

# Prices Are Plunging PART 1

## BE A STRONG LEADER: TRANSFORM PRICING MANAGEMENT

Pricing is the single greatest threat to companies today – and that's *all* companies in *every* sector.

At home and in business, where do buyers focus? *On prices*. And where do they expect prices to go? *Down*. Pricing pressures are growing from all sides – customers, salespeople, and competitors. Margins are suffering, and you're losing sales. Internal antagonism is growing. Your pricing is literally under siege.

The answer? There is no magic bullet, but there are basic, straightforward, and proven tactics you can employ to effectively manage pricing in your company. Success in pricing – in fact, success in any aspect of business – demands excellence in four fundamental areas: customer focus, financial discipline, operational speed, and leadership practice. When these four interdependent threads are properly woven – when each is based on clear, actionable strategies – the result is an integrated business “fabric” strong enough to withstand setbacks and flexible enough to respond immediately to changing business conditions.

This first part of our four-part examination of pricing success focuses on leadership practice and how it applies to pricing. We start by examining some of the forces behind pricing gone haywire. Then we look at some ways to deconstruct pricing in your company, reducing it to simple elements that you can address and change.

**You'll recognize these eight powerful pricing influences.**

There is a lot going on outside your walls that affects your pricing – but never discount the forces at work within. External factors generally are beyond your control; however, you must monitor them relentlessly, and you must address them as you develop pricing processes. Internal influences are another story; these must be first identified, next analyzed, then improved, and finally skillfully managed.

### ***The external pressures on pricing***

**1. Commoditization.** Commoditization converts non-standard products and services into standard products and services. Big corporate buyers introduced commoditization as a tool to drive down prices, and now every purchasing agent wants to wedge your offering into the specs of a standard RFP. Often, too, commoditization is real; every product and service, no matter how technical, is being decoded and duplicated. It's just a matter of time.

**2. International competition.** Asian and Mexican competitors pursue our customers with ruthlessly low pricing, and they succeed because they do business on their terms. They produce, for example, a product that works but conforms to their own specs, not necessarily their customer's. Their part may not last 20 years, but who cares if the appliance in which it's installed has a useful life of just five years? Buyers accept supplier terms because they're blinded by rock bottom pricing; when it comes to substitution, offshore suppliers retain more rights because they're cheaper. U.S. companies should watch and learn.

*To weave a strong pricing fabric, first test your threads...*

*If you want a business fabric that won't fray in tough times, you need to know that each thread in that fabric is strong and reliable. This series of articles takes pricing apart, breaking it down to its four fundamental threads and offering simple strategies to gain pricing strength.*

**PART 1.**  
**LEADERSHIP PRACTICE:**  
*Transforming pricing management requires strong and courageous leadership.*

**PART 2.**  
**CUSTOMER FOCUS:**  
*Know how your customers work with you; change how you work with them, and pricing will fall into place.*

**PART 3.**  
**FINANCIAL DISCIPLINE:**  
*Expanding your financial focus to include cash leads to less waste, decreased costs, and better margins on lower prices.*

**PART 4.**  
**OPERATIONAL SPEED:**  
*Accelerating your cycle times delights your customers, drives down costs, and helps you manage pricing.*

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**3. Accessible information.** Every day, we rely more on electronic means of doing business – selling on the Internet, emailing proposals, posting prices on our Web sites – and information once considered confidential is now often easy to access. It's a mistake to think the confidential pricing you offer a customer today won't be known to a competitor or another customer or prospect tomorrow.

EXTERNAL INFLUENCES  
MUST BE MONITORED  
RELENTLESSLY.

**4. It's the only song I know, Part I.** Many one-note purchasing agents will listen only if you discount the discount they got on the last order. The auto industry invests millions in process development and improvement in supply chain management. And, in the end, all these purchasing people do is attack your prices.

### *The internal pressures on pricing*

**5. It's the only song I know, Part II.** It's a tough reality to acknowledge, but many salespeople are too stressed or too busy to look beyond discounting the price to make a sale or retain a customer. Often, internally, we stop believing many salespeople when it comes to customer pricing demands. We've heard the cry of "Wolf!" too many times. The bottom line here is that salespeople are tactical, and management must provide them with strategic leadership and guidance that enables them to avoid pure price wars.

**6. Pricing suffers when teamwork ends.** The operations executive complains about salespeople who give away the store – and about senior management who expect him to salvage margins by improving efficiencies and trimming costs. The sales force advocates tirelessly for customers who demand low pricing and expect superior service. When departments isolate themselves in "functional silos," the results are invariably inward focus and parochial decision-making.

**7. Poor project management.** Most companies work hard to define the scope and specifications of a prospective job. They win the job with pricing that's both competitive and profitable. Then, the customer changes the specs. Does the company adjust the price? Too often, the answer is no, and a once-moneymaking job ends as a loser. Poor project management almost inevitably leads to scope creep and lost opportunities to bill for change orders.

**8. Lack of systematic cost reduction.** An effective way to maintain margins as prices decline is to make sure you lower your costs. In fact, the best-managed companies are famous for demanding a meaningful cost reduction for every product every year. The best way to ensure you achieve – or even improve – the margins you've forecast is to change your focus from price adjustment to cost control.

INTERNAL INFLUENCES  
MUST BE FIRST  
IDENTIFIED, NEXT  
ANALYZED, THEN  
IMPROVED, AND FINALLY  
SKILLFULLY MANAGED.

The way you lead in pricing management is critical to your survival. Well-managed pricing establishes a kind of financial insurance for your company. It helps you protect your organization from catastrophic declines in profitability in bad times and position yourself to grow when the market improves.

### Leadership means you have to walk your talk.

The true culture of a company resides not only in the things we say we believe, but also in the ways in which we behave. To lead in pricing management or in any other area, you must examine your processes and practices under a microscope to learn exactly what you're doing. So, what drives pricing in your company? Is it fear and arrogance? Or is it fact?

**Fear.** At a company driven by fear, the mission statement may hang prominently in the reception area. Management may talk about respect for values, partnering with customers, empowering employees, and striving for leadership, but actually, this company will do *anything* to protect and maintain its market share. Its salespeople hear the message loud and clear: "Get the order or else." They capitulate to customer pricing demands. The whole scenario is driven by fear, which leads to defensiveness, which can lead to arrogance.

**Arrogance** Arrogance is the adopted behavior of the defensive company. This company spends little time in market or trend analysis or any of that baloney, instead adopting an aggressive offense as the best defense. It doesn't care what the market wants; customers will pay the price the company demands or forget it. What does its future hold? Survival, maybe, but growth or evolution is unlikely.

**Fact** A company driven by fact works toward a well-considered market position. It acknowledges only one company can be the lowest-cost supplier and few can attain technological leadership, so it specializes in focusing on customers. Decisions are based on a thorough knowledge of customers and prospects and reasonable forecasts, all gained through objective, impartial research and continual, company-wide information gathering.

Clearly, the goal is to be a company whose pricing is driven by fact and reality-based decision-making. Is your company there yet?

**Don't wait: Lead your transformation now.**

A company's challenges are often clear, and management typically can generate great ideas for solving them. Implementing new ideas requires change, however, and making change happen presents a real test of an organization's mettle. It takes strong leadership to generate enthusiasm, to build consensus, and to launch change. Then, well-planned, uncomplicated strategies are equally critical to successfully executing and maintaining change.

At Jacquard Associates, we marry ideas with basic project management skills and effective change management tactics.<sup>1</sup> We strip concepts down to their very basics, because simplicity is what engages people in the process. Then we help the leaders in our client companies work on transforming **Ideas to Action**. How does that look when we're working on pricing? Here are some examples:

**Idea: Lead your people.** *Everyone must understand that the price is the price, no matter who does the quoting.*

**Action: Make sure your people have the knowledge or experience to meet your expectations.** Do your pricing rules and procedures make sense? Are they organized and do they align with your business strategies? Do you communicate pricing rules and procedures thoroughly?

**Action: Involve a lot of people in developing pricing.** You have many internal experts on your staff: production, customer service, accounting, marketing. Don't start and end with sales; listen to a variety of views on proposed pricing schemes. Then make a decision, share it, and stick to it.

**Action: Make sure that what you're selling and what your customer is buying are the same thing.** Confirm that your customer agrees with you on all expectations. Don't confine your communications to the customer, though. Share every element of every contract or order internally with every person who needs to know about it.

**Action: Factor margins into sales incentives.** Use margin-based incentives to encourage salespeople to sell profitably. Be clear about what's good for the company and make sure benefit to the salesperson equates to benefit to the company.

WHAT DRIVES  
PRICING IN YOUR  
COMPANY?  
IS IT FEAR AND  
ARROGANCE?  
OR IS IT FACT?

SHARE EVERY  
ELEMENT OF EVERY  
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PERSON WHO NEEDS  
TO KNOW ABOUT IT.

<sup>1</sup> Jacquard Associates has adapted the practical, effective change management methodology developed by LaMarsh & Associates, Inc., as the vehicle to drive clients to achieve a successful desired state in all areas of business. Visit [www.jacquard.com](http://www.jacquard.com) for more information.

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MAKE YOUR SALES  
AND CUSTOMER  
SERVICE PEOPLE LOOK  
LIKE HEROES.

**Idea:** *Lead your process development. Design and implement a responsive pricing process now that protects your margins and helps you compete.*

**Action:** *Make gathering competitive intelligence part of everyone's job.* Develop and maintain an up-to-date competitor grid that lists your top competitors with their products/services, features and benefits, and how they compare to your own. During pricing reviews, you'll have a reliable comparative measure.

**Action:** *Price realistically and avoid scope creep.* Our most painful war stories are often about the customers who forced us to *squeeze the last bit out of their pricing* – and then were the source of credit problems, schedule changes, and alterations in specs that steadily increased costs and eroded tiny margins.

**Action:** *Delight customers and prospects with quick response.* In fact, 80% of the quotes you produce should be simple; for a variety of reasons, however, we just tend to make things complicated. Your customer service people should be able to deliver all but the most complex pricing in a day – or, ideally, in the same phone call. That level of response makes your sales and customer service people look like *heroes*.

**Action:** *Simplify your bidding* In all companies, there are important bids and routine bids. You need to respond to the routine bids quickly and efficiently. Your rules for *routine bids* should be:

1. *Simplify the process* by creating a template, using standard pricing levels, and delegating the task of responding down the ladder.
2. *Build in plenty of margin* to make sure you'll make money if you do get the job.
3. *Don't negotiate.* If a job is not your specialty, don't pursue it as if it is. Hold the line on your bid.

**Action:** *Manage the important bids and make rigorous off-sheet pricing rules* Require multiple approvals before salespeople can extend special deals. Make this process thorough yet streamlined; you still need to respond quickly. Make sure special pricing is *fact-based* and *well planned*.

## What's next?

Next, you should *do something*. Pick one or a few of the ideas above and make a plan to address them in your company. Visit [www.jacquard.com](http://www.jacquard.com) for more ideas and background on leadership practice. Call us at Jacquard at 847.945.8700 with your comments and your experience. The point is, when you've finished reading, make the time you've spent worthwhile by taking some action.

The next three parts of the Prices Are Plunging series will offer more pricing "how tos." In Part 2, we'll examine ways to zero in on your customers, to achieve company-wide awareness of how your customers do business with you, and to stop subsidizing small customers at the expense of large ones. In Part 3, we'll address financial discipline and demonstrate the truth of the scandalous concept that pricing for profit is wrong. Part 4 focuses on driving down costs through increasing operational speed and its corollary, eliminating inventory – yours or your customers'.

In the meantime, begin developing strong leadership today in your company. Start turning your ideas into action.