

# Build Your Pricing Muscle, Pump Up Your Profitability!

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# Introduction

- Today's economic conditions are putting extraordinary pressures on executives who want to maximize the profitability of their firms
- They face the immense challenge of growing revenues and profits while simultaneously strengthening the firm's market positions
- The proven "Build Your Pricing Muscle" Program can help:
  - Grow revenues and profits
  - Train the customer-facing organizations for continued, long-term success in the market
  - Provide negotiation ammunition to the sales organization and improve their sales success rates
  - Sharpen a firm's market intelligence focus
  - Provide direction to and set priorities for product development

WHY FOCUS ON PRICING?

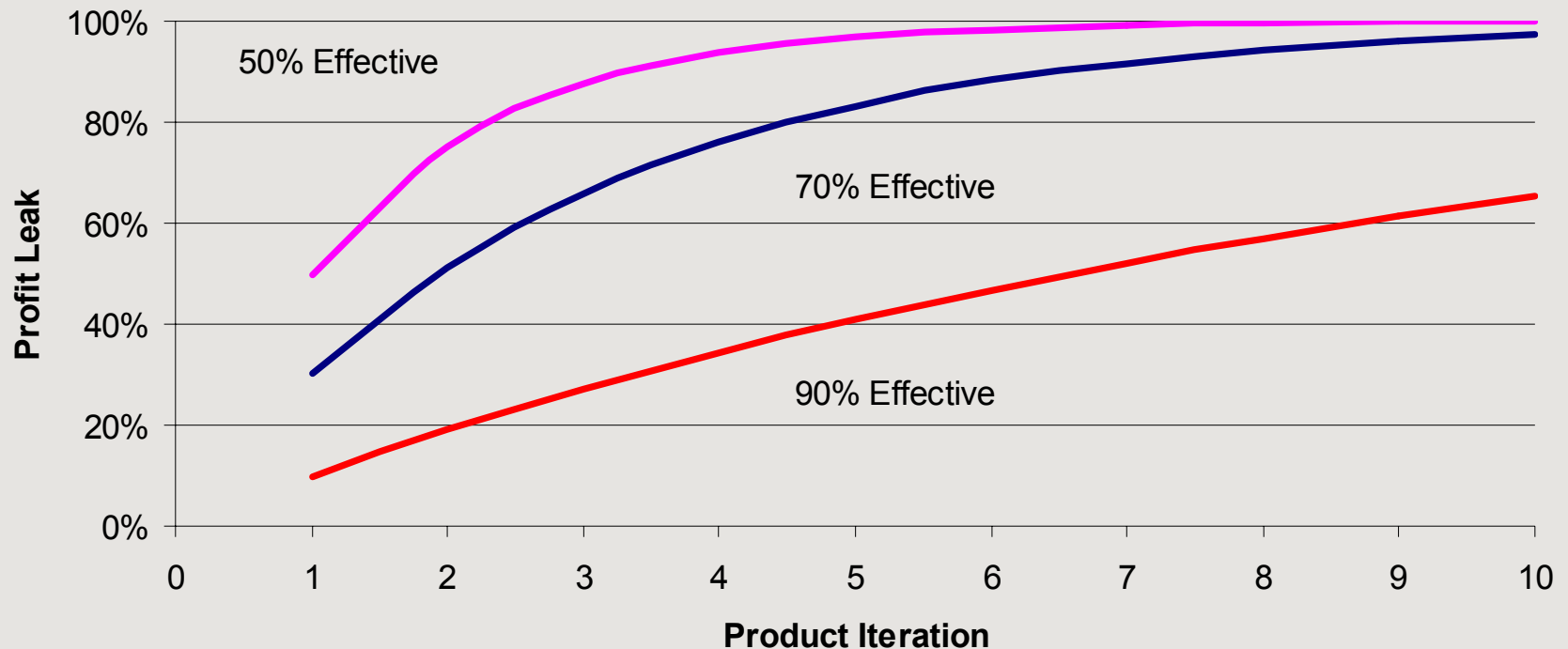
# Profit Leaks Due To Poor Pricing Practices

- Most enterprises have dangerous profit leaks which are not obvious
- A major source of profit leaks is poor pricing practices, because we have a poor understanding of:
  - How much our customers value our offerings
  - About our competitive advantages/edge
  - About competitive pricing
- Result:
  - We negotiate on flimsy foundations, without conviction, and lose
  - Poor profitability is inevitable



# Cumulative Effect of Pricing-Related Profit Leaks

## Profit Leaks & Pricing Effectiveness



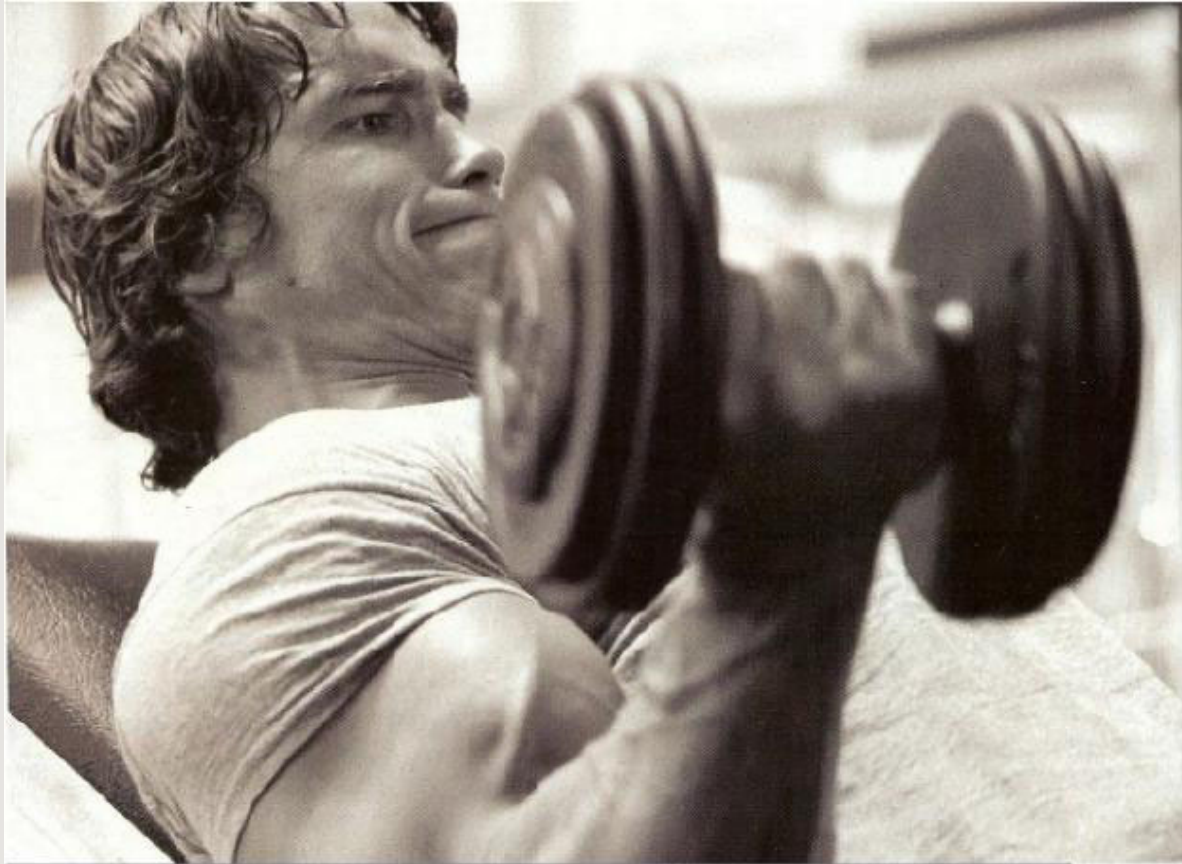
- 50%, 70%, 90% pricing effectiveness
- Over 10 product iterations

# Consequences

- The cumulative effective of poor pricing effectiveness can be devastating
- There is little room for pricing mistakes
- There's not much room left over for improving profitability with operational cost controls

**A Solution**

# Build Your Pricing Muscle, Pump Up Your Profitability!



# Steps to Build Your Pricing Muscle, Pump Up Your Profitability!

1. Focus On Your Customer-Facing Frontline
2. Select the Right Customers
3. Determine Ideal Selling Price with Value Pricing Formula
4. Negotiate
5. **Win**

# 1. Your Customer-Facing Frontline

- A majority of your pricing decisions are made by the frontline and its support organizations
- Shore up and strengthen their capabilities with simple (not simplistic), logical pricing processes
- A small effort can deliver huge results

## 2. Focus on the Right Customers

Customers / Your Solution=>	Necessity	Nice to have	Postponable	Expendable
Hit a Wall				
Braking Hard				
Driving Cautiously				
Cruising				

## 2. Focus on Being Necessities to Selected Customers!

Customers / Your Solution=>	Necessity	Nice to have	Postponable	Expendable
Hit a Wall				
Braking Hard				
Driving Cautiously				
Cruising				

Focus

# 2. Turn Their Nice-To-Haves To Necessities

Customers / Your Solution =>	Necessity	Nice to have	Postponable	Expendable
Hit a Wall				
Braking Hard				
Driving Cautiously				
Cruising				

Focus

### 3. Determine Ideal Selling Price with Value Pricing Formula

**Principle:** Price On Value and What The Market Can Bear

$$ISP = P_C + V_{US} - V_{SC}$$

ISP=Ideal Selling Price

$P_C$ =Price of Competitor

$V_{US}$ =Economic value of what we do better

$V_{SC}$ =Cost of switching over from competitor to us

## 4. Negotiation

- Negotiators find great value in:
  - Economic Value of Incremental Benefits
  - Switching Costs
- These enable them to negotiate from knowledgeable positions, with estimates of value measured in Dollars/Euros/Currency
- When you play from *quantifiable positions of strength*, you win

## 5. WIN

- *Better margins multiplied by higher sales success rates* deliver substantial growth in revenues and margins in the short- and long-term
- Moreover, the process forces a sharpening of a firm's *market intelligence*
  - You will quickly recognize the immense cost of bad/inadequate market information
- In addition, the process will expose shortcomings and opportunities that will shape *product development* and *operational priorities*

# Examples/Results

# Oilfield Equipment, USA

- Global distributor wanted a 35% discount on a \$50,000 equipment
- Competition was selling a “similar” product at \$30,000
- Distributor/sales now understands the economic value of product features
  - Changed negotiation attitude with customers
  - Won the competitive bid
- Manufacturer’s staff were sensitized to what customers valued, especially the product “surrounds”
  - Increased cooperation between firm and distributor

# Construction Services, France

- Price under consideration was substantially higher than what the market could bear
- Operating costs could not support market prices
  - Focus on reducing operating costs, with better processes and new products
- Incremental value delivered to the “owner” was being captured by an intermediary:
  - Focus on capturing part of it

# Construction Services, Germany

- Price under consideration was substantially lower than what the market could bear
  - Raised prices and won
- Incremental value delivered to the “owner” was being captured by an intermediary:
  - Focus on capturing part of it

# Petrochemical Commodity, USA

- Important multi-year bid in an intensely competitive market where annual demand had dropped 50% in 2009
- Intense internal pressure to drop prices substantially to capture share
- Discovered value in ignored niches and converted them to Dollars
- Set the tone and method for future bids and negotiations

# Others

- Industrial Flooring
- E&P Software
- Power Plant Services

# Summary

# Five Steps To Build Your Pricing Muscle, Pump Up Your Profitability!

1. Focus On Your Customer-facing Front Line
2. Select the Right Customers
3. Determine Ideal Selling Price with Value Pricing Formula
4. Negotiate
5. **Win**

# Five Steps To Build Your Pricing Muscle, Pump Up Your Profitability!

1. Focus on your customer-facing front line
2. Focus on the right customers
3. Determine ideal selling price with value pricing formula
  - Get insights in competitive prices and competitive positioning
  - Determine economic value of incremental benefits of your products/services
  - Recognize switching costs to overcome objections
4. Negotiate
  - Provide negotiation ammunition to your sales organization and improve your sales success rates
  - Negotiators find great value in economic value of incremental benefits and switching costs
  - These enable them to negotiate from knowledgeable positions, with estimates of value measured in Dollars/Euros/Currency
  - When you play from quantifiable positions of strength, you can win

# Five Steps To Build Your Pricing Muscle, Pump Up Your Profitability!

1. Focus on your customer-facing front line
2. Select & focus on the right customers
3. Determine ideal selling price with value pricing formula
4. Negotiate
5. **Win**
  1. Better margins multiplied by higher sales success rates deliver substantial growth in revenues and margins in the short- and long-term
  2. Moreover, the process forces a sharpening of a firm's market intelligence
    - You will quickly recognize the immense cost of bad/inadequate market information
    - In addition, the process will expose shortcomings and opportunities that will shape product development and operational priorities

# Building Your Pricing Muscle...

- The effort is *adaptive rather than disruptive* to the organization; it builds on improving business habits with little impact on associated business processes
- It is an internal effort, focused entirely on the firm's employees people; *simpler implementation and execution*
- It is *fast*; it can be automated for faster propagation, to deliver swift results
- It has *enormous impact on margins, profitability, NOPAT and EVA*

A faded background image of a man with curly hair lifting a dumbbell. The man is looking upwards and to the right, and the dumbbell is held in front of him. The overall image has a light, semi-transparent appearance.

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