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**Strategic Pricing Management: The new profit driver of choice.**  
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A change is taking place. In the last 3-4 years the interest in pricing management among industry leading firms has skyrocketed. Companies like Eaton Corporation, Parker Hannifan and Cardinal Health have each established new pricing management departments that focus exclusively on price. The Professional Pricing Society, a trade group for pricing experts, has seen its membership grow four-fold in the last few years. New books on pricing management are being published at an unprecedented rate.

So, what is causing the recent interest in pricing?

We are hearing a common theme among managers around the country. In recent years, many improved the financial performance of their companies by increasing sales volume or cutting costs. However, some of our clients are finding that growing sales volume has become more challenging in today's economy. Further, for many U.S. Corporations, the most lucrative cost reduction programs have been realized, and the opportunity for further savings through cost reduction is diminishing. Cost-cutting can only go so far before product quality and service suffers. Managers are searching for the next profit lever to maintain income growth and aid cash flow. Many see pricing management as the next profit driver just as cost reduction programs fueled margins over the last two decades.

And it's easy to understand why.

Pricing management is a powerful driver for improving financial performance. Even the smallest changes in price can have a dramatic effect on profit. Consider that the average S&P 1000 firm will realize a 12.5% jump in net profit with each 1% price increase. And, of course, the equation works in the opposite direction as well...a 1% price discount cuts profits by 12.5%. The smallest adjustments in price can transform the bottom line for many companies and in some cases mean the difference between profit and loss.

We recently began an assignment with a \$1.5 billion Fortune 1000 company. A 1% price improvement for this firm would boost income by 13.45%. Better yet, the gain would increase the market value of their stock by \$275 million. It's easy to see why companies are taking a hard look at pricing management initiatives.

The financial gains in pricing are not limited to the large firms. We see small, privately held firms making considerable headway as well. Consider the under \$50 million rubber company that improved pricing by over 2% and increased income by 21%. Realizing significant profit gains does not require huge improvements in price. In fact, no other profit driver has the leverage effect that pricing has on the bottom line. Selective, small improvements that may be barely detectible by the marketplace can make a noticeable improvement in financial performance.

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