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Price Changes

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Remember the “good old days” when price changes were an annual event that your customers simply expected?

Nowadays, price increases are almost as rare as the proverbial hen’s tooth. Contrary to decades past, this is a time of low inflation – and even deflation – in many industries. In fact, there have been fewer price increases in the 1990s than in every decade since the ’30s. As a result, customers have become resistant to price changes, and sales forces have grown rusty in the art of implementing them. The consequences can be costly.
But customers can be convinced, and sales forces can be convincing.

The key to making a price increase stick lies in three basic rules:

1. *Base your increase on solid facts, so it will be perceived as fair.*
2. *Manage the communication process and the message – to customers, staff, and competitors.*
3. *Train your sales force to communicate the price increase with confidence, and handle any objections.*

Find the facts

Before you implement a price increase – or even decide what price you will charge – you need to conduct some research to build your case. For example, Pricing Solutions tracked the pricing history of two clients in different industries, and compared it with the Consumer Price Index. In both cases, we discovered that our clients’ prices had not gone up as much as the CPI, even with a scheduled eight-per-cent increase. Presented with this information, the sales forces at both firms perceived the price increase to be fair, and believed their customers would agree. To bolster their case, we noted value-added services that had been implemented since the last price increase.

We also interviewed our clients' customers, to learn their opinion of our clients and their views on market and pricing trends. A major customer of one client, for example, revealed that he was expecting price increases over the next six months, but not higher than five per cent. "That was important intelligence," says Paul Hunt, president of Pricing Solutions, "because our client got an idea of the tolerance level for price changes. We then informed the salespeople that their customers were expecting price increases."

Manage the message

To set the stage for a price increase with customers, you should prepare them well in advance. Salespeople might, for example, spread the word among customers that a price increase is in the wind, and explain that they want to advise their valued customers ahead of time. Companies may also choose to "grandfather" some or all of their customers, to give them additional time to prepare for the increase.

Internally, it's important that head office have a co-coordinated strategy for dealing with problems that could arise. One buyer, for instance, told the key account manager that he would not accept the increase, and proceeded to telephone the account manager's boss. Caught off guard, the boss agreed to meet with the buyer to discuss it. "That changed the dynamic of the relationship the key account manager had with that customer," says Hunt. "You have to make sure head office is prepared to respond and that executives have a co-coordinated plan with the sales force that does not undermine the salespeople's authority." The sales force should also maintain some accountability for the price increase, rather than simply blaming it on head office. On the other hand, he adds, salespeople should not be given authority to waive price increases; that responsibility rests with head office. Competitors' reactions to a price increase should also be anticipated. Simulate how they might respond, and plan accordingly. Consider the financial implications of your competitors following, and not following, your lead. You may also want to test the waters before plunging headlong into a price change. For example, when the president of Hertz wanted to launch a price increase, he announced it to the trade press a month in advance. When his competitors didn't follow suit, he postponed the increase. After floating the idea a couple more times, competitors took his lead, and the increase went through.

Summon the sales force

Since the sales force is on the front lines, their buy-in is needed to ensure the increase transpires as smoothly as possible. Not only must salespeople believe the new price is fair and justified; they also need to be trained to communicate that message with confidence, and handle any objections adeptly. We do this by gathering the sales force together, and showing them simulated interviews of meetings with what we call low-, medium-, and high-resistance customers. That allows them to see what kinds of objections might arise, and how to deal with them. They also get a chance to role-play themselves, and receive feedback on their efforts. “Getting the sales force together as a group and getting their buy-in can really improve the success rate,” says Hunt.

Focus on follow up

Once a price increase has gone through, the follow-up work continues. In order to lay the groundwork for the next change, you need to find out how customers are reacting to the most-recent one. In the case of one major beverage company, we didn’t ask consumers directly about the price change; rather, we tried to get a sense of how they perceived the value and price of the product. Surprisingly, many of them didn’t even know how much they had paid, which bodes well for future increases – and healthier profits.

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