



# Securing Your Price:

## *Implementing Increases and Protecting Margins*

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The global economic climate has become more turbulent, and many sales executives are discovering that an important part of their job has now become an imperative: executing a profitable pricing strategy.

One of the ironies of today's business environment is that the same factors that force suppliers to raise (or defend) their prices—such as increasing commodity costs and pressure to boost earnings—are the same ones that lead buyers to demand lower prices.

*With so much on the line, it is not surprising that companies are focusing on securing price increases or defending current price levels...or that buyers are pushing back with new intensity for lower prices.*

### **SALES TEAM CHALLENGE: SECURING PROFITABLE PRICES**

Securing profitable pricing is more than just a challenge for the sales organisation. Securing profitable pricing is also a mission-critical profitability issue for corporate management.

Why? Because pricing, more perhaps than almost any other factor, drives bottom-line profitability.

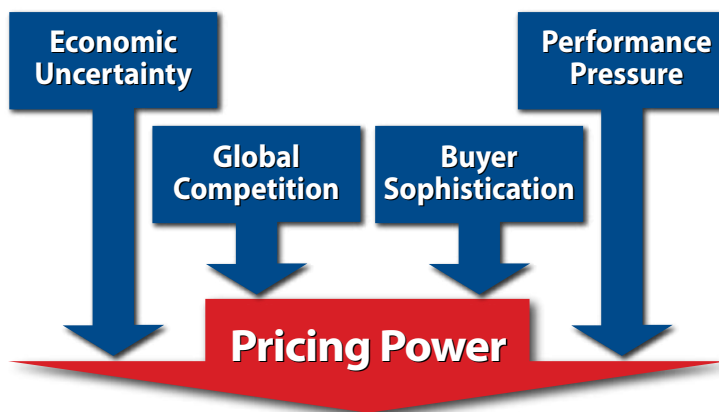
Consider the immense impact of pricing on margins of a typical Fortune 1500 firm. According to McKinsey & Company, “a price increase of 1%, if volumes remained stable, would generate an 8% increase in operating profits.” This one factor has a greater impact than comparable percentage improvements in any other metric, including variable costs or sales volume. And, of course, a 1% decrease in average price reduces operating profits by the same 8%.<sup>1</sup>

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### **THE DECLINE IN PRICING POWER: A PERFECT STORM**

In many industries, pricing power has been eroding. Sales organisations thus have been faced with new pressure to secure profitable contracts. This erosion is driven by a ‘perfect storm’ of four factors, all of which are converging to make the challenge more intense than ever:

1. **Economic uncertainty.** Growing economic volatility and dramatic increases in raw material prices (especially oil) are driving up production and transportation costs, and forcing companies to raise prices. One recent example: Dow Corporation, which recently implemented two 20+% price increases in one year to offset cost increases. This is unprecedented.<sup>2</sup>
2. **Global competition.** With the growth of low-cost manufacturing in emerging markets, many industry leaders are finding themselves in intense price wars with new competitors. These new, lower-cost suppliers have commoditised the products and services offered in many industries. This has in turn intensified pressure from buyers for lower prices.
3. **Buyer sophistication.** Companies are now investing more money and management expertise in their sourcing groups, not only to lower costs but also to help improve competitiveness through better supply chain management. Today many suppliers confront purchasing groups that are implementing strategic sourcing schemes. These schemes increase pressure on the sales team to quantify their value, share sensitive information about their cost models, agree to ‘targeted benefits’ and implement gain-sharing schemes with the buying organisation—often as part of an agreement to provide in return more volume to the supplier.<sup>3</sup> Unfortunately, being a ‘strategic partner’ often means agreeing to do business at a lower price.
4. **Performance pressure.** Faced with these pressures, corporate management often intensifies pressure on the sales organisation to achieve revenue growth targets in the face of a difficult economy. In this environment, it is much more likely that the sales team will concede too quickly on price in customer negotiations to secure competitive contracts and hit aggressive revenue goals.



*In many industries, a 'perfect storm' of economic forces is eroding pricing power. This makes it more challenging than ever for the sales organisation to defend current prices...or implement price increases effectively.*

### **IS THE SALES TEAM READY TO DEFEND YOUR PRICING?**

Despite the importance of effective price negotiation, most sales executives admit their teams are not adequately prepared to defend their current pricing or, when needed, to 'sell' price increases. Pricing is typically set by marketing, and announced by executives. But pricing is executed in front of customers...often ineffectively.

Too often sales teams allow buyers to control the conversation, and simply react in ways that make the problem worse. Sales teams allow the focus to stay on price (what it costs) rather than value (what it costs in relation to the benefits received in return). This 'crowds out' time to discuss differentiated value and creative alternatives, and reinforces the customer's perception that the supplier's solution is a commodity.

## **High Performers Handle Price Negotiations More Effectively than the Others**

*"No matter whether your pricing authority is centralised or decentralised, something very crucial happens at the salesperson/customer interface. Even without pricing authority, what you'll find is the best salespeople, the ones who really understand customers well and know how to sell value, will actually end up charging higher prices. And their customers end up, even if the pricing is centralised, going back to the central pricing desk with fewer price-discount requests. So I would suggest that whether the salesperson has field pricing authority at a high or low level, it doesn't matter. He or she is always going to be a crucial cog in the creation of a price advantage in an organisation."*<sup>4</sup>

— Michael Marn, head of the McKinsey & Company pricing practice and author of *The Price Advantage*

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### WHAT WORKS: WINNING STRATEGIES

Pricing may be set at headquarters, but it is secured and defended in hundreds of transactions sales professionals have every day with their customers.

When confronted by a tough buyer requesting price concessions, high performers react differently than average ones. High performers are skilled at keeping control of the sales conversation when price is 'on the table' and managing that dialogue to keep the focus on value.

How do they do it? Much like a successful golfer navigates a tough hole. To succeed, the golfer must be skilled at a variety of shots: from the tee, from the fairway, from the sand traps and on the green. In the same way, an effective sales professional must use a variety of skills to manage a sales process that results in profitable pricing:

The shot	What skilled sales professionals do	How they do it
<b>From the tee:</b> Begin the 'game' with a strong shot.	Pre-empt pricing challenges by starting the 'game' the right way.	<ul style="list-style-type: none"> <li>• Frame the context for the sales conversation around value (what the buyer gets in exchange for the price he/she pays).</li> <li>• Set the stage for higher pricing through anchoring: intentionally juxtaposing the proposed solution against comparable high-priced alternatives.</li> <li>• Create negotiating room by presenting initial proposals that include items which can be traded away later to avoid excessive price concessions.</li> </ul>
<b>From the fairway:</b> Cover the ground effectively.	Make progress towards his/her goal by focusing on value rather than on price.	<ul style="list-style-type: none"> <li>• Focus on both the corporate business value and the personal value for the buyer offered in the proposed solution.</li> <li>• Provoke new value the buyer has yet to consider into the sales dialogue.</li> <li>• Articulate this value in compelling, memorable positioning themes that help the buyer justify the higher price.</li> <li>• Expand the buying criteria, and then ensure that the buyer makes true "apples to apples" comparisons as he/she evaluates pricing.</li> </ul>
<b>From the sand trap:</b> Deal with unexpected challenges successfully.	Handle unexpected or premature price pressure in ways which minimise price concessions.	<ul style="list-style-type: none"> <li>• Acknowledge the importance of price when the customer raises it early in the sales process, but defer the discussion until value has been created.</li> <li>• Explore the buyer's real needs, and identify ways to address them with minimal price erosion.</li> <li>• Stay in the tension of the price discussion without giving in too quickly, and search for ways to help the buyer meet his/her goals without making price concessions.</li> </ul>
<b>On the green:</b> Finish the job with the best possible score.	Handle the 'end game' in ways that maximise final negotiated prices.	<ul style="list-style-type: none"> <li>• Plan and implement a concession strategy that results in agreements at or above target prices.</li> <li>• Resist 'unbundling' price or negotiating it separately from other issues during negotiations.</li> <li>• Find creative ways to exchange value (rather than give it away) to gain closure on pricing.</li> </ul>

*To win the battle for profitable pricing, sales professionals must take control of the customer dialogue, and avoid the temptation to follow the customer's lead into a premature price conversation.*

## **WINNING THE PRICING BATTLE: IT TAKES MANAGEMENT DISCIPLINE**

To win the battle for profitable pricing, sales professionals must take control of the customer dialogue, and avoid the temptation to follow the customer's lead into a premature price conversation.

This is challenging. In fact, it is counterintuitive. Most sales professionals are, after all, 'wired' to do what they can to reduce tension in the sales process, and are often trained and managed to find ways to give customers what they want.

The implications for management are significant:

- ***Coaching makes the difference.*** Sales leaders must coach their teams in ways that prompt better management of pricing conversations. When, for example, they are tempted to ask, "What do we have to do to close this deal?", they would be better served by asking, "What can we do to better establish the value to justify our price?" or "If we have to make concessions on price, what will we get back in return?"
- ***Telling them isn't enough.*** Because the response needed is counterintuitive, providing information alone will not change bad selling habits. Management must provide experiential learning opportunities that allow sales team members to discover the downside of their normal, intuitive approaches... and then practice new and better ones.
- ***Technology can help.*** Once mastered, these new approaches must be regularly reinforced to avoid a common and costly phenomenon: a sales team that slip back into past ineffective selling behaviour. Fortunately, with the advent of Web 2.0 technology, it's possible to do this on an 'anytime, anywhere' basis, and support management coaching for better price negotiation in the process.

In the end, the old adage is still true: "Any salesperson can win the business by giving things away." The real selling—and the most important coaching—results in the sales team securing contracts with pricing that rewards the corporation for the full value of the solutions the company brings to market and the investments the corporation has made to create them.

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<sup>1</sup>"The Power of Pricing," by Michael V. Marn, Eric V. Roegner, and Craig C. Zawada, McKinsey Quarterly, February 2003: [http://www.mckinseyquarterly.com/The\\_Power\\_of\\_pricing\\_1269](http://www.mckinseyquarterly.com/The_Power_of_pricing_1269)

<sup>2</sup>See this article from Dow Corporation, which describes an unprecedented second price increase in one year: <http://news.dow.com/corporate/2008/20080624a.htm>

<sup>3</sup>For one example of this, see "10-point Action Agenda for Strategic Supplier Relationship Management" by Marc Day, Greg Magnan, Mark Webb and Jon Hughes in Supply Chain Management Review, 4/21/2008: <http://www.scmr.com/article/CA6553540.html>

<sup>4</sup>Interview with Michael Marn, McKinsey & Company, in Knowledge @ Wharton, June 30, 2004: <http://knowledge.wharton.upenn.edu/article.cfm?articleid=1003>

# About BayGroup International

**BayGroup International** partners with corporate executives to improve shareholder value by:

- Helping execute corporate strategies successfully;
- Ensuring that key business initiatives demonstrate significant ROI; and
- Building skills across the organisation for creating profitable agreements, both internally and externally.

BayGroup International implements strategic projects that include research, highly tailored performance improvement development, Web 2.0 technology support and the tracking of results. Our work in client organisations is supported and reinforced through executive leadership communication campaigns, management coaching and internet-delivered performance tools. Using our proven behaviour change approach has helped clients achieve desired business results, and improve the ability of key employees to build better agreements with:

- Customers, especially when competitive sales pressure threatens profits.
- Suppliers and other outside parties, whose increasing costs can erode the bottom line.
- Internal team members and between individuals, where failure to handle tough, contentious issues can threaten quality, customer service, restructuring and other strategic initiatives.
- Strategic partners, where poor agreements can threaten the success of mergers and acquisitions, as well as other mission-critical alliances (in areas such as distribution, research and development and marketing).

By partnering with BayGroup International, clients achieve significant improvements in human performance and millions of dollars in bottom-line results.

Since its founding in 1980, BayGroup International has built a select client list of major global corporations, focusing on the technology, telecommunications, pharmaceuticals, transportation, consumer products and financial services industries. Our consultants have worked in North and South America, Asia, Europe and the Middle East. We serve our clients from offices in major cities around the world.

To find out more, contact us at:

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