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What's on the Menu? Revenue Growth Techniques for Restaurants

by: David Fuller, Jen Henry, Katharine Mattox, Duncan Miller, and Ankit Sood





By mastering revenue growth management—ensuring that pricing, promotions, and menu offerings are all working together—US restaurants can serve up profitable growth, as the authors explain. **David Fuller** is an associate partner in McKinsey's Chicago office; **Jen Henry** is a partner in the Charlotte office; **Katharine Mattox** is a partner in the Atlanta office, where **Duncan Miller** is a senior partner; and **Ankit Sood** is an associate partner in the Stamford, Connecticut office. The authors wish to thank Will Almquist, Zeit Cai, John Moran, Shruti Shukla, and Gage Wells for their contributions to this article.

American restaurant executives are bracing for another challenging year. While some supply challenges and immediate inflationary pressures have abated, many leaders anticipate hefty annual increases in labor and input costs over the next five years. Restaurants also continue to endure pressure to meet evolving consumer demands in an increasingly competitive environment.[1]

A previous article detailed eight "ingredients" for profitable growth—areas of focus that can help restaurants succeed even during a downturn.[2] One of those ingredients is revenue growth management (RGM). RGM is a critical capability with potential for value creation at all times, but it becomes particularly salient at moments like this one when cost pressures have become a central obstacle to profitable growth.

Despite the importance of RGM, many restaurant brands fail to adequately invest in it. In a 2022 survey by McKinsey, more than 70 percent of restaurant executives acknowledge that they have limited the scope of their RGM efforts because of resource or capability constraints. Even companies that devote ample time and resources to RGM often define the concept too narrowly, failing to take advantage of key levers and thus missing out on RGM's full potential.

This article describes the range of benefits that restaurants can capture through a holistic RGM approach and then explains how to execute an integrated, long-term RGM strategy.

Building and rebounding: What's next for the industry

The past few years have been hard ones for the restaurant industry. From pandemic-related shutdowns to supply chain shortages to once-in-a-generation inflation, restaurant leaders have had a lot on their plates. This year, however, food service has bounced back to pre-COVID-19 levels and grown its overall share of food and beverage consumption, consumer sentiment has rebounded, and the scrambling required in 2022 to manage inflation has lessened to some extent. During this

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challenging period, many brands have strengthened themselves by creating new omnichannel models to engage their consumers, developing more resilient supply chains, and crafting menus aimed at meeting consumer demand while limiting operational complexity.

Our research (see below, "Surveying commercial excellence in restaurants") suggests that over the next few years, restaurants will continue to encounter new and mounting challenges, including burgeoning four-wall pressures across labor and input costs, changing channel mixes, and evolving consumer demands—coupled with an intensified pattern of consumers trading down. It will be critical for brands to step away from reactive measures and instead focus on building strategies to win in an increasingly competitive and complex environment. As leaders assess their commercial strategies, RGM will be a vital tool for safeguarding restaurant performance.

Surveying commercial excellence in restaurants

The Commercial Excellence Benchmarking (CEB) Survey has been conducted at least every other year since 1978 across a range of consumer-facing brands. In 2022, this proprietary survey was extended to restaurant brands. The 2022 Commercial Excellence in Restaurants Survey was fielded between July and August 2022 and includes insights from more than 20 brands across categories and sectors.

Understanding the value of an integrated RGM strategy

To keep pace with rising costs, many restaurant brands raised their prices over the past two years. These price increases may have protected some balance sheets, but it's unclear how much higher prices can rise without driving away consumers. If financial pressure on consumers intensifies, raising prices will become an even chancier strategy.

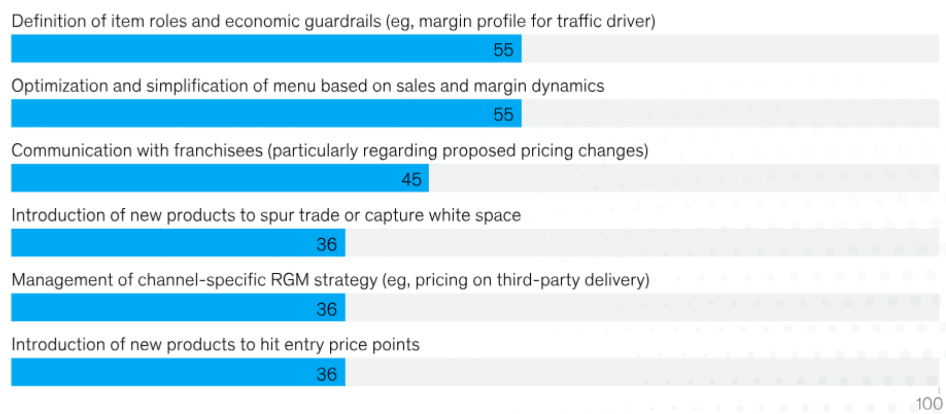
Leading restaurant brands are looking beyond simple price hikes. Instead, they're adopting a more holistic approach through disciplined revenue growth management. These brands choreograph decision making across elements such as price, promotional offerings, and menu compositions, enabling components to work together to boost sales. This coordination can help restaurant companies respond to near-term margin squeezes while protecting and even improving long-term brand health.

A piecemeal approach won't yield maximum returns. RGM strategies should be integrated and based on multiyear plans with a broad group of levers working in harmony. Strategies should make use of the full range of RGM actions, including new-product introductions and channel-specific pricing. In our survey of restaurant executives, however, many respondents indicate that their brands define the scope of RGM narrowly (Exhibit 1).

Exhibit 1

Only 36 percent of restaurants include new-product introductions in their revenue-growth-management action plans.

Revenue-growth-management (RGM) actions beyond price architecture and promotions considered in RGM scope,[1] % of respondents



[1]Question: Which actions are considered part of your RGM scope/strategy and are included in your RGM action plans?
Source: McKinsey Commercial Excellence in Restaurant Survey, July 2022, RGM module

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Less than 20 percent of respondents indicate that their restaurant brands are making use of the full RGM tool kit, and only 30 percent say they are incorporating RGM into a multiyear plan. We typically see brands receive a 3 to 5 percent initial sales lift from deploying basic RGM tactics and analytics, but brands that opt for a fully integrated RGM approach powered by advanced analytics can lift sales by 6 to 10 percent over a two- or three-year horizon. These four areas provide enormous opportunity for RGM gains, yet they are also areas

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where we've often seen restaurant brands fail to adequately integrate RGM elements: menu offerings, price architecture, value offers, and franchisee execution.

Menu offerings aligned with strategy

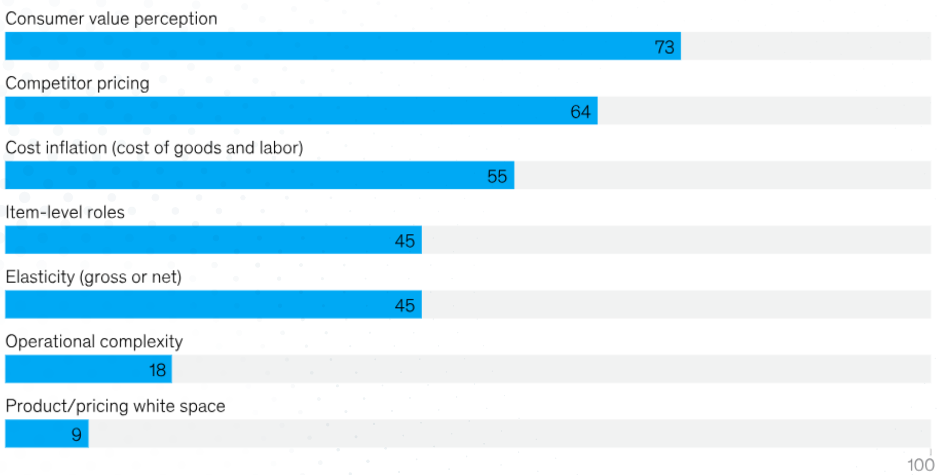
The supply-chain-driven shortages associated with the COVID-19 pandemic provided strong evidence that menu choices can have broad-reaching effects. When shortages of ingredients forced many restaurant brands to simplify menus and menu items, these measures often improved efficiency and profitability. But companies shouldn't wait for extreme circumstances to make these sorts of changes (and realize similar gains). Quarterly reviews through an RGM lens can help brands optimize the mix of menu items and ensure proper coverage across different day parts.

Menu decisions should be in concert with a broader RGM strategy. Important factors to consider include the role of each menu item (is the chicken sandwich, say, a traffic driver, a loyalty builder, or an upsell option?), demand elasticity, operational complexity, and white spaces that represent opportunities to introduce new products or pricing tiers (Exhibit 2). Some brands will make specific culinary decisions—for example, limiting unique SKUs or reducing premium ingredients in favor of classic ones—to maintain sticky price points for core traffic-driving items. If consumer experience and satisfaction can be maintained, this approach can simultaneously protect value perception and margins. RGM teams should be involved at the beginning of any menu-planning initiatives and remain involved through execution and, later, the evaluation of results.

Exhibit 2

Less than half of restaurant brands consider item-level roles when adjusting menu and price architecture, and even fewer brands consider operational complexity.

Most important factors considered for menu architecture,[1] % of respondents



[1]Question: Please rank up to 5 of the most important factors your organization considers when adjusting menu and price architecture.
Source: McKinsey Commercial Excellence in Restaurant Survey, July 2022, RGM module

McKinsey & Company

Proactive price architecture

For brands with limited RGM capabilities, pricing is a reactive endeavor: finance outlines the "ask" and the RGM team is tasked with execution. Leading brands embrace more advanced price-setting strategies based on a nuanced mix of the considerations used for adjusting menu architecture (Exhibit 2). Is an item being priced with an eye toward increasing store traffic or creating bigger individual tickets? Can a price contribute to competitive differentiation? How can operational metrics—for example, the cost and complexity of preparing an item—inform pricing?

By finding optimal pricing gaps between tiers of menu items (from value up to premium), brands can encourage consumers to trade up and discourage them from trading down. A restaurant might decide, for instance, to limit or halt price increases on the lowest-priced items to preserve customers' perceptions of value while raising prices on premium items if analytics reveal that demand for those items is indeed less elastic.

Pricing can also be adjusted to account for variables such as sales channels and store locations. We analyzed prices at top quick-service restaurant chains from May to August 2022 and found that many brands varied their price increases depending on the geographic market—for instance, with higher increases in Los Angeles than in Birmingham. Some brands go a step further, executing different pricing actions tailored to each of their store clusters (groupings of stores based on a variety of competitive, consumer, and store-level data).

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In addition, price and promotional strategies should be designed in parallel but often are not. A case in point: while about 65 percent of respondents to our survey say limited-time offers can play a critical role in increasing near-term transactions, only about one-third say their brands consider how the pricing of these offers will fit into their overall price architecture.

Profitable, individualized value offers

Brands frequently err by designing value offers with only near-term store traffic in mind. This can result in simplistic, steeply discounted off-menu offers (such as buy-one-get-one and freebie coupons) that are both unprofitable and difficult to move on from. Another consequence is that on-menu offers often fail to communicate the value they did in the past. Offers should instead be rigorously tested against the consumer value proposition (which entails asking how much credit the brand is receiving in the consumer's eyes) and assessed through a broader RGM lens. In this way, value is deployed in the highest-ROI manner possible and integrated into a more holistic, longer-term strategy.

As customer-level data—extracted in part from digital marketing and loyalty programs—improves and as transactions increasingly move through digital channels, an RGM team can design promotions that are personalized. Each customer can be offered a different, tailored deal that encourages specific behavior: a lapsed customer might be returned to the fold or a brand loyalist might be convinced to try a new category of items. Offers can be iterated over time, improving efficiency and ROI.

Communication for better franchisee execution

Franchised brands often struggle to execute harmonized RGM approaches across their systems. Pricing strategies are likely to vary from one franchisee to the next. As brands attempt to create perceptions of affordability and value in the minds of financially pressured customers, it will become increasingly important to align franchisees around a shared pricing strategy.

It helps to be transparent in talking to franchisees about the reason behind a decision. Sharing insights and learnings can reinforce franchisees' belief in the soundness of a strategy. This can work in both directions: over the past year, we've seen many franchisee groups address difficult macroeconomic circumstances by taking actions such as unwinding promotions ahead of the normal cadence or enacting price increases ahead of their parent brands. Brands can improve system-level value creation by establishing more frequent communications—for example, town halls or pricing forums—during which franchisees report on tactics that have worked in their stores.

Getting RGM right

Leading restaurant brands maximize the value of their RGM strategies by out-executing peers across several dimensions. Here's what they do particularly well:

- **Use advanced analytics and broader sources of insight to understand consumer behavior.** Leading brands make extensive use of third-party information—including zip-code-level demographics, weather data, and social-media sentiment indicators—while taking steps to ensure they understand competitor pricing and consumer behavior across all channels. This gives them an edge over the many companies that don't comprehensively collect and analyze data. Half of the restaurant executives responding to our survey say their brands do not collect price data on competitors or collect such data only on an ad hoc basis for specific items. Very few brands consistently use advanced analytics to inform projected scenarios. For example, about 10 percent of the brands in our survey research net price elasticities to determine how price changes across a portfolio of items might change sales flows, and less than 50 percent review consumer credit card data.
- **Evaluate and adjust RGM strategy more often and in more detail.** The best-performing brands, unlike most of their peers, conduct regular reviews of menu offerings and price architecture. About 40 percent of respondents have not evaluated menus on an item-level basis in the last two years, and 60 percent evaluate overall pricing no more than biannually. Meanwhile, 45 percent of respondents indicate they either don't assign specific menu roles to items or have very few items with defined roles. Leading brands clearly articulate roles for each menu item, engage in frequent reviews (monthly or better), and get granular when evaluating the details of menu changes, price-setting decisions, and promotional offerings.
- **Form a dedicated RGM team that includes data scientists.** Only 45 percent of restaurant executives say their restaurant

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brands have created a dedicated RGM team. Most instead have RGM specialists report to finance, marketing, or data and analytics groups—which can pose problems for cross-functional engagement. Only 36 percent of brands assign data scientists to RGM analysis, ensuring they don't miss out on important quantitative insights.

Leaders contemplating the implementation of a more robust RGM strategy should first ask themselves a few important questions: What are the biggest opportunities for value creation that RGM can be applied to? What is the brand's tangible ambition (perhaps a specific EBITDA goal), and how will RGM help the brand get there? What existing organizational strengths must be protected at all costs, even if it means eschewing some RGM-related tactics?

Every brand's RGM journey will look different, depending on starting points and brand requirements. But across journeys, the actions we have outlined—building a robust fact base and advanced analytical capabilities to better understand consumers and competitors, evaluating and adjusting strategies with greater frequency and granularity, and identifying talent (including data scientists) to help achieve the full potential of an RGM approach—can help brands get going.

1. Data in this article, except where otherwise noted, derives from McKinsey's July 2022 Commercial Excellence in Restaurants Survey.
2. "Cooking up extraordinary growth for restaurants during a downturn," McKinsey, January 12, 2023.

The Art of Effective Market Research for Pricing

by: Per Sjofors

In the realm of market research for pricing, avoiding common pitfalls is essential to deriving true value from the endeavor. The test for market research for pricing success lies in its ability to confidently guide companies toward improved pricing strategy, steady growth, and increased profitability. In this article, the author outlines ten common failures associated with pricing market research and provides best practices for both avoiding these pitfalls and also developing actionable, insightful research for your pricing operations. Per Sjofors, a.k.a. "The Price Whisperer," founded Sjofors & Partners and is a thought leader on using price for higher growth and profits. He can be reached at per@sjofors.com.

For experts in the field, market research for pricing entails a highly formal undertaking that encompasses the careful selection of a representative sample or a focus group, the formulation of well-constructed questions, the application of robust statistical techniques, and thorough tests of significance. In contrast, for those with a broader perspective, market research for pricing involves a less stringent process, often consisting of a few phone calls to important customers or salespeople, a brief conversation, and a general overall impression that may be as likely to be incorrect as it is to be accurate. Acknowledging this divergence in understanding, it becomes evident why the majority of market research and consulting falls short in achieving its primary goal: propelling the

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business towards new levels of sales and profitability.

Successful pricing research and market research in general entails a delicate equilibrium between costs and reliability, utilizing methodologies centered on precise inquiries that consistently reside at the core of the vendor-customer dynamic. These questions are challenging to address and remain pivotal factors influencing the critical choices a company must render regarding its marketing strategies, product and service offerings, promotional endeavors, responses to competition, and guidance provided to sales teams. The test for market research for pricing success lies in its ability to confidently guide companies toward improved pricing strategy, steady growth, and increased profitability.

However, market research frequently falls short of meeting this criterion. It frequently fails to gather relevant information and lacks the potency to instigate necessary transformations in marketing, sales, product management, and finance. This article explores why this failure happens, points out its ten most common components, and provides a checklist for CEOs and managers embarking on market research projects to ensure that their project will not be a failure.

Failure #1: Asking the Wrong Questions

Strategic pricing studies projects must address pivotal questions. These include:

1. The reasons behind customers' preference for products/services.
2. The motivations driving customers to choose competitors over you.
3. The prices customers are willing to pay for your offerings.
4. Services and options that would justify higher prices.
5. Determining the trade-offs customers are willing to make between benefits and price.
6. Finding the nuanced meanings of "quality," "service," and "reliability" specific to your market.
7. Assessing the expected and satisfactory levels of quality, service, and reliability.

Additionally, incorporating questions tailored to your unique circumstances is essential. General research catering to an entire industry often fails to drive progress since it overlooks your specific needs, questions and/or opportunities.

Failure #2: Targeting the Wrong Audience

As mentioned earlier, we touched upon instances of pricing research relying solely on a small group of favored customers or even salespeople to gather necessary market insights. While some pricing research plans are better structured than these cases, they still primarily focus on existing customers. However, we've discovered that frequently, it's those who don't purchase from your business or might not even be familiar with it who offer the most valuable perspectives.

When assembling a group to survey, it's essential to encompass a broader population, including current customers, potential clients, individuals who chose not to do business with you, and even those who might match your customer profile but are unaware of your company. This approach should encompass the entire decision-making landscape. For instance, if high-level executives ("C" level) make purchase decisions, the survey group must extend to all individuals involved in the decision-making process, including functional managers, financial decision-makers, purchasing agents if relevant, systems buyers, and strategic purchasers. Moreover, the survey system should track the background of each participant, enabling the segregation of market insights according to their roles in the purchasing

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process. Neglecting any of these aspects will result in a skewed and inaccurate portrayal of the gathered intelligence.

Failure #3: Neglecting Compensation for Respondents

One of the most frequent inquiries our company encounters revolves around how we manage to engage the right individuals, particularly in B2B research. These are the ones who hold decision-making authority, exert influence, serve as functional managers, or act as purchasing agents. The solution is rather straightforward: compensation. Overlooking compensation for survey respondents not only diminishes the survey's participant count, but more critically, it often fails to attract the correct individuals to partake in the survey.

Executives and decision-makers maintain busy schedules, and unless there's an incentive, they are unlikely to allocate the time required to complete a survey. Consequently, surveys that are conducted without offering compensation are prone to capturing input primarily from the wrong individuals, or, at the very least, their responses will unduly influence the result.

Failure #4: Relying on the Same Researchers Your Competitors Use

Opting for researchers who serve multiple companies within an industry might be detrimental. Such researchers often offer uniform information, analyses, and recommendations to all clients. In an era where differentiation is crucial, standard researchers lack the capacity to provide a competitive edge. Using the same researchers as competitors hampers your uniqueness and competitive edge.

Numerous industries witness the presence of research and consulting firms that have specialized in catering to as many companies within that sector as possible. These firms often offer identical information, analyses, and recommendations to all their clients. In an era where turning into a commodity poses a consistent threat to a company's profitability, relying on a researcher adhering to industry norms becomes an unfavorable choice. By virtue of their very nature, these researchers cannot provide a distinct competitive advantage. They are unable to uncover the distinctive value propositions that could propel your products and services ahead of your rivals.

OPTING FOR RESEARCHERS WHO SERVE MULTIPLE COMPANIES WITHIN AN INDUSTRY MIGHT BE DETRIMENTAL. SUCH RESEARCHERS OFTEN OFFER UNIFORM INFORMATION, ANALYSES, AND RECOMMENDATIONS TO ALL CLIENTS.

Using the same researchers your competitors use is a fast train to commoditization, diminished competitiveness, reduced distinctiveness, and a weakened ability to differentiate your business apart from the competition.

Failure #5: Neglecting to Combine Quantitative and Qualitative Methods

Quantitative and qualitative research methods yield different insights that mutually complement each other. Quantitative surveys provide structured data on known factors like selection criteria, willingness to pay and value perceptions. Qualitative methods, like interviews and open-ended questions, offer unique perspectives and unexpected insights. Combining both approaches enables a fuller understanding of customer behavior and business growth drivers. Relying solely on quantitative data offers statistics but lacks momentum for growth. Similarly, depending solely on qualitative research offers direction but lacks substantial insight.

Failure #6: Revealing Company Identity

When respondents are aware that a survey is commissioned by a particular vendor, the interaction often transforms into a sales-oriented conversation. Their motivation shifts from assisting in enhancing products and services to negotiating for improved deals. This alteration prompts them to provide skewed, manipulated, or withheld information with the intention of leveraging it for better prices and deals. Conducting research anonymously is more challenging, as potential respondents might be hesitant to participate without knowing the identity of the recipient. (However, refer to Mistake #9 below.)

Failure #7: Presenting Findings Without Conclusions

Reports featuring raw data without analysis or conclusions provide minimal actionable insight. Businesses require synthesized information, practical recommendations, and action plans to effect change.

Failure #8: Presenting Conclusions Without Recommendations

Market research experts often lack the capacity to furnish coherent business recommendations.

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Their professional expertise lies in data, science, and numbers, rooted in statistical and technical prowess. Yet, a pivotal aspect of valuable market intelligence is understanding how to translate data into actionable insights. In our research, we distinguish ourselves by primarily being businesspeople (salespeople, executives) and then research professionals. Hence, while we present data accompanied by robust statistical processes and tests, we also possess the ability to guide companies on how to leverage the data into practical actions.

Failure #9: Presenting Recommendations Without Action Plans

In the current economy, both individuals and businesses face limited room for extra tasks. Consequently, even precise suggestions run the risk of being disregarded if they lack well-defined action plans. Therefore, research reports should encompass comprehensive action plans for executing the business modifications identified by the research. Collaborating with your company, these plans should be designed to align with existing workloads, other pressing tasks, and available resources. This strategic planning phase is pivotal for a successful project.

Failure #10: Failure to Take Action or to Change

This is the most significant failure. Typically, research projects furnish data, occasionally insights, and less frequently recommendations with potential actions. However, they rarely trigger the substantial changes that should be their standard for success. Blame doesn't lie with the company; it's the market research and consulting organization that falls short. They don't supply actionable suggestions or comprehensive action plans. Furthermore, they don't engage in follow-ups or assist the company in executing the recommendations effectively.

Conclusion

In the realm of market research for pricing, avoiding common pitfalls is essential to deriving true value from the endeavor. These pitfalls range from insufficiently diverse respondent groups to the absence of actionable insights and implementation plans. To maximize the impact of pricing research and willingness to pay, it's crucial to strike a balance between quantitative and qualitative approaches, refrain from revealing the research entity's identity to respondents, and offer not only findings but also conclusive recommendations alongside detailed action plans. This holistic approach ensures that market research for pricing transcends being a mere collection of data, transforming into a catalyst for informed decisions, strategic modifications, and tangible results.

SaaS Discounting Practices and Pricing

by: Steven Forth

Many companies say that a discount is an investment, but they don't really treat it that way. There is no analysis of the scale of the investment and the expected return, and when there is, there is seldom any follow-up to see if the return on the discount was realized. In this article, the author outlines several common types of discounting as well as common pitfalls of these approaches and best practices for implementation. Although the examples are B2B and Software-as-a-Service (SaaS) specific, the pricing insights in this article are applicable for pricers across industries. Steven Forth is a Managing Partner at Ibbaka. He can be reached at steven@ibbaka.com.

Discounting is a fact of life for most B2B companies. Yes, there are a small number of SaaS companies that have "no discounting ever" policies and stick to them, but these companies are rare.

For an example of a company successfully executing a no discounting policy, see **"Why We Don't Offer Discounts At Chili Piper. Ever."** by Tom Rowe and the comments below.

In a recent poll that Ibbaka posted to LinkedIn, we received the following responses (see chart below). The poll was posted across the following groups: SaaStr, PDMA (Product Development Management Association), Software as a Service - SaaS Group, and the Professional Pricing Society. There were 237 responses altogether. Here are the results.

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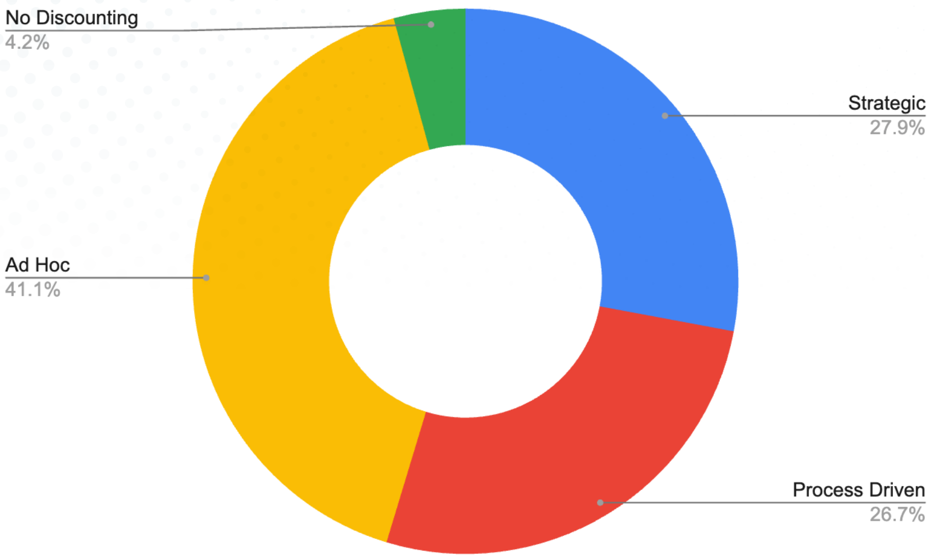
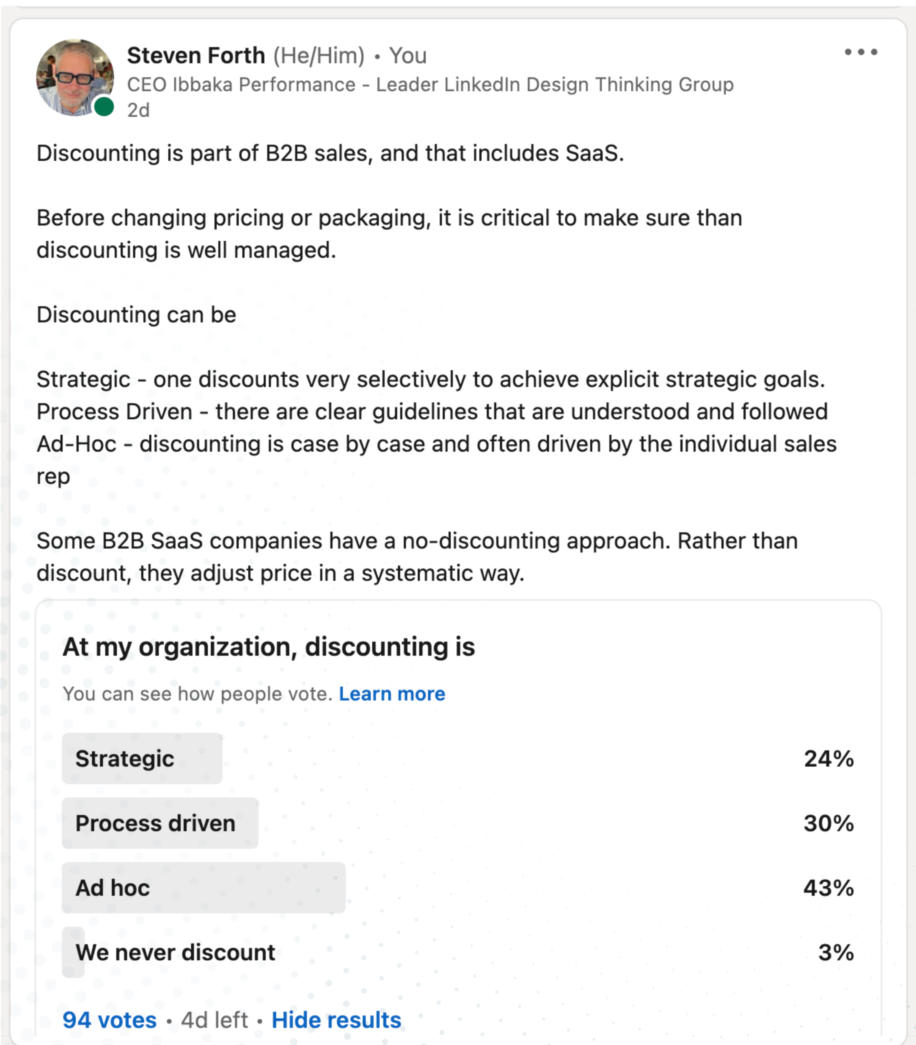


Here is the actual poll (this one is from the Professional Pricing Society LinkedIn Group).



Steven Forth (He/Him) • You
CEO Ibbaka Performance - Leader LinkedIn Design Thinking Group
2d

Discounting is part of B2B sales, and that includes SaaS.

Before changing pricing or packaging, it is critical to make sure than discounting is well managed.

Discounting can be

Strategic - one discounts very selectively to achieve explicit strategic goals.
Process Driven - there are clear guidelines that are understood and followed
Ad-Hoc - discounting is case by case and often driven by the individual sales rep

Some B2B SaaS companies have a no-discounting approach. Rather than discount, they adjust price in a systematic way.

At my organization, discounting is

You can see how people vote. Learn more

Strategic	24%
Process driven	30%
Ad hoc	43%
We never discount	3%

94 votes • 4d left • Hide results

We followed up with a number of respondents to get deeper insights into what was meant.

Strategic Discounting

Most people interpret this to mean discounting, which is meant to win a strategic account, to win market share in a target segment, or to enter a new market.

Some people include managing churn as an example of strategic discounting.

The key to successful strategic discounting is to regard the discount as an investment and do an ROI (Return on Investment) analysis on that investment. Many companies say that a discount is an investment, but they don't really treat it that way. There is no analysis of the scale of the investment and the expected return, and when there is, there is seldom any follow-up to see if the return on the discount was realized.

Of the three people interviewed on this topic, only one actually does this in a formal way (and there is a selection bias here - we reached out to this person as we knew that this is what they are doing).

If you consider your discounting a strategic investment, do you manage it that way?

There can be strategic reasons to discount, but is this more often camouflage for uncertainty about value and a need to drive ARR (Annual Recurring Revenue) growth at any cost?

Process Driven Discounting

Companies executing process-driven discounting are operating with clear rules and making sure these rules are followed.

There are many ways to design a discounting process.

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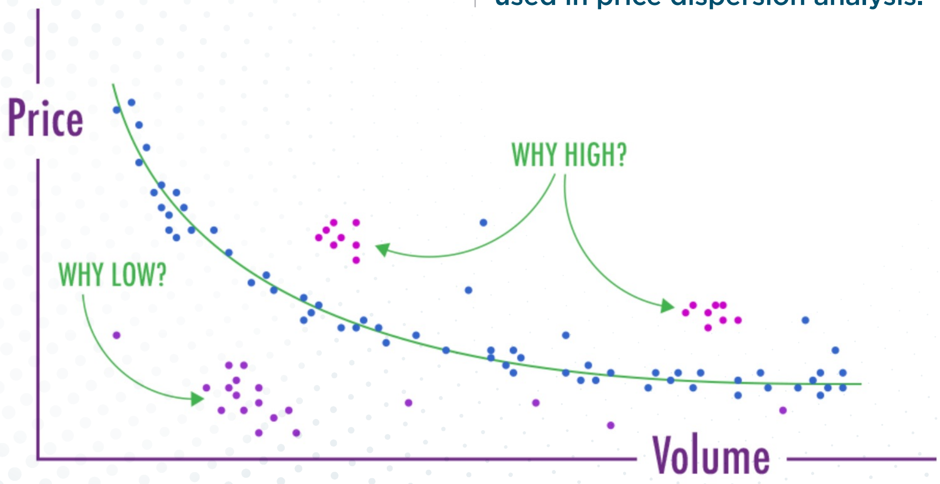
Most approaches involve setting guide rails for sales (they give salespeople some agency in setting discounts which are important). A floor and sometimes a ceiling are provided.

A related approach is to have a cascading level of approvals where, for example, the salesperson can give a 5% discount, the sales manager a 20% discount, and discounts larger than this require formal executive approval.

The best practice is to document reasons for giving the discount in the CRM (Customer Relationship Management), CPQ (Configure Price Quote), or price management system. A typical taxonomy for this is as follows:

- In Return for a Commitment
  - Longer Contract
  - Recommendation (Case Study, Referrals)
  - Volume
- To Meet a Competitive Bid
- To Satisfy a Requirement from Procurement
- To Calibrate Price to Value (if for well-defined reasons the buyer will not get all of the designed value, then a discount can be appropriate)
- To Make a Strategic Investment (see above)

Price Dispersion



Sales compensation also needs to be part of the discounting process. This is worth a discussion of its own, but the basic thing to consider is the impact of discounting on margins. It can make sense for the sales commission as a percentage of the deal to go down along with discounts.

Ad Hoc Discounting

This is by far the most common form of discounting. The above figure of 43% is likely optimistic. Some companies that say they are executing strategic discounting also have a high level of ad-hoc discounting. The same is true of process-driven discounting. One can have a process, but is it followed?

The way to test for ad hoc discounting is with a price dispersion analysis. Define the factors that should be controlling price. Put them on a series of graphs. Calculate how much of the variation (dispersion) in observed prices can be accounted for by the pricing and discounting factors.

In this figure, "volume" is only one of several variables that can be used in price dispersion analysis.

No Discounting

There are some companies who simply do not offer discounts. Chili Piper is a well-known example. Chili Piper is an inbound lead conversion and scheduling app. The reasons they give for not discounting are:

1. Faster sales cycles.
2. Leverage the dark funnel (potential buyers who are researching your solution but who have not contacted you).
3. Discounts are not a one-time concession.
4. Keep the books clean and give yourself the freedom to strategize.
5. Discounts don't stay secret.

A no-discount policy is more common in product-led growth (PLG) companies, although these companies sometimes use discounts as part of sales campaigns. PLG companies are underrepresented in the poll data.

There are also enterprise companies that refuse to negotiate discounts. One of the strongest statements of this was something I overheard at a recent Professional Pricing Society conference:

"We are committed to fair and transparent pricing. Discounting goes against this. Giving a price to someone because they are a good negotiator is neither fair nor transparent."

One way to address procurement's concern about pricing and discounting is to offer a "Most Favored Nation" (MFN) clause, in which if a lower price is given to another company it will also be extended to anyone with the MFN clause in their contract.

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This protects procurement against your giving a better price to one of their competitors (a firing offense for a procurement officer). Doing this requires a lot of business discipline, and you have to make sure that the MFN clause compares like to like. MFN contracts can end up in court.

To execute on no discount pricing, you need to have very well-designed pricing and packaging and to operate in a market that does not require a lot of configuration or customization. Not all companies can, or should, fit this pattern. But for those that can, a no-discounting approach can remove a friction point in sales.

Alternatives to Price Discounting

Sales often default to discounting because they do not have any other tools to defend the price. If the only tool that pricing has available is discounting, then that is what they will use. There are other approaches.

Begin by positioning value. Always get a commitment to value before you negotiate the price.

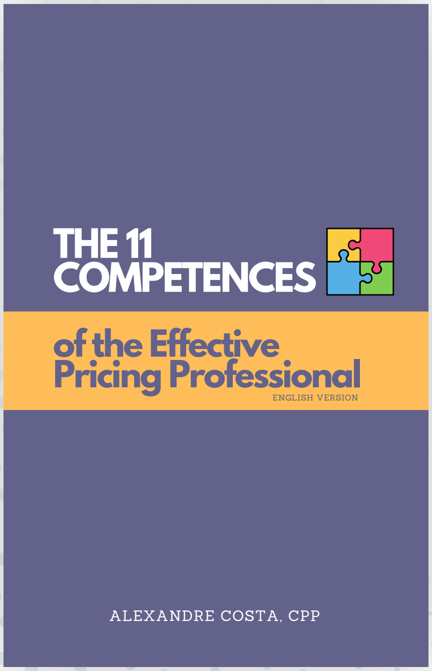
- Provide sales with value calculators and value stories and support them in using these tools.
- Set up value gives that can be used instead of discounts:
  - Functionality upgrades
  - Capacity upgrades
  - Extra services
- Put a time limit on the discount (so that it only applies to the first part of the contract).
- Offer a rebate instead of a discount (people are happier to get their money back rather than to receive a discount).

Managing discounting is a critical part of pricing.

The 11 Competences of the Effective Pricing Professional

by: Alexandre Costa

In this article, the author explores 11 skills that, through his experience in pricing, he has deemed as critical for achieving success in your pricing career. Author Alexandre Costa is a Certified Pricing Professional (CPP) with extensive experience in project management of strategic pricing, revenue management, and market intelligence. He has worked in important industries like consumer goods (food), pet food, fertilizers, and automotive, and he has worked for national and multinational companies. Costa also created Attitude Pricing®, a website for sharing his own insights on pricing and Revenue Growth Management (RGM).



Concept

I developed this concept based on my perspective of which skills pricing professionals need to develop in order to achieve their best results. At the end of each competency, I state whether the competency is a "Hard Skill" or a "Soft Skill" and, in the final thoughts, I conclude which of these two skill sets is most important for an effective pricing professional.

Motivation

My motivation for compiling these skills came from my experience at the beginning of my career. At that time, I was convinced that a strong academic background would be enough to pursue a brilliant career. However, through my experiences, I realized that how I related to other professionals, how I managed conflict situations, and how I collaborated with peers was what defined the good results that I got from my experiences in pricing and Revenue Growth Management (RGM) in the companies I worked for.

1. **Pricing Team Management: "Motivation and Development of Pricing Professionals."**

The pricing professional must promote in his or her team an

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attitude of commitment to the company's sales objectives. He or she must facilitate activities related to price management without creating bureaucracies that hinder the generation of revenue and profits by the sales teams. We must have flexible and agile approaches (with responsibilities) in pricing communications (price tables and commercial policies) and build rapport and trust between the commercial and pricing teams. Ruptures between these two areas can cause multiple problems, such as situations in which sales would rather lose a deal than try to break unnecessary bureaucracies.

Conclusion: Soft Skills

2. Constant Focus on Process Improvement: "Optimization and Automation."

As companies grow, they create different price lists and commercial policies. Thus, we often find companies operating with many price lists, complex commercial policies, and a high dependence on the use of Microsoft Excel. While Excel is a great tool, it demands a lot of manual work, which can lead to errors and losses to the company. We also find employees performing manual and repetitive tasks that could be automated, but the fear of becoming idle is often greater than the wish to become a proactive and strategic pricing professional.

The pricing professional needs to find opportunities for the optimization and automation of pricing activities that do not add value to the processes and/or delay the delivery of price information, or that might cause the loss of any sales deals consequently impacting the company's revenues and profits.

Conclusion: Hard Skills

3. Interpersonal Relationship: "Peer Support and Knowledge Sharing."

Pricing is a multifunctional area and needs to collect and share data and information from several internal areas that impact the price setting in an organization. Because of this, the interaction between the various internal departments is constant. As such, the pricing professional also needs to have an attitude of knowledge sharing, effective communication, empathy for peers, and a sense of responsibility to the internal areas that interact directly with the pricing department every day.

However, it is important to point out that, despite having empathy for other departments and promoting partnership, pricing professionals often have minimal knowledge of matters of other areas like tax, costs, finance, and logistics. When there is a more complex demand for expertise in these specific subjects, specialists from these peer areas are the ones who should engage and guide the pricing team on such matters. Pricers should focus on their specialty: setting pricing strategy and assessing the price results.

Conclusion: Soft Skills

4. Change/Conflict Management: "Stakeholders Management."

In the past, pricing was an activity of other areas, such as controllership, sales administration, or finance. However, the need to specialize in pricing strategies, generate greater profitability, and avoid biases and conflicting interests between prices and sales makes companies invest in an independent pricing function to manage prices.

Therefore, the implementation of a pricing culture is a challenging process. Changing a company's culture, one previously completely focused on volume and revenue, to a culture based on value and profitable sales, requires a change in attitude throughout the organization. Pricing professionals need to have a lot of ability to control and manage changes from the point of view of other people within an organization; that is, "Change Management."

It is common to find change resistance and/or non-engagement in these transformation processes. Therefore, the pricing function must have full support and a lot of alignment with the company's CEO and other executives within the organization to avoid a lack of adherence or non-adoption of pricing processes.

Conclusion: Soft Skills

5. Emotional Control – "Control your Emotions, or your Emotions will Control your Career."

In my pricing career, I experienced situations where emotional control provided me with important professional achievements and advances. However, a lack of emotional control at other specific moments brought me discomfort, loss of focus, and significant professional setbacks.

That said, it won't matter how well you relate to some "professionals." It won't always matter how much you dedicate yourself to delivering the best for the project and/or companies you are working for. Even when you are trying to do what is right, improving processes, and creating

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an environment where everyone pursues the same goal, there will certainly be a few people who will not empathize with you. They will not accept the changes you are proposing, even if they are changes for the better. They will not collaborate, or worse, they might even boycott the creation of a pricing culture. At this moment, if you don't dominate your emotions, you will lose your reason and a lot of people will lose this game, including you, your company, and the other employees who believed in your work. Control yourself.

Conclusion: Soft Skills

6. Project Management Practices: "Tasks Control and Constraints Management."

A project encompasses every activity of innovation or improvement of a product, service, process, and/or procedure. Therefore, a project addresses an area or a need that is not yet part of the company's functional areas. The project will be formed and driven by constraints, including scope, time, and costs, and it will also have a start and end date.

During my career, I saw process improvement initiatives and product launches fail or be poorly implemented due to a lack of minimum project management.

It is important to adapt the theory to the reality of the company, avoiding block processes and creating flow with a minimum of control and price governance. Pricing professionals that apply minimal project management techniques bring project benefits to the company, such as:

- Clarity on constraints to achieving the stated project goals
- Knowledge of the stakeholders impacted by the project
- Control of activities to dimension resource allocation
- Discipline to avoid unnecessary tasks, rework, or activity that compromises the scope
- A record of "lessons learned" to avoid making the same mistakes in future projects.

Conclusion: Hard Skills

DURING MY CAREER, I SAW PROCESS IMPROVEMENT INITIATIVES AND PRODUCT LAUNCHES FAIL OR BE POORLY IMPLEMENTED DUE TO A LACK OF MINIMUM PROJECT MANAGEMENT.

7. Sales Business Partner: "Engagement with Sales Objectives."

Prices are the monetary representations of the value that customers attribute to a company's products/services. The sales area is responsible for converting sales, and the pricing area is responsible for capturing the value perceived by customers and aligning, as closely as possible, this value to the price that generates greater sales volume and profits. Therefore, here is my most controversial statement: "Pricing is about enhanced sales."

Pricing professionals must engage with sales targets. And that doesn't mean they have to be philanthropic to the requests of customers and sales teams. We need to be responsible partners in the sustainability and profitability of sales operations, making price decisions in an impartial way, resolving conflicts, and staying aligned with the best interests of the company.

However, there will always be tough sales negotiations with some customers, especially with larger customers, and some uncommon or very competitive scenarios. Therefore, I state the following:

"The market is brutally nervous and the competition is out there eager to take your place. If your competitor is the market leader, it will act fiercely to maintain its position. The game is decided in the details. Sometimes you must negotiate in a conscious and transparent way a strategic 'lose-win' with your client. When customers have a 'sense of advantage,' they increase their value perception and willingness to pay regarding your company and brand. There will be times when we may fail or even when we will need to raise prices. When the customers feel this sense of advantage, in these situations they will more easily accept changing conditions or price increases, thus balancing the relationship at a win-win approach between both parts of the business. This only happens when pricing and sales are, in fact, aligned as true sales business partners."

But, you say, there are customers who only want to win! Well, that's why pricing will need to have accurate data on the volume and margin results of all customers so that it can assess the customers' value and determine whether they are worth keeping.

Conclusion: Soft Skills

8. Assertive and Timely Communication. "70% of projects Fail Due to a Lack of Communication."

First, I'd like to strengthen the meaning of the words "assertive" and "timely":

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- Assertiveness is the ability to clearly inform someone about something, be it positive or negative, without bias and/or dubiousness. That is, the interlocutor will have no doubt about the action or non-action that he or she will have to take after receiving the information by the speaker.
- Timeliness means that something is done at the most appropriate opportunity. Timely communication happens when critical information is shared to relevant parties as soon as it arrives, thereby enabling relevant parties to make the right decision regarding whether or not to take action and the appropriate time for that action. Timely communication allows companies to take advantage of opportunities and avoid risks.

Today, we have access to the most forms of communication that have ever existed in the business world, such as WhatsApp, Microsoft Teams, Zoom, and Google Meets, to name a few. However, even with all of these outlets, it is still common to see companies that fail due to a lack of communication.

Conclusion: Soft Skills

9. Selling Value: "Know the Customers' Value Perception and their WTP."

Recently, we all have heard companies make statements like this:

- "We are a customer-centric company," or
- "Our company is customer-oriented, so we put our customers at the center of decisions."

However, we need to make sure that these statements are not just nice company catchphrases. Companies that scale in pricing and the market are those that "walk the talk" about being customer centric.

When it comes to pricing, is your customer at the center of your company's pricing decisions?

I have had several experiences, some recent, where companies still set prices completely based on cost + margin or through competitors' price indexes. In some instances, that's OK, but many times these price strategies do not fit with the companies' speeches about customer centric pricing decisions. Most often, companies and managers make decisions from assumptions based strictly on costs and competitors prices alone.

Most companies still do not make pricing decisions based on the customer's value perception and willingness to pay as they fear losing volumes, revenues, and profits by raising prices, or even having to reduce prices based on market and/or customer information.

Companies that make their pricing decisions based on customers are companies that spend the same energy that they put into controlling their costs into understanding what their customers value in their products/services.

Conclusion: Hard Skills

10. Pricing KPIs: "And the Real Pricing Indicator"

KPIs (Key Performance Indicators) are visualizations of key information in graphs and/or panels used for strategic decision-making. KPIs are used both to correct situations that are far from the companies' objectives as well as to repeat situations that fulfill or exceed expectations. In pricing, the main indicators are revenue (invoicing) and volume (weight/quantity), though with an important addition of statistical analysis and visualization of the profitability of the company's business (margins).

KPIs are visualizations of the main and essential aspects of the business. KPIs are analyzed regularly so that more assertive decisions can be made to achieve results and meet the company's objectives.

Key pricing indicators can include analysis of the price cascade, price band, discount dispersion,

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adherence to commercial policy, price deviation indexes from the competition, deviation indexes by regions, latter pricing (packaging), product tiers (Good/Better/Best), and of course, the EBITDA margin in various granularities. By the way, it's normal to see companies assessing contribution margin only in percentage (%), which is an important benchmark, though pricing professionals must know that the true pricing indicator is the absolute margin in dollars.

To conclude, keep dashboards simple, seek to achieve "quick wins" through visualizations, and do not wait for cutting-edge technology tools to stop profits "leaking."

Conclusion: Hard Skills

11. "Pricing is not a Project. Pricing is a Culture."

More than competence, this topic is about attitude.

Pricing might start as a project, as I mentioned in topic 6, to leverage the area and align expectations. However, pricing has no end within organizations. The pricing area should become more robust and continue its climb to become an independent, solid, and relevant area for company strategies and results.

Pricing must become a key functional area in the collaboration with other areas and be the focal point of integration of the internal areas that touch the companies' sales operations, moving towards the main objectives of increasing the perception of value and the customers' WTP, and consequently achieving the success of companies with profitable and sustainable outcomes.

Conclusion: Soft Skills

THE PRICING AREA SHOULD BECOME MORE ROBUST AND CONTINUE ITS CLIMB TO BECOME AN INDEPENDENT, SOLID, AND RELEVANT AREA FOR COMPANY STRATEGIES AND RESULTS.

Final Thoughts

Let's check the score result between Hard Skills and Soft Skills.

We clearly identified that among the 11 key pricing skills, 7 are behavioral skills ("Soft Skills"), and 4 are technical skills ("Hard Skills"). Thus, we can see that, in addition to a good technical knowledge, pricing professionals need to have high interpersonal skills.

Good "Hard Skills" (knowledge and technical skills) are important for a pricing professional's career. The better the "Hard Skills," the greater the opportunities to participate in relevant projects and the higher the level of deliveries in their area of expertise.

However, high "Soft Skills" (personality characteristics, behaviors, and interpersonal skills), added to good "Hard Skills" form a set of skills that will, in fact, make the professional achieve the best results in projects and areas of pricing. Therefore, "Soft Skills" are as important as "Hard Skills," and as we reach pricing management positions, "Soft Skills" become even more important.

It is important to say that "Soft Skills" and "Hard Skills" are not mutually exclusive skills. That is, having a high ability to relate well with people does not replace the importance of having good technical knowledge, and vice versa.