers from people who, like me, are passionate about the Pricing and Revenue Management area. This book brings some conflicting answers, but it is necessary to respect everyone’s opinion, especially in some controversial topics such as whether it is best to focus on the competition or the customer, or to make prices dynamic or not.

Pricing/Revenue Management will continue to be an open field, subject to a lot of innovation and new practices. New business models, increasingly available information, and more demanding consumers and companies will require new approaches from leading companies in their pricing. I hope that this book can serve as a contribution to this evolution. Finally, it was a lot of work for everyone who participated in this initiative, and I would like to express my gratitude for all the support I had throughout this project. Everyone involved in this project was a fantastic professional to work with, and it was a pleasure and an honor to be able to lead this new journey in this market, which resulted in this great work!

Wilson Ricoy
Pricing and Market Intelligence Manager, Assa Abloy
19 years of experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Wilson Ricoy: The company I previously worked for started implementing the Pricing area globally in 2002. I was chosen to be the person responsible for implementing Pricing in the division where I worked, due to my previous experience in financial and commercial areas. In 2008, I was promoted to Pricing Director for Latin America. Currently, I am responsible for the Pricing area at ASSA ABLOY Brasil, managing seven different brands.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

Wilson Ricoy: The main challenge currently is managing several price increases for raw materials (some of them reaching double digits) and the constant devaluation of the Brazilian Real against the US Dollar. These topics affect our profitability significantly, and even assuming a portion of these increases internally, we need to pass these variations on to our customers. It requires constant monitoring of the impacts of raw material price variations on our costs and discussions about how we can pass these impacts on to our prices while maintaining competitiveness. We always analyze our sales history data to understand the eventual effects of seasonality and the behavior of our customers, considering different periods.

Frederico Zornig: How do you envision the Pricing and Revenue Management area in the next five to ten years? How will these changes impact the work you do today?

Wilson Ricoy: I believe that software solutions for Pricing and data analysis tools (such as Power BI, Tableau, etc.) will become more accessible, making life easier for those who still heavily depend on Excel. With these tools, Pricing professionals will be able to focus more on acting strategically to determine prices and develop strategies, serving as navigators to help senior management make more assertive decisions, considering the company's internal needs and the behavior of the markets where they operate. The future of the Pricing professional will involve managing information panels to understand trends and guide the necessary actions for profitability. However, interpersonal skills will remain essential to interact and collaborate with all areas of the company.

Wilson Ricoy

Frederico Zornig *(Question sent by Fábio Vakuda, Senior Consultant at Quantiz)*: When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Wilson Ricoy: That's an excellent question! In my opinion, the profile of a pricing professional has changed significantly over the years. Currently, in addition to having good knowledge of Excel, one must also possess knowledge of tools for processing and analyzing data, such as Tableau, Power BI, etc. This is essential for analyzing data quickly, consistently, and effectively for decision-making. Additionally, interpersonal skills are essential for interacting with all areas of the company at all levels for teamwork and achieving the proposed objectives. I develop my team by providing specific training for their technical skills, and I also coach them to help them develop and improve their soft skills. Regarding academic background, if I am looking for someone with a generalist profile, I prefer people with a background in Business Administration or Economics. If I am looking for an information analyst, I prefer people with a background in Engineering or Statistics.

Frederico Zornig *(Question sent by Marcelo Krybus, Managing Partner at Quantiz)*: Do you think your company has a Pricing culture? Comment on the process of building that culture or, if they don't have a pricing culture yet, tell us how you are trying to create it.

Wilson Ricoy: The company I work for has a global Pricing culture, mainly after the hiring of a Global Pricing Director two years ago. There is a constant exchange of information between the company's Pricing professionals, through online training and quarterly meetings, in order to monitor the company's results and define the next steps. Currently, there is constant synergy with the commercial team to exchange information and experiences, after years of antagonism, which shows the importance of information from our area to develop commercial strategies with profitability. Nowadays, Pricing is a very important topic of every results meeting and is strongly discussed in financial, commercial, and marketing team's weekly meetings.

Frederico Zornig *(Question sent by Celso Silva, Senior Consultant at Quantiz)*: Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Wilson Ricoy: In a nutshell, never clash! Empathy with the people and departments we interact with is essential for us to do our jobs properly. In addition, simplifying our speech is essential in order to ensure everyone's understanding and involvement, leaving the mannerisms and keywords of our area to moments when we're speaking with other Pricing professionals. For everyone else, keeping it simple (and speaking in their native language) as much as possible.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or that you don't have access to? Please comment.

Wilson Ricoy: Currently, we are still very dependent on Excel. We are starting to develop some projects in Power BI to save time and mitigate the possibility of errors, so we can develop more advanced dashboards in order to get visual management of our results. We have started web scraping sell-out prices available on the internet to have a smarter process of quick price research for strategy corrections and decision making. Personally, I would love to work with more advanced Pricing analysis features, but we still have some way to go.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Wilson Ricoy: My definition of success for Pricing is to be considered an important part of the business, showcasing how our actions and strategies directly affect the company's results. For many years, we have been seen only as spreadsheet makers and commercial antagonists. I am very happy to know that this has changed radically over the years, and now we can see that a Pricing professional is considered essential for most companies worldwide.

Frederico Zornig: When considering the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please comment.

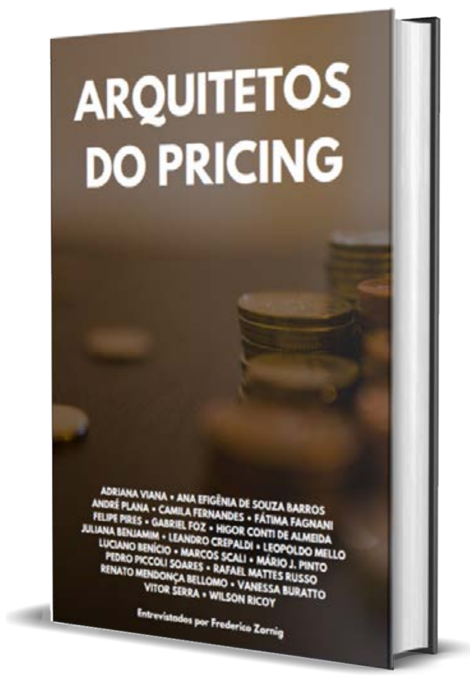
Wilson Ricoy: I believe that monitoring changes in sales prices in relation to the evolution of the company's contribution margin is one of our most important key performance indicators. Through it, we can evaluate the results of our pricing processes and the execution of our strategies by the commercial team, as well as the refinement of this process along the way, with quick corrective actions to improve results. The Win Rate analysis of the budget and quotation is also very important in improving the fine-tuning of this process, making it more effcient through continuous improvement.

Frederico Zornig *(Question sent by Tiago Martin, Managing Partner at Quantiz)*: When thinking about the impact generated by the Pricing/Revenue Management area, could you comment on the main benefits you believe you have brought to your organization?

Wilson Ricoy: The Pricing area has proven to be essential for the company to react more efficiently and effectively to market turmoil, especially considering the unstable scenario that we are currently experiencing. The culture of constantly analyzing Pricing key performance indicators, processes, and strategies has proven to be essential to ensure the company's good results, not only in Brazil but also in all countries where the company operates.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Wilson Ricoy: We use Sales Price Variation (sell-in), response time for quotes and budgets, Win Rate for quotes and budgets, contribution margin variation period vs. period, and their respective impacts.



This article is an excerpt from the book "Arquitetos do Pricing" (The Architects of Pricing), which has recently been translated and released in its first English edition. The English e-book can be [downloaded for free].

Frederico Zornig *(Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz)*: How do you ensure synergy between areas so that you can actively impact business results?

Wilson Ricoy: One of the main responsibilities of the Pricing professional, in my opinion, is precisely to be the link between the different areas of the company that are essential to provide information for our area. Knowledge of the specific key terms of each area, in addition to a good dose of empathy and interpersonal relationship skills, is essential to establish this synergy.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Wilson Ricoy: In theory, it would be wonderful if we could always price products in the same way. However, there are products where the value is unfortunately not properly perceived by the customer or consumer, which makes companies adopt other pricing strategies.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Wilson Ricoy: If we are talking about a type of product where the reference price for comparison is very strong, then the answer is yes. However, let's remember that this is more common when we talk about products intended for the final consumer. Price anchoring for B2B, for example, is not a very common strategy.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Wilson Ricoy: Each channel has a different dynamic, and prices must respect this. The same applies to geographic location, considering the socio-political and economic differences found in a country with continental dimensions like Brazil. The company's commercial policy needs to consider this segmentation (channels/region) to act more assertively and achieve better results.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please comment.

Wilson Ricoy: The greater the transparency for the customer, the greater their trust in you. They will see you as a business partner and not just a seller. The transparency of the commercial policy, in my opinion, generates a win-win feeling, essential for building solid and lasting partnerships, improving customer loyalty.

Frederico Zornig: How do you define "pricing strategy"?

Wilson Ricoy: For me, pricing strategy is about setting the most appropriate price for a given situation, to capture the value needed to leverage the company's results, while adequately communicating the value of the product or service to customers. This, of course, should be done while maintaining market competitiveness, which is essential for business survival.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Wilson Ricoy: In my opinion, the ideal is to know and follow both. Knowing the customer is fundamental to understanding their pain points and offering the most appropriate solutions to solve their problems. An important point to note is that the more customized the solution is for a customer (or group of customers), the better. However, understanding and following the dynamics of the competition is always essential to understanding market movements and how they are affecting your customers and your company's results.

Frederico Zornig: Elasticity, according to economic theory, refers to the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist, such as cross-price and income elasticity. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Wilson Ricoy: We still use the concept of elasticity in an elementary way in the company, using the Gabor-Granger method. We conduct price research to determine the supply and demand for a specific product. Information from the commercial team, combined with the automated online price collection system, is essential for our analyses.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the e-commerce market. Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Wilson Ricoy: To be honest and transparent, I have never worked with this type of dynamic pricing or algorithms. I don't have much to contribute to this answer, except to say that this is fundamental when working with prices aimed directly at the final consumer in e-commerce.

Frederico Zornig: What is pricing and/or revenue management to you?

Wilson Ricoy: For me, it means being the guardian of the company's profitability and competitiveness, contributing significantly to its growth.

Frederico Zornig: What is your final message to those reading our conversation?

Wilson Ricoy: We must never forget our purpose, which is to ensure and improve the profitability of companies. I've been at this for a long time and we've evolved a lot from a feeling of incredulity at the beginning to a moment where the importance of Pricing/RGM has proven to be more and more essential over the years. It is a great honor to have participated in this journey from the beginning and to leave a legacy for the new generations, forming successful professionals today. I'm very happy with this! ❖