



September, 2012

[www.vistaar.com](http://www.vistaar.com)

## Follow the Leader: How Best-in-Class Companies Approach Pricing



From economic recession to recovery, leading global brands are changing the way they do business to optimize pricing practices within their organization. By developing pricing strategies to maximize profitability and establishing a

framework for future business growth, these industry leaders help ensure their businesses can weather any economic storm.

Across the board, leaders in multiple fields – from retail to healthcare, manufacturing to high technology – have implemented four practices that continue to guide their pricing strategies: define a pricing charter, organize pricing from strategy to execution, motivate the pricing team, and adopt a pricing technology platform. With these procedures in place, companies can optimize pricing and maximize profitability, as well as increase market share and drive growth.

*"As organizations and industries grow and evolve, companies evaluate the pricing charter at least once a year to ensure it still meets their needs."*

### Step One: Develop a Pricing Charter

Best-in-class companies take a holistic approach to the overall pricing process. The first step is to develop a pricing charter to guide the enterprise-wide practice. As organizations and industries grow and evolve, companies evaluate the pricing charter at least once a year to ensure it still meets their needs.

A pricing charter includes the following actions:

- Develop an integrated enterprise-wide pricing process and system
- Enforce consistency between strategy and execution
- Enable a closed-loop pricing process through cross-functional collaboration
- Drive an efficient repeatable process leveraging data and technology
- Empower pricing decision-makers with actionable pricing insights



## **Step Two: Organize the Pricing Function**

Once the charter has been developed and put into place, the next step is to organize the pricing function across the company. There are three main approaches to take: centralized, decentralized, and hybrid strategies. Corporate culture plays an integral role in determining which approach to implement.

The centralized plan features a core team tasked with all of the pricing functions facing a company, including creating a corporate pricing philosophy; defining the pricing strategy; creating processes, roles and metrics to guide pricing; and orchestrating the pricing process across the enterprise. One key responsibility of the centralized pricing team is to generate support for pricing within the organization and ensure that all levels of the company recognize the role that an effective strategy plays in optimized market position.

With a decentralized approach, pricing is executed throughout the company with minimal oversight from a dedicated pricing team. For example, each product sales team would develop its own pricing approach, which would be dependent upon industry variables and keys to success. However, the individual stakeholders still act within the pricing guidelines established under the company's pricing charter, and deviations are managed through approval routing flows.

The third approach is a hybrid blend of both centralized and decentralized, where all stakeholders measure metrics and analyze performance, enabling them to sense, respond to and make needed alterations to the pricing strategy and process.

All strategies have common characteristics, such as leveraging tools and systems to assist with decision making. And above all, each approach requires top management involvement with a C-level cross-functional team responsible for ensuring support and compliance for pricing transformation, as well as removing internal hurdles when implementing pricing as a key aspect of profit growth for the company.

Just as corporate culture drives the approach to pricing, it also affects where the function is managed within the company. For example, a company with a highly complex product offering – thousands of SKUs – varying customer sizes and a complex delivery channel faces unique challenges when it comes to effectively pricing its solutions. Additional pressures from increasing competition and narrow profit margins add to the considerations for pricing approaches and influences where the resulting centralized team will reside. For many companies like this, finance is the most effective group to manage pricing.

Some organizations have a less complex product offering and route to market, with their primary pricing challenges revolving around increasing market share and better managing channel partners. In this case, the centralized plan is best developed and executed by the sales team, which helps set pricing and provides support for better negotiating deals.



### **Step Three: Motivate the Pricing Team**

A common characteristic of successful pricing is a motivated team in which management invests in growing and empowering its pricing talent. This often includes ensuring each team member is aligned with corporate strategy and the pricing function has visibility at the highest levels in the company. By understanding each cross function and its contributions, individual players have the opportunity to apply expertise to challenging problems and make an impact on company success.

The entire pricing team should celebrate and build upon small success stories and make the best use of data and analytical tools to maximize effectiveness. Also, it is vital to provide career growth opportunities for the entire team to ensure pricing stakeholders remain engaged.

### **Step Four: Implement Pricing Technology**

Every corporate pricing practice is strengthened by implementing a technology-based pricing system. Many industry leaders are separating themselves from their contemporaries by selecting and deploying an enterprise-wide pricing solution. Above all, pricing technology should be flexible, configurable, extensible and intuitive. When evaluating the options on the market, it is important for pricing stakeholders to look for key capabilities such as:

- Ability to integrate and leverage data
- Actionable pricing analytics
- End-to-end enabling capabilities (pricing strategy through deal management)
- Operationalized price science and best practices
- Enablement of collaborative and empowered decision making
- Usable system, ease of adoption
- Adaptability to changing and evolving business and IT needs

Pricing strategy is quickly becoming a key differentiator for industry-leading companies. By defining a pricing charter for the organization, establishing pricing from strategy to execution, motivating the pricing team, and adopting a pricing technology platform, these companies lay the foundation that leads to improved profit margins and increased market share.