



How to Execute Pricing Strategy with Certainty

Navdeep S. Sodhi
March 20, 2018

Objectives

- Recognizing that change is inevitable
 - Pricing is the **first responder** for most opportunities and threats
- Recognizing that Pricing Strategy and Pricing Operations (execution) are different
- Understanding the need for preparedness for timely response
- How to prepare for executing pricing strategy with certainty?

What is common among these companies?



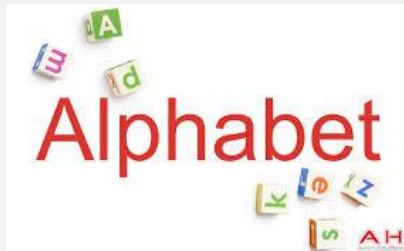
BERKSHIRE HATHAWAY INC.



amazon

FedEx®

gaf



Microsoft



Innovation is not a creative accident – it takes disciplined execution!

What is common among these companies?



TRIBUNE

DELPHI
Automotive Systems

American Apparel™

COMPAQ



Kodak

BLOCKBUSTER®



SPORTMART

BORDERS®



PaineWebber®

TOYS "R" US

sears® ?

Disruption does not happen overnight – early response critical

What is common among these industries?

- Airlines
- Automobiles
- Athletic Equipment
- Cameras
- Computers
- Consulting Services
- Financial Services
- Health Insurance
- Hospitality
- Machine Tools
- Medical Instruments
- Newspapers
- Optical Equipment
- Retail Stores
- Semiconductors
- Telecommunications
- Watches
- ***Add your Industry here***

News headlines in the last 2-3 weeks

U.S. Dollar Edges Higher Amid Inflation Pressures

Lithium Suppliers Tumble on Oversupply Concerns

Rising interest rates punish US Power sector

Apple's China Lesson: Think Different, But Not Too Different

The Other Risk From Rising Wages

... effort to curb immigration could hurt US economy

Gas prices rise despite surging U.S. oil output

Amazon Threat Causes Shakeout in the Health-Care Industry

China's steel exports declines, expect robust western steel prices...

... to Impose Sweeping Steel and Aluminum Tariffs

Amazon's handyman service expands to new cities

What Industry Will Amazon Enter Next?

External change is blamed for impact on pricing

Companies also opt for change...

Good Times

- Consolidation, M&A
- Deploying new technology
- New product launches
- ...

Lean Times

- “Right-sizing” lay-offs
- Restructuring and divestitures
- Drastic cost cuts
- ...

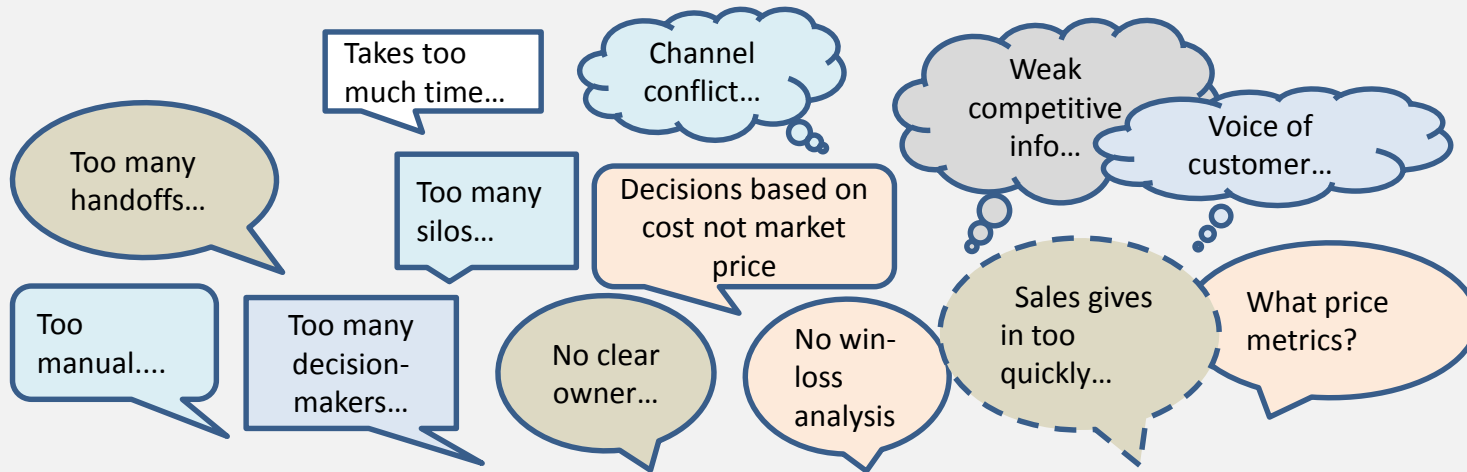
- Pace of change is increasing
- Companies have to transition quickly
- **Inadequate readiness impacts pricing before anything else**

Differences between Pricing Strategy Vs. Pricing Ops

	Pricing Strategy	Pricing Operations
Focus	Market facing	Internal
Timing	Relatively long term	Short to medium term
Seniority level	Initiated by senior leaders	Tactical : Middle Managers Execution: Managers and teams
Review frequency	Annual, Quarterly, Ad hoc	Tactical : Quarterly, Monthly Execution: Daily, Continuously
Example	Price-value positioning in the marketplace	Internal price exception guidelines

Pricing Strategy and operations are intertwined

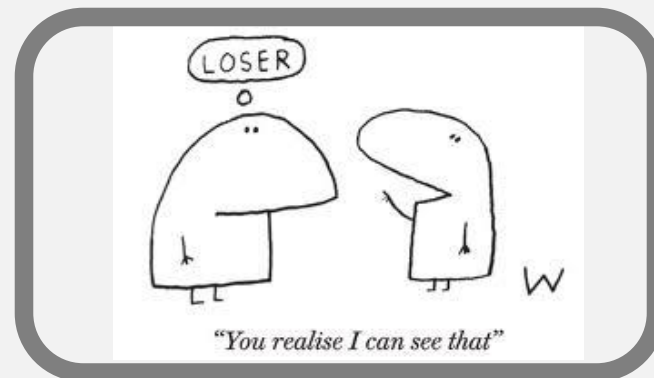
There are internal challenges related to Pricing Ops



There are plenty of internal challenges related to Pricing Ops



- Cultural lock-in
- Management by gut
- “The customer is always right”
- “The competition is irrational”
- Diffusion of pricing responsibility
- Inter-functional divergence



Three firms in different Economic Climates

Climate Control



Cost inflation in Strong Mkt

Tooling Solutions



Cost inflation in Slowing Mkt

Payroll Services



Customers leaving during Recession

Situation

- Emphasis on sales growth (but prices keep falling)
- Sales pushback
- Varied price leaks
- Price guidelines outdated
- Internal roles unclear

- Sales determined price
- Multiple customer segments
- Channel conflict
- IT systems messy
- Deep fear of competition

- Contracts terms varied -- compliance difficult
- Poor process controls
- Inaccurate billing and irate customers
- Frequent promotions without analysis

Huge gap between what companies actually do and what they should be doing

The first reaction is...

- Too many cooks in the kitchen with no clear accountability
- Pricing politics /Personal motivations
- Knee jerk actions ...without planning
- Raising prices without getting customer buy-in
- Or excessive discounting to appease customers
- “Lets change pricing strategy”

What should be done...

- I. Stop the bleeding!
 - But don't rush to abandon strategy
- II. Bring internal stakeholders to the roundtable to **jointly**:
 - Identify source and size of problems
 - Prioritize among many problems/ leaks
 - Find ways to avoid known failure modes?
- III. Boost morale to achieve faster and better results
 - Replace fear of blame with support

But how?

Four preparatory steps...
before any major Implementation

1. **Assess:** Key stakeholders validate pricing activities and related roles

	Leadership	Finance	Marketing	Pricing	Legal	Sales
Business case						
Financial Plan						
Messaging						
Launch						
Post-Analysis						
Review						

Price Increase

- -----
- -----
- -----

Exception Guidelines

- -----
- -----
- -----

Competitive Intelligence

- -----
- -----
- -----

Voice of Customer

- -----
- -----
- -----

Other key activities

- -----
- -----
- -----

Identify, **document** and **communicate**:

- Who is responsible
- Who is accountable

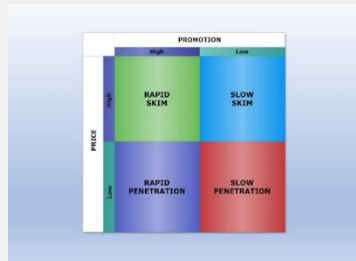
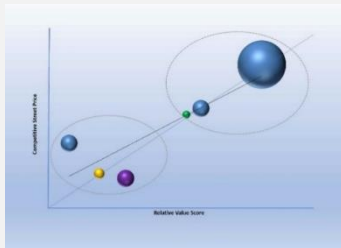


Shared view of Pricing Organization
as well as Roadblocks

2. **Analyse** : Present a visual business case with available data and quantitative analysis

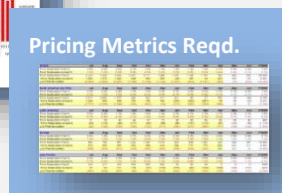
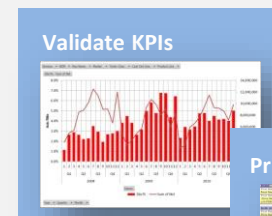
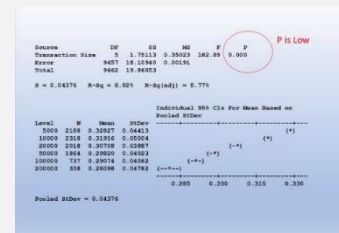
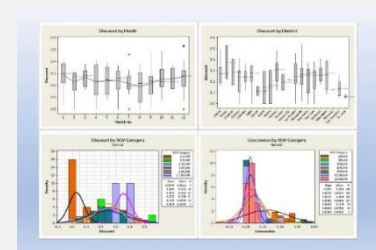
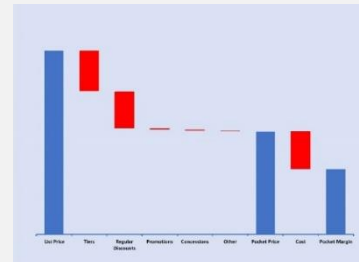
Step 1: Validate Strategy

1. Price-value positioning vs. competition
2. Post-facto review of past price decisions
3. Customer segment pricing. Etc.



Step 2: Inventory Processes and Data

1. Process Map, Value Streams→ Root causes
2. SKU/product contribution to total revenue
3. Pricing as a function of explanatory variables. Etc.

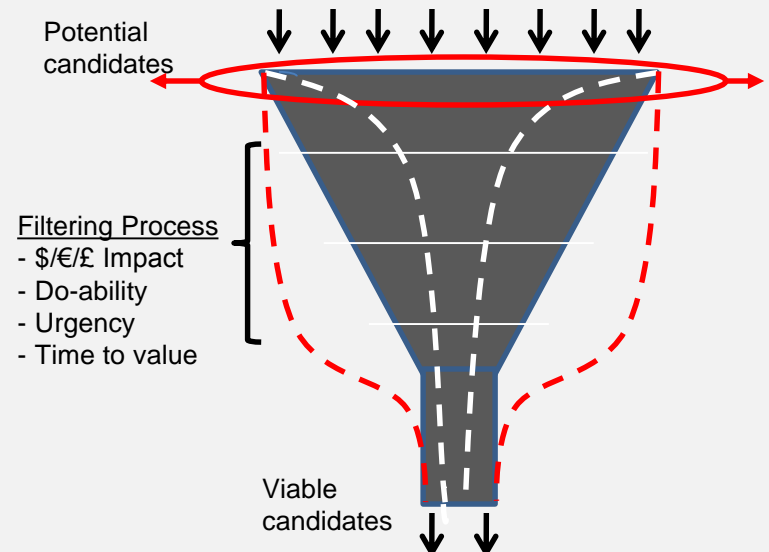
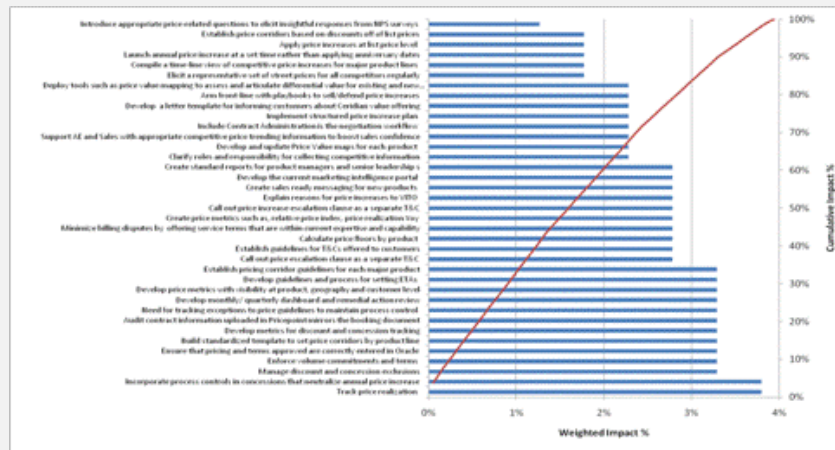


Shared views provide credence to any approach to be proposed

3. Recommend “Which Areas Need most Attention?”

Typically,

- Do we over-discount? Where?
- Do we undersell on value? When?
- Do we bundle/ upgrade effectively?
- Do we track compliance? Etc.



Start with,

Simple
Short-term



Complex
Long-term

4. **Train** internal teams how to engage effectively with the internal pricing function as well as with customers

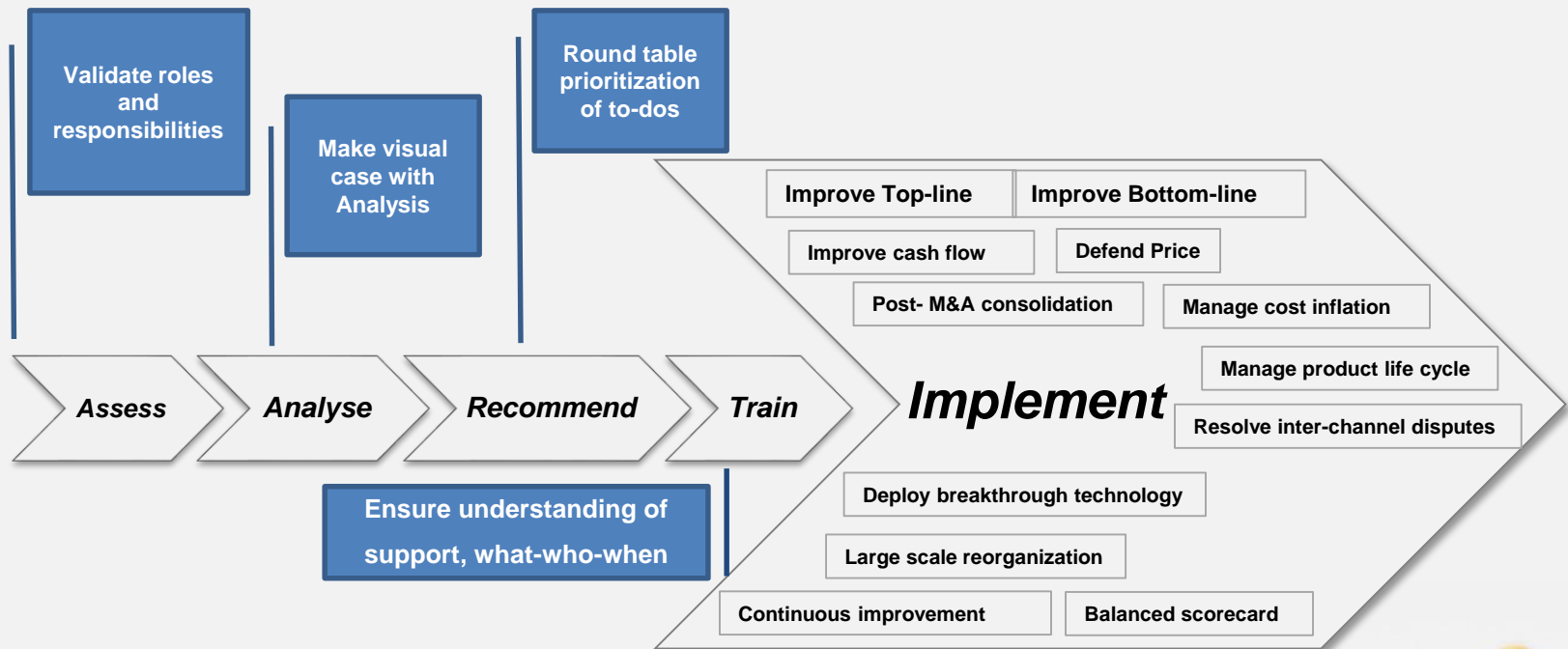
- Explain problem/ opportunity in Q&A forums so everyone understands
 - Where to find help?
 - Clear expectations who-what-when
- Playbooks for front-line (also others)
 - How to inform customers why and how they will be affected?
 - How to handle pushback from customers?
 - How to manage price exceptions?
 - How to monitor competitive reaction? Etc.

Within weeks, the pricing effort becomes a well-oiled machine!

5. **Implementation**: Holding on to organizational support tightly

- I. Start with the means at hand
- II. Call on capable and willing stakeholders to join
 - Others will follow
- III. Stick with the pricing (and business) strategy
 - Show early results to allow modifications
 - Bring your bosses along
- IV. Manage expectations
 - Show results to communicate success
 - Don't overpromise

Preparatory Steps before Implementation *A-A-R-T* → *I*



The experience at the three firms...

HVAC Company



High cost inflation in Strong Mkt

Tooling Company



High cost inflation in Slowing Mkt

Payroll Services



Customers leaving during Recession

- ✓ Evidence of inconsistent pricing accepted within organization
- ✓ Fixed leaks + effective price increase
- ✓ Firm invested seriously in Pricing Improvement

- ✓ Cross-functional effort and Playbook led to superior implementation
- ✓ Fixed leaks + effective price increase
- ✓ CEO supported roadmap developed by Pricing

- Status quo – Continued major ERP Implementation + developing new platform
- × More losses more lay-offs
- × Sold to smaller competitor

Preparedness can help companies to execute with certainty

Summary

- ✓ Change is inevitable
 - Pricing needs to be an effective first responder
- ✓ Pricing Strategy and Pricing Operations (execution) are different
 - Disentangle strategy-related issues from execution
- ✓ Prepare the organization for concerted action
- ✓ Need for ongoing validation, reinforcement, and tracking with:
 - ✓ **Assess**
 - ✓ **Analyze**
 - ✓ **Recommend**
 - ✓ **Train**

} ✓ **Implement** with certainty

Foster a culture of pricing certainty in the short- and long-term

Upcoming PPS Workshop at Spring Conference

PRICE EXECUTION FOR SUSTAINED PROFITABLE GROWTH

Many companies find themselves ill-prepared to handle disruption or tap into innovation opportunities due to a legacy of weak pricing execution. New product introduction, organizational redesign, big data solutions, and other strategic investments – all of these critical functions can fall short without solid price operations. Customers frame their perception of value received or procurement risk based on their vendors' ability to execute pricing. Given the ever-changing marketplace, even smart companies need to adapt quickly with continuous price improvement.

However, companies have far more control over their pricing operations than they realize. In the workshop Pricing Execution for Sustained Profitable Growth, we will discuss a breakthrough approach for superior execution, one that can systematically eliminate pricing-related risk or leaks to bring new profits straight to the bottom-line without alienating customers. In this workshop, our discussion will include a holistic organizational approach for keeping senior management engaged while dismantling functional silos with the spirit of continuous improvement.

Attendees Will Learn:

- How to find the Hidden Pricing Factory within your organization
- How to secure trust and organizational support with evidence-based assessment of the overall pricing capability
- How to align pricing operations with your pricing and sales strategy

MORNING BREAK
LUNCH
AFTERNOON BREAK

10:15 am-10:45 am
12:00 pm-1:00 pm
2:15 pm-2:45 pm

Presented by:

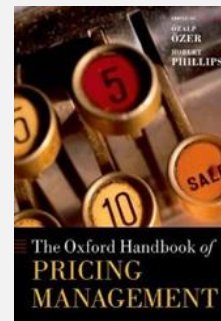
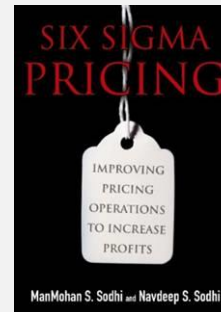


NAVDEEP SODHI

Managing Director,
Sodhi Pricing
Associates

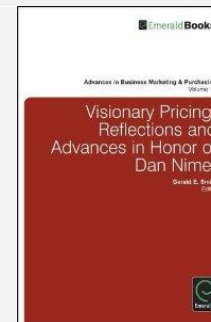
Navdeep Sodhi is the Managing Director at Sodhi Pricing Associates and a pricing operations expert with experience in several global industries including Airlines, Medical Devices, B2B Manufacturing, Electronics, Chemicals, and Outsourced Services. He has received the Professional Pricing Society's Award of Excellence and is an adjunct instructor for Pricing Management at the University of St. Thomas. He co-authored the book *Six Sigma Pricing: Improving Pricing Operations to Increase Profits*, and has an MBA from Georgetown University.

Workshop presentations are provided in a print copy workbook only and remain the proprietary property of each workshop speaker.



Also published in:

- Harvard Business Review
- Harvard Business Review Online
- Int'l Journal of Production Economics
- Quality Digest
- Star Tribune
- Journal of Pricing
- ... among others



Navdeep@SodhiPricing.com
www.SodhiPricing.com