



FALL 2011

GLOBAL EDITION NEWSLETTER



PRICING
solutions

1. THE NEW WORLD	3. PRICE CHANGES	5. EUROPEAN TOUR	6. ABOUT US
-------------------------	-------------------------	-------------------------	--------------------

As I look back over the 16-year history of Pricing Solutions, I am in awe of how much the business has changed.

In the past five years, our business has transformed from being primarily North American- and European-focused to one that is global in scope.

The world is a global village now, and our clients are in need of pricing strategies that address their international ambitions. As a result, more than 50% of Pricing Solutions' work is now devoted to global projects, such as the following examples.



Case study #1 – B2B

A European company with global operations wanted to apply best practices across the organization. Pricing Solutions has worked with the client over the past three years in more than 30 countries to do just that. By benchmarking the current level of pricing competency using our "Five Levels of World Class Pricing" methodology and then developing a plan across all of the regions, we helped the client deliver lasting pricing improvements. The estimated impact on the bottom line is several hundred million dollars.

Case study #2 – Luxury Clothing

This iconic luxury brand wanted to assess the effectiveness of its global pricing strategy. With the advent of the Web, the company needed to ensure that it was not pricing at unsustainable gaps between regions. Pricing Solutions benchmarked the practices of other leading luxury brands and developed a set of best practices. The client implemented these, and has been able to sustain regional price differences that neither leave money on the table nor encourage gray marketing.



WARREN BUFFET

"The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business"

Case study #3 – Hi-Tech

A world leader in its area, this organization is highly profitable. Each of its regions has been benchmarked on our Five Levels of World Class Pricing. However, the company had a key gap in that it lacked a common language and understanding of pricing globally. To address this situation, Pricing Solutions and the client have jointly delivered training over the past three years to more than 500 executives worldwide. As a result, the company is moving steadily towards becoming a world-class pricing organization, and has estimated the benefits at more than \$100 million last year alone.

Case study #4 – Packaged-Goods

This North American-based multinational wanted to optimize pricing across multiple countries in emerging markets. A multi-country pricing elasticity study conducted for key emerging markets (China, India, Thailand, Malaysia, Brazil, Mexico, Russia) led to the identification of opportunities to rebalance the pricing of the product line. To leverage that research, Pricing Solutions has built a model that uses the results to predict the elasticities of other countries that share similar characteristics.

Case study #5 – Medical Devices

This international organization is constantly developing new products that are intended to penetrate emerging markets without cannibalizing developed markets (North America, Europe). Pricing Solutions is conducting a global pricing research study focused on new devices that optimize the tradeoff between product attributes and price. This is an exciting initiative that has global implications for product-development practices for the business.

Case study #6 – Machinery & Equipment

This client recently launched a global pricing department whose mandate is to help the company become a world-class pricing organization. Pricing Solutions' Five Levels of World Class Pricing is a key component of the journey.

If you are involved in global pricing, perhaps we can help. The challenges and the opportunities of globalization are enormous – and Pricing Solutions is working with clients every step of the way to ensure that they thrive!

As important as Pricing is to the profit potential of a business, it is amazing how casually the price change process is managed. While intentions are always good, often the timeline becomes compressed and senior management's desire for simplicity trumps the implementation of an effective process. We believe that there is a simple, data driven process that any business can follow to ensure price changes are managed for improved profits and better customer acceptance.

Moreover, it doesn't matter whether prices are changed daily, weekly, monthly, or annually; these steps must be present in some form before a company can claim that it has control of the price-setting process.

We have seen the effects of a poorly managed price change process in many companies. The most common errors can be characterized as follows:

- **The peanut butter spread:** direction is given to take the same price increase across all products or offers. While it is simple to calculate the new prices, this process usually results in customers' cherry picking the offerings that they will continue to buy.
- **The cost driven justification:** the initial response to a cost increase is to carefully calculate the impact and share these results with the customer as a justification for a price increase. This action is problematic as any eventual cost decrease may cause the buyer to ask for prices to be rolled back again. The company will have lost the connection between price and value.
- **Just keep raising the price:** this approach is most common with relationship driven businesses where prices are increased often at accelerated levels (sometimes in excess of +10% per year) for a number of years. In time, the prices to the best customers are well above market levels and customers typically begin to shop around. When these consumers defect, the company finds it difficult to replace this high margin business. We refer to this occurrence as the inverted price structure.
- **Match competition:** it is likely that a lot of time went into understanding the value and points of differentiation when your offering was initially developed. Over time, companies grow weary from many rounds of internal negotiations regarding discounts. Therefore, these companies fall into a pattern of simply matching their competition without regard for the pace of this slide towards commoditization.

Our suggested process will invigorate the pricing discussion and allow you to focus on the offerings most deserving of management's time and attention. We illustrate a 9 step process, which may at first blush seem a little daunting; however, four of the steps are analytical and the other five are designed to guide your potential actions.

The process guides the analysis of the 4C's of pricing (Customers, Costs, Competition, and Conditions which includes Capacity) to ensure that all perspectives are covered. It is designed to codify company knowledge in a world where management positions can turn over every two years. See Figure 1.

Figure One: the Price Change Process



These steps have a number of tools embedded within them. They are also designed to incorporate the best practices in Pricing Management and indicate the order and linkages between tools. The tools have been well documented in the Pricing Management body of knowledge.



CONTACT US

For a complete version of this white paper or more information, please contact us at rramos@pricingsolutions.com

2011 EUROPEAN TOUR



This summer, Pricing Solutions Europe held a pricing workshop across 10 European cities. The sessions were taught by local area managers led by Fernando Ventureira and it was a fabulous success.

The response in attendees and the support was a great motivation to repeat this event in 2012. Look forward to more updates early next year.

Furthermore, the European Pricing Team is expanding and has opened new offices all across Europe. Pricing Solutions Europe has offices located throughout Europe because we recognize that European pricing has unique challenges and opportunities that are distinct from other markets. With the addition of several experienced pricing professionals, we look forward to another successful year!



EUROPEAN TOUR TESTIMONIALS

"I find it very interesting to have in each Pricing discipline a systematic way to understand how to make it happen. I've particularly appreciated the Pricing Solutions Methodology as a key differentiator that provides confidence on the likelihood of success for Pricing initiatives."

"It is quite valuable, as a Pricing Professional, to have this fresh perspective on Pricing, and the opportunity to get this 360 expertise review. It helped me to get a different view on what I'm doing on the day to day in my job, and capture a few points as a basis to think out of the box."

"The two people from my team that went to your seminar in Zurich had great things to say about it! It was energizing to see their enthusiasm when discussing the event."



Global team meeting in Toronto, 2011

PRICING SOLUTIONS is a consulting firm, recognized for its proven track record in Pricing Strategy. Since 1995, the company has worked with prestigious organizations in Financial Services, Healthcare, High Technology, Industrial Products, Packaged Goods and Telecommunications. At Pricing Solutions, we are dedicated to helping our clients build more successful relationships with their business and consumer clients by providing them with the tools and support they need to make more profitable pricing decisions.

Client Satisfaction is an important commitment that Pricing Solutions takes seriously. With every assignment, we strive to provide high value work that exceeds customer expectations. Our success in doing so is demonstrated by the successful long-term relationships we have built with our client base.

Pricing is the single highest leverage tool available to significantly affect profitability. For the average FP500 firm, a 1% increase leads to a 16.3% increase in profitability, assuming the volume and costs remain constant. Our goal is to help clients successfully leverage their pricing capabilities to directly and positively impact their bottom-line.



PRICING SOLUTIONS DIVISIONS

Pricing Solutions helps companies optimize their profitability through five key pricing services:

PRICING **RESEARCH** • PRICING **MANAGEMENT** • PRICING **TRAINING**
PRICING **SYSTEMS** • **ADVISORY SERVICES**