

Do You Have a Pricing Problem?

Many companies are recognizing that their pricing strategies are ineffective and non-existent and are trying to take steps to improve internal pricing processes. However, for many companies pricing problems are indicative of greater internal and strategic problems which need to be addressed in tandem to pricing improvements, as the author explains. Stephan Liozu, CPP (www.stephanliozu.com) is a member of the PPS Board of Advisors, the Founder of Value Innovation Advisors and specializes in disruptive approaches in innovation, pricing and value management. He earned his PhD in Management from Case Western Reserve University and can be reached at sliozu@case.edu.

Many companies hire pricing consultants to address their price erosion problems or to reduce complexity in their pricing process. These companies clearly state that the time has come to address their “pricing problems” and stop the bad discounting behaviors. That provides leaders with a sense of relief that they are now serious about working on pricing and that the situation will improve in the short to medium term. The reality of their situation was that they did have a pricing problem. Because pricing excellence is a journey and not a destination, every organization might be faced with pricing problems of different nature and different intensity.

But the reality also is that, for these companies, the pricing problems are symptoms of greater internal and strategic problems. Trying to resolve their

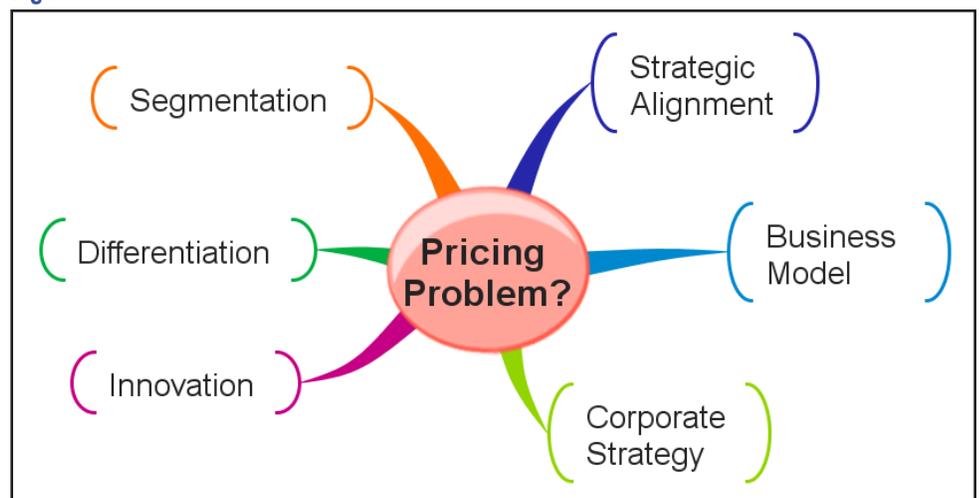
pricing problems might yield some positive short term developments and potentially provide short term relief. But if the issues are really strategic ones related to business model or corporate strategy, these gains will be short lived. Since the root causes of the pricing problems are not properly addressed, the pricing problems are not fully being resolved. That is why structural issues need to be first addressed and fixed prior to investing a large amount of resources and attention into resolving pricing problems.

They are many potential structural business problems that may lead to serious pricing issues. Six of these problems are presented below:

1. **Segmentation:** Perhaps the most common marketing problem is a total lack of segmentation based on user needs. Without segmentation, firms cannot separate various types of buyers and they try to be everything for everyone. The end result of this problem is customers’ confusion with pricing, severe pricing overlap across segments, and profit leakages when customers get things they do not value and are not willing to pay for. **Segmentation is one of first steps of the value-based pricing methodology.** It
2. **Business model:** Another significant structural problem leading to pricing erosion is the lack of a sound and differentiated business model. In times of increased competition, business models are challenged and experience diluted versus competition. **The bottom line is that if the business model is broken, there is a high chance that the pricing models are also broken.** Therefore before working on their pricing models, business leaders should figure out what their business model is, how strong it is and what is needed to reinforce it.
3. **Innovation:** Business models can be modified and reinforced by injecting formal innovation. Business model innovation has gained significant interest lately but lags behind traditional product and service innovation. Firms rarely have a formal and structured process to study. They might adopt a more reactive approach to business model management once they face uncertainty and competitive pressure.
4. **Differentiation:** Business model in-

is also the fundamental step for the development of a sound marketing strategy.

Figure 1



novation is conducted to generate superior differentiation and competitive advantage in the market place. This is one area where I have seen most firms with “pricing problems” experience real difficulties. Differentiation is similar to the concept of value. It is vague, subjective and relative to something else. Understanding the real business differentiators and measuring their strengths is a really complex ini-

5. **Corporate Strategy:** The same could be said about a corporate strategy that has become obsolete, that is too internally focused and that is not delivering superior value to customers. There is no pricing program or action that will solve this situation. Sometimes industries and markets experience severe disruptive changes that require deep strategic redirection. That takes courage and attention from top lead-

different perceptions of what the business model is. This lack of alignment generally leads to internal dysfunctionalities. The sales force for example will not deploy the marketing programs while cost accountants will focus on producing reports that no one reads. Strategic alignment starts at the top. If pricing and value are priorities at the top levels, everything cascades down the organization.

In order for pricing programs and strategies to be successful, they have to be aligned with a sound business model and a strong corporate strategy which aim at creating and delivering customer value. Then pricing can become an effective weapon to capture that value. When the business model and the corporate strategy are broken, pricing cannot do miracles and be considered a silver bullet to save the day.

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tiative. So instead of conducting this analysis, many firms claim differentiation without measuring it while trying to capture it with pricing. When differentiation erodes and gets diluted versus competition, it is difficult to evaluate the level of erosion and the impact on pricing power.

ers and should be the number one priority to redirect corporate resources and refocus strategic capabilities.

6. **Strategic Alignment:** This structural problem occurs when teams work in silos with different goal systems, different compensation structures and

Any customer consulting engagements related to pricing should start with business model and strategic discussions with top executives. Generally, these sessions lead to excellent exchanges on business model innovation, on value proposition and on the relationship between business strategies and pricing strategies.