The PRICING ADVISOR
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10 Steps to Creating End-to-End Pricing

In this article, the author explores the true meaning behind "end-to-end" pricing: what the term actually means, what tactics and strategies it includes, and what steps are necessary to establish a true "end-to-end" pricing process within your own organization. This ten-step program also helps pricers communicate to non-pricers the importance and effectiveness of "end-to-end" pricing techniques, and the value that pricers create through pricing strategy development. Paul Charlton is the owner of The Pricing Factory®, a pricing consultancy, and he can be reached at paul.charlton@thepricingfactory.com

The purpose of this article is to help pricing professionals explain to non-pricing executives and managers not only what "end-to-end pricing" is in a simplified, integrated 10-step program, but also articulate and visualize what pricing professionals create.

For the purpose of this exercise, I am defining the objectives of end-to-end pricing as to:

- create competitive list prices and discount policies and guidelines which:
- allow sales to be more efficient and focus on selling the value of the product ...
- … rather being margin managers or, even worse, sellers of deals for internal approval,
- consistently apply your pricing strategy and price list positioning strategy,
- align with your marketing, sales comp and financial plans;
- All of which can be refreshed with a sustainable, efficient and repeatable process.

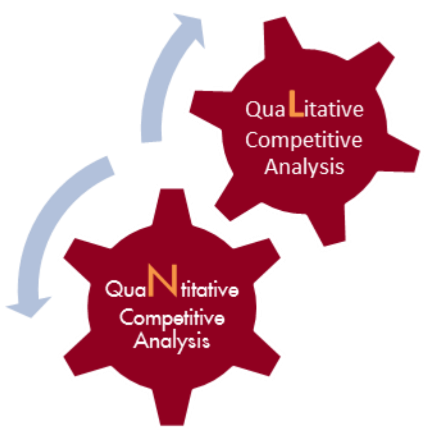
This is applicable to pretty much all B-2-B from those with one product to those with hundreds of thousands; small to large; regional to global; new to old; and particularly high tech.

If you like it's like building a factory - a pricing factory - for prices & pricing processes, discounting policies and sales tools.

Step 1 - Competitive Analysis

I think this is the piece that everyone knows that pricing folks do - that is in between putting price tags on PCs in Best Buy as the parent of one of my daughter's friends thought - but there are lots of opportunities for pratfalls. And I've seen some pratfalls in my time ….

The analysis needs to make sense and be easily understandable.



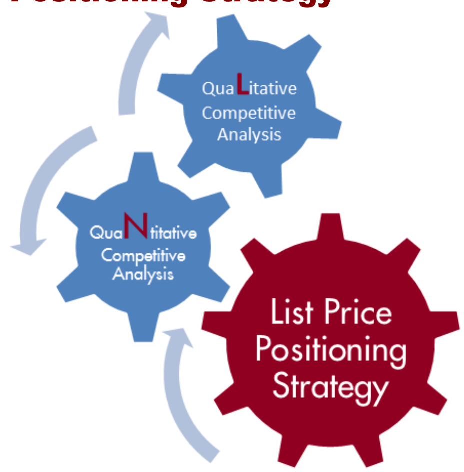
If it doesn't instinctively make sense to your sales people, then there's probably something wrong with it ... and you'll never be able to transform the analysis into a sales tool for communicating value to your customers.

The methodology and format needs to be consistent and repeatable … and timely.

If I didn't need to mention any of this, obviously I wouldn't.

Ah, and the link between qualitative and quantitative analysis is the valuation/$-ization of those previously qualitative, subjective valuations …. everyone's favorite topic. But for a lot of businesses, those valuations are the reason - not *a* reason, *the* reason - why the business exists, or is able to command a premium. So you gotta learn to love them … even if you don't like them.

Step 2 - List Price Positioning Strategy



Once you've worked out where you are competitively, it then becomes much easier to work out where you would like to be through probably applying nothing more than common sense - deductive reasoning - which is generally a lot cheaper, quicker and more useful than any market research that could be conducted.

Good GMs, Sales VPs/Directors and Product Managers/VPs typically know where they need to be positioned: they just need a bit of help articulating it.

Also be aware that an LPPS is reactive metric ("you know, they move and then we follow them") so it's very easy to stumble from being a price-leader into being a price-follower without realizing

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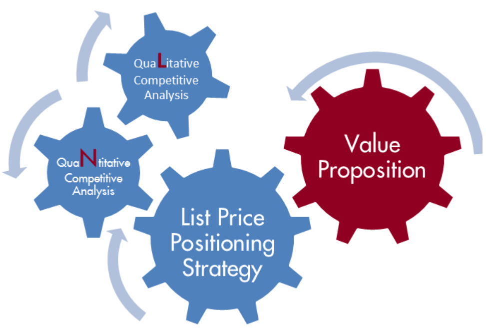
it. So to avoid this, you will also need some proactive metrics in your Pricing Strategy.

The LPPS should be in a presentable format and include a brief written rationale for every element in the strategy so the purpose of the price positioning can be easily explained to management for their approval, and to Sales for development into sales tools to communicate value to customers.

Step 3 – Value Proposition

The List Price Positioning Strategy needs to be consistent with and informed by the Value Proposition at multiple business and product levels.



The Value Prop needs to be appropriate for target market/segmentation, and implicitly captures how the business expects to create value for its customers.

There is an implication here that the Value Proposition needs to be meaningful – again, if I didn't need to say this, I wouldn't.

At a product level, insisting that the value proposition is:

- quantitative usually helps focus a product manager's mind, or if it is
- qualitative include superlatives or comparatives which are independently verifiable

OK, so this section doesn't have very many words in it. But there again, neither should your Value Prop. Succinctness and relevance are the keys to a successful Value Prop. The best one I came across was citable by the CEO. Another was developed by the CIO, not product management.

Step 4 – List Price Plan

Now list price changes can be planned. This is where the pricer starts to apply the paint to the canvas … chips away at that stone block …. puts quill to paper.

The overall approach to & rationale for the list price changes should be documented, not only so you can remember why you did what you did, but also so Sales don't have to work out what you intended for themselves.

Step 5 – Deal Analysis

Deal Analysis will start to give insight where there is over-discounting and under-discounting, how consistent or - more likely - inconsistent the discounting is. This is where most of the opportunities are.

This will also inform the List Price Positioning Strategy, List Price Plan and ….

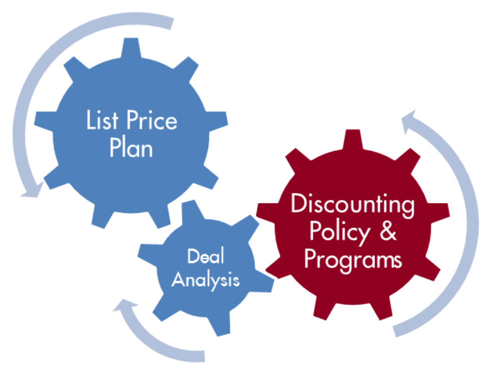
Step 6 – Discounting Policy and Programs

The conclusions from the Deal Analysis should be taken forward to create/update the Discounting Policy & Programs.

In most organizations this involves establishing a rational, policy-based approach to discounting which allows Sales to focus on "selling the value".

Typically this will be a move away from a "You Gotta Haggle" strategy.

Additional discretionary discounting programs should be designed so that they are only given in exchange for something which helps your business achieve its goals.



Contractual discounts for channel partners should be designed to reflect the tasks that the partner is contracted to perform in reselling your product.

The policy should include bid escalation criteria, process & SLA.

The Discounting Policy & Programs should be aligned with the List Price Positioning Strategy & List Price Plan.

Step 7 - Sales Comp

Sales Compensation should be designed in order to support the execution of the Discounting Policy & Programs and the attainment of the business plan.

Importantly this should not be left to Sales – or even worse, the GM or CEO - to design unilaterally. Sales Comp needs to be consistent with all the other

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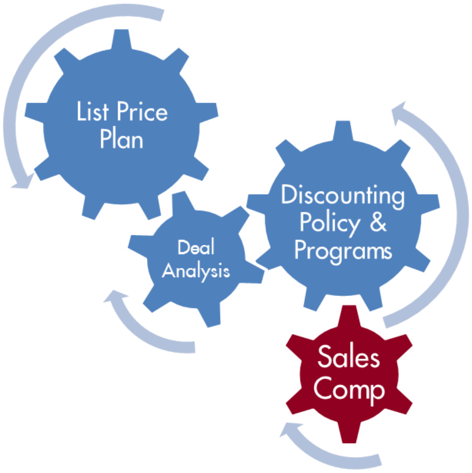
elements of End-to-End Pricing.

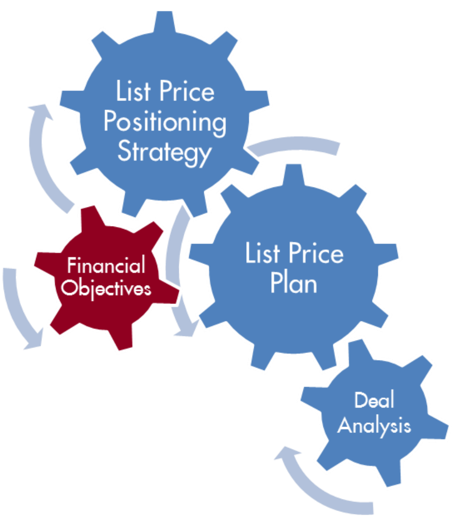


Step 8 - Financial Objectives

Financial Objectives – such as Revenue Growth, GM% expansion, Opex, PBT, ROIC v time - need to be reconciled with the List Price Positioning Strategy

This is an interactive process with Finance, but the outcome should not be dictated by Finance.

Finance unilaterally & arbitrarily setting unrealistic financial goals in their annual target setting process is typically the second biggest cause of "pricing issues" that I come across.

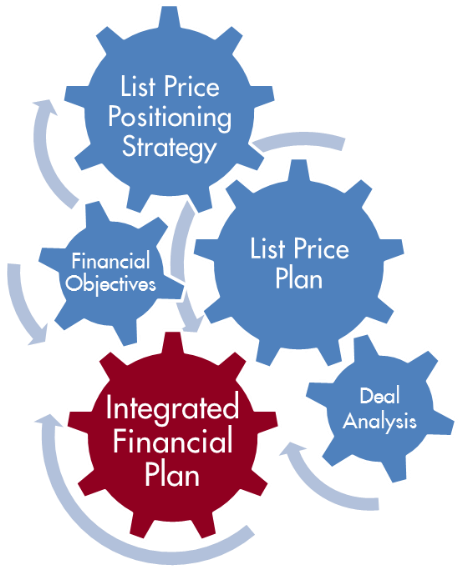


Step 9 – Integrated Financial Plan

Planned list prices and discounting should be rolled into a product-based financial plan along with new products introductions & discontinuations, product cost plan and demand plan.

Compare the outcome with your financial objectives. Then re-iterate ….

Make sure that your pricing plan is baked into Finance's "official" financial plan or at least consistent with it.



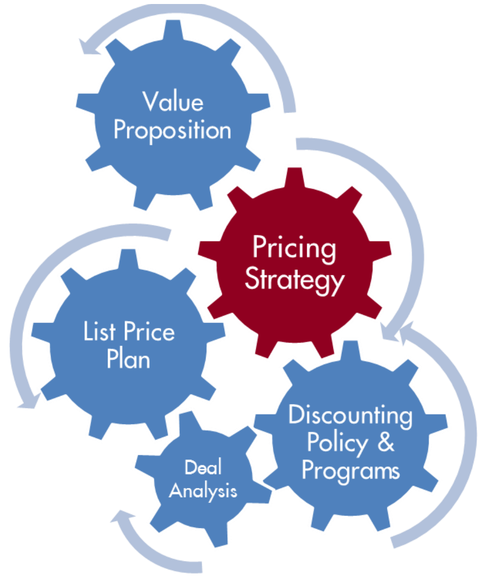
Make this a joint exercise with Finance who typically will be willing to get involved because working on pricing is always more interesting than anything else they could be doing. Believe me. I've been in Finance.

Step 10 - Pricing Strategy

The documented Pricing Strategy can then be used to tie all the key elements together.

It should define the process for updating and changing all the elements of the end-to-end pricing process, including:

- Roles and responsibilities
- Values and guiding principles
- High level objectives of list pricing & and discounting
- Complete set of pricing metrics (not just LPPS)
- Documented approach designing the discounting policy, programs and handling escalations
- A description of how list pricing & discounting fits into selling process
- How value is delivered to, consumed and sensed by customers …..
- Etc



So this is end-to-end pricing

Like the sculptor or bridge designer, the pricer should have an idea (thesis) what the final outcome should look like before he/she starts.

And that view will constantly evolve as more knowledge is obtained going through the ten steps …. the design assumptions are modified, the analysis re-computed, the outcomes compared to objectives, deltas analyzed, design assumptions modified etc ….. to get closer and closer to the optimal solution. A typical design process.

Anyhow, for your enjoyment, a simplified representation of End-to-End Pricing.