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## Unleash Your Pricing Power

**Be Determined, Confident and Disciplined**

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**Weapon of Choice** – Pricing is seldom an area that business managers talk about with great enthusiasm. Pricing is often the centerpiece of tense negotiations with their largest customers.

Pricing is the favored weapon competitors use to steal market shares with. Internally, pricing is often the source of conflicts between different functions within the company. Those people with the spread sheets, income statements and responsibility of costs have usually different pricing ideas from the customer contact people. Pricing is seldom a "friend." The following article describes how managers get prepared to manage prices more professionally in the current market environment and what it takes to get from "good to great" in pricing.

*The good news is that prices are going up in many markets. The bad news is that costs are rising even faster.*

Looking at pricing today, there is good news and bad news: the good news is that prices are going up in many markets. The bad news is that costs are rising even faster. This means price management does not have to deal with prices only, but also with steering and controlling of margins. The strongest pressure point today is the transformation of raw material cost increases into higher prices. This is why pricing has moved to the top of executive agendas, and, of course, because of the leverage of prices on

profit which is highest among the four profit drivers price, variable cost, fixed cost and volume. Furthermore, pricing works in two directions: no lever can increase profits more quickly than raising the price a percentage point or two, but at the same time nothing will drop profits through the floor faster than letting the price slip down a percentage point or two.

### Some Observations In Pricing

In almost all major companies in the chemical industry global pricing initiatives are in place. In our experience, these initiatives develop a company's pricing capabilities over a three-stage roadmap.

Pricing initiatives usually start with gaining more transparency into pricing. Are all our prices right? Do we charge our C and D customers more than our A and B customers? Is the price spread across customers too big? These are the questions typically addressed. Pricing tools for internal

data analysis are installed. Internal benchmarking and outlier analyses are performed to detect the "low hanging fruits" in pricing. Efforts are made to gain a clear view on cost-to-serve and activity-based costing to identify unprofitable customers and derive corrective actions.

As a next step, companies start giving a more structured, internal guidance on prices to the sales force in the form of differentiated limit and target prices. These guidelines are based on value considerations. Product and service values are investigated and customer segmentation approaches are used. Do we differentiate our service offerings and our prices for the "want it all" or "want the product only"-customers? Are we competitive enough in pricing our commoditized, me-too products and do we fully capture the value for our specialties?

Furthermore, companies introduce price corridors to align prices on a global scale in order to slow down price harmonization trends and coordinate cross-border pricing. The biggest challenge here is to raise prices in low price countries. As these countries are usually the largest volume ones, it is easier said than done.

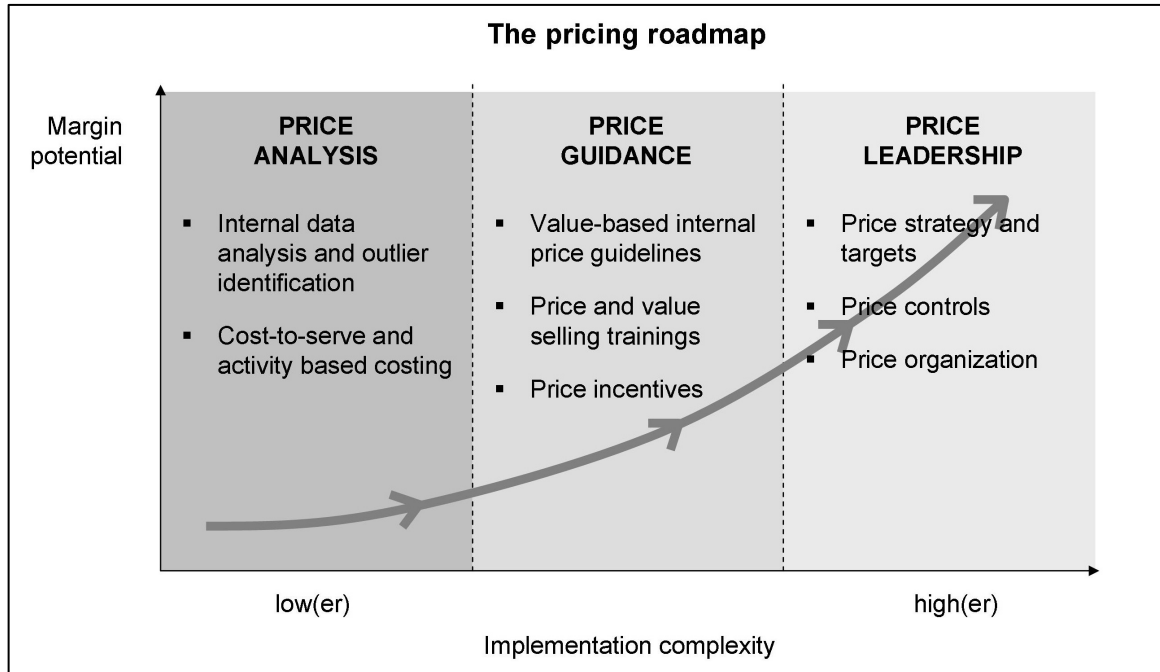
The guideline development is followed by an enhancement of sales capabilities and the pricing skills in sales. Companies train their sales force in new processes in pricing and value selling. Sales force incentives reward special pricing performance with bonuses or variable compensation schemes.

Finally, pricing is finding its ways into organizational structures as well. Dedicated pricing functions are installed in order to support informed price decision making. So

### Strategy Forum

Simon-Kucher & Partners will conduct its 32nd strategy forum on June 11 in Cologne, Germany. The topic will be "Cost increases: Friend or foe in pricing? Price management in dynamic environments." For further information please contact Renate Prokesch (e-mail: renate.prokesch@simon-kucher.com).

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called “Pricing Officers” or “Pricing Marshalls” manage broad price information systems and support and facilitate the pricing process. It is important to note that the “Pricing Officers” are not pricing managers. They are not making prices, but supporting price decisions. Their responsibility is to make sure that the pricing process keeps on running.

**Key Success Factors:  
Get From ‘Good to Great’ in Pricing**

Having done all this, is success now just a question of time? This is not the case. There are three success factors in pricing in order to get from “good to great”: First, to be determined, second to be confident and third to be disciplined.

To be determined means that targets in pricing must be crystal clear. Of course, the ultimate target of any (pricing) strategy is to increase profits. However, in practice we frequently find that some managers are unwilling to make hard decisions about price because the decision could result in a loss of market share. Other managers are unwilling to lower margins even in the face of severe competition and declining market share. Either approach on its own is rationally not profit-driven. Profit is driven by percent margin and volume. This means both, margin and volume, need to be managed together. Setting targets in pricing requires managing

the trade-off between margin and volume. This trade-off involves the willingness to lower prices in the case market opportunities can be exploited and volumes increased. This trade-off also involves the willingness to give up volume by raising prices. One has to balance both – and you need to know what you want.

To be confident in pricing means to have the “we get what we deserve” mentality and the confidence to be able to go for it. How to achieve price confidence? Price confidence is achieved by being well prepared. It is about knowing how important the customer is to us and knowing how important we are to the customer. It is about understanding our competitive performance and having a predefined argumentation line in place. It is about having a clear walk-away point defined and a deep understanding of how to create a balance of power at the customer. Checklists for preparing customer visits, Q&A documents, a presentation document for the customer or even rehearsals for important negotiations are needed. One has to be prepared if one desires confidence in pricing.

To be disciplined in pricing means to consistently follow the pricing targets irrespective of the hard fights with the customer when increasing the price and the fear to lose a customer. A disciplined pricing means having rules and guidelines and a set of response patterns in place in order to manage prices over time towards

the targets. Everyone in the organization has to stick to these rules and “walk the talk.” Disciplined pricing is a prerequisite of being predictable in pricing. This also means: no price concessions! Price contamination has to be avoided. Price contamination occurs when one price concession prompts other customers to ask for similar concessions when they sit down at the negotiation table, prompting again other customers to ask and so on.

This is what it takes to get from “good to great” in pricing: be determined, be confident and be disciplined. This is easier said than done. Seneca once said: “Per aspera ad astra.” This is true for pricing: “To the stars through difficulty.”