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Small Change, Big Dollars

Price Changes



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We recently met with a client who felt that he was not being rewarded fairly for all the hard work and knowledge his employees were delivering in his service business.

Prices were all negotiated with little firm direction given to the sales team, although head office did approve every deal. Upon review, we felt that there were 4 steps necessary to ensure the organization and its customers would be ready for a change. The steps we recommended were: Dispersion analysis; Cost to serve analysis; Customer Value analysis; and pricing training.

Dispersion analysis is often the first step in a pricing management project. We typically find huge variations in the net price customers pay (after all rebates and allowances) even for the same products purchased by similar customers. Typically, this result can be justified from a legal perspective on the basis of different competitive conditions, but what of the margin that slips away? Our client's price dispersion was typical of a company performing at level one on TAG's pricing process maturity hierarchy. The dispersion prompted us to ask "are the low price customers any cheaper to service than the higher priced one?"

The cost to serve analysis found four factors or activities that really impacted the ability to process an order in a timely and economic fashion. Reviewing the order histories of a sample of accounts revealed that there were accounts (segments) that routinely required these time-consuming and expensive functions and the dispersion analysis indicated that their prices did not reflect the extra value.

We moved on to step 3, conducting a series of customer interviews to determine whether the customer realized higher value for the services when these specialized resources were brought to bear on their order. We were quickly able to confirm that customers saw differential value between the orders that required the additional service and those that did not.



We worked with the management team to restructure prices. They planned to begin charging customers for orders that required the use of the specialized services. Then we spent a day training the sales force on basic pricing concepts and on our findings. The sales force had always believed it unfair that some of their customers had been using these specialized services without paying for them, but had not wanted to rock the boat. Management had simply never taken the time to look objectively at the pricing structure. Some of the reps were skeptical that customers would pay – even after we discussed the interview findings. However, there were reps who knew they could use the new structure to increase company revenues and their own commissions, so they volunteered to try a few accounts, and then bring their findings to the group.

The result? Almost immediately, the new fee started generating revenues. It now accounts for about 4% of the total – with no change in the work load. Essentially it has all flowed to the bottom line. In pricing, a little change can add up to large dollars.

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