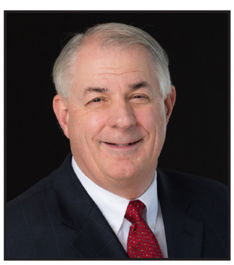
impact speaking dynamics

The Changing Dynamics of Pricing



Art Waskey

Art Waskey is a speaker who truly delivers. In addition to a 45 year career in sales and marketing, Art is the author of multiple books on selling and a monthly column The Art of Sales. He shares these insights as an in demand event and conference speaker as well as leadership coach.

Technology has changed the dynamics of pricing strategy. With digitalization, information is now readily available to measure customer performance. Analyzing price increases is now a data-driven process.

Calculating outcomes

Consider these elements when calculating pricing outcomes.

Customer segmentation – Make sure your customer segmentation is based on data, not personal emotions. **Considerations for segmentation should focus on revenue and gross margin.** Pricing shouldn't be influenced by the emotions of an outside sales rep (OSR), inside sales rep (ISR), store manager, customer service rep (CSR), and/or counter sales personnel. The top revenue generator for one OSR's territory may not be one of the company's top 20 customers. Consider grouping your customers into four pricing categories — A through D — with A being your top performers with the best pricing. Check to make sure your customers are in the correct pricing category based on revenue and gross margin.

Cost of service — Sales revenue and gross profit percentage are not the only considerations. **You also need to look at cost of service.** Review how promptly the customer pays their bill. Is the customer that is past due 60 days priced accordingly? How many returns are you processing for the customer each year? Does a specific customer require ongoing training, technical service, or an inordinate amount of other types of interaction? These are all costs to your bottom line. They should be quantified and considered in price adjustments.

Customer type and geographic location — Customer type and location effect pricing. From my 50 years in the welding and industrial gas distribution segment, I found that HVAC (heating,

ventilation, and air condition) products had a significantly lower competitive pricing structure then some of the same products for metal fabrication customers. While the restaurant service sector afforded the highest pricing for our products.

Look for these and other types of considerations in your pricing structure. For example, the greater the distance from a major market, the greater the distribution cost. Pricing should correspond to this. Customers with multiple locations in different markets also need special pricing consideration. Use digital analytics in your pricing evaluation process.

Consistency — Another factor to consider is where the customer places their orders. **Is your pricing consistent across platforms?** Do your customers get different pricing from the OSRs, ISRs, eCommerce orders, and/or CSRs? Do your salespeople know how the pricing works?

As senior vice president of sales, I would field calls from OSRs who would complain that when their customer went to our store to pick up a product, they were not always charged the OSR's quoted price. This was also true for products substituted for those quoted. If your pricing is inconsistent, less scrupulous customers can play one employee against the other, costing you money.

Pricing overrides – Human nature also comes into play in pricing consistency. Whether retail or wholesale, we tend to migrate to the contact we think will give us the best price. When the client states they are a large user, how often do your reps (OSR or CSR) override pricing guidelines and offer the customer an inappropriate discount?

Customer contracts – Are your customers using their contract pricing effectively? Is the pricing in a viable metric? Given the complexity of today's marketplace, OSRs are no longer in a position to set good customer-specific pricing (CSP).

It is no longer realistic to "set-it and forget it." The "discounting from list" strategy isn't reactive in today's dynamic digital marketplace. **Hard loaded fixed pricing policies should no longer be used.** Given the environment of the last couple years, fixed pricing can rapidly lead to instant margin erosion.

If 60% of your revenue is set by CSP, in order to ensure the correct margin, you must be constantly analyzing where your sales dollars are coming from. Know your renewal dates. Analyze where the product volume is flowing. Evaluate the price points, especially on the most expensive products, and manage your customer contracts.

Pricing strategy

Remember, technology has changed the dynamics of pricing strategy. When calculating price outcomes use digital tools to be able to consider the many factors —like customer segmentation and cost of service and location— that impact your bottom line.

5 KEY TAKEAWAYS

1. **The dynamics of pricing have changed. It is now a data-driven process.**
2. **Considerations for segmentation should focus on revenue and gross margin.**
3. **Look at cost of service to customers when setting prices.**
4. **Make sure your pricing is consistent across platforms.**
5. **When calculating price outcomes use digital tools to be able to consider multiple factors.**