



3 Questions To Ask When Building a Pricing Team

By **Tim Smith, CPP Founder and CEO, Wiglaf Pricing**

The three most practical questions regarding pricing teams are:

- Where should pricing report?
- How large should the pricing team be?
- How is performance measured?

Organizations need to know where pricing functions sit, how large they need to be, and what results or performance metrics they should expect from them. Most companies have found that pricing works best under marketing, finance, sales, and other similar departments. There isn't a single best practice found across all industries.

Some companies have hundreds of pricing professionals and others have only one. Some companies make pricing technology a priority and others don't consider the option. Some companies have one pricing professional per \$50 million in revenue and others have one per \$10 billion – a factor of 200 difference.

Regarding key performance metrics, many pricing executives report being measured by a single or combination of the following performance metrics: revenue, margin and market share. While a great start, it's difficult to define how pricing alone directly impacts them and none of the metrics get to the heart of what a good pricing function delivers: better decision making regarding pricing through more accurately and efficiently identifying the market's willingness to pay, and the impact of that specific pricing decision on the company's performance.

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While these questions are important to defining direction, they do fall short of complete clarity.

A strategic challenge, the first step to addressing the answers for a successful pricing unit, is to properly define the challenge.

Performance metrics should be driven by performance goals

Within a pricing team, a leader should define the goals of the business unit or the key performance indicators (KPIs). Many companies practice the strategic goal to dominate the market due to the value of network effects in driving disproportionate returns to the dominate competitor. Examples include companies like Uber, Amazon, and Xiaomi.

If the corporate strategy calls for market share and penetration pricing is used to support that strategy, then pricing's performance metrics should be dominated by market share with a heavy dose of revenue growth.

For most companies, the goal is to earn profits, and neutral pricing is often used to accomplish the goal. Consider successful examples like Harley Davidson, Emerson, Caterpillar, Hertz and others.

Additionally, companies that are just beginning to build a pricing team should initially focus on defining the first year's problems for the team to address. Is price execution, discounting, setting, or pricing strategy proving to be a challenge?

Performance metrics can be correlated to profits, revenue, and share, or the reduction of errors, the reduction of managerial discussions regarding discounts, accuracy and confidence in making pricing decisions, or the alignment of pricing to mark segment strategy.

Moreover, companies in the early stages of their pricing journeys are often urged to start with small teams and then move to growth. Many firms start with one to three resources and stay at that level until the small team can prove their worth/value.

If companies are familiar with pricing as a function and have prioritized it for a while, they tend to expand the scope of responsibility for the pricing team in both business units and business challenges. In the expansion of business units, pricing practices developed in one business unit are repeated in others, and turned from one-off efforts into standardized pricing routines.

In expanding the business challenges, pricing teams may move from the issue of managing discount policy and execution towards defining prices and price structures themselves.

Moreover, companies more mature in the pricing excellence adoption cycle may grow their teams five-to-tenfold within a year, turning newly discovered sources of pricing power into a corporate core competencies and standard operating procedures. They may also shift from a human resources intensive effort towards a more balanced effort, including pricing analytics and price management software.

Organizational strategies for pricing teams aren't a one-size-fits-all recipe. Adding a pricing leader to the team that knows the complexities of crafting a winning pricing strategy can only greatly impact the business.

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