

# Selling Value Based Pricing Strategies:



For many companies, understanding they should use value based pricing practices is the easy part; implementing value based pricing practices is much more difficult. In this second article of his series “Why Pricing Strategies Fail,” Author George E. Cressman, Jr. explains that pricing strategies don’t just fail because managers fail to create an implementation infrastructure, but also because sometimes the organization does not “buy” the strategy. Cressman is Founder and President of World Class Pricing, Inc. He can be reached at [George.Cressman@WorldClassPricing.net](mailto:George.Cressman@WorldClassPricing.net). Look for his new PPS online course in the coming months entitled “The Sales Team and Pricing Success” at [www.PricingSociety.com](http://www.PricingSociety.com).

**T**he profit impact of managing pricing practices has been well documented (for the average firm, a 1% improvement in price level drives a 10% improvement in profit). And, the benefits of managing pricing based on value delivery are widely known. Increasingly, managers understand, and many actually advocate, the use of value based pricing practices. But, for many companies, understanding they should use value based pricing practices is the easy part; implementing value based pricing practices is much more difficult.

In the first part of this series (“Why Pricing Strategies Fail,” *Journal of the Professional Pricing Society*, second quarter, 2009), I described how pricing strategies can fail because managers fail to create an “implementation infrastructure.” But pricing strategies may also fail because the organization does not “buy” the strategy.

Value based pricing strategies have intellectual appeal: they are based on a rigorous analysis of customer need and reflect the realities of the business’s market place. While a sound strategy basis is important, it alone will not ensure the organization embraces and implements the strategy. Managers wanting their organization to employ a value based pricing strategy must actively sell the strategy to their organization.

For many companies, implementing value based pricing strategies involves changing the business’s operating culture. Entrenched habits like cost based pricing must be rooted out. But, like all culture changes, the change will not be accomplished by management fiat. Instead, the leadership team must sell the transformation to the entire business.

Avoiding implementation problems by appropriate strategy selling is all about executive leadership; the leadership team sets the tone and is the source for the selling effort. Establishing an appropriate context for value based pricing implementation requires the leadership team sell value based practices to the business. This is uniquely a leadership responsibility. Because implementing value based pricing often requires cultural shifts, the business leadership team must both lead the effort, and motivate the business

to implement the practice.

In this paper, we’ll look at the key components of the cultural change (see Figure 1). For each of the key components, we’ll describe the role of the leadership team in selling the practice to the business. The focus of the “selling” effort is not traditional selling; rather, it is more the implementation of a series of activities, driven by the leadership team, that result in the adoption of different pricing practices. In the most successful implementation efforts, the organization is never aware that value based pricing has been “sold.” Instead, the organization just behaves differently, not even aware it’s made a profound cultural shift.

## Gather Broad Input

Figure 1 illustrates the key components of the “selling” effort required for organizations to adopt value based pricing practices. Perhaps most important is the ability of the broader business organization to impact the implementation process.

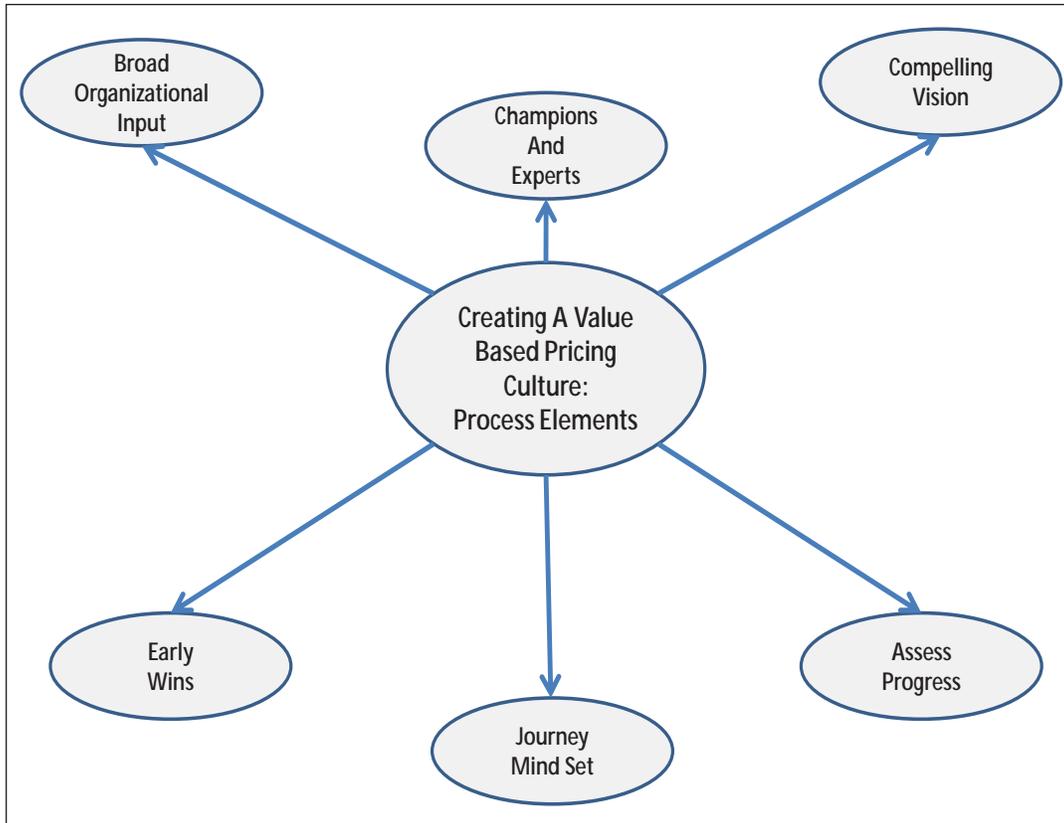
Successful implementation of a value based pricing culture requires broad inputs to the process. For this reason, successful change efforts often start with investments in training the business team. A client who launched a value based pricing transformation began with a broad educational effort. The marketing, sales, finance, and R&D teams and portions of the operations team were included. This allowed the entire organization to share a common, value based, vocabulary, as well as understand the principles that would guide the business’s pricing activities.

The business used training sessions that ranged from half-day overviews to intensive, workshop based sessions working on specific organizational challenges. Participants were encouraged to identify challenges in their own functional area, and solutions were rigorously pursued. This client spent eighteen months in this educational effort, resulting in significant organizational buy-in to value based pricing activities.

Educational processes work best when they are action oriented. In this context, training processes are more relevant to participants, and more likely to result in moving the culture, when they address

# Making Pricing Strategy Work

Figure 1: Keys for Selling Value Based Pricing Practices



- What skills will we need?
- How will we acquire those skills (internal development, hiring)?
- What processes and tools do we need?
- How will we standardize and propagate these processes and tools?
- What organizational structure do we need (centralized vs. decentralized balance)?
- How do we manage individual business unit autonomy and responsibility and ensure practice standardization and impact?
- What incentives will we need?

## Create a Compelling Vision

Another component of the organizational motivation level

the specific problems the business faces. Action learning, based on specific pricing problems or issues, provides a useful context for learning about value based pricing practices – participants work on projects that are part of their every-day business lives.

Selling and implementing value based pricing management requires the leadership team pay attention to their business's skill and motivation levels. The skills required for value based pricing practices are very different than the skills required for cost or competitor pricing practices. Frequently, the skills needed to implement value based pricing are not widely available in the business, and often incentives drive destructive pricing practices (for example, rewarding large but not necessarily profitable sales volume). The educational effort addresses skill level component, while addressing the concerns and needs of various functional efforts begins to address the motivation level.

Another key part of gaining organizational input is an assessment of obstacles which could potentially derail the implementation of a value based pricing strategy. The leadership team carefully evaluates all potential obstacles, and plans ways to deal with them should they occur. This evaluation should address these questions:

involves developing suitable goals. Many business organizations work better when they are goal oriented, and this is especially true when moving to value based pricing practices. To sell a value based pricing strategy culture change, a critical first step for the leadership team is the creation of a compelling vision.

In developing the compelling vision, the leadership team should address these questions:

- What principles will guide the transition to a value based pricing culture? The leadership team should pay careful attention to the “white space” of ambiguous situations, determining how price setting/price change situations will be managed. The leadership team should recognize that even with careful planning, “stuff” happens – establishing principles is critical in helping the organization determine how to manage when there are no precise guidelines.
- Concerning value based pricing processes, what does the business have to be really good at? As a minimum, this should include:
  - Customer value assessment.

- Offering design.
- Value communication.
- Negotiating value delivery rather than price concessions.
- Competitor strategy analysis.
- Contribution management, that is, making resourcing decisions based on increasing contribution margin.

An effective tool for defining the compelling vision is to think in future terms. For example, the leadership team may envision themselves five years out, celebrating the achievement of their value based pricing culture.

- What tools, information, and data are required to make good choices? For example, a client required that customer value estimations be included in all senior management strategy reviews. Another client incorporated value based pricing processes in its stage-gate system for new product development.
- How should the pricing process be structured and supported? Who will the champions be?
- How should the change campaign be implemented?

An effective tool for defining the compelling vision is to think in future terms. For example, the leadership team may envision themselves five years out, celebrating the achievement of their value based pricing culture. The leadership team describes what their organization looks like at that time, and then defines – in backward steps – what happened at each step along the journey. This “backward” look frees the leadership team to think creatively about overcoming obstacles to achieving the desired culture; after all, the question is no longer will the business achieve the culture, but how did it accomplish its goal.

### Developing Champions

Champions are value pricing practice evangelists and zealots. They are passionate about the role of value based pricing. They understand the role of value based pricing, and see the connection to organizational profitability. Champions are untiring advocates for value pricing practices, and hold their colleagues to the use of these practices.

Champions must be respected across the organization. This is not a role for a new employee or even an experienced, but unknown, person. The wider business organization must trust the advocacy of the champion, and be motivated to respond because of their respect. For this reason, the best champions are at least middle

managers who are well liked, and seen as having the confidence of the leadership team.

The role of the champion is to understand fully value based pricing activities, but the champion is not a practitioner. Unlike the “black belt” of the six sigma process, the champion is more a cheerleader with teeth. Champions not only advocate for the use of value pricing practices, they are also charged with seeing these practices are widely used. For this reason, champions must be:

- Good diagnosticians, seeing where implementation problems are arising.
- Thoughtful clinicians, able to determine what specific remedies will fit their organization.
- Have the ear of the leadership team, facilitating resourcing to deal with emerging implementation problems.

Regular publicity from the champion and members of the leadership team helps remind the broader organization of the shift to value based pricing concepts.

### Install Organizational Experts

While the organization needs champions, it also needs subject matter experts. These are analogous to a six sigma “black belt,” providing value pricing content expertise for the business. These experts have a deep understanding of value pricing processes and tools, and know how to apply it in their business. Experts have a project orientation, facilitating the spread of value pricing across the business.

Expertise may initially come from outside the business, but as the implementation effort grows, expertise should come inside the organization. Candidates for these content expertise positions should have the following characteristics:

- A willingness to learn and teach value based pricing concepts, processes and tools.
- Project management capability.
- Communication skills, able to interact with the leadership team and functional experts.
- Be respected across the business, and willing to invest in earning the respect and trust of business unit leaders.

Content experts gain wide exposure to business unit leaders and the leadership team. For this reason, content experts should be selected from those candidates judged to have managerial potential.

### Assess Progress: Establish Milestones and Measurement Systems

In the first part of this series I discussed the need for pricing control systems, and described a minimum set of control metrics. The development of measurement systems is equally important as part of selling the journey to value based pricing management.

Measurement systems not only provide a means of evaluat-

ing progress, they also condition the business team to think in profitable pricing terms. An important part of the measurement effort is creating visible linkages between pricing activities and financial performance.

In early implementation efforts, this linkage can usually be done with simple spreadsheet analysis. But in larger organizations with complex product arrays, measurement programs often quickly outgrow spreadsheet analysis. As value based pricing implementation efforts begin to propagate in the business, more sophisticated analysis tools are required; pricing management software might be considered at this point.

### Drive Some Early Wins

Early wins are critical because they provide on-going motivation for the entire business team. They also provide rapid demonstration of value based pricing concepts, and initiate early proof of the financial rewards for value based pricing management.

In pursuing implementation projects, my experience is that widespread organizational change creates many challenges. For the business, it seems as if “everything” is changing, and the organizational “antibodies” go into high gear trying to sidetrack the change. An alternative approach is to select a series of smaller projects that allow the business to experiment with value based pricing practices. This offers a targeted approach where an individual project failure will not destroy the whole effort.

Initial projects should be selected for their ability to achieve results in a relatively short (six to nine months) time. These projects should be difficult but not impossible. Difficult projects are necessary for building credibility: if value based pricing works for this type of business situation, then it can be seen to work more broadly. But, the project should not be so difficult that a failure would jeopardize the whole implementation effort. Potential project candidates might be an upcoming negotiation with a difficult customer, or a demanding customer who refuses to pay for delivered value, or a new product introduction. Projects based on existing products/services and existing customers should always be included: many business organizations are skeptical of their ability to apply value concepts in existing markets with entrenched pricing practices.

Measurement of the financial impact of these early projects is critical. Baseline profit positions should be determined, and contribution of project results documented.

Content experts are carefully allocated to support these early projects. The content experts provide key learning sources for the project teams, and at the same time must manage the projects for adherence to time and budget parameters. In addition, champions should interact “early and often” with the project teams and content experts to ensure progress and rapid resolution of challenges.

Early wins must be widely publicized. One way to do this is by making “heroes” of those participating in the early implementation projects. This signals the business team that senior management is committed to value based pricing, and the route to recognition is through participation in the implementation ef-

fort. Corporate newsletters and corporate meetings are excellent forums for this publicity.

### It's a Journey

Implementing value based pricing practices is a journey, not an event. The leadership teams of successful implementers foster a long range journey mentality. These successful implementers see the journey as a multiple year event, and condition thinking of the entire business for that journey.

The leadership team should not expect their initial efforts will be perfect. Instead, the leadership team, acting on the diagnostic and advice of the champions and content experts should continually fine tune the implementation effort. Progress or challenges from the early win projects shape this fine tuning.

As already noted, implementing value based practices is often a culture change for many businesses. Culture change is inherently a long range process (some studies have suggested major cultural shifts in large organizations can take 10-15 years). The profit potential for managing pricing practices well makes this time investment worth the trip. But the leadership team must be prepared: this is not a six month effort! Evidence of the need for this longer term perspective is seen in those organizations who have adopted six sigma programs: the consistent use of six sigma thinking frameworks is just now gaining broader acceptance in the organizations of early adopters.

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Gaining implementation momentum is fostered by the actions of champions and content experts. Because these individuals will gain significant knowledge and skill in key business management processes, they are likely to be in high demand for managerial positions. The leadership team should anticipate this and provide succession plans.

### Summary

Selling the implementation of value based pricing practices is not so much overt selling. Instead, it is a series of activities that foster a cultural shift from a cost or competitor orientation to a value delivery orientation. These activities, when planned for and guided by the leadership team over a longer time period result in the organization “buying” value based pricing strategy. Because of the leadership effort, and consistent investment over time, organizational resistance is reduced – sometimes even eliminated (the organizational “antibodies” don't overwhelm the implementation effort). Further, use of champions and content experts frequently results in development of business unit managers with deep understanding of profitable pricing practices.