



A Simple Three Tiered Structure for Price Management

The keys to driving profits and cash flow lie in addressing pricing at each of three levels: the industry level, the market level and the transaction level. The industry level is defined by the factors that affect all firms in the industry and they include supply, demand, capacity, competitive positioning and pricing leadership. Attention to these industry factors can reveal pricing revenue opportunities.

For example, annual price increases by an industry price leader creates opportunities for price followers to make upward price adjustments. In fact, good industry participants will closely follow price leaders to maintain overall industry profitability. Companies that try to capitalize on industry price increases by lowering prices to capture market share contribute to degradation of overall industry profitability and in the end can damage their own viability. To be managed effectively, this level of strategy needs to be established at the strategic management level of the organization.

Unlike industry pricing, managing price at the market level requires understanding the value that your customers place on your product or service offering and the value they place on your competitors offering(s). This requires going to the spot and making direct contact with customers to measure value perceptions and produce a customer value proposition for your product or service. Once developed, the value proposition provides a sort of average perception within the market of what your product or service is perceived to be worth. Market pricing is typically executed and managed in concert with the marketing function of an organization.

The final pricing level is the transaction level. This level is the most granular and is focused on getting prices right on a transaction by transaction basis. Not all buyers within a market are willing or able to pay the same price for a similar product or service, particularly when negotiation is part of the buying process. Managing price at the transaction level ensures that differences between individual buyer's perceptions and means are taken into account. Managing this level well requires accessing pricing and customer data for each transaction. This is often challenges companies' information systems capabilities, but pays big rewards. At this level, discounting, promotions and other pricing give-backs are identified and controlled to minimize pricing revenue leaks that can destroy profit margins. Due to its proximity to the deal parameters and negotiation, transaction level pricing tactics must be coordinated closely with the sales team in the organization.

Each of the pricing levels can deliver price and profit improvement individually or they can be managed collectively to greater effect. Each company's situation is unique and therefore each company will experience unique combinations of opportunities depending on the industry environment, the markets they serve and the customers they approach. Watch for other articles in this series that will address each of the levels in more detail

as well as information technology, process and talent levers that can be used at each level.