

Pricing and CEOs: why top executives need to get involved

Stephan M. Liozu and Andreas Hinterhuber

Introduction

Despite the evolution of pricing over the past 20 years and the emergence of high-performance, affordable pricing technology, pricing continues to be neglected by CEOs: most lack basic knowledge of pricing, see pricing as a tactical function managed by someone in the lower trenches of the organization and fail to give priority to pricing investments. Our research shows that this is the wrong approach. Our 2019 studies reveal that only 22% of Global Fortune 500 firms and 15% of top 500 industrial US firms have a dedicated pricing team. Our most recent survey of over 400 pricing practitioners reveals that C-suite executives are not involved in pricing at all. Only a few CEOs view pricing as a strategic, companywide capability in which to invest to drive profitable growth. They lead the companies listed in the appendix that have delivered consistent earnings before interest and taxes (EBIT) results while maintaining healthy growth. These companies have developed strong pricing power while investing in strategic pricing capabilities. Many companies enjoy high pricing power but lack the strategic intent and capabilities needed to capture it from the market.

Considering the COVID-19 crisis, top consultants highlight the need to transform business models and to accelerate growth with the support of pricing systems to support e-commerce platforms, to launch direct-to-consumer models, to boost short-term sales with pricing promotions and to automate sales and pricing to improve efficiencies. These consultants highlight that pricing is no longer a nice-to-have capability; it is a necessary discipline to support the new normal for the next three to five years.

For the CEOs of pricing champions, pricing is almost an obsession. Others may be just getting started and unsure about next steps. Finally, many CEOs are still in denial that pricing can be the source of competitive advantage. The goal of this paper is to help CEOs get started and to convince them that pricing should be part of their strategic agenda going forward. This recent and ongoing crisis has raised a sense of urgency to make pricing part of the CEO agenda.

About the research

In 2018 and 2019, we conducted 49 interviews with chief experience officers, VPs of pricing and CEOs of pricing software vendors to understand how the best-performing companies use pricing to drive profits and select pricing technologies. Supported by the Professional Pricing Society, the world's largest organization dedicated to pricing, we conducted a 2020 survey of 540 pricing professionals to understand the perceptions of pricing in the C-suite and how top executives prioritize pricing investments. We complemented our own research

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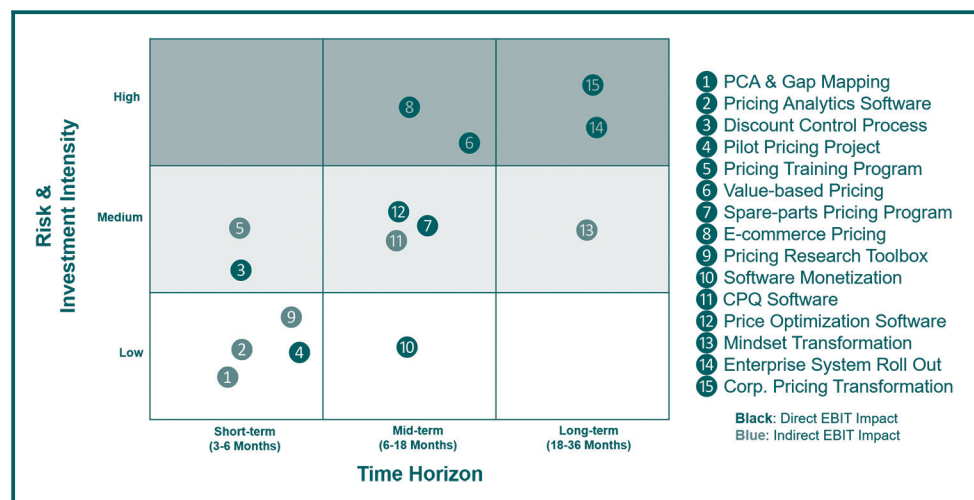
with analysis of publicly available data, analyst presentations and public comments by CEOs on pricing.

Summary of key research findings

Our research highlights several interesting findings:

- Most C-suite executives do not fully understand pricing and what it can do for an organization's bottom line. Some of these executives are "stuck in time" and still consider pricing to be a purely clerical function as part of administration or sales operations. Others still think that pricing is dictated by the market and/or that cost-plus pricing is good enough. The lack of understanding and these pricing myths (Hinterhuber, 2016) impede the development of a pricing function and a pricing agenda in their organization.
- Most pricing investments do not reach the C-suite. Or, if they do, they are quickly eliminated because of a lack of confidence in the payback analysis, the risk/reward of such investments and the political games played by C-suite actors. Some C-suite functions have no interest in increasing EBIT targets, launching complex projects or taking a chance on infuriating customers and partners. They see pricing as an expense and as potentially "poking the bear" and upsetting customers. In the new normal, the C-suite needs to accept that pricing is part of the recovery model to accelerate profitable growth and identify pockets of pricing power. They need to consider investments in these pricing initiatives as true investments and strongly consider the EBIT impacts reported by many organizations and consultants over the years.
- Some executives do not see or believe the impact of pricing. Despite many publications, case studies and academic papers demonstrating the return on investment of pricing (Hinterhuber and Liozu, 2015), they consider pricing to be a pure expense and not an investment. The impact is real (Liozu and Hinterhuber, 2014). It is time to get started. Large-scale pricing transformations can bring two to four percentage points of EBIT over a two- to three-year period (Liozu and Hinterhuber, 2015). But some of the initiatives presented in Figure 1 can be started tomorrow and deployed in 90 days. Crawl before you run!

Figure 1 Prioritization matrix of the top 15 pricing initiatives (PCA = pricing capability assessment; CPQ = configure-pricing-quote)



- CEOs and other C-suite executives often view pricing as a long-term investment, with programs lasting over 10 years. They do not realize the potential short-term impact of addressing the low-hanging fruit and launching a portfolio of long-term and short-term pricing initiatives. In fact, our experience indicates that the more pricing problems you have, the faster the potential payback to and impact on the bottom line, indicating that there are real benefits in getting started.
- Most C-suite executives have difficulty connecting pricing to other relevant go-to-market transformational programs such as digital transformations, commercial excellence programs or marketing transformations. They fail to realize that pricing is much more than a pricing strategy and that it touches many critical aspects of their organization (Liozu, 2014). For example, launching the deployment of a configure-price-quote (CPQ) initiative as part of a sales excellence program necessitates a potential redesign of pricing strategies and tactics. Launching e-commerce capabilities as part of an omni-channel strategy requires the installation of a pricing engine with competitive price-scrubbing capability. Pricing is a critical part of the next wave of technology and business model redesign and can no longer be ignored.
- Our research indicates that, within the C-suite, there are political and power plays that often derail or neutralize pricing investment requests before they have a chance of being discussed. Most of this political maneuvering comes from business unit executives or commercial leaders who do not wish to take on challenging and risky projects. Some C-suite executives may have more power than others in the C-suite. We often hear the phrase “we are a commercially driven” organization or “finance runs the show in this company.” When sales, finance or manufacturing drive the agenda of the C-suite and have the ear of the CEO, they often shape the type of investments discussed during C-suite meetings. In these situations, the CEO may not want to go against the informal power holders and may not pursue a pricing initiative. They may postpone the investment to a later date without appearing to have to formally reject it.
- Finally, our inquiry reveals that most C-suite executives are realistic about what it takes to conduct large-scale pricing transformations. In fact, they can relate to previous experience about IT and sales transformations and the implications of transforming a sensitive and complex function such as pricing. Some executives shared their lack of confidence in their organization in being able to deploy and execute pricing initiatives. They felt they did not have the skills, capabilities and resources to get the job done despite the attractive payback and return on investment. They admit that they did not have the appetite and time to hire pricing experts, bring them up-to-speed and take the risk to “transplant” an external expert to an existing culture. Some of the leaders we interviewed clearly stated that without a strong and talented pricing executive in place (director or vice president level), they would never embark on pricing transformations.

Prioritize pricing initiatives in the C-Suite

Most companies have some type of pricing structure in place. If there is a price on an invoice, someone is setting that price. The first step for any CEO is to find out what is done

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in pricing and by whom. Conducting a company-wide pricing capability assessment (PCA) is the best way to start. Based on the results of this assessment and a pricing maturity gap, the CEO can evaluate where the company stands in the pricing maturity model and decide on a series of short-term, mid-term and long-term actions. We propose a portfolio of 15 pricing initiatives (Figure 1) that are available to the CEO and the C-suite to start or to accelerate their current pricing programs. These initiatives must be evaluated based on the time, investment and risk they present as well as the proper time frame, keeping in mind the context of the COVID-19 crisis. They have direct and indirect EBIT impacts.

This prioritization process is essential to be able to promote the right list of activities to the C-suite at the right time and using the right sequence. For example, going into a C-suite for a company with little pricing experience and asking for a large-scale pricing transformation investment may not be a good idea. There is a need to understand the level of pricing maturity in the C-suite and, based on that, to socialize pricing to various C-suite stakeholders to gauge the level of responsiveness. Of course, not everyone has access to the C-suite to do that. We highly recommend gaining support from a C-suite sponsor who can act as a relay to the C-suite but also as a sounding board.

There are many variables that can influence the types and order of activities presented to the C-suite:

- *The level of C-suite pricing maturity:* Our research shows a general lack of understanding about what pricing is and how the function has evolved over the past 10 years. In that situation, we propose pricing training for the C-suite (5) and demonstrating the power of pricing through pilot projects (4).
- *The market dynamics:* When competition is tough or cost are very volatile, it is essential to develop strong pricing analytical capabilities (2) and fully understand the value firms bring to customers to defend price premiums (6). When firms operate in very dynamic and volatile environments, agility, speed and automation are essential characteristics of their commercial back office. Customers will not wait weeks for quotes. Salespeople will want to have access to real time pricing information to make quick decisions. Price changes in the enterprise resource planning should be done in a matter of seconds and not days.
- *The current corporate strategic priorities:* If a firm is investing heavily in digital transformation, it may be a good time to invest in e-commercial pricing (8) or software monetization efforts (10). If the firm's IT agenda is to modernize infrastructure and business systems, the key areas of pricing investments should be on configure-price-quote (11) or pricing optimization software (12). Finally, if a firm needs to severely improve profitability, focusing on better managing the discounting process (3) and investing in spare part pricing (7) may improve short term profitability.
- *The industry landscape:* Some industries have already embraced pricing practices, including healthcare, pharmaceuticals, chemicals and cloud-based B2B software. In these industries, the adaption of value-based pricing and pricing software is high. Some firms may be behind the curve, though and need to accelerate their transformation. Making the case to the C-suite for an acceleration of pricing system roll-out (14) or for a corporate pricing transformation (15) may be easier.

- *The current organization design:* Some firms may have internal centers of excellence already in place. These generally focus on competitiveness, cost excellence, procurement excellence, Six Sigma or operational excellence, etc. It may be easier to add pricing as part of their mandates by investing in a toolbox of resources such as pricing analytics (2), pricing research (9), pricing training (5) or principal component analysis and gap mapping exercises (1).

Other critical variables can affect the types of activities presented to the C-suite. They are mostly focused on culture: appetite for change, risk aversion, cross-cultural collaboration, C-suite alignment, etc. The key for anyone preparing an investment request for the C-suite is to make sure they balance the type of activities they propose in terms of hard skills/soft skills but also focus heavily on change management: identify gaps, propose solutions in the form of a roadmap, and focus on developing tangible and intangible long-term capabilities over time. That takes experience and social intelligence for the people or team preparing the request.

Our focus for this paper is to give all CEOs and their C-suites a list of activities and actions they can take today to get started. The world has changed post-COVID 19 crisis and consultants all call this new period “the new/next normal.” And this new normal is focused on profitable growth, revenue source diversification, automation, digital transformation and speed. Our research shows that that this is very much top of mind in the C-suite. This new or next normal cannot happen with a strong pricing backbone. There is no excuse not to pay attention, to select the right activities to invest in and to capture more value from markets.

Make pricing part of the C-suite agenda and get started

So how does a CEO get started with this journey? What do they do first? How do they convince their C-suite members to join the program? Whom do they work with? This is not an easy proposition. We propose ten things that a CEO, a C-suite member or a top executive can do over the first 30 days to get started on the journey toward pricing excellence:

1. Identify the members of the pricing team and the person in charge. If there is a price on an invoice, someone has decided on the pricing tactic and has set the price level for that invoice. The first action is to find out who is involved in price-setting and price-getting activities. Request from HR an organizational chart of all professionals involved in pricing and meet with the various leaders. With some luck, one or two people will show up on the chart. If not, be ready to receive up to 15 people. Do not be surprised if this happens.
2. Hold a meeting with the person(s) in charge as soon as possible. Get to know the people involved and put pricing on the organizational radar. Task a person in the project management office with mapping out the various interactions and a first pricing process map. Chances are that if there are ten divisions, there are ten different process maps.

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“Innovations in pricing are critical to the design and execution of new business models.”

3. Request an internal corporate PCA (30 days). During that meeting, task the leaders or volunteers with conducting an internal audit of pricing activities in the form of a formal PCA, which are standard in the early stages of pricing transformations. They can be conducted within 30–45 days, depending on the depth and width of the organization. They cover the typical dimensions of the pricing discipline: strategy, operations, systems, data, skills and so forth. They can also integrate qualitative interviews and a review of pricing documents.
4. Set up training for the C-suite on the foundation pricing. This is an emergency action. Research shows that members of the C-suite hold varied perceptions of pricing. Invite a pricing expert to speak to executives about what best-in-class companies are doing and what is needed post COVID. Pick the right expert! First impressions are key.
5. Request an industry benchmark. Along with the PCA and the training session, task the internal strategy group with finding best practices from competitors about value and pricing management. This will help raise a sense of urgency and address the usual objections.
6. Establish a pricing council with executives. Bring the key leaders together to form a corporate pricing council. This will show that pricing is on the organization's radar and that top management is paying attention. Select divisional presidents to attend, along with their top sales, finance, marketing and pricing leaders. The outcome of the PCA and the initial plans will dictate whether this first meeting needs to be repeated once or twice a year or whether the pricing council should be held across each division.
7. Request a two-year roadmap for pricing improvement. Based on the results of the assessment, the team should propose a two-year, all-inclusive roadmap focused on short-term and mid-term pricing improvements with the associated impact on EBIT. This roadmap needs to include technical, social and organization components to insure adoption, integration and assimilation of pricing.
8. Attend a pricing society conference to hear from the best and discover the richness of the discipline. Prioritize pricing on the agenda. This is critical for the adoption of pricing in the organization. Visit www.pricingsociety to find the next pricing conference.
9. Block out time to attend a pricing council once per quarter. Similarly, attend one division pricing council or committee per quarter, in the form of a rotation. This way, executives will stay connected to the pricing teams and show the C-suite and top management that pricing is critical in the new normal. Pricing can be added to C-suite management meetings twice a year to keep everyone informed about the programs and to track progress.
10. Set quarterly meeting with the top pricing executives. Many CEOs meet with their VP or director of pricing one-on-one to gauge the progress of the program and to get a neutral and unbiased view of its integration and assimilation. The CEO plays a key role in beating the drums and removing organizational bottlenecks.

These are easy ways to launch the discussion, get the outside in and fully understand where the organization is starting from. We know times are tough, cash is scarce and CEOs are busy. Getting started does not require much cash – less than \$50,000. For this amount,

the firm is on the road to better pricing and signaling to the organization that pricing matters as part of the COVID recovery process. The new normal will be more digital, will require more e-commerce, will need more segmentation and personalization, will create new business and revenue models and must focus on profitable growth. For that, CEOs need strategic pricing capabilities.

Concluding thoughts

Pricing in the new normal is a source of competitive advantage. Our research shows that pricing power has a powerful impact on profit performance (Liozu, 2018). But pricing power does not happen without a commitment from the top. Nor does it happen without the proper tools and systems in place. It begins with the CEO making profitable growth a top priority. The C-suite must be educated in the foundational principles of pricing to fully understand that pricing has evolved tremendously over the past 20 years. New pricing technologies are affordable, cloud-based, flexible and able to be quickly deployed. Value-based pricing is increasingly adopted in organizations that have put customer value at the heart of their business models. Innovations in pricing are critical to the design and execution of new business models (SaaS, PaaS, services and digital). For some CEOs, this is common knowledge, especially for those obsessed with pricing and profit realization. For others, these are new concepts that need to be processed, internalized and act upon. The COVID-19 crisis has increased a sense of urgency for the adoption of pricing as a critical level of profitable growth. The pricing profession is ready to support any CEO who is willing to begin the journey. Be bold, join the pricing revolution today!

Keywords:
Pricing strategy, CEO,
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Appendix. 2019 operating income of pricing champions

The companies below are often mentioned as champions of pricing power with professional pricing teams and processes. While we cannot attribute this success purely to pricing, we can highlight the pattern of superior performance.

<i>Pricing champions</i>	<i>2019 operating income</i>
Microsoft	34%
Apple	30%
Lego	28%
Cisco	28%
Colgate	27%
Bayer	22%
Johnson & Johnson	21%
3M	20%
Medtronic	20%
Honeywell	19%
Starbucks Coffee	19%
Parker	17%
Disney	16%
PepsiCo	16%
Schneider Electric	15%

Source: 2019 Annual Reports

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