

Do List Prices Matter?

“Do List Prices Matter?” How many times have you heard that? It is a rhetorical question which is making an oblique statement: “I don’t think list prices matter.” This is a problem which pricing people need to be able to address. This article aims to create a drawer statement for you to help educate your organization, and be a reference for Executives and Sales. Also, it will provide insight into some of the reasons why people ask this rhetorical question in the first place and help elevate the level of discussion about your business. Paul Charlton is the owner of The Pricing Factory®, a pricing consultancy, and he can be reached at paul.charlton@thepricingfactory.com.

Part 1: “Do list prices matter? After all, no-one pays list.”

No-one pays list. That’s mostly true – particularly in B-2-B and tech which is my background – but it doesn’t mean to say that list prices are not important. From the vendor’s perspective, it would probably be uneconomic to manage each and every net price for every customer and/or channel partner.

Whereas it is economic to manage list price & discount, particularly when the discounts are policy driven and not the outcome of a “you gotta haggle” discounting approach.

And from a customer perspective, they don’t think just in terms of net price. They’re smart enough to scrutinize in excruciating detail list price - discount % = net, and understand the trajectory of all three of those parameters over time: part number by part number, product category by product category, vendor by vendor. Why? Because your sales behavior has forced and incented them to.

So, if your Executives or Sales team thinks that list prices don't matter because “No-one pays list”, your Sales team is most likely being out-thought by your customers' purchasing departments.

Part 2: “All I need is a competitive net price to the customer.”

When Sales suggest this, they’re wanting to not only maximize their flexibility but also avoid scrutiny of their sales performance. Sales will throw in the word “competitive” as a pre-emptive strike/threat to the product group: don’t complain about my discounting, and I will not complain that your products aren’t cost competitive. You stay on your side of the fence, and I’ll stay on mine.

Nevertheless, both list prices and discounts are needed to ensure that:

- the value proposition aligns with pricing,
- products are price-positioned correctly versus the competition, and
- there is a way to articulate the customer-specific pricing through the policy-based discounts.

This then allows us to analyze the effectiveness of all of those elements so that we can then work out how to

optimize [End-to-End Pricing](#) to improve business outcomes.

But rather fundamentally, there must be a list price to measure and analyze discounts against through the lens of discounting policy compliance, effectiveness, consistency and predictability.

Part 3: “We don’t care about the list price.”

Think about it from a gaming perspective. You may not care about list prices, but what if one of your major competitors does and they somehow make list prices work for them?

So, this notion fits into the painful category of sometimes it doesn’t matter what you think: if your competitor believes in something and can make it count with your customers, then it does matter, and what you think about it, unfortunately does not.

Part 4: “Are you a Yugo, Corolla or a Rolls-Royce solution?”

Customers need ball-park pricing in the early stages of the buying cycle to evaluate the viability of investigating a solution. There was a nice thread on Spiceworks - where the users in this IT community call themselves SpiceHeads - which highlighted this really well:

A: “It was an interesting concept but they refused to tell a room of over 30 SpiceHeads even a basic MSRP when directly asked. I hate that.”

B: “... They taught us well and answered questions well. Except for the point on price. But for me, that is a walk away issue. ... If you make me sign up for spam and marketing email/calls just to get a basic, rough MSRP, then you will not get me as a customer. **Ever.**”

C: "When you're shopping for a mid-range new car do you go test drive a Rolls Royce or a Lamborghini? All we're asking for is a general indication of what price category we're looking at. Are you a Yugo, a Corolla or a Rolls-Royce solution?"

These potential customers clearly wanted list prices. Having failed to provide list prices, even just saying that it was a Tesla Roadster - as one of the SpiceHeads suggested - would have helped!

Part 5: "Customers don't care about the list price."

Well they would say that, wouldn't they? After all they are negotiating. And Sales would say that because they're negotiating with you to get an exception to the discounting policy approved. Just because someone says something, doesn't mean they believe it, or that it's true.

Part 6: "Can you prove the list price elasticity of demand?"

Maybe I can, maybe I can't. But the job of Sales is to make demand elastic. Products don't sell themselves. If they did, then we wouldn't need Sales, would we?

Most products are list price elastic. Some products are particularly sensitive to key list price points. That is, your list price-demand function may well be stepped.

It is equally important to understand which of your products exhibit little or no elasticity. No point dropping list on those, if anything, quite the opposite.

Now, I am not saying that businesses are inelastic to the net price, but it is easier to manage pricing by:

a) making the list price do some of the work: are you in the right ball-park? have you something new to tell the



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customer? can you articulate your value to the customer? and

b) letting the discount do the remainder.

If you leave it all up to discounting, you'll invariably end up with a problem controlling discounts and customer (dis)satisfaction due to inconsistent and unpredictable discounting.

And if you haven't found those key list price points, then you better start looking before your competitors find them.

Part 7: "I don't care what the list price is. I'll make up for it with my discounting."

Let's work backwards from the objective that businesses in my view should be striving to attain: consistent & predictable outcomes. Pricing - with a capital P - needs to help businesses become more

consistent & predictable. Let's face it, no-one wants to have inconsistent & unpredictable business outcomes, least of all your board and investors.

A pre-requisite and immediate predecessor for consistent & predictable outcomes is consistent & predictable discounting. And working back from that, the only way to get consistent & predictable discounting is to have consistent and predictable list prices.

List prices do matter if you want efficient and effective pricing which is designed to produce consistent and predictable outcomes. As I said in Part 6, you cannot achieve this through discounting alone.

Part 8: If you want a broad lever for your business, then

yes, list prices do matter ...

List prices are the only quick and simple across-the-board price lever, and so, they become one of the only quick and simple across-the-board business levers. By the way, if an across-the board list price move isn't quick and simple in your business, that's something you need to fix asap.

Here are a few applications:

- mitigating industry-wide, adverse cost moves, and X-rate movements;
- controlling inter-regional price deltas;
- managing your channel pricing framework;
- managing product life cycles;
- measuring and managing overall competitiveness;

- signaling your intentions to customers, channel partners, Sales, competitors, industry analysts.

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Part 9. List prices are the most timely, efficient and effective “forcing function” to improve sales performance.

List prices can be used as a forcing function to make sales use their discounting dollars more efficiently and effectively. As the list price is lowered, it forces sales to:

- sell more and make sure that demand is elastic,
- get customers to trade up and
- discount less, or at least more consistently,
- all at the same time, otherwise they will not make their numbers.

This is very much the big stick approach, but in companies which do not have end-to-end pricing, this is often the only recourse that product groups which have control over the list prices/list price strategy, but not over the discounting, will have.

Part 10: The real question is, why do Execs/Sales ask “Do List Prices Matter?” in the first place?

As is often the case with pricing, the answer to the question is often of secondary importance as to why the question was being asked in the first place. The question is a red flag which should be

a trigger for you to listen extra carefully to find out what the cause of the problem is. They are probably obliquely flagging one or more the following:

- They know that a list price reduction will reduce their discounting flexibility;
- They don't know how to sell price increases;
- Their sales target may have been set too high, or their revenue and margin targets may be out-of-balance;
- They are thinking only about this quarter, and not even beginning to think about trying to set themselves up for success in the following quarter;
- They would like you to leave them alone mainly because they intend to dig themselves out of hole they are in by themselves through discounting alone.
- They are negotiating with you.

But while list prices are often not the problem, they are definitely part of the solution. The broader solution requires [End-to-End Pricing](#), where pricing can be the lead function to bring sales, marketing and finance together to create co-operative, frictionless and less stressful selling. And fewer rhetorical questions from Executives and Sales!