

**Does your company
focus enough on the
opportunities in strategic
pricing?**



**Analysis of the pricing competence in Danish
companies**

Report

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Preface

In a time with continuous demands for increasing profits, we experience that few companies focus on pricing as a strategic tool to improve the bottom line.

Practical experience shows that even a small increase in the average price has a great effect on the bottom line. The effect of a 1% higher implemented average price is actually significantly greater than an equivalent percentage reduction of the cost level or increase in sales.

To implement a higher average price for one's products without simultaneously compromising the sale is not an easy task. Optimal pricing requires, among other things:

- An understanding of the psychology of customer buying behaviour
- A clear segmentation of one's customers
- A consistent measuring and follow-up on relevant KPIs
- A punctual and balanced communication to the market
- Development of sales competencies for the sales force

The opportunity to define, consistently stick to and pursue a pricing strategy often becomes a difficult task, which requires involvement across the organisation and a disengagement from operational tasks. The opportunities in pricing are therefore often passed over.

This report sums up the results of a survey of strategic pricing practise within Danish companies. The survey gives a good picture of how Danish companies work with critical pricing disciplines, as well as their attitude towards strategic pricing. The study supports that there is an unexploited potential in working more professionally with tactical and strategic pricing among many Danish companies.

If you have any questions regarding the study or wish to discuss specific results, you are more than welcome to contact Nicolai Broby Eckert: nbe@implement.dk or +45 23 38 00 72.

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Purpose

The survey is primarily made among mid- and large-sized Danish B-to-B companies.

Before we conducted the survey we had the impression that many Danish companies had not had enough focus on the opportunities that exist in pricing. At the same time we wanted to have a clear picture of how far advanced Danish companies were in tactical and strategic pricing, as well as how pricing was organisationally placed.

Thus, it was the purpose of the survey to answer the following questions:

- How far advanced are Danish companies in using pricing as a strategic discipline?
- How good are Danish companies at implementing pricing strategies?
- What do Danish companies consider to be the biggest challenges when they work with pricing?
- Where is pricing organisationally placed in Danish companies?
- Is pricing as a strategic tool an opportunity for Danish companies to remain competitive on a global market?

Main conclusions

The study shows that a number of mid- and large-sized Danish companies have advanced significantly in the work of constructing a tactical and strategic pricing function (approx. 8% of the respondents), but far from all Danish companies have made those advances and the majority of the respondents see a great potential in increasing the focus on pricing.

1. More than 70% of Danish companies do not have employees who work exclusively with price analysis and pricing in their daily work. **Pricing experts are still rare**
2. Sales still have the overall responsibility for pricing in most companies (approx. 60% of the companies). **Sales is still responsible for pricing**
3. A vast majority of the participating companies do not believe that there is enough focus on the opportunities in professional pricing. **There should be more focus on pricing**
4. Approximately 3/4 believes that there should be employees who exclusively work with pricing and price analysis. **Pricing experts should be employed**
5. The biggest price-relating challenges for Danish companies are price pressure and the monitoring of price movements in the market. **Price pressure and price monitoring are the greatest challenges**

Looking closer at the study, a number of interesting conclusions may be drawn. There are several differences between companies who work professionally with pricing and those who do not.

Companies that work professionally with pricing:

1. Have departments or people employed that work exclusively with price analyses and strategies. **Have key competence in price analysis**
2. Have a clearly stated discount policy with a continuous follow-up and a significantly lower discount average than other companies. **Have a clearly stated discount policy**
3. Are considerably more fluent in pricing and price strategies. **Have a clearly stated price strategy**

It is clearly indicated that building a pricing unit or hiring employees to work exclusively with pricing puts pricing on the agenda. Again, this seems to have a marked effect on the discount policy and the discount average. This is in line with many international studies that indicate a bottom line potential of 3-5% for companies that start working professionally with pricing.

The analysis

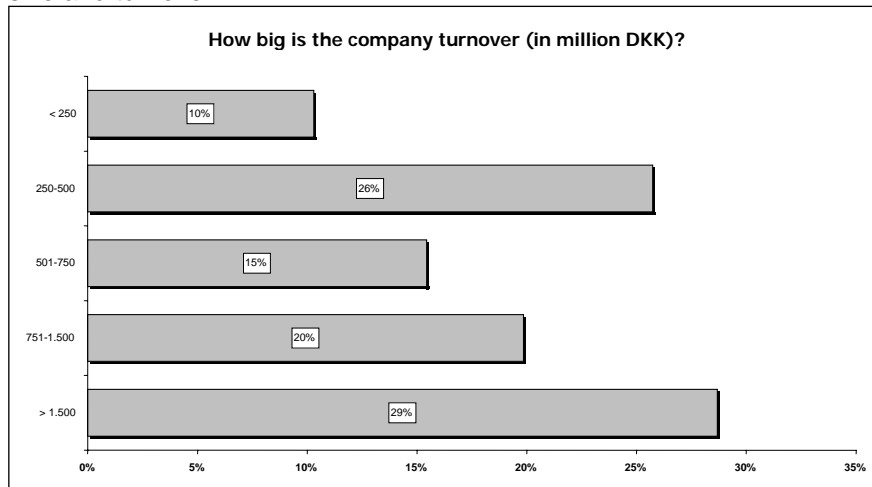
In this report you will find a detailed analysis of the results of the survey, presented in a graphic form and with main conclusions (grey box). In addition, we have enclosed the reflections of Implement consultants for each area (light green box).

A. Participants

The survey was answered by more than 160 companies. This equals a response rate of more than 50% which is highly satisfactory. The participating companies are widely represented in the Danish business community.

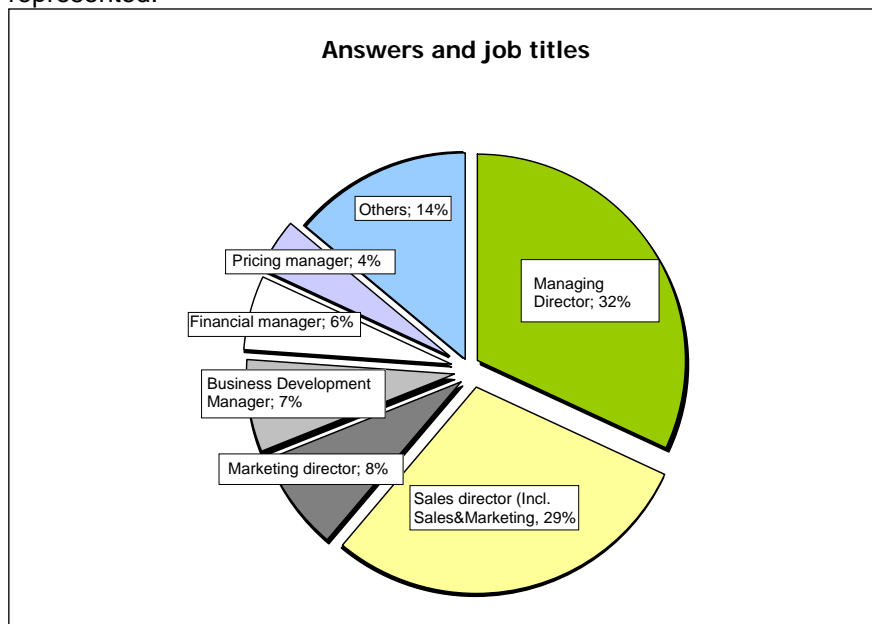
Organisation sizes

There is an even distribution in the survey across industries, organisation size and turnover.



Job title

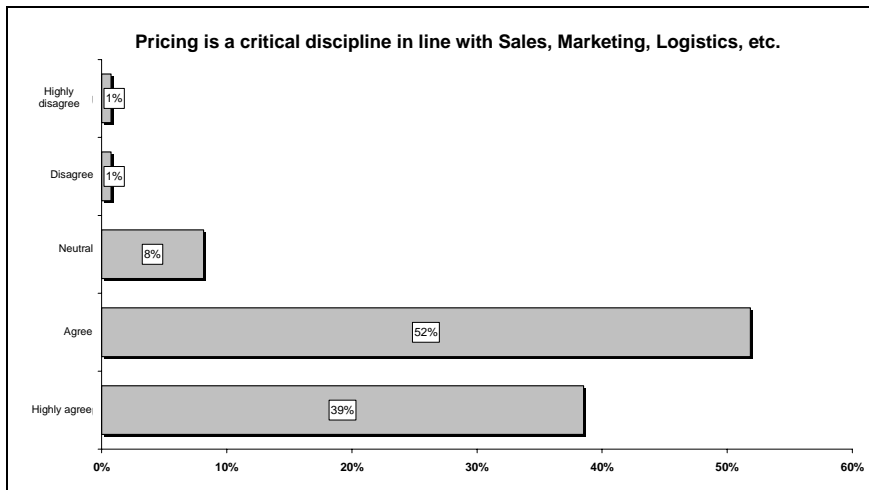
All departments that usually work with tactical and/or strategic pricing are represented.



B. Attitudes to pricing

This section describes Danish companies' attitudes to pricing.

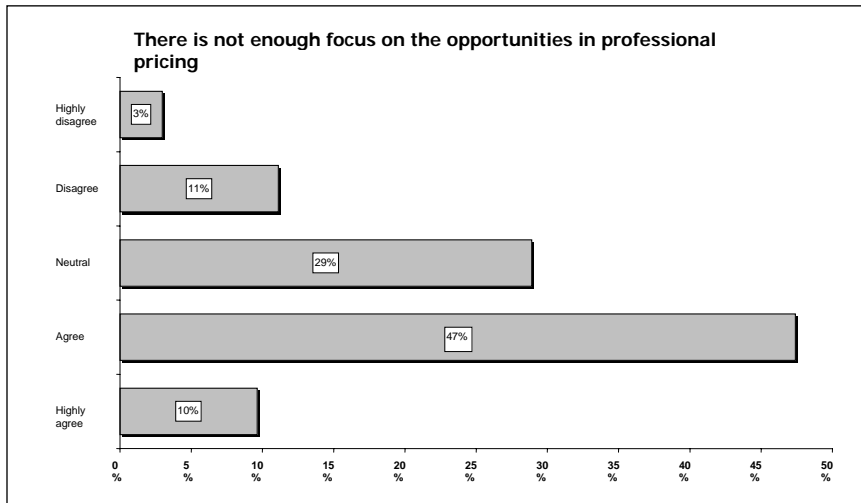
Pricing as a critical organisational discipline



An overwhelming majority of Danish companies (> 90%) consider pricing to be a critical discipline in line with other areas, ex. Sales, Marketing, etc.

Even though more than 90% of Danish companies agree with this statement, only 44% believe that it should be a function that solely works in this area.

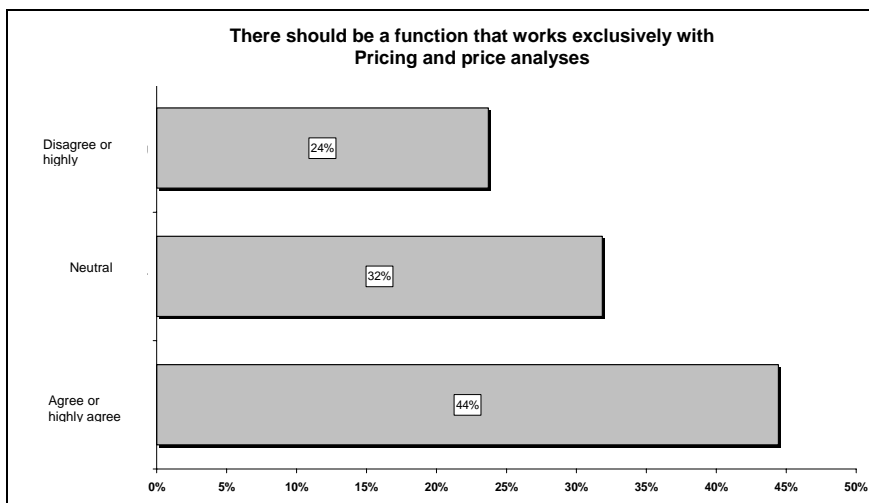
The focus on pricing in Danish companies



More than half of the participating companies feel that not enough focus is put on the opportunities in strategic pricing.

Among the organisation with employed price experts, 100% agree or highly agree with this statement. This suggests that hiring price experts creates a "burning platform".

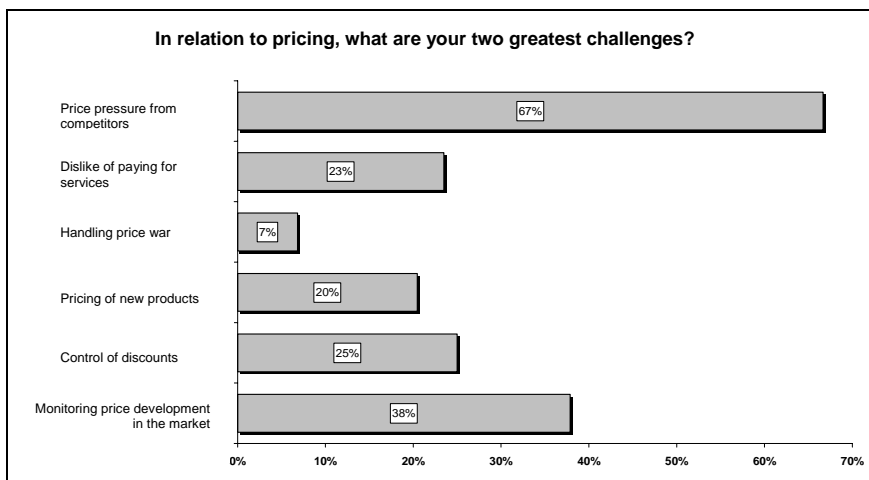
Should there be a function that works with pricing?



A majority of the participating companies feel there is not enough focus on the opportunities in strategic pricing.

It is primarily the smaller companies that disagree with the suggestion that there should be an independent function that works with pricing, which most likely relates to the financial consequences.

The biggest price-relating challenges



Price pressure from competitors is clearly the biggest challenge for Danish companies, followed by a better ability to monitor price development in the market.

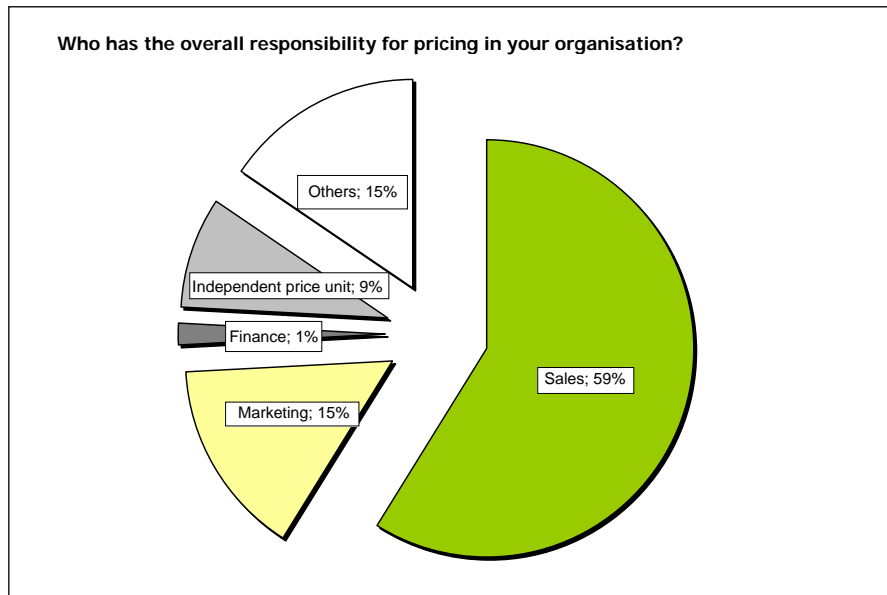
It is our experience that one is considerably better prepared for price pressure from competitors if there is a clearly defined price strategy for all segments and channels.

Approx. half of the Danish companies do not systematically work with price strategies.

C. Pricing in Danish companies

This section describes how Danish companies work with pricing.

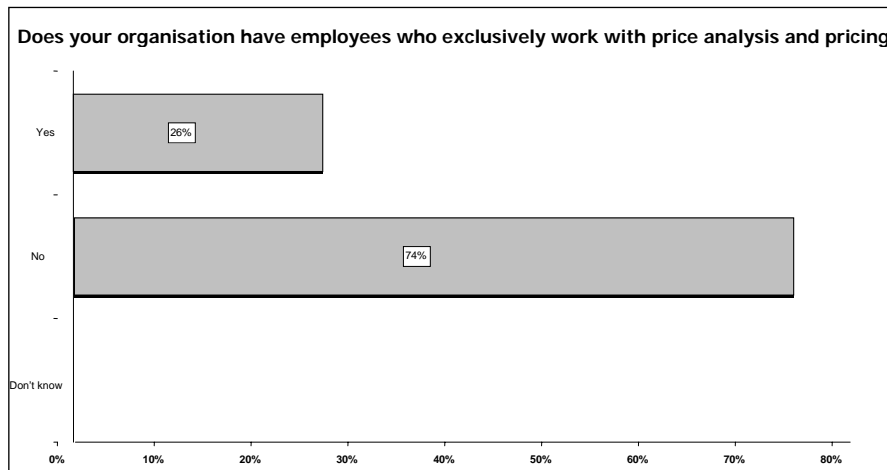
Where is the organisational responsibility for pricing placed?



The sales unit is primarily responsible for pricing in Danish companies.

There is an international tendency to open strategic price controlling groups across departments. This is to ensure a well-balanced decision forum across subject areas. These are often supported by strategic price analyses as well as recommendations from price departments.

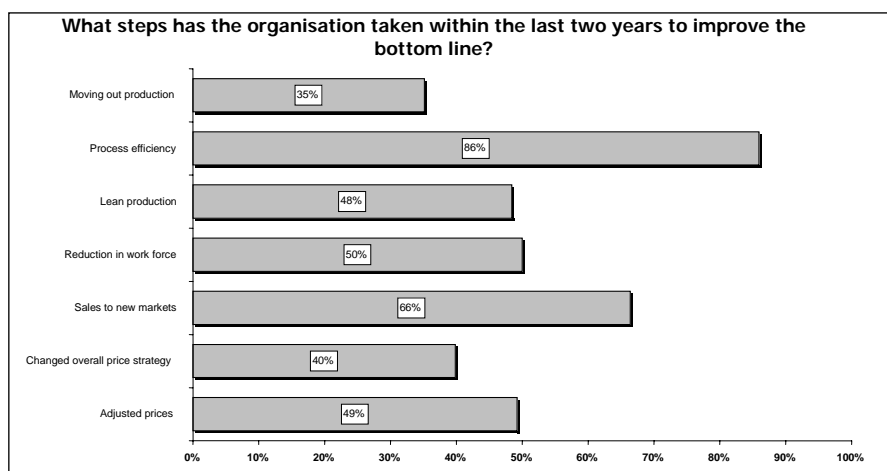
Price experts in the organisation



While approximately 50% of larger Danish companies have employees with focus on price analysis, it is only barely 1/3 of the small- and mid-sized companies.

There is no connection between turnover and the employment of price experts which indicates that it is primarily an organisational issue.

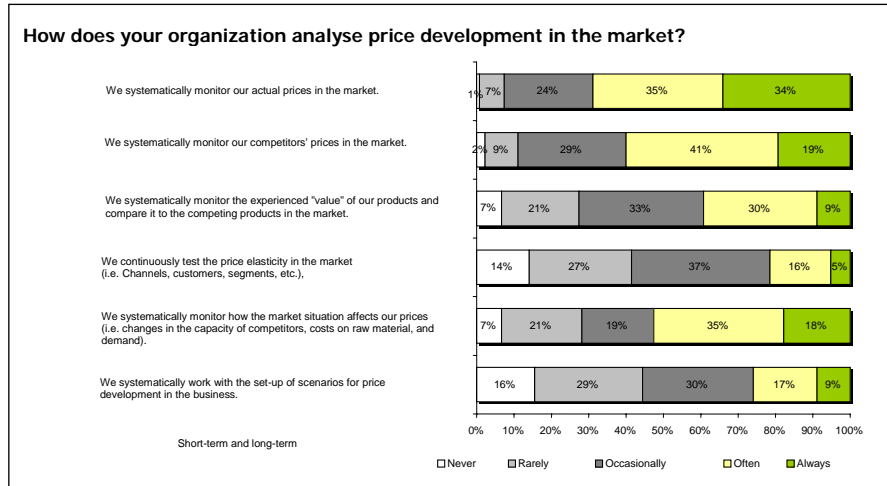
Strategic steps for improving the bottom line



While more than 3/4 of the companies have worked with process optimization, a change in price strategy is one of the least used steps to improve the bottom line among Danish companies.

It is interesting that so few companies have changed their price strategy considering the fact that a higher price average is the step that could have the greatest effect on the bottom line.

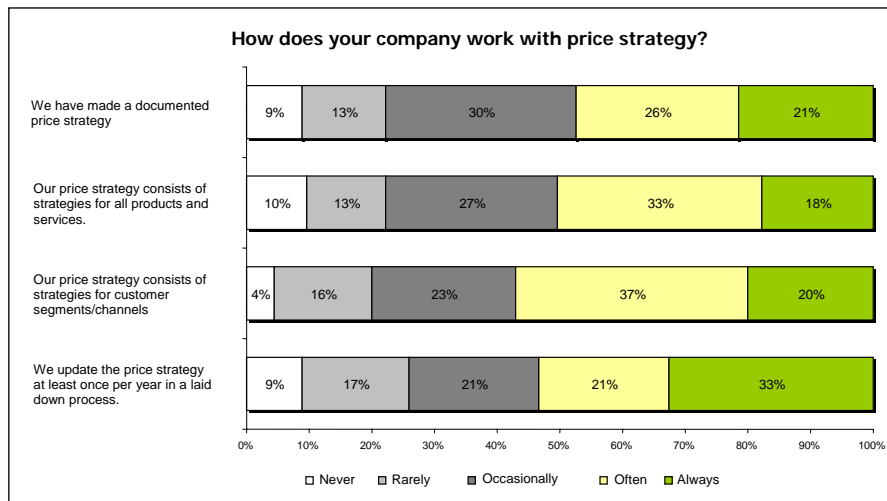
Analysis of the price development in the market



2 out of 3 respondents systematically monitor their own prices and competitor prices in the market.

There is a lot of focus on tactical price monitoring whereas strategic price monitoring, such as price elasticity, price scenarios and value-based pricing, does not get the same attention.

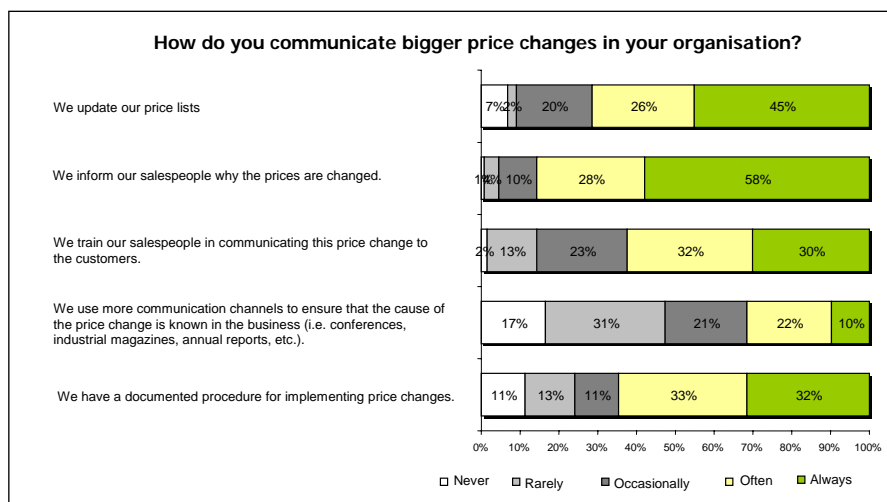
Development and follow-up on price strategies



Half of the respondents do not work systematically with price strategy.

It is interesting to note, that it is predominately bigger companies that work systematically with price strategies. This can most likely be related to a more complex product program and a higher degree of international presence.

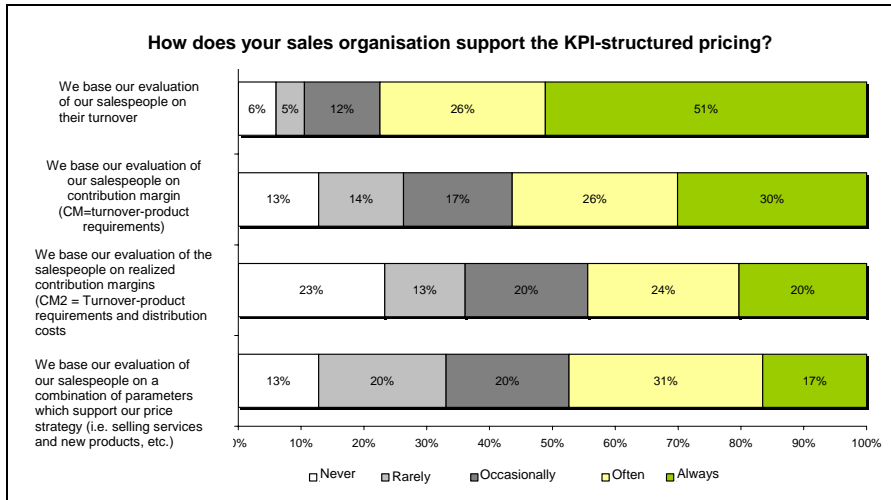
Communication of price changes



While 9 out of 10 respondents communicate price changes through their salespeople, only 3 out of 10 use other channels of communication.

Danish companies appear to use their salespeople as the primary channel of communication. Often this is not enough to create a thorough understanding of ones pricing policies in the market and among customers

Measurement of and follow-up on pricing



¾ of Danish companies consistently evaluate their salespeople based on their turnover, but something is lacking when it comes to the follow-up on realised contribution margins and other parameters.

To make an evaluation based on a combination of parameters, incl. realised contribution margin is often crucial to ensure an effective execution and follow-up on price strategies.

In our experience very few companies use KPI and the reward structure as a key tool to ensure the implementation of price strategies.

D. What do the best ones do?

This section gives a description of how those companies that work most professionally with pricing differentiate themselves from the other participants in the study.

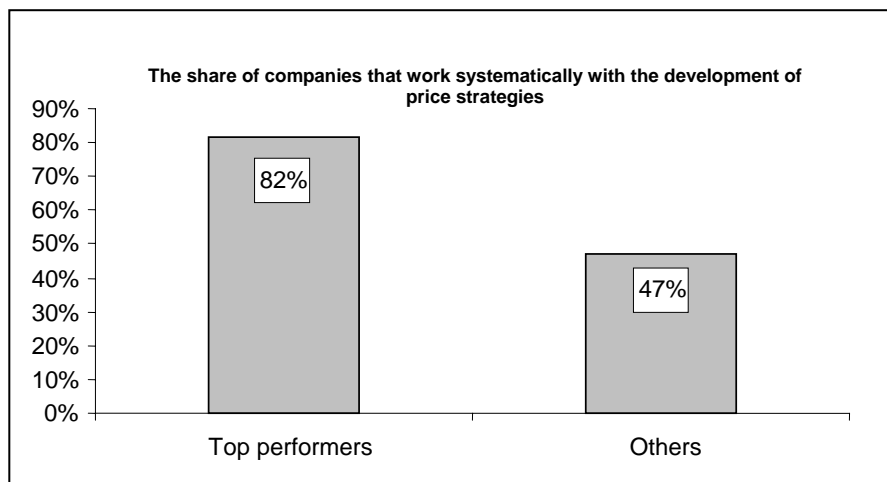
Have, to a higher degree, employees that work exclusively with price analysis and price strategy.



3 out of 4 top performers have employees that work exclusively with pricing compared to approx. 1/5 of the other companies.

Working with pricing requires setting aside focused resources to work with the companies pricing.

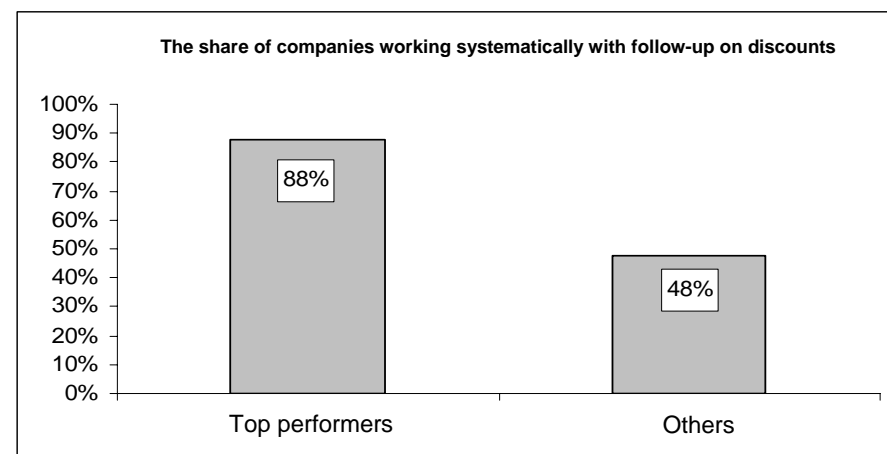
Work more systematically with price strategies



4 out of 5 top performers work systematically with the development of price strategies across channels and segments compared to about half of the other companies.

A clearly stated price policy as well as price strategy are often essential to the ability to stand up to the price pressure from competitors in the market

To a higher degree, follow up systematically on their discounts



About 9 out of 10 top performers work systematically with follow-up on their discounts, compared to a little less than half of the other companies.

Discount allowance is one of the most obvious areas in which to intervene, if an organisation wants to improve its bottom line.

Development of pricing competencies

To develop pricing competencies in an organisation is often a long journey which at times requires outside assistance. Implement has much experience with developing price strategies in close collaboration with our customers, so pricing competencies are transferred to those companies we work with.

Implement offers the following in strategic pricing:

- **Pricing Workshop** – Introduction to pricing and those opportunities lying in working professionally within tactic and strategic pricing.
- **Opportunity Assessment** – Evaluation of current practice within pricing as well as identification of the short- and long-term improvement potential.
- **Pricing Optimization** – Optimization of current profitability and/or turnover based on optimal pricing of products and services.
- **Pricing Projects** - Professional assistance on specific pricing projects, i.e. product launching, price strategies and discount policies.

For further information about Implement and its competencies within tactic and strategic pricing, please contact Nicolai Broby Eckert by e-mail nbe@implement.dk or by telephone: +45 23 38 00 72.

Implement A/S

Implement A/S is the largest independent consultancy in Scandinavia with more than 150 employees. Our lead competencies are within areas such as Strategy, Sales Development, Lean Production & Administration, Supply Chain Management, Project Management, Business Development, and a number of other areas. We work in Denmark as well as on an international level.

Implementation ensures holistic view

We believe in "real implementation". Our attitude is: A change is not really implemented until the new activities are successfully implemented in such a way that the solution is sustainable and continuously improving over time.

In collaboration with our customers, we lead the way to the actual implementation of the results by deliberately working with involvement, understanding and acceptance – side by side with the more professionally oriented process.

Enthusiastic employees ensure World Class

When you are enthusiastic about something, it never really leaves your mind. New ideas, questions and answers are constantly being challenged – consciously or subconsciously. Only those who are enthusiastic about their content area reach World Class performance.

If they are to reach even higher levels, package solutions are not enough. Our customers have to be challenged and provoked with solutions they would never have thought possible without compromising the safe solution. This requires – World Class...



- 150 employees
- Five Consultancy Awards in four years
- Eight books published from recognized publishing houses
- 15 professional top competencies
- International reach via ACE