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## Improving Price Performance in Your Industry

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Businesses can experience explosive profitability as a result of industry turbulence. Changes affecting all participants within an industry can result in broad price improvement opportunities. A previous newsletter outlined a simple structure for managing prices at three levels; the industry level, the market level and the transaction level. The industry level concerns itself with factors that affect all of the players in a particular industry.

Nearly every industry experiences change that affect prices among competitors. These changes include supply, demand, capacity, competitive positioning and pricing leadership factors. How an industry participant responds to these factors determines its competitive position within a marketplace and the overall profitability of the firm.

We have all seen how some aggressive competitors opportunistically use price as a weapon to capture market share. A price **leader** increases prices to offset cost increases and others follow while the **opportunistic** firm reduces prices to boost short term sales volume at the expense of the industry. Companies that try to capitalize on industry price increases by lowering prices to capture market share contribute to the degradation of overall industry profitability.

Changes in supply, demand, industry capacity and pricing leadership can all trigger industry wide price changes as participants make adjustments to remain competitive and maintain profit margins. The key to managing prices at this level is predicting industry wide price levels and influencing them in a positive manner.

To start, identify actual competitor's net prices by market segment. This may be difficult for many industries where actual prices are hidden by long term contracts or negotiated pricing. Begin tracking every price move by competitor on a timeline showing when the change was made, the amount and what industry factors caused the change, *i.e.*, change in supply or capacity. Over time you will be able to profile the pricing behavior of industry participants and be able to predict pricing moves relative to industry factors in the future.

Understanding how competitors respond to price changes helps to alleviate fears of making positive price movements. Even so, some competitors will continue to use price as an opportunistic weapon regardless of the industry pricing culture. Your strategy is to build a value proposition based on benefits that will exceed those of the low price competitor.

Pay close attention to industry price leadership. If your industry has a competitor that tends to lead price changes you will want to monitor their prices closely. Then, consider

responding with an increase that matches the initial price differential to maintain the competitive difference.

Future articles will address pricing management and opportunities at the market and transaction levels