



End the finger-pointing

How to test your pricing power and significantly increase it

The business world is still facing extraordinary circumstances due to a combination of flat growth, rising cost pressure and an increase in competition. It is not surprising to see a lot of companies announcing mixed results on Wall Street, as well as going on another round of cost-cutting efforts.

In recent months, the Dow and S&P have reached new highs as traded companies make quarterly announcements of expected profitability results. While all companies are facing flat sales or barely increasing volumes, we see a mixed bag. Companies that announce poor profit results typically blame lack of demand and commodity pricing pressure in their market space.

Leaders are increasingly forced to react to competitive price wars in the market. As a matter of fact, 46 percent of executives report that they are in a price war, and 83 percent blame competition for starting it, according to Simon-Kucher & Partners' 2011 pricing research.

My view is that it is not reasonable to only blame tough market conditions and commodity prices for poor business performance. One of the major differences between firms that are doing well and those doing poorly is pricing power and how much firms pay attention to value and pricing management programs.

I would venture to say that profit outperformers on Wall Street manage pricing and value management programs with a vengeance. Others simply surrender

their pricing power to the market and focus on maintaining market share and capturing volume to maintain sales revenue levels. In the end, it is a question of culture and focus at the C-suite level.

So what can you do if your sales revenues are flat and your cost pressure is increasing? Here are some practical recommendations to test your pricing power and significantly increase it.

Get the price you deserve for the value you deliver

Easier said than done, but as a business leader you have to make sure you capture the value of your products and services.

Identify the products and services that may be severely underpriced. Conducting some basic data analytics will give you that information.

Improve your pricing discipline

Manage your deals better and make sure you give your sales force the proper "guardrails" to make the best pricing decisions.

Not every deal is a good deal for you. Your customer transaction data can give you that information.

Announce a moderate price increase and make it stick

On average, firms only capture 53 cents for every dollar of announced price increase.

Take a strategic approach to price changes

and get the customers used to price increases every year, even if they are very small.

Reinforce your innovation process

Launch more differentiated offerings for which customers might be willing to pay a bit more.

You will see your overall margin move up by introducing higher price products and services.

Fire some customers if they create a loss for your business

Conducting cost-to-serve analysis will give you the real profitability of every customer.

One of the issues of being in a crisis is that we try to maintain all customer relationships because of the fear of losing more sales. Don't let your company forget to focus on pricing strategies and pricing power!

The best-in-class companies have shown the power of pricing. Why not try it? ●

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