

Differences in Pricing Between America and Europe

The recent 5th Annual Conference on European & Global Pricing in Brussels provided pricers from around the world with an opportunity to discuss the status of the pricing discipline in global markets. One of the primary observations of this conference was the effect that the complexities of the European market have on the advancement of pricing in this region. In this article, the authors identify these complexities and give insight for developing world class pricing strategies amidst the unique challenges of European markets. To contact the authors or for more resources on this topic, visit http://www.stratinis.com/contact_us.aspx.

For the 5th time in Europe, the Professional Pricing Society hosted the largest European pricing conference for pricing practitioners, consultants and pricing software vendors under the title “European & Global Pricing.”

PPS was founded in 1984 to develop pricing in America, and it is fair to say Europe is “behind” with this being only the 5th conference. However, we are beginning to see the overall development of the pricing discipline in Europe and Globally. The general perception is that the USA is “further ahead” and far more advanced in using pricing as a strategic discipline. It is hard to dispute this, but why is it so? Why are European and Global pricing not so advanced? The qualified answer from dialogue with other pricers and dialogue from the re-

cent PPS Conference is to be found in “complexity.”

When comparing performance of the USA versus Europe, many people tend to forget that the USA is one single market – one currency, one channel, one language, one product hierarchy, one customer hierarchy, one sales force, one marketing focus and most importantly, the USA is one single gigantic marketplace.

On the contrary, Europe may be perceived for many in terms of regions as “Europe,” but in fact multinational companies often place around 38 independent countries into the region. It adds up to:

- more than 10 currencies
- 38 separate legal business subsidiaries
- country-related product hierarchies
- country-related customer hierarchies
- country-related sales force
- country-related management
- country-related marketing efforts and
- 38 or more separate IT platforms

Do you still wonder why the USA is regarded as further ahead with “pricing” than Europe?

Complexity may be the answer, or maybe the individual European countries have been doing well and good for many years without any need for pricing to be directed from global HQ.

However, this has changed radically over the past decade and more so over the past five years, as summarized by the following important pricing developments touching European and Global markets:

Strategic focus

Certainly, the buzz of the conference participants was that pricing had moved much further up in terms of being a strategic consideration, more and more to be regionalized rather than decentralized

per country.

Globalization continues

Only very few can still work under conditions which are not affected by international aspects. Volatility in raw material costs, clients / buying groups taking more and more advantage of their international presence and strategic purchasing (i.e. cherry picking conditions), multi-channels and the Internet opening up for more visibility across countries, and currencies having their always so powerful influence.

Untapped resource for improvements

Pricing is still immature in Europe. Plenty of development has happened already, but it is generally understood that there are many improvements not yet tapped. A few examples include:

• Ability to understand profitability

Many companies can see profitability to a certain limited level and it has been business as usual accepting this point and no further detail is possible. Most often the “on invoice” has been the level of visibility. But getting into details, understanding all the granules in the price waterfall, capturing all the elements that lead to profit erosion both on- and off-invoice is not yet part of standard for most companies. They find themselves challenged, often spending a huge amount of internal and external resources in selecting the good activities as a “one-off.” Good and bad in terms of profitability on client level, international clients, channels, products, sales units etc. To fully understand where you are today can give you a much better beginning in your decisions on where you want to be tomorrow!

• Ability to steer the direction via your pricing

In a multi-dimensional region such as Europe, the traditional way to distribute the pricing policies has either not been there (decentralized decision power), or if it has been there it has been communicated via meetings, PowerPoint, e-mails, Word and / or Excel. The improvements lie in how to manage a complex volume of pricing data, with policies issued by HQ affecting products, clients, channels, local management and sales people. How to distribute them properly, and not least make sure the directions are followed. To have tools that enable the full chain would have a great impact on profits.

- **Support to the local sales units**

As HQ distributes guidelines on how to go about the pricing, often the local country sales people feel distanced and “bullied” by the HQ. With relatively easy connection between HQ direction and everyday activities of a sales person in terms of a proper tool, the disharmony can get much better. HQ can allow the local sales people to fully understand the price elements, see how they themselves contribute to the overall mission of the company and in general hand over much more sense of ownership of the pricing policies ra-

tionally enough wanted by HQ. If the last link in the chain takes ownership of the pricing direction, then huge improvements in profits are nearby.

- **Need for best practises and best tools**

Most of the above is still affected by the



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very complexity that Europe consists of many markets, all with varied sets of conditions. The institution of an annual conference such as PPS enables European practitioners to meet, share best practises, and year-after-year grow the competencies of the discipline of pricing in an international environment.

The rising demand among multinational companies for improved management of pricing has established a clearer and much more heightened interest in pricing from companies worldwide.

If the financial crisis has been pushing the above issues forward, accepting that disciplines such as supply chain, laying-off staff, and reducing fixed costs are less contributing to the profit than the discipline of pricing is hard to do. Most will agree however – proper management of pricing has the largest profit improvement potential.

A few words from the president of PPS

Kevin Mitchell – President PPS – gave us this reflection after the November 2009 Brussels conference:

“Pricing is more important than ever during challenging times, as companies have to maintain their businesses in the short run, but also be wary that large discounts may be detrimental to margins and profits in the long run

as financial conditions improve. Our organization has seen that top management is placing higher emphasis on pricing. This has led to increased sophistication in pricing software, training, strategies, and tactics as corporations must become more inventive while faced with tougher economies.”