PROFESSIONAL PRICING SOCIETY

The PRICING ADVISOR

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Author Tim J. Smith recently sat down with Jesse Finch Gnehm, Global Pricing Leader of GE Oil & Gas Subsea Systems, to learn about their pricing processes and initiatives. Gnehm was a keynote speaker at the Inaugural Latin American PPS Conference in São Paulo, Brazil last year. This article is a partial transcript of that interview, and provides useful insights to pricers who are building or adjusting their own internal pricing structures. Smith is the managing principal at Wiglaf Pricing, adjunct professor at DePaul University, a frequent PPS speaker, instructor and presenter, and the Academic Advisor for the Certified Pricing Professional designation. His most recent book is Pricing Strategy: Setting Price Levels, Managing Price Discounts, & Establishing Price Structures *(South-Western Cengage Learning, 2012). He can be reached at tsmith@wiglafpricing.com.*

In This Issue:

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Getting Pricing Done

GE has long been known as a process firm, but what processes do they use when it comes to pricing? Since GE is huge, let's look at one of their business units: Subsea Systems in GE Oil & Gas.

What do pricing initiatives look like at GE Oil & Gas Subsea Systems? Who contributes to those pricing decisions? How does the pricing function fit within the larger organization? What pricing decisions does the pricing function directly engage? What techniques and tools have been found useful for pricing at GE Oil & Gas Subsea Systems? And are there any external resources that they have found particularly useful?

I sat down with Jesse Finch Gnehm, Global Pricing Leader of GE Oil & Gas Subsea Systems to learn. What follows is an abbreviated transcript of our conversation.

The Value-Based Pricing Journey

WJ: Where is GE Subsea Systems in the pricing journey toward Value-Based Pricing?

JFG: In January 2013, I came to GE Oil & Gas Subsea Systems with a clear mission: establish the pricing function within GE Oil & Gas and evolve it on the pricing journey,

When I first arrived here, the culture surrounded cost-plus pricing like a lot of industrial businesses are. Making that transition from cost-plus to value-based pricing, from both a cultural perspective and a systems and infrastructure perspective, has been my focus for the last two years.

WJ: The value-based pricing journey is

CONTINUED ON NEXT PAGE ➔

PPS Happenings

Serving the Pricing Community Since 1984

Upcoming Events

26th Annual North American Spring Workshops & Conference – Hilton Anatole Hotel – Dallas, Texas / May 5 - May 8, 2015

- 12 Workshop Choices on May 5 and May 6
- 24 Keynotes and Breakout Sessions on May 7 and May 8

2nd Annual Latin America Workshops & Conference – Sheraton WTC Hotel – São Paulo, Brazil / 16-17 September 2015

For the most up-to-date information about PPS events and programs, please visit our website at www.pricingsociety.com frequently.

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known to engage culture, process, and inter-organizational coordination. How did you approach this shift?

JFG: The culture piece comes from three different areas. First it comes from leadership at the top. I have really good support from our CEO Rod Christie, [CEO of GE Oil & Gas Subsea Systems] who sponsored our work in the first year quite visibly, and that set the tone. The second thing for us is having regular pricing reviews at both the Subsea Systems-level as well as within the various P&Ls that make up our business. And then the third piece of that is training the people. We have a pretty developed training program with both online learning modules as well as instructor-led training to ground people in pricing theory, and practice within GE Oil & Gas as well as within Subsea Systems itself.

When it comes to the process and infrastructure, we have taken a modular approach going P&L by P&L. We will start with a pricing diagnostic, or audit. The audit examines the process and infrastructure, includes an in-depth analysis around past deals and transactions.

This process develops an understanding of where the gaps are and quantifies the value of closing some of those gaps. And we have also been slowly building up the team in each of those different P&Ls to put a pricing resource there that owns and drives those changes in process and infrastructure.

So we have talked about culture, we have talked about process and infrastructure and we get to that last part, that team piece. Really, we are a very small central team trying to support pricing decisions being made within the P&Ls, and also within our regions. Because we are very much a global business with commercial operations from Singapore all around the globe back through to Houston, trying to make sure we are aligned to supporting those pricing decisions. [Those] being made by people who might not have pricing in their title but are getting support, either through the development of new processes and tools here at the headquarters level or actually with the hands-on support of a pricing resource to help guide them in how they set pricing strategy, how they set prices, and then how they monitor the execution after the fact.

Context of Subsea Systems Within GE

WJ: How does pricing in the Subsea Systems fit within the larger GE context?

JFG: [When approaching] GE, start at the highest levels. GE, the 100 billion dollar-plus business that has a number of major businesses underneath it: GE Aviation, GE Capital, GE Energy Management, GE Healthcare, GE Home & Business Solutions, GE Transportation, GE Power & Water, and GE Oil & Gas. Within GE Oil & Gas you also have a number of smaller businesses that run somewhat distinctly. Subsea Systems is one of those six major businesses within GE Oil & Gas.

WJ: Within GE Oil & Gas, how do you work with pricing leaders in the other business units?

JFG: There is a lot of collaboration and best-practice sharing across the different businesses within GE Oil & Gas, and the Center of Excellence that Frederic Duhamelle [Executive Pricing Leader, GE Oil & Gas] leads at a headquarters level is at the center of helping to facilitate that.

The Center of Excellence around pricing supports each of the businesses as they execute pricing diagnostics and different initiatives. The pricing leaders in each of the businesses is connected to our executive pricing leader from a matrix perspective.

We have regular rhythms and meetings where the various pricing leaders and pricing team members from across GE Oil & Gas get together on a regular basis to talk about best practices, track and measure our performance as GE Oil & Gas, and to help build and elevate the level of pricing as a function within GE Oil & Gas.

Then if you step up to a higher level, there are a number of different initiatives that are trying to bring together our pricing resources not just across GE Oil & Gas, but perhaps collaborating with our counterparts in Transportation or Power & Water and some of the other businesses as well. So while the formal relationships tend to be held within GE

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Oil & Gas, we also do a lot of collaboration and best practices sharing at a higher level — with some of the other GE businesses that might not be as directly apples-to-apples comparable to the business that we do within the Oil & Gas sector.

Pricing Community Cultivation

WJ: And how is the pricing community within Subsea Systems being cultivated?

JFG: I've got the direct team that I am building out in support of our different businesses, but then we also have our commercial and sales team that we are trying to very much pull in and make a part of that pricing community.

The commercial people in our business are the folks who help negotiate the terms and conditions and refine the technical specifications alongside of our salesperson. Our salespeople might be viewed as a relationship owner. So where our commercial team often helps is where some of those pricing decisions are being taken, they might configure the quote and come up with and assess the different market dynamics that are at play.

We also partner with our friends in commercial finance, and marketing is a part of a lot of these initiatives as well.

So those are the folks who we are reaching out and delivering the online and in-person training to. We are trying to provide forums to talk about pricing dynamics within each of those different businesses as a part of our planning cycle, as well as providing some thought leadership.

WJ: Research by Homburg, Jensen, & Hahn indicates that the best pricing decisions usually engage sales, marketing, and finance. How does that relate to the way your decisions are being made?

JFG: It's very representative of how we are trying to approach things. Pricing deals pull in our sales and commercial teams to make sure that we've got good insights to the competitive dynamics and the customer value drivers. We've got our finance team there to help make sure that we are making smart financial decisions for the business. We've got our marketing team there to help us understand how deals might fit into the broader market landscape. And then, because we deliver highly engineered solutions, we partner closely with our product lines. Our sales team can give us some of that, our commercial team can give us some of that, but the actual folks who understand the design and engineer those things can also do it. So, we are moving past just the sales, finance, and marketing teams to actually involve some of our product leaders in the engineering team as a part of our process when setting price for some of our larger deals.

> "We don't tell the commercial and sales team—or the business—what the price should be. We work with them to help them come to an understanding of what the price should be through rigorous process and analytics in support of that."
>
> *— Jesse Finch Gnehm, Global Pricing Leader GE Oil & Gas Subsea Systems*

Focal Contributions of The Pricing Experts

WJ: How does pricing contribute to these teams' pricing decisions?

JFG: Pricing has people who are supporting each of the various businesses and the global businesses. But what we are very much trying to do is create systems and processes that empower the regions to be able to make those pricing decisions without having to come back to headquarters to talk about it. Now obviously you've got to have sort of a good exception management [price variance management] process with pricing. But our general approach is to:

1. have pricing resources aligned to the business,
2. have regions bring major deals back to the pricing team from across the globe,
3. develop systems and processes that allow those regions to be more empowered going forward.

WJ: It doesn't sound like you have a "command and control" role. It sounds more like you have a "develop and improve" role. Can you explain or expand on that concept?

JFG: Yes, that's it, in a nutshell. We don't tell the commercial and sales team—or the business—what the price should be. We work with them to help them come to an understanding of what the price should be through rigorous process and analytics in support of that. And often times we play a very facilitative role in helping come to those conclusions. As you can imagine, when you're pricing large deals like we are talking about within Subsea Systems, that's not a decision that any one person or department is taking on their own. But rather, it is much more of a collaborative process that needs good process and tools behind it, and some folks to drive it. At the end of the day, the business is making the decision on how to price things with our support.

WJ: Would you say you're co-owning the decision?

JFG: No. What I would say is that the business owns the pricing decisions. What we're making possible is to make sure that everyone has bought into

CONTINUED ON NEXT PAGE ➔

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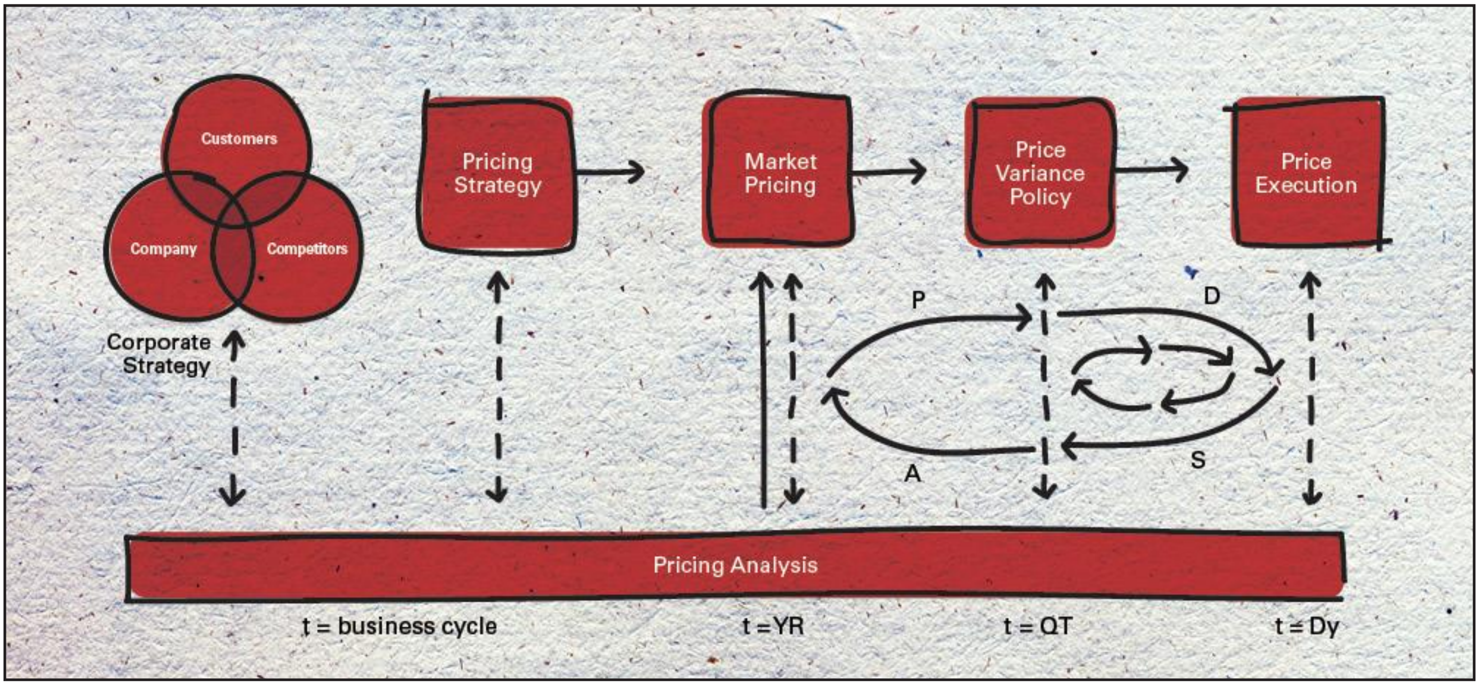
Figure 1: Pricing Framework



that decision and that price point. We are driving a process where everyone's bought into that price rather than just one particular team or function or person taking that decision on their own.

WJ: Another term I've heard in relation to pricing is driving alignment. Would you buy that one?

JFG: That one fits much more the culture how folks understand our approach here.

Pricing Framework

This part of the conversation refers to the Wiglaf Pricing Framework shown in Figure 1.

WJ: I have five different decision areas. I am going to start at the highest level, the competitive strategy area. Where you're dealing with pricing in relationship to your customer strategy, your competitive strategy, and your corporate strategy. Do you find yourself contributing to those decisions themselves?

JFG: Yes. Pricing has meant having a good understanding of our competitive capacity; understanding how our competitors' financial performance and strategic plans might affect their pricing behavior. We are very much a part of those conversations and bringing data to the conversation to help shape some of those decisions. I would say our marketing team is also very involved in that process in terms of helping understand the more strategic "where is the market going" side of the question.

WJ: Then let's move on to the second level, the pricing strategy area where you're setting the price structure, you're determining whether or not you're going skim neutral or penetrate, where your creating some sort of competitive reaction plan, if a competitor changes their price, how far will you go and how will you manage that variation. Is that an area where you participate?

JFG: Yes, we are very much driving the conversation with the business around those factors. I guess the one place out of that where we're less involved is in the final scope of our offering. In our industry, how our products get packaged up is driven largely by the customer requirements. If a customer issues an invitation to tender, they're going to say "I want a full Subsea production system that is going to include Christmas trees, manifolds, and control systems." Well they've already told us pretty much what they want. Pricing is not going be involved in that. We will be involved in helping figure out how we are going to respond to those types of decisions. But in terms of setting the pricing strategy position, we're very much a part of that.

WJ: The third level is with respect to market pricing. You're working with the commercial teams to actually price these individual tenders. Is that correct?

JFG: Yes.

WJ: What about price variance policy, the fourth level. Are you engaged in those decisions?

JFG: Yes, we will advise on those sorts of decisions. Though, because of the nature of our deals, it's not discounting like you would typically think of. Though our deals are very large, sometimes the size of entire businesses, the number of deals accessible in our market is of small orders of magnitude. You don't have thousands of transactions occurring and so it's not necessarily feasible to set up a typical discount structure that a lot of

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people in pricing might think about. It is really about trying to get the right price for this particular deal and the competitive and customer value drivers around that deal.

WJ: Finally, the fifth level is price execution, which includes ordering, quoting, and billing. Does pricing get engaged in those sorts of issues? The actual processing of pricing?

JFG: Largely no. The way we touch the execution right now is we are trying to build up systems so that if somebody is in the tool that they use to price and generate a quote, if it's not a deal that's large enough that's getting direct support from the pricing team, that they've got some sort of analytics to help support them in making a good pricing decision. But you won't find, generally speaking, a pricing person deciding the specific pricing parameter for a customer on this particular quote. Pricing touches it from a systems perspective and analytics perspective to try and support people who are actively setting and making that price and generating that quote.

WJ: Are there other levels that you and pricing touch other than the ones I just mentioned?

JFG: From a monitoring and key performance indicator side of things, we get involved in helping. We've got pricing metrics defined at a corporate level, and we've partnered with the finance team around tracking our performance and reporting and those things, and looking at how to improve the metrics we've got available to the team to help track our performance.

Pricing Analysis Techniques

WJ: In market pricing, research has shown that the best approaches usually engage in econometrics, conjoint analysis, or exchange value modeling. Out of those three approaches, which would you say most closely matches what GE Oil & Gas Subsea Systems needs to do?

JFG: If you have markets where you have few customers and complex offerings that have a high number of variables, you struggle to get value out of tools like conjoint analysis because you have a scarcity of transactions in the marketplace overtime. Trying to even generate the choices that you might evaluate would be difficult. And, because there are so few and transactions are such a high value, you would have challenges getting customers to participate in that sort of approach.

> The visualization tools tend to be the place where we are seeing the most value right now.

The approach that tends to most lend itself to these types of transactions is modeling the value delivered to the customer and understanding our customer value drivers in depth, then track those over time and try to understand how customer valuation models give us a hint at how they might value different tradeoffs in our offering.

WJ: And with respect to price variances, do you find value in price waterfalls, net price bands, and price to-market segment studies?

JFG: For our large deals, these approaches don't even start to make senses because really we're trying to price a piece of business. For our parts business which tends to include high volume transactions, we look at net price analysis and pricing consistency and how that performs over time and by customer segment. But a majority of our business is in large deals.

Price Automation and Analytical Tools

WJ: Can you talk about software?

JFG: We are not currently using any of the traditional, mainstream, pricing software vendors right now. We are developing some tools for pricing analytics within enterprise level business intelligence tools. As we get more mature and further along in our pricing journey we'll look to push some of our pricing analytics and tools into our configure, price, and quote (CPQ) tool.

WJ: In terms of your analysis, do you find value in simple tools like statistical packages or graphical analysis tools?

JFG: The visualization tools tend to be the place where we are seeing the most value right now. Again, statistics are great when you've got enough data to push through it. But you run into a lot of N problems. If your N is a small order of magnitude, stats aren't going to do a lot for you. So the visualization is a big and important piece for us. It makes the analysis tangible for people; they can consume it in a way that makes sense to them.

The overarching message is: when you've got high value, low transaction sort of businesses, that you solve the pricing problems there in a different way than you do for a high volume transaction businesses.

External Resources

WJ: There are a number of associations established for serving the pricing community, are there any that stand out to you as being particularly useful?

JFG: Within GE Oil & Gas there is a large number of our team that are members of the Pricing Society and are CPP certified. It is a place where we've gotten a lot of value and support from some of the training and learning opportunities that are provided through both the CPP process and various conferences and other forums there. That is where most of our teams have had experience to date.

And, my team has attended a number of your Wiglaf Pricing seminars and follows the Wiglaf Journal.

WJ: Thank you, Jesse.

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Four Rules for Pricing Proposals

In this article, the author presents four important rules for pricing proposals successfully. Reuben Swartz is President of Mimiran, LLC, a PPS CPP Faculty member, and a frequent PPS contributor and conference presenter. His online pricing training courses can be accessed at www.PricingSociety.com and he can be reached via www.mimiran.com or at reuben@mimiran.com. Mimiran's online proposal application lets sales teams execute pricing strategy without sacrificing time to create and close proposals. Reuben is leading a workshop entitled "Beyond the Number: Sales, Positioning, Pricing" on May 6 at the PPS 26th Annual Spring Pricing Workshops & Conference in Dallas.

One of the most important (and stressful) parts of the proposal, for both the buyer and the seller, is the price. As the seller, you get to decide on the price you offer, although you can't always dictate the final price.

How you price the proposal, and how you present that price are big factors in whether you win the deal, and, if so, how much money you make. How important is the price?

Let's look at an illustrative example— a software development company plans to bid on a project that they estimate will take 10 person-months of work. To keep the math simple, let's imagine that the fully burdened cost to the company for those people for that time is $100K. If you lose the deal, and you don't replace it with another project, you're out $100K. If you win the business at $120K, you've made $20K. If you win the business at $125K, a 4% price increase, you make $25K, a 25% improvement in profit. The particulars will depend on your business and the details of the proposal, but hopefully you get the idea. Small changes in price can have big impact on profit.

With the impact of pricing in mind, here are some important rules for pricing a proposal:

1. Don't price based on your cost

We just talked about how your cost ties into your profitability, and now you're telling me to ignore cost? Pretty much. We need to check our price against our costs to make sure we're making money, but we don't want to price based on cost. Cost is an inwards-looking metric that has nothing to do with the value the prospect receives. Should the prospect pay more because you are terribly inefficient? Or, for that matter, should they pay less if you are very efficient, and can do the work in half the time of your closest competitors?

Unfortunately, "cost-plus" pricing is very common because it seems simple. You have some approximate view of your costs, you add a markup, and arrive at your price. This means that you will leave a lot of money on the table. (OK, there are true commodity businesses that have to price this way, but hopefully you are doing all you can to avoid being a commodity business.)

2. Price is limited by your perceived differential value — so price based on that

"Value-based pricing" is a hot topic in sales and pricing circles, because if you're following rule #1, you don't want to price based on cost. The next idea is to price based on value, which is the right idea, but be careful. Value is not something defined by your features. It is based on how you change the equation for a customer. More specifically, it's about how the customer perceives you change their situation, relative to the next best alternative. Your price is limited by your perceived differential value.

Let's illustrate this with 2 examples.

In the first scenario, you have a customer with order errors that cost $1M per year (let's assume for simplicity that this is the only business result the customer cares about — a gross oversimplification, but it helps keep the math easy). You can fix the problem for $250K, netting the customer $750K the first year, and $1M every year after that. However, you have a competitor who can also fix the problem, and offers to do it for $200K, making your perceived differential value compared to the status quo $750K, but compared to the competitor, $-50K.

Now, let's say you have a similar situation, except the problem is worse, costing the customer $10M per year. You bid $3M. Your competitor bids $1M, but can only solve $8M of the problem. You are even after the first year, but every year after that, you make the customer an incremental $2M.

In the real world, the situation will be more complicated, but also less concrete, with a lot of hand-waving estimates instead of hard numbers. Moreover, many of our decisions are made with our gut, and then justified with our brains, so often the main issue is to make sure the decision maker's gut wants to select you, then make sure the math will work out in a way to make sure that passes rational muster.

How do you figure out how much value is at stake? How do you know the value of your competition? You have to start

CONTINUED ON NEXT PAGE ➔

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by asking a lot of questions. "Why are you doing this now? What's the impact? What's the impact of that?" In addition, the most common and most wily competitor is usually the status quo, and you can uncover how you compare to the status quo with those questions.

Understanding the value and having a shared framework with the customer is critical. If you have an ROI spreadsheet that promises 800% ROI in the first 2 weeks based on some optimistic assumptions and no cost inputs other than your fees (excluding training, change management, etc.), no one will believe your numbers. Help the customer create the value framework. You can advise and assist. Remember, it's perceived differential value, not asserted differential value.

Once you have your value framework, you can lay out the value case in your proposal. Then, present your price in terms of the value case. Often, this means ignoring hours worked, records migrated, and other cost-plus type metrics. If you can save the customer $1M in a year, you want to position your $250K fee against that $1M, not highlight that your top people bill at $350/hr. Earning a 400% ROI seems like a bargain. Hiring $350/hr consultants seems expensive.

3. Don't lower your price to try to lower risk

Many SMBs competing against big companies think that lower prices will help. This is true if the buyer thinks the big companies are inefficient and you can get the job done more cost-effectively.

This is not true if the buyer is concerned about your ability to deliver. In this case, a lower price does nothing to help your perceived risk, and that's if you are lucky. In many cases, the lower price serves as a proxy for value and increases the perceived risk. Discounting from your initial offer certainly does not diminish the perceived risk.

You want to be better, not cheaper. Keep in mind, you might charge $100K for a project that a larger firm would charge $200K for. That's OK if you're actually billing at twice their rates, but can do the job more efficiently. (However, in this case, shouldn't you be worth more than $200K?)

4. Give the buyer options

In many cases, especially when selling services and solutions, the buyer doesn't know exactly what they want until they see a proposal, and you can't give the buyer what they need until you learn a bit more about them. You have to do a little dance. If you send a proposal with one solution and one price, you have 4 possible outcomes.

In many cases, especially when selling services and solutions, the buyer doesn't know exactly what they want until they see a proposal, and you can't give the buyer what they need until you learn a bit more about them.

1. You could hit it just right. You actually arrived at just the right solution and the right price. Congratulations. It happens, and it feels great, but be careful (more on that below).

2. You are close enough that the buyer wants to work with you and you can discuss your way to a mutually satisfactory project.

3. You overprice enough to get priced out of the deal entirely.

4. You underprice and underserve the customer, leaving lots of money on the table. (Keep in mind that you may think you're in bucket #1, but you're actually here. I did this all the time — winning business and feeling great, only to realize later that the customer would have been happy to spend twice as much, or even more, for a more comprehensive solution.)

One way to avoid this problem is to give the buyer options.

Aim "up the middle", based on what you know about the problem and the budget. Then do a "bare-bones" option, that strips away all but what you perceive to be the absolute essentials. Then do a "best solution" option that includes extra work and benefits. There's no guarantee that any of these will be right, but:

You'll avoid getting priced out of the deal. If they don't want to do the bare-bones option, they probably aren't a good fit.

You'll get more discussions like "we really like option 2, but we don't need the second line item, can we swap in the first line item from option 3? We understand it may cost a little more."

1 and 2 mean you'll win more deals.

You'll not only make more money from winning more deals, you'll make more money per deal, by better matching up with what the customer really values. You avoid leaving money on the table.

Follow these 4 rules of proposal pricing and you'll not only win more business and make more money, you'll have happier customer and employees, because they'll be working on what really matters (and you'll be able to pay them better).

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Interview with Hermann Simon: CEO Talk Radio

This article is a partial transcription from Hermann Simon's interview with CEO Talk Radio host Robert G. Barnwell. CEO Talk Radio was launched in January 2011 by Barnwell, a clinical professor at a leading MBA program in New York City where he teaches two advanced courses on strategy change management and strategic corporate restructuring. Hermann Simon is Founder and Chairman of Simon, Kucher & Partners Strategy & Marketing Consultants. Simon will deliver a keynote address entitled "Pricing and the CEO" at the 26th Annual Spring Pricing Workshops & Conference on May 7th in Dallas.

Barnwell: Today we are talking with Hermann Simon, founder and chairman of Simon-Kucher & Partners consulting and co-author of "Manage For Profit , Not for Market Share: A Guide to Greater Profits in Highly Contested Markets" which is available at Amazon.com, Barnes & Noble, Borders, and any number of independent bookstores near you.

Hermann, welcome to CEO Talk Radio and many thanks for joining us today and sharing your insights. I recently read a study from Bain or perhaps it was Booz & Company that found that companies in highly volatile industries tend to have higher profits than those in more mature businesses, which I would assume are those most likely to fall into the trap of competing for market share. If you would, could you tell us what prompted you and your co-authors to pursue the research around the break down in the traditional thinking around the correlation between market share and profitability?

Simon: Firstly, you are absolutely right. Higher volatility means higher risk. And higher risk typically comes with higher profits. That refers to the average not to the one at the lower tail of the distribution. We observed time and again that managers pursue market share. They want to dominate a market. In the worst case they even want to kill the competition. This is based on the erroneous assumption that market share drives profit. But this causality is weak. We distinguish between bad market share which is conquered by aggressive prices and leads to low profits and good market share which is earned by innovation, value-to-customer, quality and leads to good profit margins. We are against bad market share and big fans of good market share.

Barnwell: Before we get to the basics of the "how to", can you share with us the benefits we should expect by successfully transforming our senior leadership's focus from market share to one of profitability?

Simon: Profit is the cost of survival, as Peter Drucker said. **Long-term profit orientation is the only reasonable objective function for a company.** Why? Because it is the only function which observes both the cost and the revenue side of a business. And it's very clear that companies which are truly profit-oriented fare better in the long-term and survive longer. We see whole countries who have fallen into the trap of market share or volume maximization. Japan is the most notable case. For years Japanese companies have the lowest profit margins among industrialized nations. And you see where Japan is standing today.

Barnwell: Those are a powerful and persuasive set of benefits. So now let's take a closer look at the first two of the four phase framework you provide for successfully making the transition from a market share to a profit focused strategy. The first phase deals with changing the mind-set of the company and its senior leaders and the second phase is around getting hold of the right data and information. What are the individual goals and activities that we should be focusing on during each of these first two stages?

Simon: Changing the mindset is probably the most difficult part. It starts with truly understanding what profit is. This may sound trivial, but it isn't. Ask a manager how much more he has to sell to recover a discount of 20%. You will usually get 20% as an answer. In typical cases the correct answer is 100%, because with 20% discount you sacrifice half your contribution margin. Thus you must sell twice the volume to achieve your old profit level. Another important aspect is to get rid of the aggressiveness of managers. We should be softer on competitors, we talk of peaceful competition and, maybe, tougher on customers. Data and information is indispensable for the best decision. With the Internet, scanners etc. we have a vastly better basis for price decisions, for example. But are we using it? Many managers even don't know (or don't want to know) what data nuggets they have at their disposal. This has to change.

Barnwell: Alright. The final two phases are phase three, pursue your profit opportunities, and phase four, protect your profit. Again, what goals and activities should we be focusing on during each of these final two phases?

Simon: Phase relates to implementation, to action, to doing. Knowing is one thing, doing is more challenging. A special aspect in pricing is courage. If I raise prices I can never be sure what happens. Do I lose too many customers? The same for price cuts? Will they attract enough new customers? Pricing is always a high risk game which is nothing for chicken-hearted types. Top management plays a key role in this phase. It must stand behind the actions. Protecting profits requires that you avoid traps such as ingratiating yourself with customers. Yes, we want happy customers, but not customers that are happy with our price. A very important factor for profit protection are the right incentives for the sales force and the management. And price communication shouldn't be underestimated. **The same price can be perceived very differently depending on how you communicate it.**