

INSERT LOGO

Pricing for Profit

Pricing Intelligence Manager

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Overview

We have set a goal of transitioning to a profitable growth mindset, especially in on-going relationships, contracts, and programs that provide repeated, fixed price points to customers

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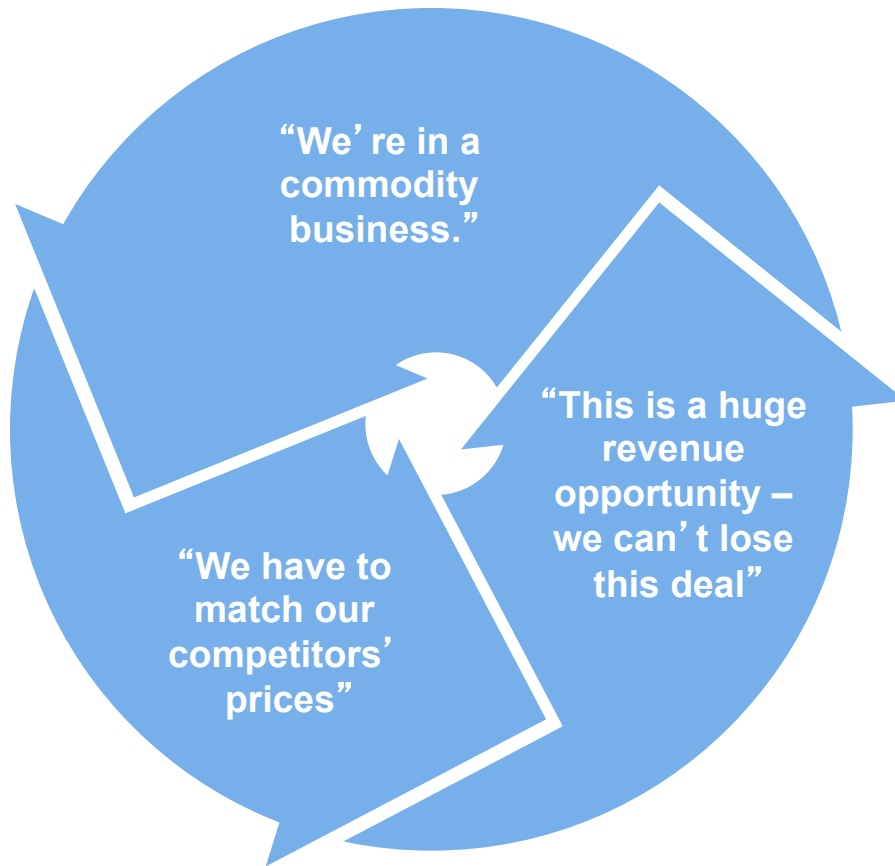
Migrating to a profitable growth

How we will get there

New tools and processes

Summary

We started with a growth-focused mindset



Growth-focused mindset

Static mindset keeps us from moving forward and old mindset prevents us from reaching our full profit potential

Our goal is a profitable growth mindset

Leadership

Revenue
Growth

Old Mindset

- Product Selling
- Don't lose business
- Inconsistent Pricing
- No target prices
- No floor prices

VS.

Profitable
Growth

New Mindset

- Value Selling
- Pricing Calculator
- Target prices
- Floor prices
- Approval Process

Field personnel

- What's my role in the company now?
- How am I supposed to sell value?
- How do I use this assessment tool?

Messages to customers

- "At what price would we win your business?"
- "We'll beat what our competitors are offering"

VS.

- "None of our competitors can do what we can do"
- "Our price reflects our superior value proposition."
- "If you want a lower price, we will have to take out some of the value-added services"

You told us we are leaving money on the table

“My customer was desperate to get a deal done and we thought we priced them high – when they saw the price they thanked us for not gouging them.”

“They were ecstatic with both the pricing we offered AND with our service, so perhaps we didn’ t need to go so low.”

“I didn’ t have the confidence to stand up to my boss and say, ‘This isn’ t a fair deal.’ ”

“We’ re simply going lower than we need to on price.”

“ If my bosses want a piece of business (they’ ve been in the industry longer than me), I’ m going to get it...”

“How do I respond to a price that can’ t be beat? Well, a lot of the time we are that lowest price.”



So to reach our goal, we began to utilize price as a lever

Old role of price: Revenue growth

Price is:

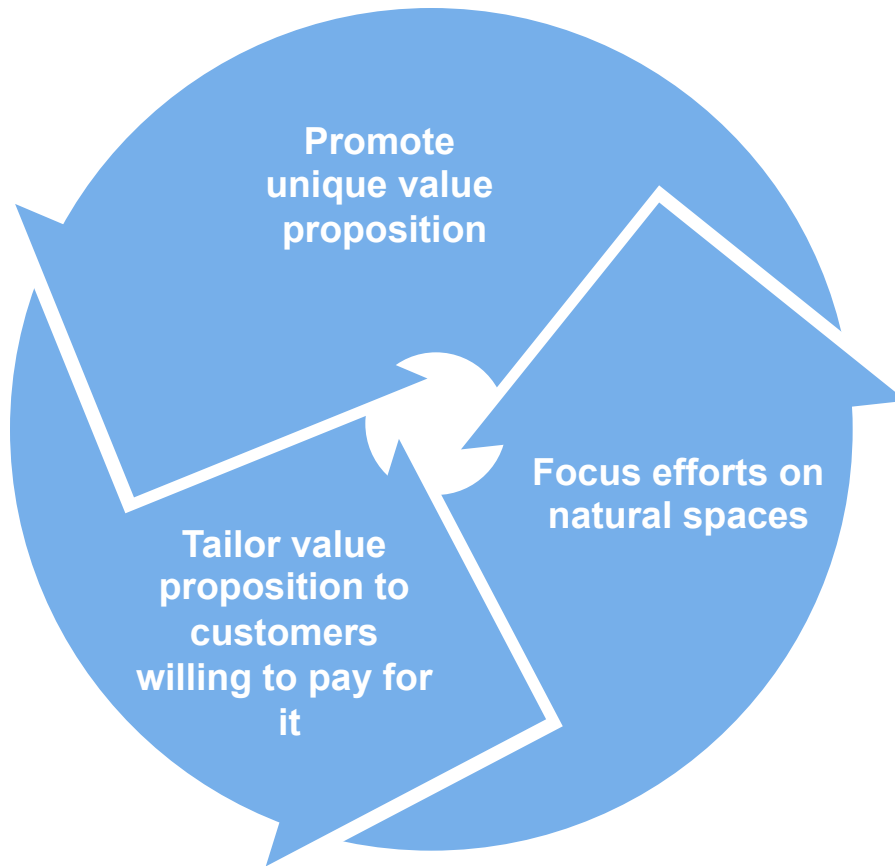
- **Used as a weapon:** Lower prices to gain revenue
- **Your biggest differentiator:** Use price to stand out quickly and clearly among competitors all struggling for the same business
- **A reaction to competition:** Lower prices in response to perceived aggressive behavior by competitors
- **Inconsistent:** Similar customers with similar needs get different prices
- **Based on costs and/or competitors**

New role of price: Profit growth

Price is:

- **Used as a lever:** Raise prices strategically in line with your value; this is the primary driver for profitability
- **Defined by your differentiation:** Differentiate yourself in terms of products and services, and then see how much you need to compete on price
- **A pro-active / strategic action:** Hold the line on price, and concede to competitors the business that you deem undesirable
- **Consistent:** Customers with similar needs get similar prices
- **Based on customers' willingness-to-pay**

This focus will allow us to achieve our goal of developing a profitable growth mindset



Profitable growth mindset drives us where we want to be

Yields significant return, but requires significant time, resources, and commitment

Moves us forward to maximize profit

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What do companies that successfully make this transition do?

Pricing Strategy

- **They prioritize profit over volume:** Companies that focus on profits get them, even though volume growth may slow
- **They understand that low prices and high profits rarely come together:** Confident companies know the right price for a customer isn't the lowest possible

Price Setting

- **They make it easier for people to sell value:** The right tools and guidance help them make more profitable pricing decisions

Price Implementation

- **They find extra fractions of a cent and capture them:** Slight incremental price changes have a huge impact on profit
- **They commit to more effective pricing and make it sustainable:** Combining incentives, communication, and rigor makes strategic pricing stick

Prioritize profit over volume

Make profit your primary goal

- Aim for both revenue and profit targets
- Recognize that focusing on profit can help you make your revenue plan faster
- Don't try to be all things to all people, instead focus on profitable ways to meet customer requests

Understand your differentiation

- Gather as much information from your customer as you can so you understand what their true needs.
- See the business from your customer's perspective
- Use this thorough analysis to help differentiate your offering from your competitors
- Explain your differentiation to your company and your customers over and over

Change your behavior

- Identify behaviors that led to your focus on "growth"
- Align with your leaders to focus on profit-focused behaviors
- Work with each other to spread these profit-focused behaviors throughout the organization

Focus on high profits and don't get caught up in competitive price cutting

Avoid "cost leader" pricing

- Recognize that in any market, only one company can consistently produce at the lowest cost, and that in a mature market, no one can suddenly develop sustainable cost advantages
- If there is only one price leader and you are not it, you can't compete by offering the lowest price (over time)

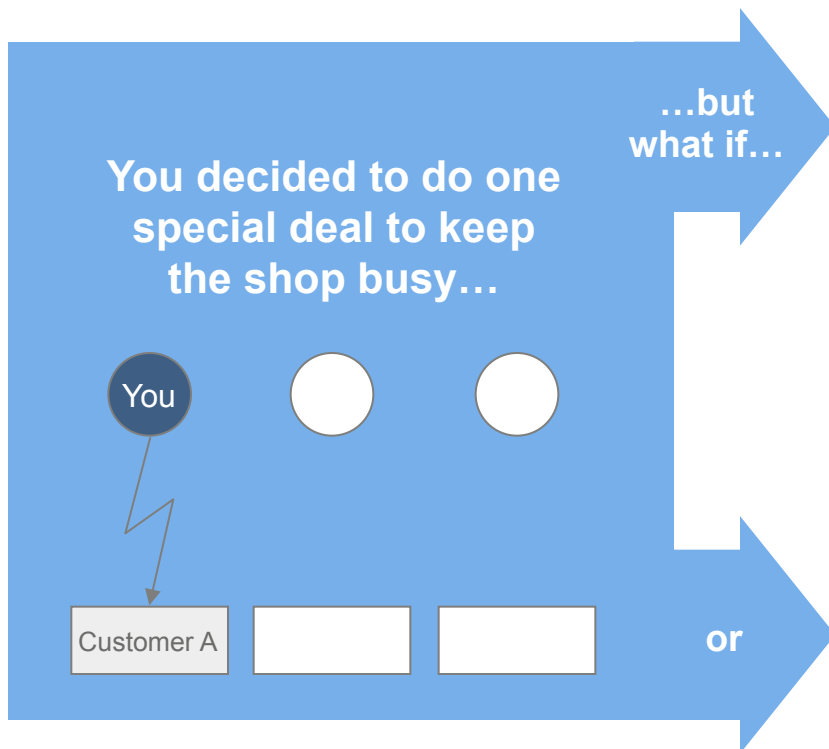
Understand price contamination

- Know that your customers who received a low price from you once will expect even lower prices in the future
- Understand that customers talk to each other so low prices don't stay secret for long

See volume's limits

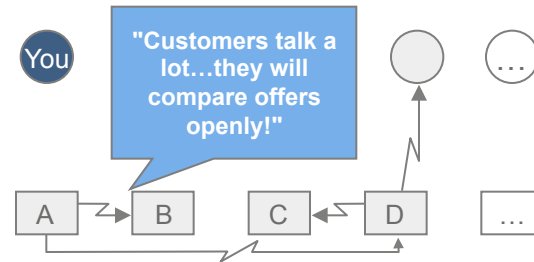
- Never assume high volume can make up for low prices
- Note that small price cuts need big volume gains just to break even

Look out for price contamination



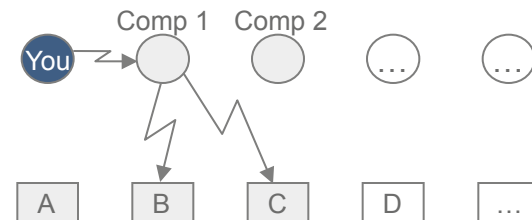
A Price Contamination

...your customers talk about their new price achievement?
(...guess what purchasers like to talk about...)



B Competitive Reaction

...your competitors involved in the same negotiation see this as your new pricing strategy and react accordingly?



Focus on selling value

Embrace complexity

- Understand that cost-based and competitor-based pricing is easy but not usually in your best interest
- Look for opportunities to price for value

Quantify your differentiation

- Recognize that your customers willingness-to-pay is typically higher than you think
- Use research and data analysis to learn what your unique advantages are worth to your customers
- Take the time to scope out what their real issues are and therefore what their willingness-to-pay really is

Execute in the field

- Learn and use the training, tools, and guidance from the company on how to negotiate and stay focused on profitable deals

The key to profitable growth is concentrating on the price-value relationship instead of price alone



Price is the customers' perception of what is received for what is paid.

Take Starbucks, for example. What prompts a consumer to pay a premium on a product that is widely available for a lesser price? The answer is simple: Value sells.

Look for the extra fractions

Make millions that others overlook

- Remember that fractions of a cent add up to millions in pure profit for your company, and for you

Make incremental improvements

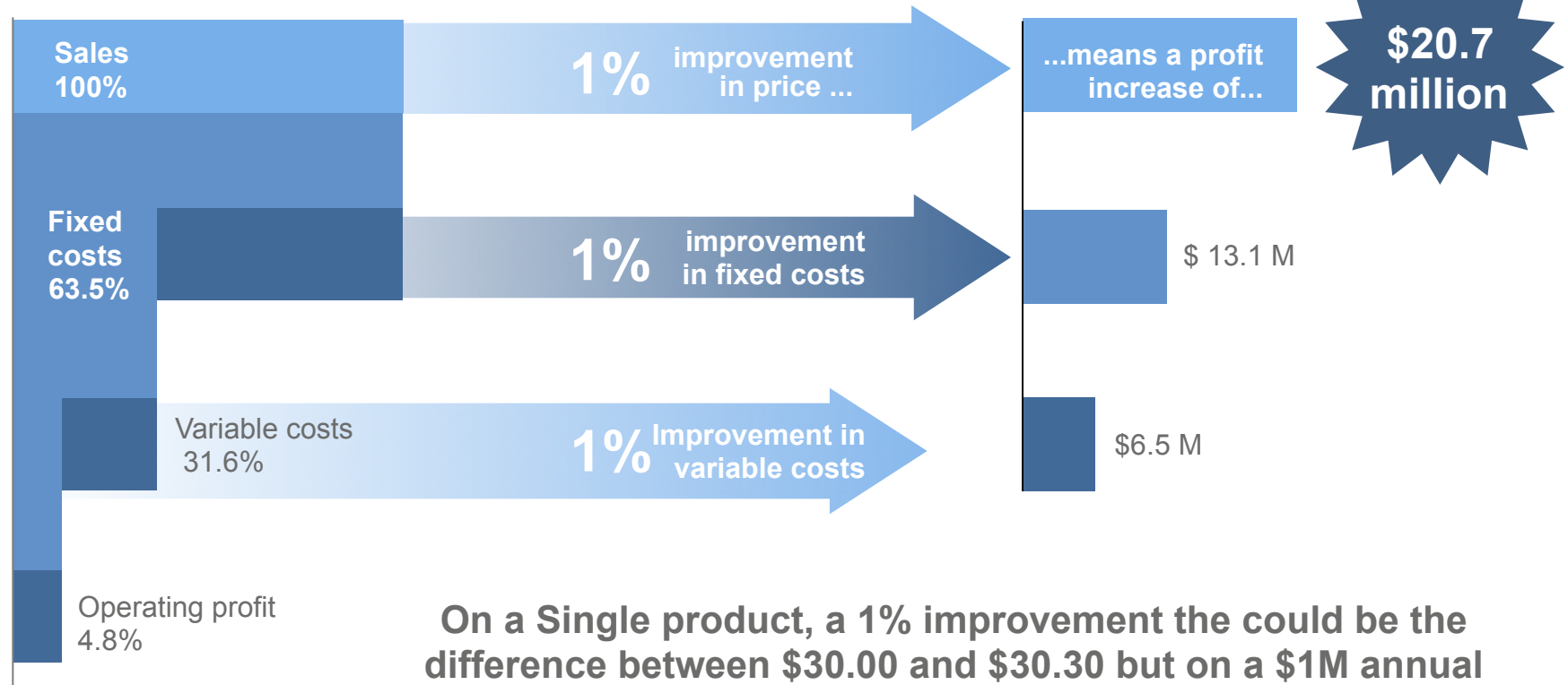
- Recognize that you do not need to make huge price increases, small increases will accomplish what you want

Reach personal goals

- Know that it is much easier for you to reach your performance targets and collect your bonuses through capturing the fractions

What can capturing extra fractions do for us?

Our P&L structure



On a Single product, a 1% improvement the could be the difference between \$30.00 and \$30.30 but on a \$1M annual contract, it means an extra \$10,000 per year.

Commit to more effective pricing and make it sustainable

Incent the negotiators

- Realize higher prices lead to higher revenue on same click volumes
- Focus on soft incentives as well as hard incentives

Communicate internally and externally

- Recognize that every decision and statement sends a message
- Maintain consistent communication (i.e. no special concessions)

Apply rigor to every quoted price

- Remember to ask the hard questions
 - ☒ “How does this deal make us more profit in the short and long term?”
 - ☒ “What value can we exchange to price this deal more profitably?”
- Remember to measure success as you consistently ask these questions

We began by assessing our current pricing process and determining what approach to take

Through

- Interviews
- Deal post mortems
- Data analysis
- Mystery shopping exercises

We defined what type of prices we needed

Target Price

- Every deal should aim for prices at/or above the Target price. Negotiations can, and should, start at any point above target. Prices at or above target require the least review and approval.

Percentiles

- As price moves down the scale, percentiles serve as triggers for required escalation in the approval process. Price may land at any point on the pricing scale, not just on the established percentiles.

Floor Price

- Floor price is the minimum allowable price for a deal. Prices dropping to floor will require the maximum review and approvals.

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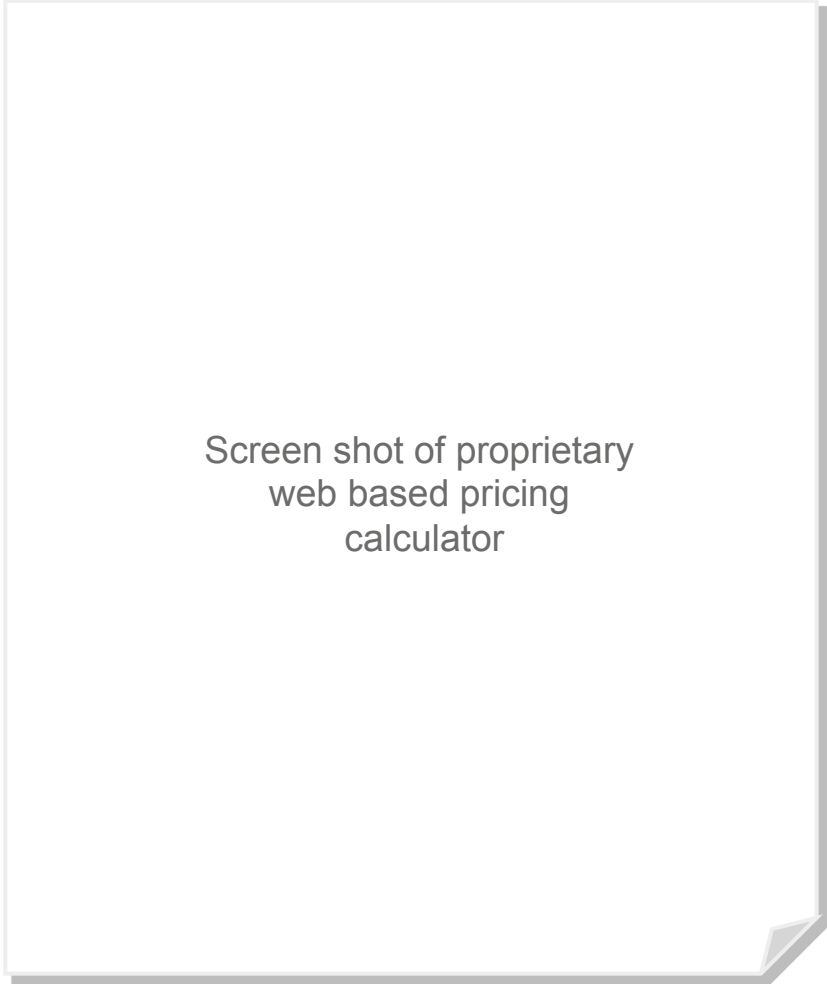
New tools and processes

Summary

We created a new tool to help determine pricing options and track deals

Pricing Calculator

- Customer Information
- Annual Revenue Potential
- Price Targets
- Percentage Discount
- Production Assignments
- Approval Actions
- Opportunity Review
- Deal Summary



Screen shot of proprietary
web based pricing
calculator

Finally we designed a new more efficient approval process

1

A new process can help change our selling mindset

It will cause us to look at prices below target with a more critical eye; It will ensure that lower prices are an exception given only when all value-selling opportunities have been exhausted

2

This new process will help enforce target prices

It will help us build confidence in the prices, and in value selling, by making us more accountable in our decisions to reduce prices

3

The process will improve repeatability

It will create a uniform process where the same circumstances generate the same prices no matter who sets them

4

It will improve time/resource allocation

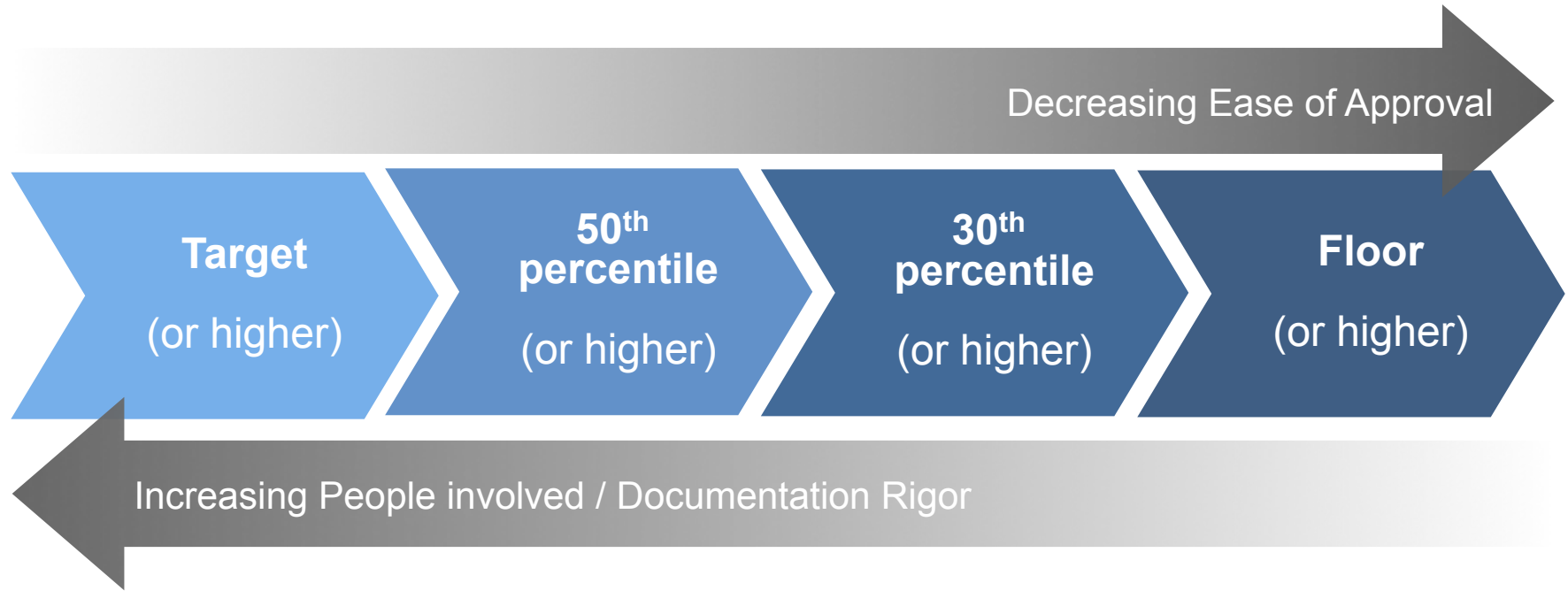
By requiring hands-on involvement from Finance and the RVPs it will allow us to more easily identify and eliminate bad deals and make sure important deals are processed quickly

5

It will improve trackability

Through the new documentation we will have a written record of how deals progressed, why certain prices were offered, and how FXK and competitors reacted

We designed a four tier process where lower prices require higher approval authority



Revenue opportunities that fall outside of established parameters are escalated

- A Revenue Management Committee was established in this year to collaboratively determine guidelines around account acquisitions and renewals, and to assess revenue opportunities that fall outside of established operating, pricing, or legal parameters
- Process
 - Weekly meetings every Monday at 3:30CST
 - Review any escalated opportunities and vote on proposed pricing
 - Review on-going pricing projects programs

Group	Primary Member	Proxie
Sales	Name	Name
Operations	Name	Name
Finance	Name	Name
Marketing	Name	Name
Legal	Name	Name

If an opportunity requires escalation your Sales Finance contact will assist you

Required items

- Executive Summary
- Pricing Calculator
- Completed Business Terms Request
- Finance reviewed/developed pro forma

Timing

- As a general rule, you should engage Sales Finance at least one week prior to when you will need a response from the Revenue Management Committee
 - Sales Finance's SLA on evaluating opportunities and preparing pro formas is typically 3 business days
 - All review materials need to be distributed to the Committee by close of business on the Wednesday before each meeting
- Timing exceptions will be evaluated on a case by case basis, as necessary

Representation

- The requesting VP or Manager should attend the discussion to present the opportunity and field questions

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The new Value-based Pricing Strategy will...

- Reinforce our selling mindset to focus on profitable growth and value
- Improve tracking through updated tools and processes
- Implement new pricing approval process
- Implement Target and Floor pricing through pricing grids
- Improve repeatability
- Improve time/resource allocation within approval process

What questions do you have?