

# THE JOURNAL OF PROFESSIONAL PRICING

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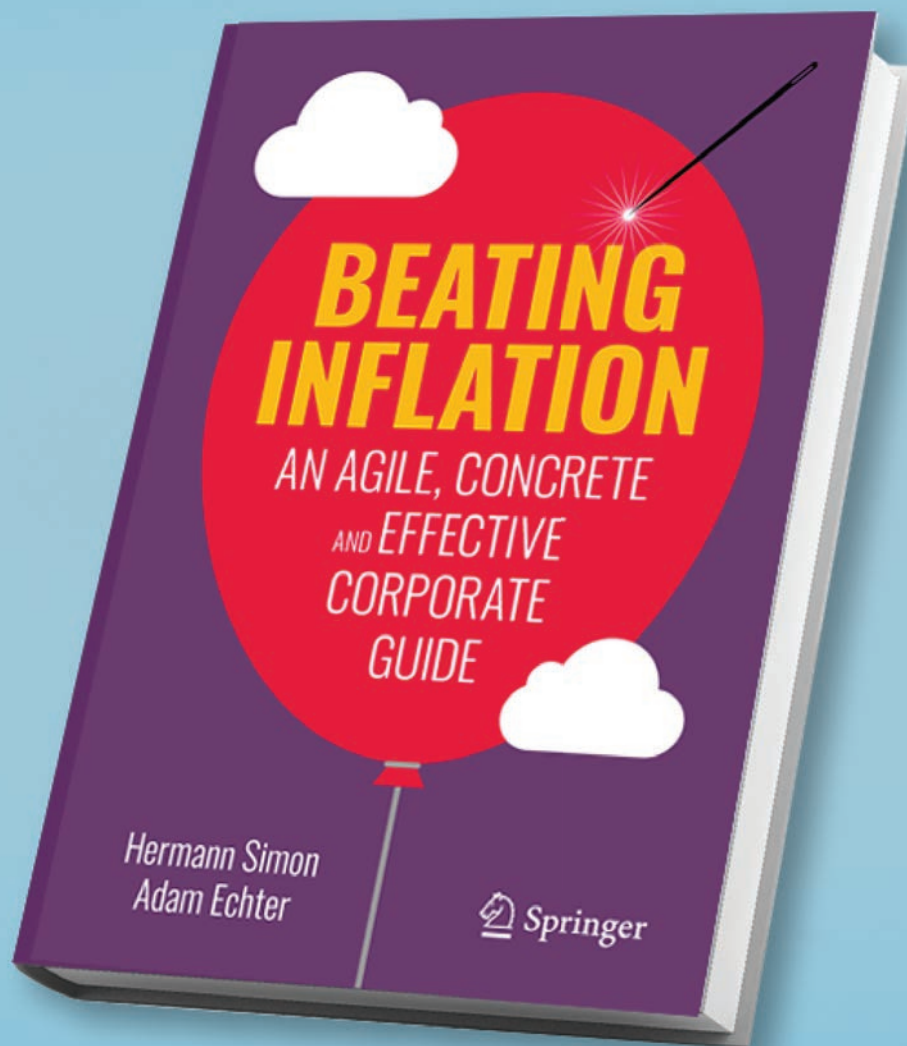
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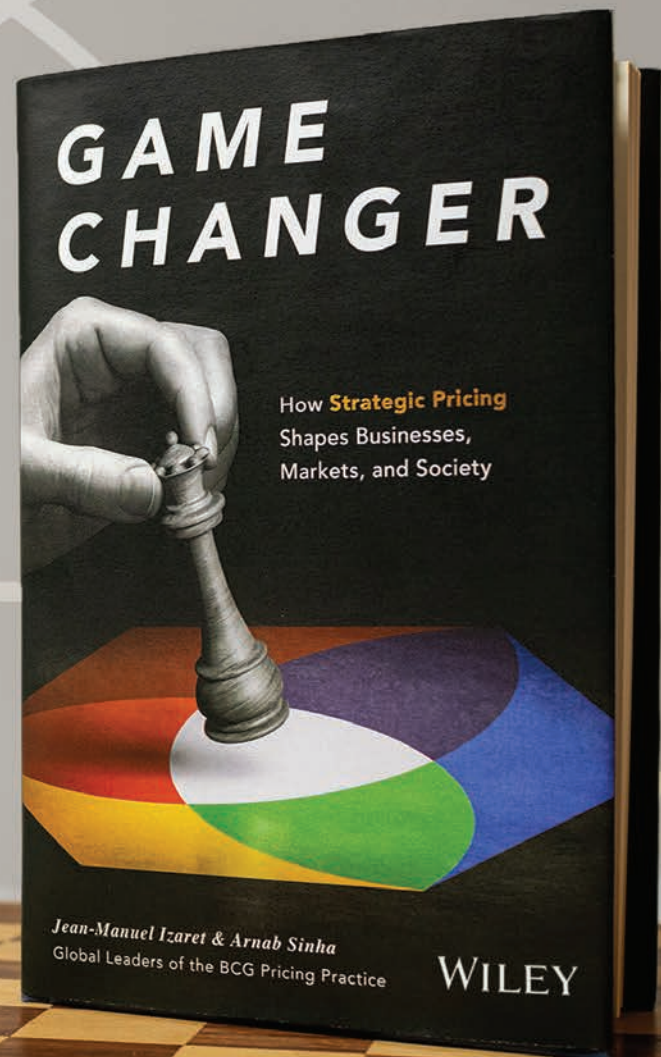
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# The unified theory of pricing

by Jean-Manuel Izaret and Arnab Sinha



Jean-Manuel  
Izaret



Arnab  
Sinha

*In this article, the authors present a unified pricing theory, manifested in a tool called the Strategic Pricing Hexagon, that brings together all the disparate pricing ideas, and the drivers and forces behind them, into one master structure. This article shows how the Strategic Pricing Hexagon allows leaders to look beyond the numbers and develop a pricing strategy that can change the entire trajectory of their business and their market. Jean-Manuel Izaret ([izaret.jean-manuel@bcg.com](mailto:izaret.jean-manuel@bcg.com)) is Managing Director and Senior Partner; Global Leader, Marketing, Sales & Pricing Practice, and Arnab Sinha ([sinha.arnab@bcg.com](mailto:sinha.arnab@bcg.com)) is Managing Director and Senior Partner at BCG.*

Pricing is a complicated and often frustrating challenge for business leaders because they have so many theories, concepts, frameworks, and equations to choose from. Some leaders deal with this challenge by relying on familiar approaches, such as what their company has always done. Others delegate pricing tasks to internal teams with a superior understanding of the intricate mathematics. When they want to change or optimize these processes, they either revisit the vast smorgasbord of pricing ideas or they upgrade their analytical capabilities.

In their attempts to simplify, business leaders miss opportunities to use pricing to grow their business, improve their company's relationships with customers, and reshape their business and their industry. The more we investigated the roots of this problem over the past two decades, the more we realized that business leaders needed one unified theory of pricing to inspire and guide their decision making.

We have developed that unified theory, manifested in a tool we call the Strategic Pricing Hexagon, by bringing all the disparate pricing ideas, and

the drivers and forces behind them, into one master structure. This article shows how the Strategic Pricing Hexagon allows leaders to look beyond the numbers and develop a pricing strategy that can change the entire trajectory of their business and their market.

## Redefining What Pricing Strategy Means

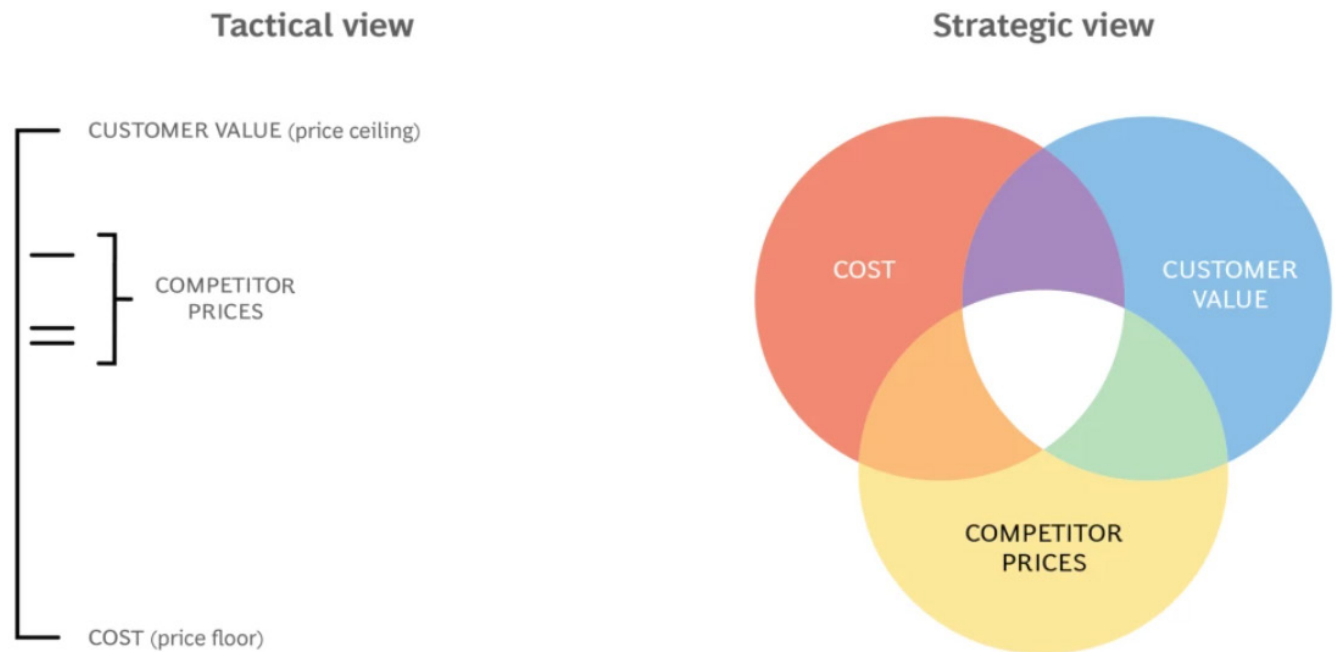
The academic and business literature is vague about what constitutes a pricing strategy. Business leaders therefore tend to describe their pricing strategies in terms of pricing models (for example, discounts and subscriptions) or pricing methods (such as value-based and cost-plus). We redefine pricing strategy as a business leader's conscious decisions on how to shape their market by determining the amount of money available, how that money flows, and to whom. This definition of pricing strategy recognizes the fact that the size of any market — and especially how that pie gets divvied up — is the direct result of the countless pricing decisions that companies and customers make every day. This new definition expands the pricing conversation beyond the quest for better price points and enables pricing to inform and determine corporate strategy.

## Linking Pricing Inputs to Pricing Approaches

Developing the unified theory of pricing starts with cost, competition, and customer value, which are the three fundamental information sources for the development of any business strategy. The traditional pricing perspective, however, treats these information sources as inputs into price calculations, as shown in the left side of Figure 1, on the next page. From this tactical perspective, customer value sets a price ceiling or a maximum price, while costs define the floor or the minimum price. To calibrate the range in between, leaders take competitor prices into account before deciding on the price they will charge for a product or service.

But costs, competitor prices, and customer value can generate important and more powerful strategic insights when leaders look at their interactions rather than how they behave in isolation. The intersections shown on the right side of Figure 1 reveal natural overlaps that correspond to four practical frameworks.

Figure 2, on the next page, shows how these four frameworks, when combined with the three underlying inputs, create seven separate fields, each of



**Figure 1: The unified theory of pricing starts at the interactions of the three inputs into pricing decisions, not their numerical spread.**

which corresponds to an established pricing approach.

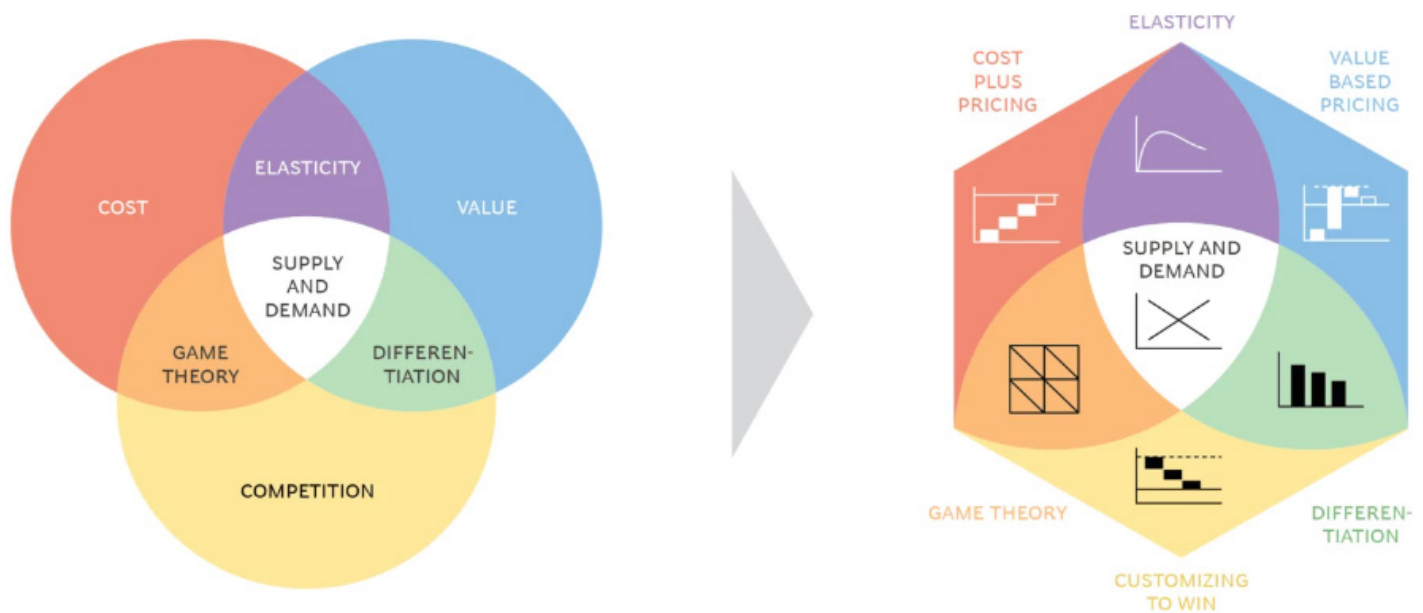
• **Price Elasticity.** The elasticity framework lies at the intersection of cost and customer value because cost and willingness to pay (based on value) are the two inputs necessary to calculate an optimal price based on how de-

mand responds to price changes.

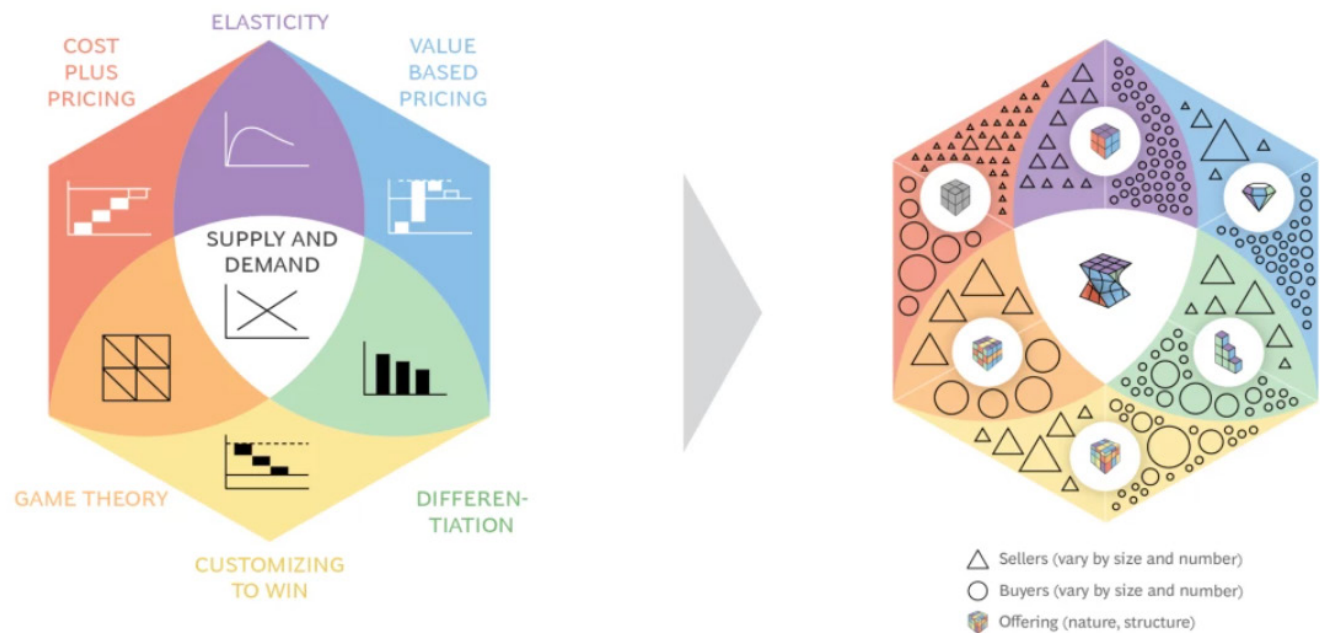
• **Price Differentiation.** This framework lies at the intersection of competition and value, where a company differentiates prices relative to competitors and relative to its own products. This framework combines insights from the theories of price dis-

crimination and behavioral economics.

• **Game Theory.** The game theory framework lies at the intersection of costs and competition. When a company's prices depend on the pricing behavior of a few individual competitors whose offerings all have very similar value, a company only needs costs



**Figure 2: The intersections yield seven fields that correspond to established pricing approaches.**



**Figure 3: The pricing approaches fit best to specific market characteristics.**

and competitor price information to define optimal prices that maintain a market equilibrium.

• **Supply and Demand.** This framework lies at the intersection of all three sources of information. A market's supply curve is based on the costs, capacities, and prices of every competitor, while the demand curve is a function of either the aggregated willingness to pay of individual customers or the value that those customers derive.

Even with these seven pricing approaches, leaders still require specific and systematic guidance on which approach will help them make faster, more confident, and more effective pricing decisions. The primary inputs for that guidance are the characteristics of their market.

### The Essential Role of Market Characteristics

Each of the seven approaches is well suited to certain combinations of market characteristics, but ill-suited to others. These characteristics include the concentration of buyers and sellers, the diversity of customer needs, and the variety and differentiation of offers.

▪ **Buyers.** Customers can vary by their sheer numbers, but they can also differ by their individual needs and the volumes they buy. The latter two factors can show very large variance within a market.

▪ **Sellers.** Seller concentration can vary from low to high. A fragmented market tends to have several competitors with small market shares. In a concentrated market, the power dynamics will depend on whether one or two companies have high market shares or whether the shares are more evenly distributed among a few sellers.

▪ **Offers.** Offers usually vary according to their complexity and their degree of differentiation. These two aspects do not necessarily correlate. Advanced or complex machinery, for example, can still show a high degree of standardization across suppliers that need to find subtle forms of differentiation or compete on cost and efficiency.

The right side of Figure 3 links common combinations of these three market characteristics with the seven pricing approaches and, by extension, with the three inputs (cost, competition, and customer value) that un-

derpin them. Observing the market characteristics enables leaders to determine which of the seven pricing approaches is best suited to their business and rule out those which are ill-suited.

### The Strategic Pricing Hexagon

The shift of pricing from the tactical plane to the strategic plane becomes complete when we turn the information and insights shown in Figure 3 into an organizing principle for a company. The tool or touchstone that provides that guidance is the Strategic Pricing Hexagon, which we also call the Strategy Hex. As shown in Figure 4, it provides seven distinct pricing games that, in aggregate, cover nearly every challenge and opportunity a business leader will encounter.

By synthesizing all this information, the Strategy Hex becomes a decision support tool that enables any business leader to formulate a clear pricing strategy and shape their business and markets with authority. It is a guide to help leaders identify the imbalances in their markets, assess the resulting opportunities and risks, and then frame their options depending on how they want to direct the flows of money in

the market.

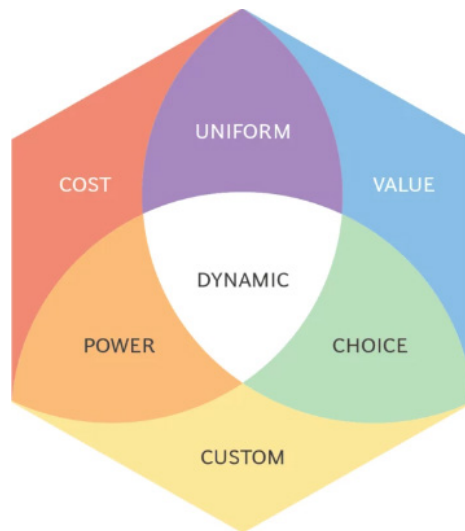
- **Value Game.** Players in the Value Game — such as high-tech, luxury goods, and pharmaceutical companies — succeed when they align the prices of their unique solutions with customer value and then obsessively direct their marketing efforts to defend that value and shape demand. A value-based pricing approach is most helpful when an offering's economic and emotional value far exceeds what competitors offer and when the buyers are so numerous and fragmented that no individual customer or group holds significant purchasing power.

- **Uniform Game.** Players of the Uniform Game — such as consumer goods companies and retailers — win when they optimize the same prices for all customers by carefully weighing the tradeoffs between volume and margin. The elasticity framework is the best approach for making efficient and confident pricing decisions when markets have a very large number of buyers with relatively homogenous needs, served by numerous and comparable sellers.

- **Cost Game.** Players of the Cost Game — such as some industrial suppliers, distributors, and government contractors — succeed when they use greater efficiency to create the degrees of freedom in commoditized markets with a fragmented base of sellers. Players use a cost-plus approach to set prices when these characteristics apply.

- **Power Game.** Players of the Power Game — such as many high-tech suppliers — rely on slim advantages to negotiate high-stakes deals that preserve the market's balance of power. Game theory is the main framework for pricing decisions when a market is concentrated on both the buyer and seller sides and offers show limited differentiation, often because buyers impose technical standards that only a few sophisticated sellers can fulfill.

- **Custom Game.** Players of the Custom



**Figure 4: Characteristics form the seven games of the strategic pricing hexagon.**

tom Game — which include a wide range of B2B suppliers — win by customizing discounted deals with individual customers amidst heavy competition. The negotiated terms, conditions, and supplemental offerings make each deal unique, even when the underlying products from each supplier seem similar. Pricing to competition is the recommended approach when market characteristics prevent a convergence toward large customer segments, common price structures, and similar product configurations.

- **Choice Game.** Players of the Choice Game — an eclectic group which includes software suppliers and some restaurant chains — rely on behavioral economics to help their customers self-select from a well-structured lineup of offerings. How prices compare to each other matters far more than the individual prices themselves. Price differentiation is especially important when offers have limited or no marginal costs.

- **Dynamic Game.** Players of the Dynamic Game — including airlines, sports teams, e-commerce retailers, and logistics firms — have begun to apply artificial intelligence together with human judgment to share val-

ue with customers in real time in response to supply and demand signals. This need can arise when a company has adjustable capacity, perishable inventory of relatively undifferentiated products, or constantly fluctuating demand from a broad base of customers.

Most markets fit very well to one of the games, but some may fit to more than one game. This is not a flaw, but rather an opportunity for leaders to decide which game to play, depending on their competitive advantages.

The Strategy Hex also prevents leaders from acting on incomplete information, falling prey to pricing misconceptions, or applying frameworks or techniques that are ineffective or inefficient for a particular game. Elasticity, for example, is a core framework for the Uniform Game, but it is significantly less important for business leaders playing the Power, Custom, or Choice Games.

### Managing and Changing the Game

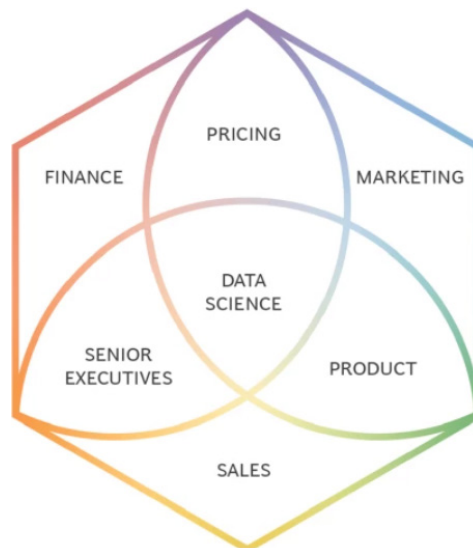
The person or people who can direct the flows of money within a firm and a market wield enviable power. This makes the pricing governance model an essential part of each pricing game.

The pricing governance model determines how a company manages and distributes business intelligence and pricing authority within the organization. The lead function in any pricing game is the one that manages the most critical trade-offs. Figure 5 on the next page shows the corporate function best suited for this role in each game. The other functions provide necessary checks and balances on that leadership role because pricing is cross-functional.

Each game is also subject to six well-defined forces — innovation, commoditization, customization, digitalization, fragmentation, and concentration — that can cause a market or company to shift toward a different part of the Strategy Hex, as shown on the next page in Figure 6.

Business leaders can harness these forces to help their companies reshape their business and their market. Digitalization, for example, tends to reduce marginal costs and allow a broader set of offers, thus pushing companies toward the Choice Game. Developing an innovative solution can enable a company to move from the Cost Game to the Value Game or Choice Game, depending on their existing market characteristics. Rapid consolidation in a market on the buyer or seller side can confront a company with a fundamental strategic decision: reorganize to play the Power Game or make another move that will allow them to enter another game.

No matter how markets around the world evolve, pricing will always remain the common business challenge that every executive and manager must address. The unified theory of pricing, as manifested in the Strategic Pricing Hexagon, enables business leaders to simplify pricing conversations, accelerate and improve decision making, and increase their confidence that they have chosen the best long-

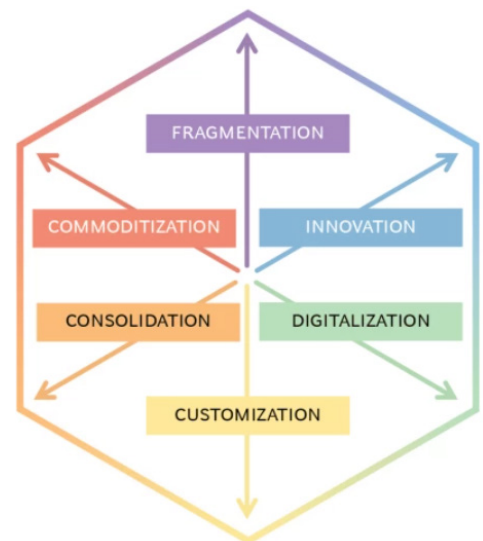


**Figure 5: Each game has a functional area within the organization that is best suited to lead it.**

term strategic path for their company.



*It's time to look at pricing decisions in a new light. Our book, "Game Chang-*



**Figure 6: Each game is particularly sensitive to one of six market forces.**

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# Pricing in a market with disruption

by Dr. Robert Van Cleef



*Special pricing challenges emerge in markets marked by disruption for both incumbents and the new disruptive entrant. When faced with a disruptive threat, incumbents can perceive a no-win situation. For the disruptive new entrant, there are also critical problems to solve. The goal of this article is to help firms navigate the pricing challenges associated with both the incumbent and disruptor positions in markets undergoing disruptive innovation. Dr. Robert Van Cleef, D.B.A., is a pricing consultant at Holden Advisors. He is a pricing strategy and research consulting professional with strengths in pricing, data analytics, and value engineering. For over 25 years, he has employed data-informed methods for decision-making in several industries and roles. He can be reached at [rvancleef@holdenadvisors.com](mailto:rvancleef@holdenadvisors.com).*

When OpenAI [launched ChatGPT](#) in November 2022, a new innovation arms race began. Rather than providing a list of website links in response to a natural language query with varying levels of usefulness, ChatGPT's generative AI engine synthesized results into a response reminiscent of a human conversation.

Within a mere 7 months, ChatGPT reached 100 million users, 1.6 billion visits, and 200 plug-ins. Google—the established leader in search—was forced to [release Bard](#) potentially before it [was ready](#) for prime-time release (by stating it is still an experiment and positioning it as a supplement to traditional search).

With the explosive growth of generative artificial intelligence, disruption is again [in the spotlight](#), along with all the associated pricing challenges. Regardless of the AI platform used, many businesses are seeking to leverage an expected [productivity lift](#) (estimated to exceed \$4.4T annually across the global economy). Entrepreneurs are

also seeking to formulate entirely [new business models](#).

Special pricing challenges emerge in markets marked by disruption for both incumbents and the new disruptive entrant. Incumbent firms are typically optimized to serve high-profit customers with complex demands for service. When faced with a disruptive threat, incumbents can perceive a no-win situation. Moving to a lower price position to match lower-price competitors en masse is simply not possible without cannibalizing needed revenue to serve demanding customers. But not responding could be equally damaging in the long run as market share bleeds away to lower-price competitors.

For the disruptive new entrant, there are also critical problems to solve. Disruptive firms entering the market need to balance targeting underserved markets at a low penetration price while also having a plan to increase price as technology improves and future and more profitable market segments can be served. The low entry price potentially could serve as an anchor that choke-holds future profitable growth.

The goal of this article is to help firms

navigate the pricing challenges associated with both the incumbent and disruptor positions in markets undergoing disruptive innovation.

## What is a disruptive competitor?

The [Disruption Innovation Model](#) developed by Harvard professor Clayton Christensen in 1995 has become a dominant theory for how smaller firms can succeed in a market dominated by established competitors. According to the model, *established firms* focus on sustaining innovation (adding features that meet the needs of large profitable customers, but also adding to cost-to-serve). Over time, offerings become feature-rich but also expensive to produce and maintain. Making matters worse, many segments of customers do not value many of the features produced.

*Disruptive competitors* are those that enter the market by serving the least profitable customers with a simplified (or inferior) offering or creating entirely new markets, typically with a new core capacity or technology (the disruptive innovation itself). Because the initial markets served are perceived to be unprofitable and the offering inferior, the new entrant finds little opposition from established firms and grows.

Over time, the new offering quickly improves in quality and the new disruptive entrant expands to serve new markets, eventually displacing the established firm (first through market share, then profitability). See Figure 1.

It is important to note that the largest and most profitable customers of large established firms have complex requirements that the disruptive innovation cannot initially serve. See Figure 2.

### The fundamental opportunity is the alignment of customer needs, offers and value proposition

The fundamental reason disruptive new entrants pull market share from established firms is that they possess a new technological or cost advantage, allowing them to serve previously undesirable customers profitably. This advantage provides the disruptive entrant unchallenged opportunities for the creation of value through renewed alignment of the customer, offering, and price.

Paying for features they will not use (or paying too much for features they do use) adds cost and reduces perceived value. Not all customers have the same demands for all features of an offering, so asking them to pay for what they will not use encourages them to look for alternatives.

Instead of focusing on competition, leading firms focus on the alignment of offerings with customer needs to maximize value. In a process referred to as [Value Innovation](#), Kim and Mauborgne emphasize the use of a strategy canvas to map out factors by which industries compete and the priorities of differing customer segments.

The strategy canvas helps identify areas where the value to customers is increased by addressing their priorities and unnecessary components are reduced or eliminated, thereby reducing the cost to serve. See Figure 3 on the next page.

A strategy canvas is a mapping of quality attributes that drive the decision to purchase. In the hypothetical example below, there are two customer segments and eight quality attributes.

Segment one has high expectations (indicated by a high importance score) of most quality attributes with the exception of quality attribute five.

Segment two places high importance only on quality attributes six through eight, and therefore likely is uninterested in paying a premium for the added performance of quality attributes one to five.

See Figure 4 on the next page.

Whether looking to design a disruptive innovation or defend your position from a disruptive competitor, having a

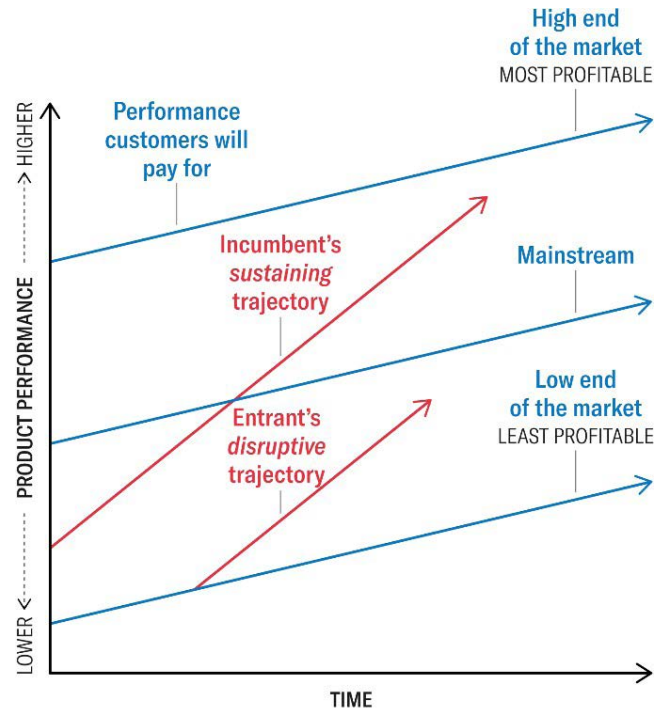


Figure 1

clear understanding of what is important to your customers and how that varies between segments is *essential* to designing an effective strategy. Offerings should be designed to maximize

| Industry        | Disruption   |
|-----------------|--|
| ✓ Finance       | <b>Stripe</b> has disrupted the online B2B payment processing world by simplifying the code required to securely process payments focusing initially on small eCommerce sites. Stripe incurs fixed payments (rather than a percentage of transactions) and has emphasized international accessibility with support for a wide range of currencies. |
| ✓ Healthcare    | <b>MHealth</b> provides smartphone apps to aid in following up on patient care by providing a range of administrative and telemedicine features. By empowering patients to be more proactive in tracking their information, the need for traditional doctor office visits (with associated co-pays) is reduced.                                    |
| ✓ Technology    | <b>Nvidia's</b> investment in AI chips (a niche less profitable market relative to CPUs) is allowing it to now dominate the chip maker segment and giant rival Intel.  |
| ✓ Entertainment | <b>Netflix</b> streaming service with low monthly subscription displaced expensive per-movie rentals with brick-and-mortar providers like Blockbuster.   |
| ✓ Automotive    | <b>Kia and Hyundai</b> invaded the US market by introducing low-cost models. <b>Tesla</b> is disrupting using a mid-market entry point for electric vehicles.  |

Figure 2: Examples of disruption

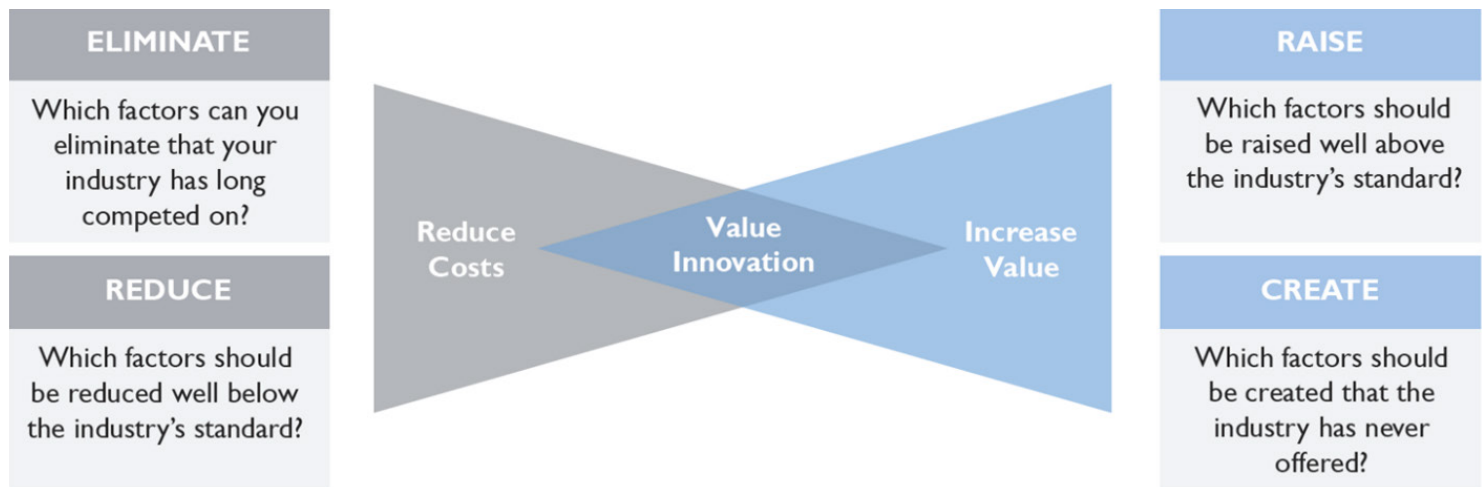


Figure 3: Value innovation, by W. Chan Kim and Renee Mauborgne

the value provided and eliminate features that do not, thereby reducing the cost-to-serve.

**If you have a disruptive competitor, how should you think about your price strategy?**

Firms in the incumbent position must balance their commitment to the existing profitable customers of today with the needs of the market tomorrow, knowing that it takes time to make change.

**Create a culture of value**

The most effective defensive strategy

that an incumbent can use to ward off a disruptor is a laser focus on customer value. There is a strong tendency to build offerings and add features over time. While at first some of the new features add great utility to the offerings, through the law of diminished returns there reaches a point where additional new features add mainly costs for maintenance but little relative utility to the general market. Using the value innovation concept to align features with specific customer segments:

• **Features can be prioritized for development.** Through the product development process, invest in excelling at the most important features while working to reduce or eliminate features considered unimportant for each segment (potentially as revealed through the strategy canvas analysis).

• **Offerings can be packaged through a variety of designs** (Good-Better-Best frameworks, Core offering + Add-ons) to target the value profile of specific customer segments. Such packaging designs allow “fenc-

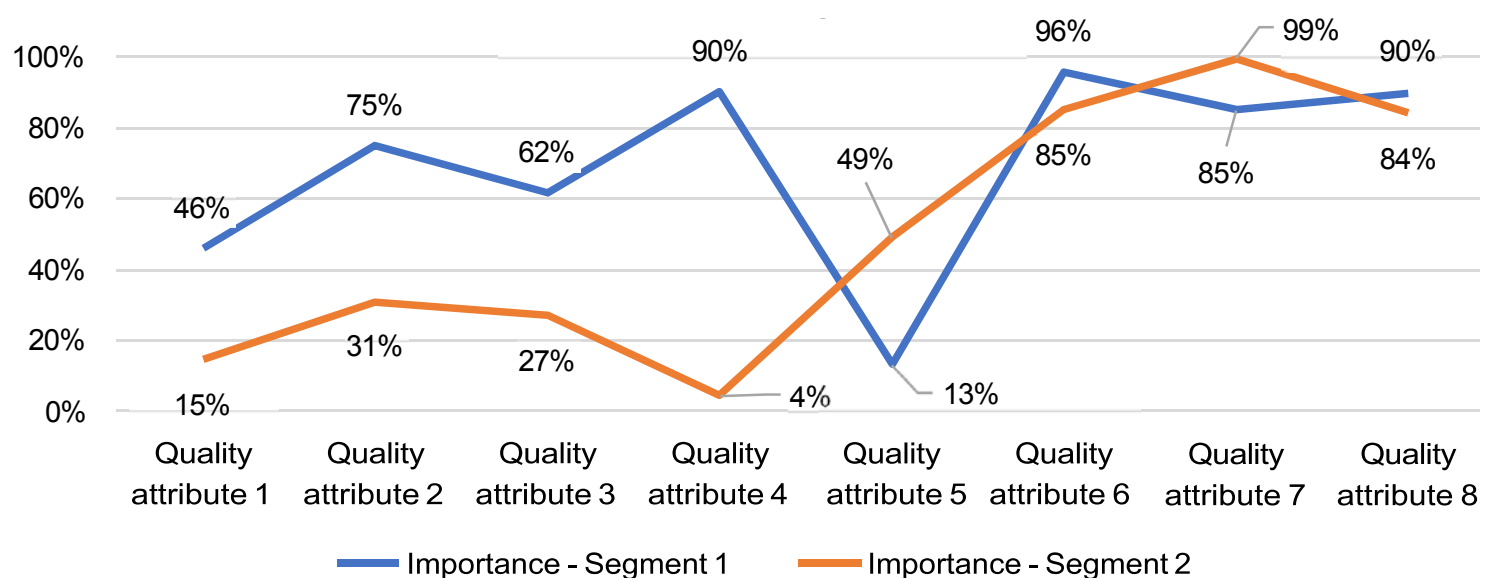


Figure 4: Example strategy canvas

es” to be developed between offering packages based on value received and, commensurately, a fair price is achieved.

• **Ensure the price-metric aligns with how your customer perceives value.** No one likes to feel like they are paying for something that is not useful. The strategy canvas may be instructive about disconnects between what we charge for and what customers value. Sometimes simply changing what we charge for can have a dramatic impact on how value is perceived.

While the notion of disruptive innovation is exciting, the reality is that by far most innovations are sustaining in nature. Even established firms that focus on customer value can be dynamic engines of innovation. With sustaining innovations, data is available for transaction analysis to ensure pricing can be optimized. Further, prices for new features customers may be familiar with can be evaluated via [conjoint surveys](#).

**Accept that value drivers are dynamic**  
At an established firm, executive leadership is accustomed to the field of competitors shifting over time and the constant threat of low-cost providers. Seasoned leadership frequently dismisses disruptive threats due to the fact that most revenue is derived from larger accounts that the disruptive innovations cannot yet serve. The disruptive solution lacks features and is seen as inferior relative to the value proposition currently offered.

But technologies and business models can and do evolve. Therefore, the value propositions of your offerings will also change. Disruptive threats can be identified through year-over-year studies of the competitive set (built to be compared). Over time, disruptive competitors will assume a consistently growing market share, frequently with more price-sensitive and lower-profit customers. When a consistently growing number of customers begin to reference a single low-cost competitor that uses a different approach,

pay attention to what that competitor is doing! Even though the solution may be inferior today, it will likely improve, thereby eroding the relative benefit of your offerings. Make no mistake, tomorrow’s competitive field will not be that of yesterday or today. Monitoring your competitive environment is essential for understanding your true value and identifying threats.

#### **Decide to cede market-share or manage cannibalization**

Once your firm clearly identifies a disruptive competitive threat, the question quickly transitions to “What should we do about it?” At this moment three reactions are common:

• **Discount to match.** One knee-jerk reaction to a competitive threat is to reduce the price of existing offerings to match the lower-price disruptive threat. Break-even analysis reveals this is rarely a viable option. Full-service offerings are expensive to provide, and substantial discounts require disproportionately large volumes of growth to sustain revenue. In short, undisciplined and poorly targeted discounts will weaken your ability to deal with the disruptive

competitive competitor to thrive unfettered by capturing more share. In the short term, this may be an effective strategy for ferreting out which disruptive competitors pose serious threats and are thus worth responding to. However, when your firm decides it will have to deal with the disruptor, it will likely then be a more serious threat with a larger market share and growing reputation. Your firm will be forced to react. When selecting this path, be clear to yourself how much market share you are willing to cede and in which markets. A proper exit price strategy should be planned to harvest the remaining value upon the determination to exit a market.

• **Develop a flanking product to match the disruption.** The third reaction is to proactively develop a flanking offering that imitates the disruptive innovation at a price lower than the traditional offering targeting specific customer segments. It is important to note that the flanking offerings you develop should be designed to match the (lower) level of value the disruptive threat currently represents and be priced competitively to that service level.

“THE THIRD OPTION IS FREQUENTLY THE MOST VIABLE OF THE THREE RESPONSES, BUT IT REMAINS A VERY DIFFICULT ROAD. FIRMS MUST COME TO THE PAINFUL REALIZATION THAT IT IS BETTER TO HAVE CONTROLLED CANNIBALIZATION WITHIN THE FIRM THAN CEDE MARKET SHARE TO EXTERNAL COMPETITORS.”

threat, and you will find you are moving towards a price war from disadvantaged ground.

• **Cede the market share.** A second response is to ignore the threat. This response effectively pushes the decision down the road and allows the disrupt-

The third option is frequently the most viable of the three responses, but it remains a very difficult road. Firms must come to the painful realization that it is better to have controlled cannibalization within the firm than cede market share to external competitors.

Internally, executives who are rewarded for generating the high revenues associated with serving large, complex, and profitable accounts will resist the development of lower-priced offerings for fear that customers will defect to these low-price offerings and cannibalize revenue. But if you have been monitoring the loss of market share, you can both quantify the value of what has been lost and also demonstrate that the rate of loss is likely to accelerate as disruptive competitors enhance their offerings.

### Build separate business units

Firms that successfully defend against disruption have found it helpful not only to segment customers by the job they wish to accomplish but also to build separate business units to address those segments. The needs of customers in large, complex segments will drive a value proposition that demands a rich and complex feature set and commands a premium price.

The needs of other customers may be far less demanding and profitable, yet still, with a streamlined offering profits can be made. Unless you are organized to meet the needs of each segment, the team will only be incentivized to meet the needs of the large and more lucrative customers and ignore the lower-tier customers.

By reorganizing, each team is free to pursue profitable opportunities based on their respective value profiles. In time, both traditional and new offerings could be bundled in interesting ways.

In the case of ChatGPT from the beginning of this article, it is interesting to note [Microsoft invested](#) over \$3B in OpenAI — an outside startup — to develop the ChatGPT technology rather than trying to develop it in-house. While it is unusual to think of Microsoft as a new entrant into a market, remember that [Bing has](#) 2.8% of the search market and Google 93%. Investing in OpenAI and mainstreaming GPT through Bing gives Microsoft an opportunity

to disrupt Google's hold on the lucrative search business.

### Case Study: IBM enters cloud computing

IBM, an established leader in mainframe computing, observed the explosive growth of cloud computing that disruptive competitors like Amazon Web Services were having.



Cloud computing provides opportunities for subscription pricing and pay-by-use models. In response, [IBM acquired](#) SoftLayer Technologies in 2013 to develop IBM Cloud rather than developing an in-house solution. IBM Cloud is now among the [top 5 cloud providers](#) in the world with 3% market share serving both small and large businesses.

Tips for established firms:

- Innovate based on customer value for customer segments with similar value profiles.
- Monitor competitive field through time to identify disruptive threats.
- Decide to cede market share or plan “controlled cannibalization” through a new offering.

- If developing a new offering to counter a disruptive threat, strongly consider forming a new organizational structure with accountability for this offering and associated customer segments independent of traditional customer segments and goals.
- Evaluate the value of sustaining in-

novations by employing transaction analysis, and conjoint or Economic Value Estimation (EVE™) per market size and familiarity with the solution.

- Evaluate the value of disruptive innovations using price windows and EVE™ only.
- Consider if a new price metric will help align offering to customer value.
- In time, evaluate if disruptive and traditional solutions can be combined in innovative ways.

### If you are a disruptor, how should you build a scalable price strategy?

Firms in the disruptor position need to be extremely strategic about which markets to enter in which order, while simultaneously determining how to set

a balanced price. For prices to be balanced, they should be low enough to profitably serve the initial target markets without forcing larger incumbents to react, but not so low that customers are anchored at levels that choke future profitability.

#### **Culture of value: Build features incrementally to increase value**

True innovation is born not simply from a technological advancement, but the realization of how value can be created for customers by leveraging the advancement. Technological advancement must be married to a new business application to become a disruptive innovation. The principles of value innovation, as discussed previously, demonstrate it is possible for disruptive innovations to occur without technological advancement at all.

For a firm that has identified an opportunity to apply a new business model as a new entrant into a model, the strategy canvas is an essential tool for prioritizing where and how to enter markets. In the start-up context, resources are constrained, so the focus must be on excelling at the most important quality attributes and avoiding developing (or over-developing) features that have limited value.

One special challenge for the disruptive competitor as a new entrant is the lack of market information from which to set a price. A price window can be determined by establishing a floor (the cost for providing the new offering) and ceiling (total economic value the offering could provide relative to the performance of existing solutions). To narrow the window, qualitative interviews resulting in EVE™ can help more accurately ascertain the pricing window and preliminary estimates of a recommended capture rate.

Disruptive technologies frequently facilitate the introduction of new pricing metrics, the basis by which pricing units are agreed upon. Rolls Royce famously introduced the “[Power by the Hour](#)” model innovation in 1962 and expanded it in 2002, transforming the

jet engine industry. Rather than paying to take ownership of jet engines, commercial aviation and government customers paid only for the time the engine was in use and providing value.

#### **Targeted penetration pricing in niche underserved markets**

According to the disruptive innovation model, customers with high price sensitivity and low service level requirements are frequently seen as unprofitable for an incumbent to serve. If the disruptive competitor can serve them profitably due to a new model, they will thrive in an uncontested space.

The strategy canvas can be used to illustrate which industries may be easier to enter than others. Industries that have high-performance requirements in multiple dimensions may not be the best to enter first. The customers will be demanding and the cost to serve is high.

Those with more specific demands or lower levels of performance require-

promotion of this favorable value proposition coupled with strong outcomes to allow all targeted customers to become aware an effective new way of doing business is available.

#### **Land and expand with fenced value propositions**

Once success is established in the initial market, qualitative research in adjacent markets should be conducted to develop refreshed and more detailed strategy canvases.

Following the principles of value innovation, select additional features could be created and offered in particularized forms to the next set of customers. As the offering moves to address the needs of adjacent segments, features can be removed to sustain tight value alignment.

#### **Continue to foster a culture of value for the long-term**

As disrupted markets mature, disruptive firms themselves can be exposed to the same risks as the established

“**PENETRATION PRICING ALLOWS FIRMS TO ENTER A MARKET AT A LOW PRICE TO BEGIN WINNING MARKET SHARE. TO ENACT PENETRATION PRICING, A FIRM WILL SET A CAPTURE RATE THAT BIASES VALUE IN FAVOR OF THE CUSTOMER.**”

ments will cost less to serve and find simple lower-price offerings adequate.

Penetration pricing allows firms to enter a market at a low price to begin winning market share. To enact penetration pricing, a firm will set a capture rate that biases value in favor of the customer. While for the short-term this feels like leaving money on the table for the customer, the superior value proposition will be appreciated by customers.

Penetration pricing also requires the

firms they disrupt. [Walmart disrupted](#) traditional retail chains with their mastery of discount retailing and supply chain management technologies in the early 2000s, but found themselves under a disruptive threat [by Amazon](#) in the decade of the 2010s and had to start an online division (Walmart.com).

#### **Case Study: HubSpot creates inbound marketing**

HubSpot was [founded in 2006](#) to serve the underserved market of small companies that wanted to implement marketing campaigns. By focusing on

social media and user engagement, the tool offered a new approach to launching campaigns. By focusing on small businesses, a segment the established players such as Salesforce and Oracle ignored as unprofitable, they were able to thrive in uncontested space. HubSpot's pricing plan allowed businesses with up to 1,000 contacts to have a free membership and begin to automate marketing campaigns. By 2010 — only 5 years later — HubSpot revenues grew to \$15.6M. By 2019, HubSpot's revenues grew to \$670M.

#### Tips for disruptive firms:

- Don't mistake technological advancement with innovation (which implies a change in business model). Ask the question: Given the new capability, what unserved markets can we now serve?
- Innovate based on customer value for customer segments, especially segments with simple needs and those in markets considered unprofitable by established competitors.
- Focus limited resources on high-value features.
- Evaluate the value of disruptive innovations using price windows and EVE™ only, use penetration pricing to gain entry and generate a buzz.
- Consider if a new price metric will help align offering to customer value.
- After demonstrating results in the initial markets, identify the next markets that could be entered with limited modification. Fence the value created with additional features and versions.
- Don't forget, disruptors can themselves be disrupted. Frequently ask what features can be reduced and/or eliminated as well as added. ❖

#### Endnote

1 (For a fuller elaboration on the theory, read Christensen, C. M. (2016). The innovator's dilemma. Harvard Business Review Press. <https://www.hbs.edu/faculty/Pages/item.aspx?num=46>

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# How companies should manage prices in inflationary times

by Mateus Barros and Catherine Tucker



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*This article delineates a comprehensive playbook elucidating the optimal approach for companies to navigate the intricacies of pricing during inflationary times. Mateus Barros ([mateus.barros@gmail.com](mailto:mateus.barros@gmail.com)) is a senior strategy, analytics, and pricing advisor with more than 20 years of pricing experience. He is currently in charge of leading the Revenue Growth Management capabilities at CMI Foods, a \$5B company based in Latin America. Catherine Tucker ([cetucker@mit.edu](mailto:cetucker@mit.edu)) is the Sloan Distinguished Professor of Management and a Professor of Marketing at MIT Sloan. She is the faculty director of the EMBA program. She has also been the Chair of the MIT Sloan PhD Program. She also teaches MIT Sloan's course on pricing.*

Following the COVID-19 pandemic and its attendant supply-chain shortages and periods of intense economic stimulus, the world finds that it is facing a period of sustained inflation in many countries. Such inflationary periods bring uncertainty and challenges for both consumers and businesses alike. Consumers tend to lose their pricing knowledge, prompting shifts in their purchasing behavior towards more budget-friendly alternatives, even opting for different brands. Simultaneously, the consistent surge in raw material and labor costs continues to exert pressure on companies' profit margins.

In such a scenario, businesses must embrace agility in their operational processes, especially in pricing management. Rather than uniformly transferring escalated costs to overall pricing, companies should adopt more nuanced methodologies to allow them to understand shifts in customer willingness to pay. This article delineates

a comprehensive playbook elucidating the optimal approach for companies to navigate the intricacies of pricing during inflationary times. Covering aspects from pricing strategy formulation and goal delineation to actual price establishment and implementation, this framework for price management introduces several dynamic elements that come into play within an inflationary backdrop. Conversely, the foundational principles of most pricing techniques remain relatively unchanged.

As inflationary conditions persist, this article proffers a set of strategies for companies to effectively address inflation and safeguard their profitability and continuity.

## 1) How inflation impacts companies and consumers

In recent months, the world has experienced a significant surge in inflation rates, marking the highest price increases in years. Notably, the United States has been experiencing its most pronounced inflationary period in the past four decades. There is evidence

to suggest that this inflationary trend will persist in the coming months and possibly even years.

In contrast to the inflation of the 1970s, which was primarily driven by surging oil prices, the current inflationary environment stems from diverse factors. The expansion of the money supply, initiated in the aftermath of the 2008 financial crisis, laid the groundwork for the current inflationary pressures. The COVID-19 pandemic further exacerbated the situation, causing supply shortages and disruptions throughout the global supply chain.

The impact of inflation has been far-reaching, affecting consumers, businesses, and governments alike. [Consumers with limited purchasing power are witnessing a steep rise in the cost of essential goods, prompting shifts in their buying habits toward more affordable brands.](#)

Companies with limited pricing flexibility are absorbing higher costs, while those with greater pricing leverage are significantly raising their prices,

ultimately passing on the overall cost burden to consumers. Central banks worldwide have been compelled to raise interest rates as a measure to curb inflation, with notable repercussions for consumer financing—mortgage rates, for instance, have climbed to multi-year highs, imposing constraints on consumers.

Businesses that struggle to fully pass on cost increases are witnessing a decline in their profitability. Inadequately managed companies may even face the risk of bankruptcy, which could lead to job losses and reduced incomes for many.

Inflation remains unpredictable, making it challenging to set its precise arrival time. In addition, Inflationary forces disrupt multiple variables simultaneously, including costs, prices, and consumer purchase behavior, which makes predictions even more difficult.

In times of inflation, agility and the timing of price adjustments become essential. Successful price increases need a streamlined process involving thorough analysis, decision-making, internal approvals, and, finally, equipping the sales team to effectively communicate and defend the value of products. This process must be expedited to respond promptly to unexpected inflation. Timing and a company's speed in reacting to these changes are critical to preserving profitability and ensuring survival.

Consumer behavior in this inflationary scenario can exhibit contrasting patterns. On one hand, consumers become more price-conscious and actively seek out better deals, resulting in higher price sensitivity and increased price elasticity for certain products. On the other hand, frequent price hikes can erode consumers' reference points for certain items, compounded by supply shortages that limit product availability. In such cases, consumers may opt to purchase whatever is accessible. The scarcity of a product and its essential nature play pivotal roles in shaping consumer

price sensitivity.

Given the uncertainty surrounding how consumers will respond to price fluctuations in an inflationary scenario, closely monitoring customer willingness to pay becomes crucial. Blindly passing on cost increases across the board without understanding consumer reactions can be a risky strategy.

## **2) Why companies need to change their price management mindset to deal with inflation**

The return of high inflation rates has taken many by surprise, catching even seasoned managers off guard. Few countries, such as Brazil, Argentina, and Turkey, have experienced periods of high inflation in the past. Managers in Europe and the United States, on the other hand, have little recent experience in dealing with sustained price

**“THE RETURN OF HIGH INFLATION RATES HAS TAKEN MANY BY SURPRISE, CATCHING EVEN SEASONED MANAGERS OFF GUARD.”**

increases and are not adequately prepared.

In the past, companies in these regions typically planned price increases once a year or often less frequently. The predictability of cost increases allowed for a well-orchestrated process, where each step was meticulously executed. This process involved comprehensive analysis, followed by recommendations for price adjustments, approvals, and ultimately, the implementation of these changes. Sales teams were trained to effectively communicate and defend these new prices to customers.

To maintain their current levels of profitability, companies must go beyond merely planning and implementing price adjustments; they must also ensure that these price increases

are effectively implemented. In other words, companies must protect sales volume to generate enough revenues and absolute margin. To accomplish this complex task, it's imperative to enhance the accuracy of predicting how customers will respond to price increases. To gain a deeper understanding of how demand reacts to price changes across various products and scenarios, companies require a more granular analysis. This analysis allows them to discern how different customer segments perceive the value of their products and services in comparison to the closest alternatives available in the market.

High inflation has added a layer of complexity to every stage of the pricing process, making it even harder to execute. In this complex and uncertain environment, professionals should focus on aspects they can control and set the groundwork to quickly gather information, conduct the analysis, and make well-informed decisions.

Close monitoring of cost fluctuations, a deep understanding of how customer willingness to pay evolves by each segment, and governance establishment to allow sales team empowerment without leaving money on the table are typical pricing tasks that don't change with inflation. The main change lies in the necessity for companies to execute these tasks with extreme agility. It's no longer sufficient to have a robust pricing process, governance, established pricing tools, and methodologies alone. Companies must also foster an environment that allows for rapid responses to market conditions change.

Effective top-level management plays a pivotal role in creating such an environment that empowers the sales team with accountability, establishes the correct business direction and priorities, and implements an automated, digitalized price management process.

## **3) How to stay ahead of inflation**

Now, more than ever, companies need

to have their pricing management processes up and running efficiently to navigate the challenges posed by inflation. Inflationary periods serve as a test for pricing processes, highlighting, and exacerbating any existing inefficiencies.

### ***Prepare the organization to establish a nimble process***

The initial step toward establishing a nimble and well-prepared organization capable of navigating inflation lies in implementing a robust price management process. This process demands not only the right methodologies for price determination but also a governance model that strikes a balance between empowering the salesforce and maintaining control.

A holistic price management process extends far beyond mere price setting. It comprises essential phases such as crafting a pricing strategy, defining the price architecture and price points, enabling the sales force to execute, and monitoring, all underpinned by thorough data analysis (see Figure 1).

parison to competitors based on their unique strengths, and fine-tune prices through precise elasticity and willingness-to-pay measurements by customer segment.

Certainly, companies should develop a pricing structure tailored to each sales channel, aligning with the desired sales growth objectives. This structure should precisely outline the margins allocated to each channel.

The pricing architecture, which includes channel-specific prices and positioning relative to competitors, should be informed by the broader pricing strategy, ensuring consistency and alignment across all channels.

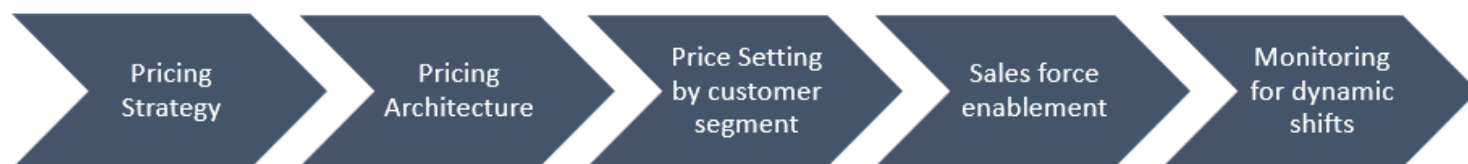
There are three primary methodologies for setting prices: cost-based, competitor-based, and customer-based approaches. While the first two, cost-based and competitor-based methods, are simpler and more direct to implement, they often overlook a crucial factor: customer willingness to pay, especially in times of inflation.

the optimal balance among these approaches becomes crucial, a balance influenced by factors such as budget constraints, time-to-market considerations, and the significance of the pricing decision. Indeed, the more pivotal a pricing decision, the more sophisticated the techniques employed for price setting should be.

After defining the price, successful price management depends on sales force enablement to allow an effective implementation. An agile price execution relies on a well-defined price management process, where tasks are clearly outlined with assigned responsibilities.

### ***Have a clear strategy and stick to it***

In the face of unpredictable and frequent cost increases, coupled with uncertainties about changing consumer habits and willingness to pay, companies must react quickly and navigate such challenges effectively. This demands a well-defined, agreed upon, and widely communicated pricing strategy and rapid access to cost and



**Figure 1: Price management framework**

This comprehensive approach ensures that the organization is not only agile in responding to market fluctuations but also equipped with the necessary tools to make informed decisions and sustain profitability amid inflationary challenges.

In this strategic framework, companies must concentrate their growth efforts in regions with the highest potential and where the company holds a distinct competitive advantage. To achieve this, businesses require precise tools and methodologies to identify key growth areas, establish optimal pricing positions in com-

Customer-based pricing reflects what a firm hears from customers about their prices. There are two flaws to this approach - first customers rarely encourage firms to charge higher prices if they are justified, but more importantly, it ignores the role of a firm in educating customers actively about value rather than accepting their passive judgment.

In summary, each of the three pricing methodologies offers its own set of advantages and disadvantages. Companies stand to gain by employing a hybrid approach, integrating elements from all three methods. Finding

market information.

A well-defined strategy provides the necessary guidance to quickly respond with tactical decisions that align with the strategic business goals. Having clarity regarding business objectives, such as identifying which products and channels require aggressive growth versus those needing defense and profitability protection or understanding the allowed price positioning in comparison to competitors, proves invaluable in swiftly determining the appropriate response during unexpected cost increases.

**Have a robust pricing governance**

A well-established pricing governance model serves to promote an agile process. Predicting interactions across different departments, clearly defining responsibilities (specifying who is responsible, accountable, consulted, or informed at each step), and having clear criteria for escalating pricing decisions are prerequisites for an agile organization. While having an agile process for pricing increases is crucial, it is equally important to understand the situations in which companies, instead of increasing, should maintain

a delicate balance between granting autonomy to the sales force and maintaining control. In essence, the involvement of top management in the process should be guided by the strategic importance and financial implications of each pricing decision.

**Monitor and anticipate the market - the role of shifting input costs**

Though costs should never be a primary driver of pricing decisions, we recognize that they can act as constraints on firms' pricing decisions. They represent an important floor

ing the movements in these two key variables is essential to protect profitability.

For example, a multinational food company in Latin America, heavily dependent on wheat costs, has established a dedicated business unit specifically tasked with purchasing wheat in futures markets. This proactive measure serves to mitigate the volatility associated with raw material costs, ensuring stability in their supply chain.

In the United States, a restaurant chain employs digitally monitored websites to constantly track competitors' prices. With this data-driven approach, they are empowered to make well-informed decisions regarding their pricing strategies.

Meanwhile, a European telecom company organizes workshops before implementing any price changes. These workshops simulate potential reactions from competitors, allowing the company to refine its strategies based on these simulations. This careful and methodical approach enables them to anticipate market dynamics, ensuring that their pricing decisions are well-calculated and responsive to competitors' moves.

By proactively engaging with these key variables, these companies exemplify the importance of agility and foresight in monitoring the market to tackle inflation.



current prices or offer discounts to preserve business and protect volume.

Centralized price increases are more efficient, but the sales force should possess a certain margin for negotiation when faced with pressure. They require a degree of "controlled freedom" meaning they can negotiate up to a certain level to balance between protecting volume and ensuring profitability.

The pricing process should be governed by a model that empowers the sales team with the right tools for decision-making. This model must strike

to firms' prices. It is undesirable in the long run to price at a level which means that the firm cannot recover costs.

Changes in costs can also affect another important constraint on a firm's prices which is their competitors' prices. Anticipating competitor price movements is essential for estimating the extent of price increases they should implement.

To maintain an agile approach to combating inflation, it is crucial to monitor raw material costs and competitors' prices. Anticipating and understand-

**Set high goals and differentiated price increases**

Recognizing that every business may have areas of margin leakage or clients bound by long-term contracts that don't allow price adjustments, companies should consider implementing higher price increases than they need to protect profitability.

In addition, a "one-size-fits-all" approach should never be applied to a price increase. When increasing prices, companies must consider the different product elasticities and tailor price adjustments accordingly. In the retail

sector, for example, businesses should avoid significant price hikes on “traffic driver” products, where consumers are highly price sensitive. Instead, they concentrate their price increases on “long tail products” or items with less price sensitivity.

Understanding consumer willingness to pay and how it has evolved with inflation is crucial for making precise decisions about diverse price increases. Being aware of these changes enables companies to implement targeted and effective pricing increases across their product range.

#### **Review contracts**

The effectiveness of price increases is also influenced by transactional costs incurred by customers. Unnecessary discounting, misdirected marketing efforts, and low-performance accounts can erode a company’s profitability significantly. When reviewing contracts’ terms and conditions, it’s possible to identify inefficient customer incentives. In times of inflation, it becomes crucial to reassess conditions such as early payment bonuses, late payment fees, freight charges, volume commitments, delivery windows, and other elements that contribute to higher costs to serve.

A robust discount policy operates on a “give-get” logic, meaning that if a company offers a discount, it should receive something of value in return. This could include higher-margin product sales, reduced cost-to-serve, or more favorable payment terms, among other benefits. For example, by offering a “volume discount,” the company expects more sales at a given discount, while with a “sales mix discount,” the company expects customers to buy more profitable products.

Working on these terms with a “give-get” logic will improve the return on discounts given, especially when customers adopt profitable behaviors beneficial to the company.

#### **Prepare the sales team to negotiate**

In times of inflation, negotiations be-

come more frequent, demanding the sales team to be well-prepared and empowered to quickly make decisions, ensuring profitable deals. Empowerment involves not just responsibility but also the ability to react promptly and decisively. During negotiations, the sales team must have a clear understanding of the trade-off concessions that can be made and those that are non-negotiable. They need to discern which customers are worth making concessions for and when it’s bet-

Working on variables beyond price, such as payment terms and other contract specifics, adds complexity to the sales job but is equally crucial. Managing these intricacies effectively ensures a balanced approach, safeguarding profitability.

#### **4) Final remarks**

High inflation rates have persisted after the initial shocks of 2021-22, indicating a trend that organizations need to recognize and prepare for. Without

**“HIGH INFLATION RATES HAVE PERSISTED AFTER THE INITIAL SHOCKS OF 2021-22, INDICATING A TREND THAT ORGANIZATIONS NEED TO RECOGNIZE AND PREPARE FOR. WITHOUT PROACTIVE ACTION, FIRMS RISK LOSING MARGINS AND THE ABILITY TO REMAIN PROFITABLE.”**

ter to let them go if they don’t agree with price increases. In essence, they should have well-defined negotiation targets and walk-away thresholds.

To bolster the sales team’s confidence, providing them with in-depth knowledge about the product’s value and the company’s competitive advantages becomes crucial. This knowledge equips them to defend against competitors’ price attacks effectively, ensuring they can articulate and justify the value proposition, even in challenging negotiation scenarios.

#### **Incentivize the sales team correctly**

It is well-known that revenue-based incentives can prompt the sales team to reduce prices in exchange for volume. It’s a rule of thumb to measure the sales team’s performance based on price realization, meaning the invoice prices after deducting all applicable discounts, rebates, promotions, and other transaction costs. This incentive structure becomes particularly critical in inflationary times when, alongside implementing price increases, addressing transaction costs that could erode margins becomes equally important.

proactive action, firms risk losing margins and the ability to remain profitable.

Effective leadership is crucial in helping organizations navigate these inflationary challenges. Creating strategies for how to deal with this new inflationary environment should become a top priority on the CEO’s agenda, creating a sense of urgency for implementing agile price management processes. Also, at the C-level, it is crucial to caution the organization against the revenue illusion caused by inflation. During inflationary periods marked by constant price increases, focusing solely on revenue is misguided. Instead, emphasis should shift toward preserving and maximizing profit margins.

Inflation also puts established pricing processes to the test. Now, more than ever, companies require agile pricing strategies with a governance model that strikes a balance between granting the sales force autonomy and involving C-level executives in critical decisions. Sales teams should be empowered and made accountable for most pricing decisions. They need to be trained to negotiate effectively, jus-

tify product value, and defend product prices.

If we want firms to remember one thing from this article, it is that a uniform price increase across all products is not advisable during inflationary times. If certain segments of the population experience reduced effec-

tive income due to inflation, companies may consider holding off price hikes for these segments while adjusting prices more than the inflation rate elsewhere.

In summary, inflationary periods challenge existing pricing processes, highlighting and exacerbating any in-

efficiencies. Strong C-level leadership is essential to elevate inflation as a top priority, creating awareness, and implementing robust pricing strategies. These strategies are vital for managing inflation without compromising profit margins and competitiveness. ❖



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# Excellence in value-based selling

by Stephan Liozu, Ph.D.



*Selling on value is a must have. But it cannot happen without the right strategic positioning, the right differentiation levels, and an alignment between strategies and tactics, as the author explains. Stephan M. Liozu ([sliozu@gmail.com](mailto:sliozu@gmail.com)) is Founder of Value Innorruption Advisors, a consulting boutique specializing in industrial pricing, XaaS pricing and value-based pricing. He is also the Co-Founder of Pricing for the Planet, which specializes in pricing for sustainability. Stephan has 30 years of experience in the industrial sector with companies like Owens Corning, Saint-Gobain, Freudenberg and Thales. He has authored and edited 13 books on value and pricing management. Stephan sits on the Board of Advisors of Professional Pricing Society.*

**C**urrently, companies are investing heavily in training their sales force to become value sellers. There are numerous reputable companies offering commercial excellence training combined with a value management approach. No methodology is perfect and there is always room for improvement, but methodologies and tools are never enough.

Great value-based selling programs are incorporated into value-based strategies, and they are part of a large-scale strategic effort. They are supported and energized by executive leaders and are provided resources in the proper way. Selling on value is a must have. But it cannot happen without the right strategic positioning, the right differentiation levels, and an alignment between strategies and tactics.

This article starts with six considerations to address before getting started. Then we discuss the necessity to develop and deploy the right value toolbox to support the sales efforts. Finally, we explore the design of a disruptive and progressive value-based selling training program.

## Six Considerations for Successful Value-Based Selling Programs

There are certain things a company must do before embarking on strategic value-based selling programs for their go-to-market teams.

**1) Get the definition right:** I have seen many different definitions for value-based selling initiatives. Let me list a few here: value selling, selling value, selling on value, value-added selling, value-informed selling. Definitions and words matter. It is essential to use the right name for the initiative and to not succumb to the consultant's latest trendy name. Value-based selling is an established methodology which has been around for decades. Let us call a cat a cat!

**2) Make sure value-based selling is not done in a vacuum and/or a silo:** Both the design and the implementation of value-based selling programs must be done in a multi-functional way. First, they need to be connected to value-based marketing and value-based pricing initiatives. They cannot be done in a vacuum with sellers doing their value analysis and producing their own value tools. Second, the production and definition of the value drivers and the value tools must be multi-functional. Bring sales, market-

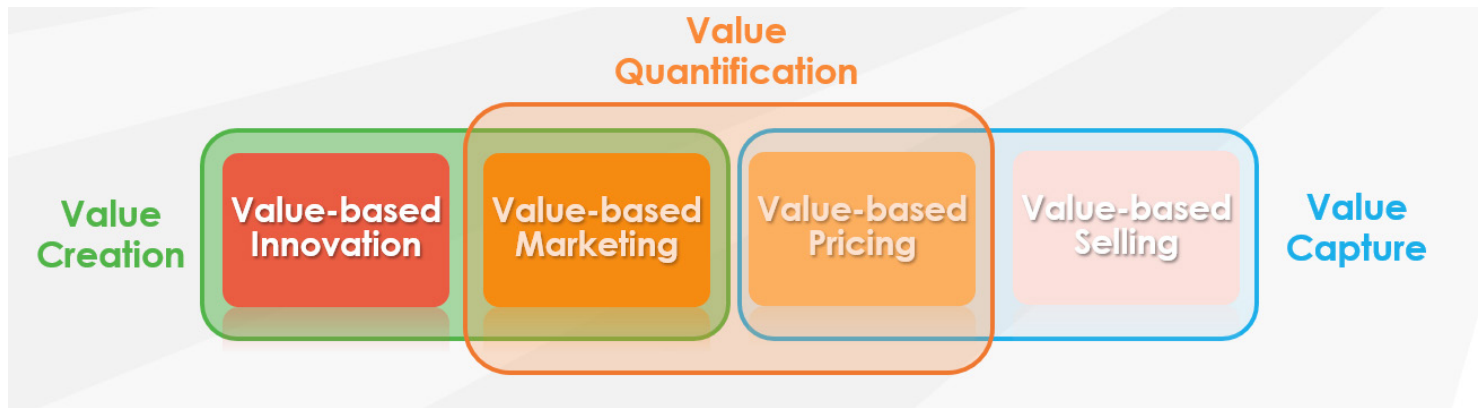
ing, technical, and pricing folks together to extract messages and drivers. Keep alignment in mind. See Figure 1 on the next page.

## 3) Quantified benefits are the way to go as part of a solid value toolbox:

You must prioritize the value quantification process in the value-based selling methodology. Too many companies stop at the customer benefit level without focusing on true differentiators and quantifying them in terms of financial value for the customers. I would argue that this is the heart of value-based selling. Without concrete quantified impact, your value propositions are weaker and less impactful. When designing your value toolbox to be used by your sellers, make sure these value nuggets are used in many locations. Repetition is key for convincing customers to pay attention. If you do not know how to do this, bring your value engineers, your value consultants, or your value-based pricing experts to the table. They will become your best friends!

## 4) Value-based selling and negotiation for value are not the same thing:

In fact, they are completely different. Value-based selling is a way of being and a way of working. It never stops. It is engrained in the sellers' DNA. Value-



**Figure 1**

based selling is ongoing and extremely focused on long-term relationships. Negotiation for value is more tactical, time-bound, and focused on specific transactions. While both are part of commercial and sales excellence programs, the training curriculums are different. Keep that in mind when designing your programs.

**5) Adopt a methodology and focus on automation and speed:** You might want to shop around and evaluate the various providers of value-based selling training and consulting. They are offering similar services using some of same fundamental principles. The key question I recommend you pay attention to is the speed of deployment and the ability to automate value-based selling programs. Doing things manually and customizing the value tools based on specific customer input take time. Sellers need to sell. And they need to be doing so with the right tool at the right speed. There is a high probability of failure and low adoption if the sellers must produce their own value tools and documentation. In the future, value-based selling programs will be closely tied to technology and much more focused on outcome and impact. That change is happening already.

**6) Focus on training but also on mindset change:** The end goal of any value-based selling program is to transform the sellers from cost-plus or market-based selling to value-based selling. That takes time, effort, and

repetition. But the challenge is to create irreversible change in the way the sales teams think, operate, and behave. The design of your value-based selling programs is as essential as the methodology you select. Slow down if you need to, but make sure to get it right the first time. If you miss this first opportunity, chances are that you will have to do another round of training and another round the year after.

Customer value management is a team sport. One of the team members must be a learning and development professional. This is not business or training as usual. These six key considerations can make or break your value-based selling programs. Think carefully, select the right partners, and focus on the right success KPIs. You should not just get it done because someone told you to do so. We are not checking the box here. We want to do this for impact and to scale based on customer value. That is a different proposition.

### **Value Toolbox to Successful Value-Based Selling Programs**

Value-based selling programs must be prepared carefully with the right objectives in mind and the right content. In this department, content is key. I am often asked who is responsible for putting together the overall value playbook supporting the value-based selling curriculum. My response is simple! Marketing is in charge and must pull information from various departments such as market intelligence,

customer success, strategy, pricing, and more. Marketing leaders often forget that they are the R&D of sales. They must work hard in preparation of these training events, and first impressions matter.

After decades of experience in value-based programs, I have been exposed to, used, and created many value tools that are used by marketing and pricing professionals to train the sales force on how to become value champions. I created a list of fifty-five value tools that are commonly used in value-based strategies to advance the customer value agenda. If you are interested in reading more about them, [check out my Value Mindset book here](#).

I do not recommend using all of these tools. Choose the five or six most relevant options to support your training and learning agenda. The most used tools are listed in Figure 2 on the next page:

1. Value selling sheets are one or two-page documents summarizing key points for the sales force on products and services. They list key differentiators, key benefits, and key features for what you are selling. They are used internally to prepare for sales calls. A lot of these points must be memorized so that they can be used fluently during value conversations.
2. Business Value Assessments (BVA) are documents used to demon-

strate the ROI and financial value for a specific deal or opportunity. Sales representatives produce these for qualified leads and opportunities (hopefully from a customer value management (CVM) platform).

3. Dollarized value propositions can be PDF or PowerPoint documents demonstrating the economic value of an offer. They represent another way of doing a BVA, but they look more like a well-designed customer value proposition than a financial business case.
4. Pricing objections guides offer a list of the top ten or fifteen pricing objections commonly used by customers and prospects with a relevant value response for each of them. They are used internally for training, role playing, and onboarding of new sales reps.
5. Value messages are closely tied to true company or product differentiators and are projected non-stop to customers during multiple touchpoints. These are listed in a Word document and shared with any employee with customer facing activities. These are the “did you know that...?” of the day. For example, “Did you know we created nine out of the last ten industry innovations?” Or “Did you know that our technical XYZ solution secured the most demanding industrial facilities in the world?” Finally, “Did you know that we saved our industry \$2 billion in unnecessary costs?”
6. Documented value success stories are case studies that have a quantified economic value component. They go a step further than regular customer or application case studies. They should contain a quantified value scenario for an application, an end-user, or a customer situation. Often, these are proposed



**Figure 2**

on the website as value stories. These also need to be automated out of a CVM platform to avoid manual work.

7. Value realization reports are produced by your CVM platform and are used in quarterly business review meetings with your customers. These reports serve as progress reports on the value delivered and realized value to your customers. Remember that it is all about realizing the economic value you promised in exchange for closing deals (hopefully with a higher average selling price).

I would recommend selecting these seven tools and including them in your value toolbox. These documents need to be prepared in advance using a multi-functional approach with input from sales, marketing, pricing, services, customer success, and other. They need to be battle-tested before being used in value-based training sessions. Make sure the content and the value numbers are credible or you will have an adverse reaction during the training. Value-based selling challenges people and takes them out of their comfort zone. Do not give them

a chance to cop out because the documents are improvised, unprofessional, or not credible. Preparation is key.

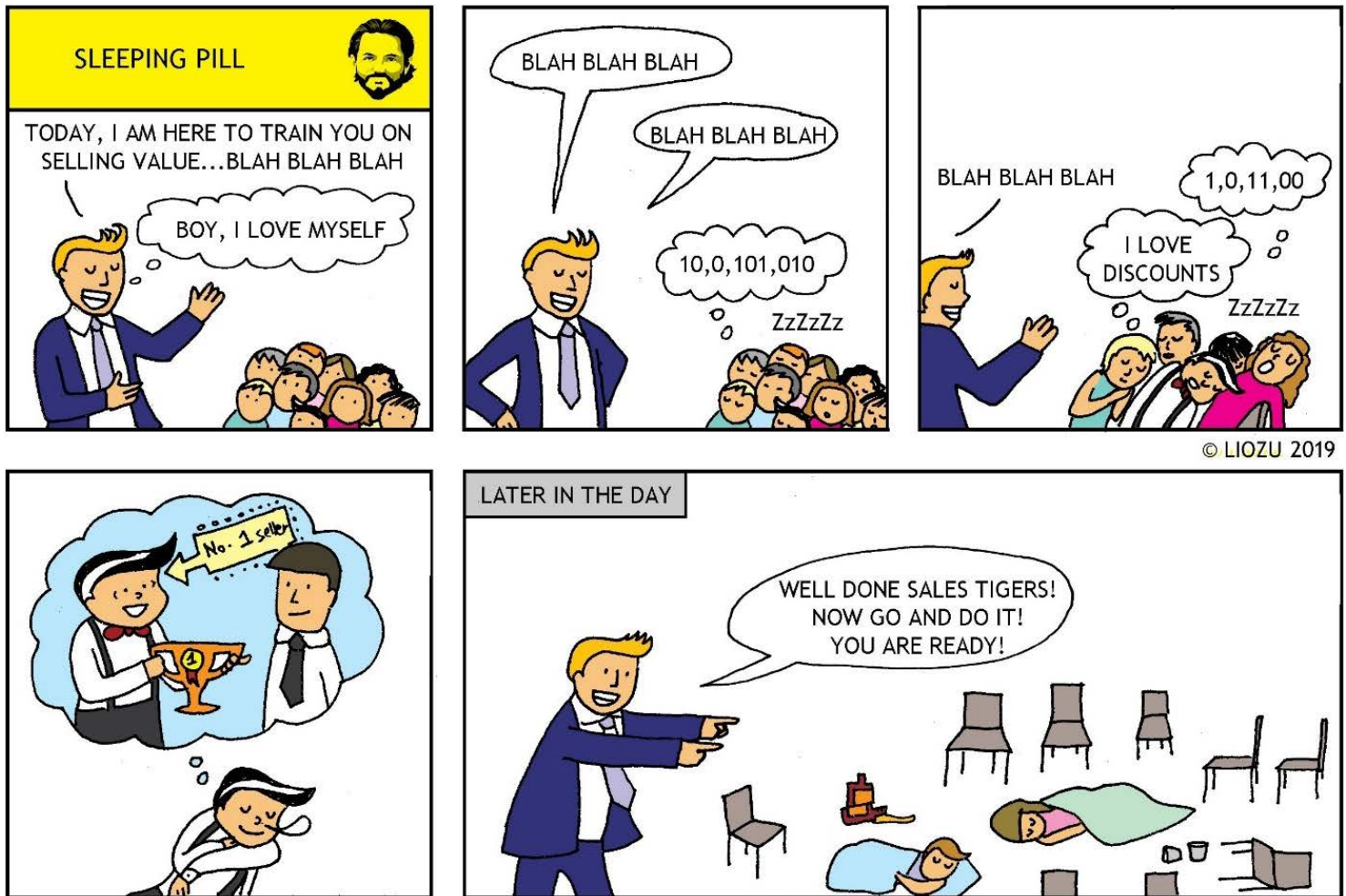
### **Best Practices in Value-Based Selling Training Program**

Developing people skills through a thorough training plan is essential to proper pricing and value management execution. Whether we're discussing the deployment of a tool, the assimilation of a new selling method, or a large-scale value-based execution program, training is the engine of the value transformation. Training is how we establish a growth mindset in the organization and tap people's interest when embracing value management activities, especially when it comes to

training the salesforce on value-based selling. It's how we impart the organization's new vision, objectives, concepts, approaches, and tools to each rank-and-file employee, to each team, and to each executive throughout the business. Your company deserves this investment in dedicated training.

Let us be realistic about the scope here. You might be training different sales teams on many different things including in the value-based selling scope. This cannot occur overnight, nor can it occur using conventional methods. The best-practice model you should use instead is a total redesign of the traditional lecture-class approach. We must stop carpet-bombing salespeople with information and then releasing them back to their own devices to fail or succeed entirely. Feedback and follow-up are critical.

Instead of relying on day-long lectures or PowerPoint overdoses, a formal value-based selling training session is only the beginning. Training should take place over a period of three to six or even 12 months, during which you will collect multiple data points and have multiple contacts with each trainee to reinforce execution and full



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assimilation of value concepts. Training never ends, just as the value transformation never ends. The roadmap needs to account for many touch-points of reinforcement. New salespeople will come and go in your organization, requiring frequent training blitzes.

### What Makes Value-Based Selling Training so Hard?

Training adults in general is challenging. Training salespeople is harder. They are on the front lines, and they are facing positive and negative market dynamics head on. The role of the salesforce has changed dramatically, and they must do more with less. In addition to this, you are dealing with professionals who have deep customer relationships and have sold using a certain style - sometimes for decades. So, training salespeople and changing their ways of working is not an easy

proposition. I propose four challenges to training salespeople on value-based selling:

1. **You need to get salespeople out of their comfort zone:** That is the real challenge. Breaking comfortable routines and ways of thinking takes time. Imagine a salesperson who has sold on volume using discounts for 30 years, and now you are asking her to sell on value and resist the discount request. The comfort zone is gone. But without this challenge, she will not learn anything: [If You're Not Outside Your Comfort Zone, You Won't Learn Anything \(hbr.org\)](#).
2. **You need to repeat things a lot:** John Hillen uses the term "The Rule of 100" in his book **What Happens Now? (What Happens Now?: Re-invent Yourself as a Leader Be-**

[fore Your Business Outruns You: Hillen, John, Nevins, Mark D.: 9781590794531: Books \(amazon.com\)](#) to make a critical point that is powerful to remember. The idea is that you have to say something 100 times before people really hear and internalize it. So, you need to have time to repeat things without sounding like a broken record!

3. **You need to give salespeople enough time to assimilate:** In the book **Fluent Forever: How to Learn Any Language and Never Forget It (Fluent Forever: How to Learn Any Language Fast and Never Forget It: Wyner, Gabriel: 8601404200298: Books (amazon.com))**, Gabriel Wyner writes: "Spaced repetition...[is] extraordinarily efficient. In a four-month period, practicing for 30 minutes a day, you can expect to learn and retain 3600 flashcards

with 90 to 95 percent accuracy.” You cannot rush training on value-based selling. You must space out the sessions and the type of training you do. It is all about absorptive capacity, which is another term for getting things to stick in the memory.

#### 4. You need to focus on retention:

Since you are dealing with incredibly busy professionals who have been in business for quite a while, they might be distracted and forget the training content. In fact, after 31 days they might only retain 20% of what they learned (as shown in Figure 3).

### Summarizing the Training Best Practices for Value-Based Selling Training

Let us review the best practices for training to superior value-based selling execution:

- **Plan on at least ten touch points:**

Conventional classroom instruction is not sufficient, and face-to-face follow-up is often impractical in our global world. You must stay connected, and the more frequently the better.

- **Mix delivery methods:** Transmit your methods virtually, physically, or as a hybrid.
- **Mix up your training environment:** Training can occur in a classroom, or in the field, at home or even in the car.
- **Use your sales and business leaders:** The person reinforcing the message can be a manager, coach, team leader, or peer. Each may have a success story to tell.
- **Account for different absorption levels:** Some learn best from seeing; others from reading, doing, listening, or taking actions.

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

Now you know what to do and what not to do if you are thinking of training your sellers on value-based selling. Do not improvise it. Spend a lot of time and energy designing a rock star program that will be very memorable with the salespeople. If you make it good, they will remember it forever.

### Conclusions

Designing a robust, impactful, and memorable value-based selling program requires heavy thinking. It needs to be integrated with the proper systems and connected with the relevant go-to-market processes. Value-based selling must be connected to the rest of the functional processes. Remember that before selling, marketing, innovation, and pricing teams need to do some preparation work. Selling on

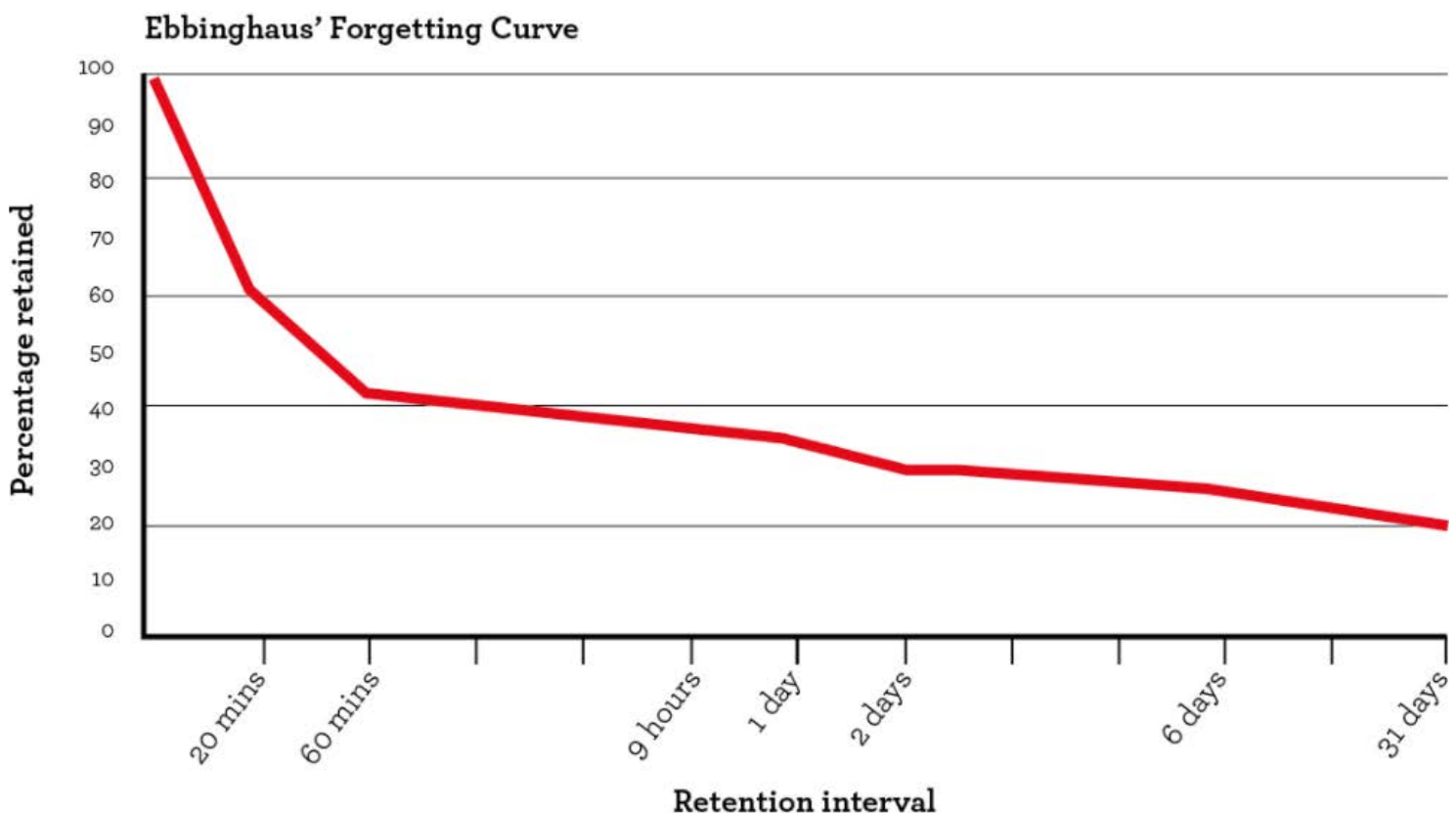


Figure 3

value is a transformation of the organization DNA. The customer becomes the center of attention and is at the heart of value-based strategies.

Cost and competition remain an important part of the equation, but they come second and third to customer value. Customer value management is

a team sport. And that sport requires preparation, repetition, and execution. Be bold, join the customer value revolution! ❖