The Future of Pricing

Insights on leading through volatile markets

JEET MUKHERJEE
VICE PRESIDENT,
HEAD OF PRICING

INTRODUCTION

This paper is based off in-depth interviews conducted by Holden Advisors of leaders of FORTUNE 100 to FORTUNE 500 companies in CEO, President, or SVP roles. All interviews were completed in H1 2022 with one intent: to understand the drivers of change in current markets, the impact on pricing, and what leaders must do to prepare for the future.

Overall findings identified volatility as the major theme plaguing commercial leaders. Top pain points within volatility were reported as supply chain challenges, inflation, and labor shortages. As increased interest rates are cooling off demand and controlling inflation, leaders must plan for even more volatility in the coming months.

In this paper you will find key implications and takeaways for leaders as they lead through inflation and prepare for a possible recession.

CUSTOMER BEHAVIOR

Global markets are predicated on customers spending money. To better understand and strategize for the future, initial interview insights needed to address how buyers will act differently. Two key themes emerged, and in turn, what leaders can do to prepare their businesses for that customer behavior.

Predictability

In addition to pricing and predictable supply, service levels emerged as a key value driver for end-customers in the future. Even for product-based businesses, leaders are looking at service levels as a way to maintain their current price levels, and in some cases, differentiate their offering to increase their pricing.

Customized experience

In an effort to search for predictability, technology B2B companies will start migrating more of their IT processes to the cloud. Customers will be able to pay a monthly fee to outsource challenges like delivery and pricing unpredictability so these company leaders can focus on development, sales, and other value-add priorities. This will create opportunities for suppliers who were typically product focused to move more towards services and partnerships with other companies in the channel to bring customized services to their customers.

From a pricing standpoint, this expected future behavior has implications that can be addressed in four key categories.

Stop the bleeding

Increase speed

Mitigate risk

Find insights that matter

STOP THE BLEEDING

In the face of current market volatility, businesses must be able to address price leakages by implementing quick fixes to "stop the bleeding" from a margin perspective. Controlling unnecessary costs gives companies the flexibility to choose from a variety of strategies as dictated by market forces. Without this, companies will be limited in what they can do to stay profitable.

Fire unprofitable customers

The CEO of an IT reseller downsized his customer base from roughly 600 to 240 during the pandemic (intentionally). He detailed key benefits including increased profitability, increased customer service, and perhaps most valuable—a happier and more engaged internal team. Employees no longer had to spend the bulk of their time dealing with challenging customers, and job satisfaction skyrocketed as a result.

Most business leaders learn early on that the customer is always right. "Keep the customer happy." "Do what it takes to keep the customer."

> ***These mindsets are embedded into a team's DNA, and often cause undisciplined or bad decisions—which snowball into wasted resources, deflated energy, and decreased margins.***

Keep in mind, customers who buy solely on price can be bought back at any time. For those buyers, the deciding factor is simply the low cost. By firing unprofitable customers, businesses can pivot key resources quickly while serving customers and employees more effectively. Let your competitor have that logo.

Add discipline to discounting

Customer discount rates can range from 0-90%, as reported by an SVP at a B2B software company. This range points to a massive issue with list price. It also points to a dangerous behavioral trend - training customers to expect a discount no matter what.

Many leaders look to raise prices or build governance models while money is often left sitting on the table right in front of them. Without profitability, businesses don't have the flexibility to choose the right pricing strategy for their business. Leaders can increase profitability immediately by putting an end to needless discounting.

Leaders may also find that inserting discount discipline allows for firing unprofitable customers (e.g. "If you don't give me that discount, I'm going to leave." And they should.) By stopping undisciplined discounting, companies can realize increased profits immediately without a single change in governance, pricing, or process.

INCREASE SPEED

Over 60% of the companies interviewed talked about how they had between 30% to 50% of their invoices stuck in some type of internal processes. Every day an invoice remains within a process internally, the likelihood of that invoice closing decreases drastically. Speed in order execution is critical.

Another common issue is the ability to raise prices. Most leaders that we spoke with were not surprised by the economic condition but surprised by how slowly they reacted to it. In volatile markets, the last customer to raise prices is often the least profitable. It is essential to avoid this position as much as possible.

Modernize governance

In most cases, governance policies and procedures were reported to be highly outdated. The majority were noted as 15-20 years old, a place where innovation is lacking and failing to keep up with the evolution of customers and their needs.

Governance models are set up to account for corner cases which create cycles within a company. Most functional leaders spend time arguing with each other about an order, which distracts them from spending time with their customers. Most CEOs we chatted with are willing to take on a few “bad” orders in order to stop the unproductive arguments and focus on customers.

Automate

Many leaders described losing resources on the “squeaky wheels” of their customer base. When the customer base is large, and 80% of business comes from 20% of customers, businesses can benefit from automation for the remaining long tail of customers.

This long tail of customers is often comprised of small and medium sized businesses, where churn rate is high. Resources should be focused on large accounts, and SMBs can be supported by implementation of automated or self-driven support such as chat bots for technical support and customer service, along with the use of price optimization tools. The key here is to determine where to draw the line between automation and human touch. An example is to use campaign automation for targeting, engagement and quoting, but switch to human touch for closing on the quote.

MITIGATE RISK

Leaders spend the bulk of their time on this area. Diversification of products, channels, and markets are an evergreen focus area for businesses; in volatile times, it becomes even more essential. When capital is inexpensive, mergers and acquisitions can often be advised in markets that are not as recession- or inflation-sensitive. These circumstances may even be ideal for purchasing a competitor.

Diversify

All interviewees shared their top diversification area as expanding their portfolio of products and services. Another focus area as reported by the President of a global electronics manufacturing company, was diversifying the company's supply chain. The business was previously 90% reliant on China. Given politics and policies over the last several years, they began to diversify their supply chain by adding other countries to source from. In the last two years, that decision paid off in spades.

> **"Diversifying our supply chain was the best thing we've done in years."**
> **President, Global Electronics Manufacturing Company**

Customize

Leaders discussed creating unique experiences for end-users as an important strategy. The cost of analytics, capturing data, and storing the data are decreasing, which is creating an opportunity for customization across many industries. For one audio equipment business, the team is capturing data on how consumers are using their electronics to create a customized experience for that specific individual. Leaders believe customization creates a level of "loyalty" that mitigates the risk for churn.

Build relationships

In many cases, leaders realized that their businesses were starting to struggle with fulfilling customer needs all on their own. Opportunities were emerging to partner with other companies to bring integrated solutions to the market. In some cases, this included accumulating data from multiple companies to drive unique insights for an end-user. This type of innovation not only is bringing unique value to the end-user, but also creating new revenue streams for companies and mitigating the risk for end-customer churn.

FIND INSIGHTS THAT MATTER

Most leaders complained about the lack of data in their firms. Their biggest issue was they couldn't find insights when they needed it, and most of their teams had the same excuse as to why.

"We can't do that analysis because we don't have that data."

An executive at a pricing software company summarized it well when he said, "most companies have data in silos. For example, sales data, marketing data, invoice data, etc. But, few have everything combined into corporate data that can be used to generate insights for the company when they need them."

Some leaders tried to build this type of corporate infrastructure but said that they haven't succeeded yet because of two main reasons; (1) they keep buying bleeding edge data platforms and software tools to account for rare corner cases, and (2) they didn't build processes for actions to take with the insights generated.

Don't wait for perfection

Most leaders we spoke with made data a priority for their businesses and they were directionally proud of their data infrastructure but were still frustrated with the lack of return for this investment. In digging deeper, they felt like it was all overwhelming because they were trying to solve for every corner case that they could possibly come up with by buying tools that they were having a difficult time getting returns on. Some even commented that they wish they could go back to simpler days of using Excel.

Don't waste time on reporting

One leader had a 300-person team in India, producing 700 annual reports. At first he was really proud, but when questioned about it's value, he wasn't able to attribute any of his businesses successes to that team. In fact, he talked about how there is always friction between the businesses and that team because the reports are not accurate or actionable.

So, we asked our group of interviewees how they can improve the return on their reporting. They had two common answers; (1) insights from reports must be provided at the point of need to truly drive behavior change, and (2) there must be an action plan for the insights. If these two components are not part of reporting, then that reporting is not needed for the business to succeed.

CONCLUSION

We live in inflationary times, and there is a high probability that the market could go into a recession by the end of 2023. Regardless of the type of economic environment we are in, we know for sure that the future of pricing will be volatile. Whoever can react and manage to this volatility will come out ahead.

Some basic principles to use to manage through these times based off our conversations with market leaders are:

1. By removing unprofitable customers and discounting habits, companies can stop the bleeding where it hurts most. This creates more flexibility and choice in market strategies.

2. Improving the speed at which companies react to the market will give you that first mover advantage. Roughly right is much better than no action at all.

3. Companies that thrive during volatile times are often the ones that find ways to create new sources of value. One example is by partnering with other companies to bring an integrated solution to the end-user. End-users tend to be risk averse during a recession, which creates new opportunities for companies that can be nimble enough to meet their needs as markets change.

Providing choice and value to the end-user remains king—and companies that can do so while making decisions quickly stand the best chance for growing profits through any form of volatility.

HOLDEN ADVISORS

Jeet Mukherjee, Vice President and Head of Pricing at Holden Advisors, is armed with over two decades worth of global experience in management consulting, strategy, analytics, marketing, and pricing. Jeet is a regular presenter and keynote speaker internationally and coaches executives from startups to FORTUNE 100 companies.

Jeet specializes in hardware and software pricing with a B2B focus. This fall, he is publishing Pricing With Confidence: 10 Rules for Increasing Profits and Staying Ahead of Inflation with co-author Reed Holden.

He is also the proud recipient of an Edelman Laureate for his work in business analytics and optimization within distribution. He holds an MBA from Boston University's Questrom School of Business and has worked with clients in distribution, pharmaceutical, healthcare, and technology sectors.

Holden Advisors is a team of experts in pricing and sales performance development. We help our clients identify their differentiating value, align their commercial organizations around those truths and equip them to price and sell with greater confidence.

We offer a range of consulting services, workshops, tools, and intellectual property that help unpack complex commercial challenges and find practical ways to take decisive action.

www.holdenadvisors.com