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WHY 97% OF ALL PRICE INCREASES FAIL
... and what your company needs to do different this year

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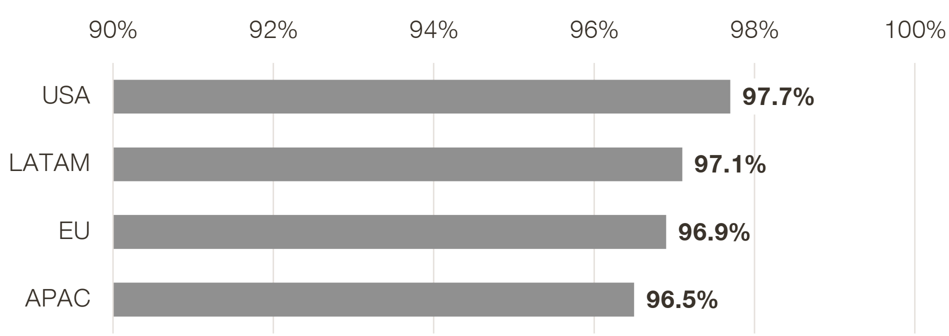
It’s that time of the year again. Companies plan their annual budget and come up with ambitious plans for next year. Targets get even higher, while minimum wage increases, raw material costs go up and competitors get more aggressive. So how do executives expect to make their numbers? Among the different initiatives that teams will cook up this year in the hopes of increasing revenues, one solution never fails to arise from the executive toolbox: Hiking up prices.

Price increases are a great idea – but almost always fail

In principle, going for price increases is a good idea. Firstly, they can be hugely impactful. A 1% price increase that sticks would boost profit margins of US companies by about 20% on average, everything else unchanged. Secondly, price increases require very limited upfront investments, which is contrary to most cost reduction initiatives that require capital for new equipment or technology. And thirdly, they are fast to implement and the pay-back is immediate – changing prices seemingly only requires a change of the price list or IT system. However, there is one problem: Most price increases fail.

The Simon-Kucher & Partners Global Pricing & Sales Study 2017, based on a survey conducted among almost 2,000 companies, found that the current price implementation rate is 32%. This means that on average companies achieve only 32% of a planned price increase. To put this into perspective: If a company, after tough discussions and negotiations during the 2016 budgeting process, finally came to the conclusion that a 5% price increase for 2017 was a realistic target, this year it was actually only able to achieve an increase of a meager 1.6%. And what is worse: This year only 3 out of 100 companies achieved the price increase targets they previously set for themselves. A catastrophic result. To add insult to injury: Companies in the US are faring worse than firms in other countries.

% of companies that fail to achieve their own price increase targets



Root causes for failed price increases

Warren Buffet, the investment guru, once said in an interview: “If you have to have a prayer session before raising the price by 10 percent, then you’ve got a terrible business.” He even went so far as to say that “Pricing Power,” the ability to raise prices without losing business to a competitor, is his single most important decision in evaluating businesses. So do the results from the last Global Pricing & Sales Study imply that 97 out of 100 companies have a terrible business?

That’s certainly not the case. Quite to the contrary, Pricing Power is only partially driven by the environment in which a company operates. To a larger extent it is determined by the price management of a company. Poor price implementation rates can be fixed. Companies that manage price increases professionally and systematically have significantly higher pricing power. Understanding the root causes for failed price increases is the first step to fixing them. In projects with thousands of companies, we found 7 “cardinal mistakes” that companies frequently make:

1. **Overambitious targets:** Most price increase targets are set by the leadership team with limited involvement from the sales force, resulting in targets that are overly optimistic. Often, competitor reactions and volume losses are not sufficiently considered.
2. **Peanut butter and jelly approach:** Many companies spread their price increase equally across products and customers. At most manual adjustments based on “experience” and “the market” are made. However, price elasticity of specific products and customer segments are not analyzed systematically.
3. **Poor communication:** Corporate communications of price increases often lack a compelling story and reason for a price increase, thus leading to immediate customer push back.
4. **Limited sales preparation:** In most cases, sales reps do not get enough time to review how the increase will will impact their individual customers and to anticipate customer reactions and counter them appropriately.
5. **Lack of reaction planning:** Some competitors might take advantage of the situation and try to increase their market share. However, the majority of companies lack any type of “price reaction plan” that describes when and how to counter such attacks from competitors.
6. **Lack of monitoring:** Most price increase efforts are not closely monitored, which makes effective sales steering impossible. In addition, many companies don’t track the right KPIs and do not control for product and customer mix effects.
7. **Giving in too early:** Many price increases fail because price increase efforts are abandoned too early. The moment volumes start going down, executives get cold feet and allow “exceptions to the rule,” which is deadly for any price increase effort.

All's well that ends well

For US companies, the past history of price increases has been somewhat of a horror story. However, it still can end well in 2018 – if companies take action now and completely revamp their approach to price increases. Here is what needs to happen:

- **Set realistic targets.** Involve your sales team early on in the process. Make sure all stakeholders know why you deserve the increase and how you plan to achieve it.
- **Differentiate price increases across product groups.** Consider surcharges and value added services. Particularly in this group many prices are below the customers' price radar.
- **Set customer-specific targets** by channel and according to "ease of increase".
- **Set guidelines and escalation rules** to manage price exceptions systematically.
- **Prepare your sales team and other customer facing functions well.** Conduct trainings and mock negotiations before putting your team in front of the customer. Create supporting material.
- **Set the right sales incentives** and reward successful price increase efforts.
- **Monitor the implementation closely** every day with the right KPIs. Steer and counter steer immediately when you observe deviations from your price increase target.
- **Work with professionals** who have helped companies implement price increases successfully. This will make the process faster, efficient, and more impactful.

This is the busy time of the year and we have a lot on our plates. But when it comes to price increases, this is exactly the time of the year we need to act and prepare.

About the author

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