WHITEPAPER

Why can’t you get your Pricing right?

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If you treat price as an outcome, then you are likely losing ground on your competition (and therefore likely losing money too). Pricing makes or breaks your business, but you know that already. Pricing should be an input, measured, controlled, and understood. If your Pricing is a myriad of poorly understood, interconnected decisions then the outcome will be lacking transparency and negatively impacting your top line. We observe many opinions on Price and the management of, with the clients we work with in our Pricing practice - but particularly, there are five myths which we encounter over and over again. Below we will start to dispel these myths and demonstrate how your business can be helped by addressing them. We will also provide some suggestions and approaches for how to increase your Pricing maturity and start to overcome these challenges.

Myth #1:

"My pricing strategy is clear, but I can't execute it"

If you don't execute your pricing strategy and use price agility as a competitive advantage then somebody else will - and they will be happy to do so. Unfortunately, it is likely to be the competition that do, and the fact you are reading this whitepaper, means they probably already have...

A well referenced McKinsey study*, notes that a 1% increase in price equates to an 8% increase in margin – in order to win 8% in margin from operational improvements, this would require a 3 - 4yr improvement roadmap, new processes, new capabilities and often a new culture. Meanwhile the same payback from an effective pricing initiative requires a degree of organisation around your pricing performance and data, coupled with an effective operating system to unlock the value.

Net-revenue management and agile pricing are both playing differentiated roles, especially across B2C, as sales perpetually (and inevitably) transition from bricks to clicks.

Many marketing led organisations will drive volume and revenue through an eternal campaign mindset, which in and of itself is a root cause for losing control of standard pricing. If you take a simple CPG organisation with 800 SKUs, across 100 regions, with an average of 100 different outlets then that present a potential for > 8mio pricing combination across the portfolio then apply a couple of marketing events annually in each region and you can easily reach 24mio pricing permutations across your portfolio – this is the complexity that commercial leaders really face (but also maybe causing themselves).

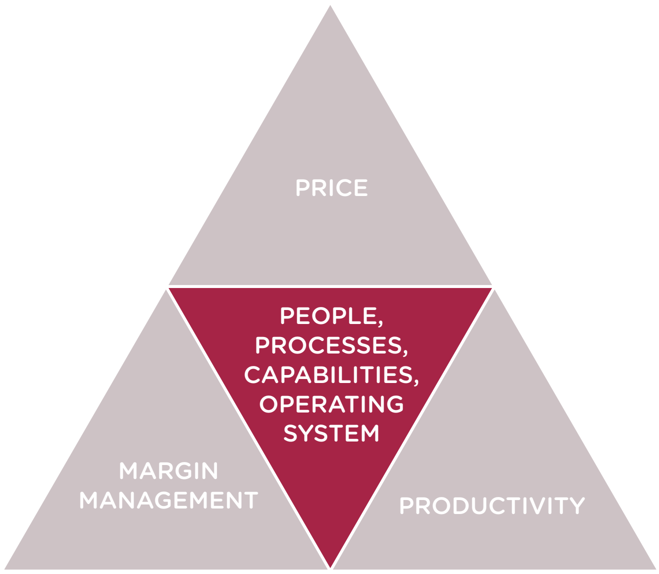
The pricing game is a question of variance and what degree of variance as a business you are prepared to accept – the challenge is knowing that:

a you are introducing variance (via your decision making)

b seeing that variance (visualisation of the impact)

c acting upon it

It is this (in)action that is really the scourge of the Pricing game, you can have all the data, processes and tools that you want, but if you don't act, relentlessly, then it's all for nothing.



*www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/the-power-of-pricing

Myth #2:

"I can't spell out my Pricing strategy, because it's dictated by the market"

Yes, it might well be, but do you really know? We find that in the absence of facts, people hide behind the excuse of a market price.

The key to understanding deviation is to measure actual Prices from a 'Standard Price', this standard price could well be completely dictated by the market (i.e., commodity products), but what is more likely, is that your standard price is made up of a mixture of commodity type costs (likely raw materials) along with your cost of transformation, plus some capital costs and a portion of tactical margin.

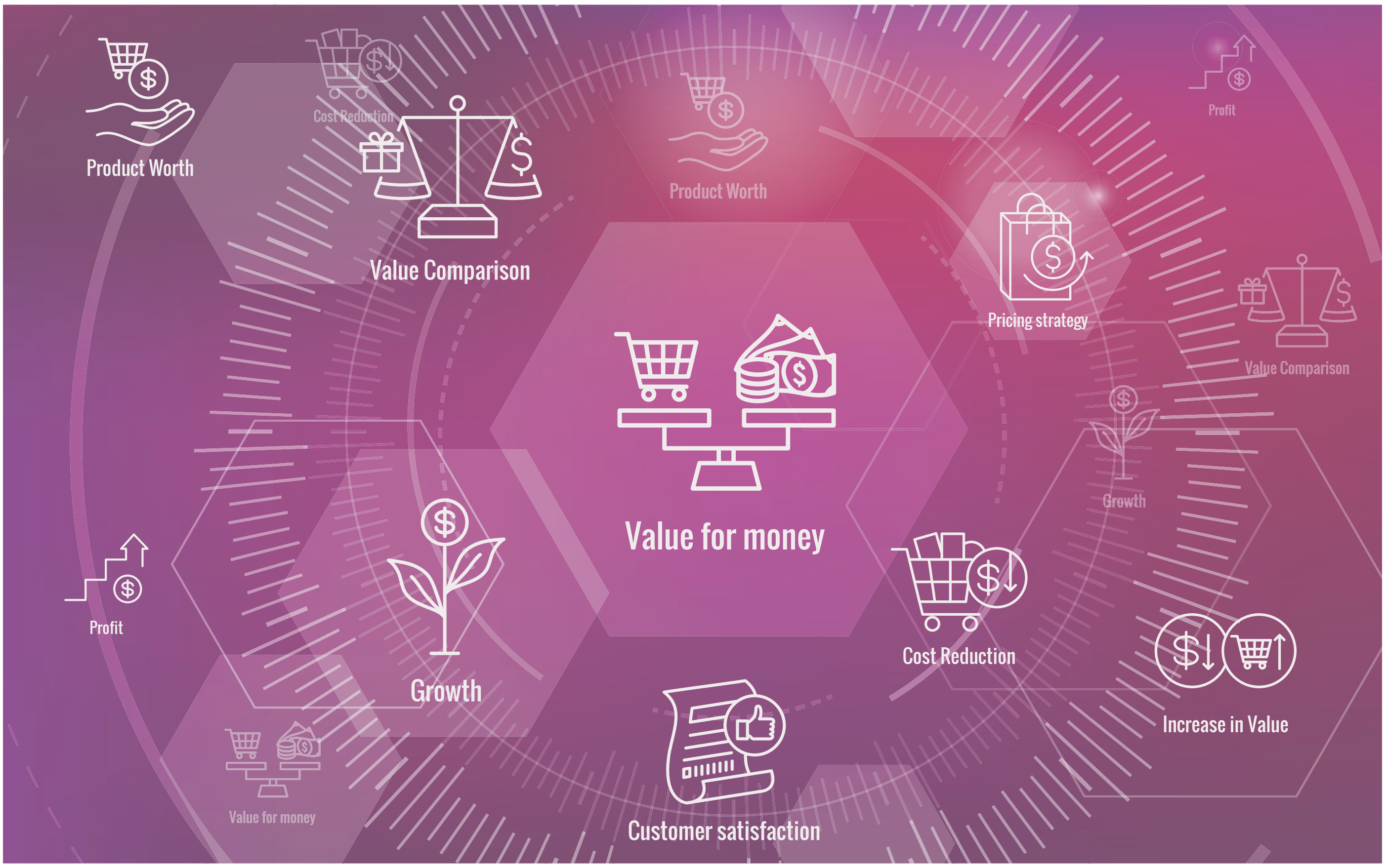
The tactical margin is the portion of the price that your business controls (whether actively, or not), it contains the value that your customers are willing to pay for your product or service. It is logical that if you do not have the necessary data architecture to enable you to segment the price and the operating system to accurately set it then you will think your price is dictated by the market.

A market price checklist can be used to identify if there is any uncertainty (keep in mind, that value lies in uncertainty) – below is a simplified version, and if the answer to any of these initial questions is "No", then there is probably unrealised value in your Pricing process:

- Have you created pricing transparency (raw materials costs, transformation costs etc)?
- How do you know the market is the market, do you use data?
- Do you have price guidelines that are regularly reviewed, updated, and published?
- Do you receive reasons for Price deviations, and do they tie up?

To identify opportunities, you must first create the insights, they are initially 'blurry' – due to lack of definitions and Operating rules, but as these pricing basics are implemented, the opportunities become clearer.

"At Argon & Co we work with our customers to enable them to relentlessly ask why 'this price' is different from 'that price' when they are (seemingly) comparable"



Myth #3:

"We really need a Pricing system solution to improve our pricing management "

Maybe, but also maybe not! The answer is subject to the maturity of your pricing process, including: organisational setup, behaviours, the process itself and the performance management systems. Implementing pricing system solutions without meeting the right pre-conditions will not bring the anticipated business impact. Countless studies have demonstrated this. Only 30% of the solutions deliver the expected value, another 40% somewhat and with a delayed impact.

So, if you are seeking a return on investment, why not start with a maturity assessment backed up with data-analytics? If the outcomes demonstrated robustness, this might serve as a good basis for investment in a pricing tool. In our pricing practice we have seen it does not really work the other way around. Investing in a solution and hoping the other aspects (process, organisation and so) will change is extremely unlikely to happen. This might lead to the conclusion; the pricing solution does not work (and your money goes wasted)! This is more likely to happen than not if you invest in a solution too early. Our surveys (and others) show that over 80% of the organisation run with a low maturity with regards to pricing (out of the five scales we refer to the levels basic and developing as low).

Our practice shows that with some more accessible digital tooling with much lower cost levels, substantial business value/pricing impact can be realised. The most effort is typically required to change the pre-conditions for success, like building the pricing models, implementation, creating acceptance in the commercial functions, monitoring the progress and finetuning the pricing processes. In short, spend your money wisely.

> "At Argon & Co we believe that getting the basics right, before you install a formal Pricing system, will really supercharge your Pricing success"

Myth #4:

"My organisation should move towards Value Based Pricing"

Value based Pricing (VBP) is a topic discussed at >90% of our customers, it is the holy grail in terms of pricing strategy. VBP calls for each transaction to deliver the best value for both the buyer and the seller, to engage away from cost, or competition-based pricing.

Although this is a valid aspiration, in practice it is very difficult to achieve – made impossible in an organisation with low pricing maturity. Let's take a simplified view of VBP - say we need to simply measure customer perceived value and comparison of alternatives. These two elements require a whole host of inputs to measure (Data), along with clearly defined accountabilities for decision making (Process) and a vehicle by which decisions are converted to actions and acted upon (Operating system), VBP also needs a strong element of cross functional focus, across Product Management, Sales, Commercial, Finance and others to tie up the various dimensions of 'Value'.

Even when you move to the more complex elements of Pricing, the Pricing basics remain at the heart of it.

Argon & Co's Pricing Maturity Assessment allows you to identify your current Pricing Maturity (as a baseline) and prioritise the actions you should take to increase that maturity.

Therefore, your organisation can and should move to value-based pricing, but only after the basics are firmly embedded - this ensures that maximum value is achieved.

Myth #5:

"I can't get my Sales and Commercial team to think and act in line with my Pricing strategy."

Without active support and buy in from your sales and commercial teams, the pricing strategy will fail. But why would they buy in to it? This really should be the leading question for the whole change process. From a business perspective, the impact is clear - better pricing means more margin and better EBITDA performance (volume being ceteris paribus). From our Pricing practice, we regularly see at least four important aspects to influence for the active engagement of your commercial teams required, to execute a pricing strategy.

1. **Insights into pricing**. We know from our pricing programs that false assumptions about pricing levels are more common than not. Explanations about prices in relation to volumes, competitiveness, raw material costs, product alternatives - often prove false when validated with data. Asking your commercial teams to play an active role in this discovery journey will be valuable (but not always nice, because paradigms will be shifted) for the change process.

> "Be prepared to make changes based on these four aspects, but know that if you do - it can have a huge influence on getting people on board"

2. **Admin and unproductive time**. If your sales representatives are preparing contracts, responding to RFQ's, but they don't have easy access to pricing information in an overview which they need, how much time is wasted? It is not uncommon that the commercial team has to do the data digging, analysis, asking around to get to the "right" price. Helping them with this, by installing simple reporting and analytics tools can be hugely beneficial, specifically it if saves them time, and helps them to be more secure about the pricing proposition. We like to refer to this as "give them a gift they like".
3. **Degrees of freedom**. In deal making, particularly in B2B, certain pricing degrees of freedom are required to get to a deal. No salesperson likes to act as a postman, just passing on the price. Clarity around these (sufficient) degrees of freedom and escalation levels are essential to have the commercial team accept the pricing strategy.
4. **Incentives**. Are the sales incentives aligned with your pricing strategy? Might sound obvious? In practice this is a sensitive but very relevant topic. You get what you measure and deserve what you tolerate. So, if you measure on price, what happens to the volume? If you measure on margin, what happens to the product mix? If you measure volume and price, what will happen to the pricing strategy? In most cases an adjustment of the incentives schedule is required to make the pricing strategy work but there are trade-offs to be made!

Conclusion:

Pricing makes or breaks your business, and these five myths cover different topics, however if you can answer the following questions with a yes, you are on the right track.

Is your ***Data***, the right data and is it readily accessible?

Is your pricing ***Process***, robust enough that escalations are dealt with at the right level of the business, and efficient enough that it gives your people back time to do valuable things?

Is your ***Operating System*** effective, and does it prioritise the most valuable actions?

Do you have the necessary ***Tooling*** to support the productivity of the process?

Are your ***People*** engaged, and rewarded in line with your business objectives?

Is your (data driven) ***Leadership*** enabling your team to navigate their way to the business impact you desire?

Your role is to connect people, create the vison for change and support them on the journey – if you prioritise these different aspects of an effective Pricing transformation and execute relentlessly, then Price will really make your business.

"If you want to execute on your Price, you need the right Data, Process, Operating System, Tooling and People, but you also must act!"

About Argon & Co

Argon & Co is a global management consultancy that specialises in operations strategy and transformation. With expertise spanning the supply chain, procurement, finance and shared services, we work together with clients to transform their businesses and generate real change. Our people are engaging to work with and trusted by clients to get the job done. We have offices in Paris, London, Abu Dhabi, Amsterdam, Atlanta, Auckland, Chicago, Dusseldorf, Hong Kong, Lausanne, Melbourne, Mumbai, Riyadh, Singapore and Sydney.

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Aart Willem de Wolf is an expert in Supply Chain and Operations improvement. As a Senior Partner at Argon & Co and in charge of the Amsterdam office, he has supported many internationally operating companies by helping them improve their financial and operational performance. Including through leading and coaching hundreds of improvement programmes and projects in various industry sectors. This work enabling leaders to develop new capabilities is a constant source of energy, as Aart Willem thrives on witnessing people grow and get results through changing their working methods and behaviour.

Remaining committed to providing clients' leadership teams with new insights, his ultimate goal is to change old ways of thinking that block the path to achieving better business results. Prior to his move into consultancy, Aart Willem held operational leadership positions in Sales, Supply Chain and Operations. He has an MBB certificate from General Electric and a degree in Mechanical Engineering and Business Administration from Twente University.

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