

CROSSING THE PRICING CHASM

PRICING MATURITY PLAYBOOK

**A CONCRETE ROADMAP TO INCREASE PROFITS
BY DEVELOPING
ORGANIZATIONAL PRICING MATURITY**

POL VANAERDE

President EPP



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based on the EPP Pricing Maturity Model

Crossing the Pricing Chasm
PRICING MATURITY PLAYBOOK
A concrete roadmap to increase profits by developing organizational pricing maturity

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A CONCRETE ROADMAP TO INCREASE PROFITS
BY DEVELOPING
ORGANIZATIONAL PRICING MATURITY

Author

POL VANAERDE
President EPP

**EPP is the leading global association for pricing,
revenue growth management and monetization profession.**

EPP is a not-for-profit organization, focused on advancing
the pricing, revenue management and monetization profession.

The EPP mission is to support our members
to dramatically improve top line revenues and profitability
through personal and organizational pricing maturity development.

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PRAISE FOR "CROSSING THE PRICING CHASM"

"I found CPM programme based on the EPP Book 'Crossing the Pricing Chasm: Pricing Maturity Playbook' as a valuable structured source on different concepts, methods and tools to get transactional control and move to the strategic part in pricing.
Highly useful to share approaches from different industries and experienced trainers who tackle industry specific topics in a pragmatic manner."

*Daniel Florea, Pricing Manager, BOREALIS
CPM 2 and CPM 3 Alumni*

"The CPM Programme based on the EPP Book 'Crossing the Pricing Chasm: Pricing Maturity Playbook' provides great insights and best practices for pricing through a group of knowledgeable speakers."

*Panagiotis Giannakopoulos, Sr. Financial Analyst – Strategic Corporate Accounts, IDEXX Europe
CPM 2 Alumni*

"EPP facilitated a really good CPM training based on the EPP Book 'Crossing the Pricing Chasm: Pricing Maturity Playbook' with innovative insights into the complex world of pricing with a focus on effort prioritization and profit maximization.
Think about strategic pricing key to be successful in any business."

*Thomas Tang, Senior Pricing Manager, PHILIPS HEALTHCARE
CPM 2 Alumni*

"Before joining the Certified Pricing Manager Program my organisation didn't have a defined view on its pricing maturity.
The challenge was a newly defined strategy that was expecting considerable pricing Improvement between 2014 and 2018.
The Pricing improvement project I worked on, was particularly challenging because a mindset change required to shift to a much more data driven decision making process than before.
We worked together with Marketing and Sales to build an analysis tool that allowed us to identify improvement potential in terms.
The impact of the project was ~300K€ (2.4% on sales!) and it served as a pilot for the definition of a pan-divisional Pricing Excellence Programme.
I now feel stronger than before with a structured approach and clear KPI's to measure the performance of my pricing programmes."

*Federico Boccardo, Transformation and Commercial Excellence Lead South Europe at ALIAXIS
CPM 2 and CPM 3 Alumni*

"Thanks to the EPP programs (CPM2 and CPM3) based on the EPP Book 'Crossing the Pricing Chasm: Pricing Maturity Playbook', at LFB we succeed to reach 3 main objectives :

- Understand the impact of pricing during the all product life. By spreading this knowledge internally, we succeed to change minds and be ready for change management. Pricing is now one of the main discussion before taking strategy decision
- Building up a pricing governance, pricing strategies for core products.
- Avoid pricing and margin leakage by setting up a global commercial policy.
- All these changes took time but with some quick wins we have succeeded to have the support of the management to move forward and gain globally in pricing maturity."

*Mounib Jaballah, Pricing Manager - Global Market Access, LFB
CPM 2 and CPM 3 Alumni*

FOREWORD

This e-book explains a proven roadmap to advance your organisational pricing maturity. It is built on the lessons that EPP has learned through supporting more than 100 certification projects of pricing and monetization managers across industries – and many discussions with pricing software vendors, leading pricing consultants and pricing leaders all over the world.

We have found recurring patterns in success and failures in implementing pricing maturity development. One of the main insights is that “doing the right things right, at the right moment” is crucial.

Many people contributed shaping this book. I have personally spent many hours discussing with pricing peers at EPP Pricing Forums and during the many open and in-company pricing trainings and projects I conducted in the last 15 years. These discussions made significant contributions to this book.

A big thanks to Ian Tidswell for reviewing and giving insightful feedback that made this book so actionable.

Finally, of course, also the Certified Pricing Managers alumni played an important role in shaping the approach and providing invaluable feedback.

The experiences have been brought together at EPP into a deep body of knowledge that points to a clear roadmap for sustainably improving pricing performance and profitability. This book presents a proven, successful, path towards pricing excellence and profit growth.

Many pricing managers have taken benefit from using the principles and roadmap outlined in this book.

We therefore dedicate this book to all pricing professionals, responsible for taking their organization to a higher pricing performance, leading the change towards pricing excellence.

Pol Vanaerde
Founder EPP



www.pricingplatform.com

INTRODUCTION

It is no surprise that 'pricing' is increasingly being discussed in the boardroom, where monetization is high on the agenda. Pricing is one of the main shareholder value drivers, as top management increasingly recognizes. And there is more; we also receive regular questions from due diligence teams who have increased attention today on unexplored pricing (and profit realisation) potential during mergers or acquisitions. And there are many reasons.

Digitalisation is driving pricing to an even higher priority setting. Leading digital enterprises to embrace advanced pricing technology. More 'traditional' organisations (e.g. many retailers and B2B organisations) need to match the speed and agility of organizations that are born digital. However, we see large, incumbent businesses with legacy systems struggling to move at the same rate as those "born" digitals. The change into digital enterprises is on, and priority setting where to invest is key. And we experience that many organizations are focusing their digital investments on sales and marketing – and many of them find out that the value of digitalization is very much in pricing.

Over the last few years, we've also seen an explosion of technologies enabling managers to turn huge amounts of data to insights supporting fact-based price-decision making.

Increased 'intelligence', delivered by machine learning supported software, enhances e.g. an improved price guidance in B2B quoting, micro-segmentation enabling personalised marketing and price basket optimisation. The same intelligence, enhanced by online price watch engines, also enables more and more industries to implement dynamic pricing. Dynamic price changes become more and more 'the new normal' at e.g. fuel stations, car rental, parking and of course e-commerce channels and b2b market places. Consumers get more and more used to it – and although the acceptance is not that fast, it keeps growing¹

Organisations who fall behind in their pricing capabilities are increasingly struggling to compete against more advanced digital enterprises.

Therefore, many successful companies are looking for a fast and effective implementation of best-in-class pricing processes, tools and systems to improve profits. But at the same time, we observe that when implementing the pricing improvement initiatives, many of them struggle to prioritize well. Many organisations are searching for a structured approach to quickly guide their organizations towards higher pricing maturity.

That's why, during the last 10 years, so many organisations contacted EPP and asked: where do we need to start, what are the priorities - and from whom should we learn: McDonald's? Bose? Uber? Audi? Microsoft? Michelin? Hilti? - or maybe Taylor Swift?² How can we design a concrete and successful pricing maturity roadmap and where to get started?

The recurring question: 'Is there a proven, successful path towards peak performance in pricing?'
The answer is YES! There is indeed a proven pricing maturity development path - and the roadmap is described in this playbook.

¹ Although there still seems to be quite some 'resistance'... even with a small group's enthusiasm, a majority of younger millennials still don't care for the practice – 61% don't like it, and almost half of those actually hate it. Older generations are even more against the practice, with 80% of Boomers showing no enthusiasm for it.

Source: <https://www.forbes.com/sites/nikkibaird/2017/04/18/dynamic-pricing-when-should-retailers-bother/2/#2aaf40316323>

² The Financial Times estimates that Swift made an additional \$1.4 million per show on her 2018 tour as a result of the changed price policy, despite the fact that, on average, over 600 tickets were still available at the time of each show.

THE STRUCTURE OF THIS EPP PRICING MATURITY PLAYBOOK

The focus of this e-book is to give actionable insights in a practical, hands-on and proven way to increase profits by investing in organisational pricing maturity. It is about doing the right things right, at the right moment.

In the first chapter of this book, we introduce you to the EPP Pricing Maturity Model to help you identify where you are today in your pricing journey, which areas you need to prioritize and improve to lead your company to the next level of pricing maturity (and profit optimization). In the second chapter, we zoom into the status of each pricing maturity level so you can easily benchmark and assess where you are.

The third chapter is about moving ahead and taking transactional control – the chapter explains in detail your priority settings, enablers - and concrete actions - to make it happen.

The fourth chapter explains in detail your priority settings, enablers – and concrete actions – to implement a value strategy and realise full value capturing in our organisation.

The final chapter covers the change needed from pricing leaders to really implement a value strategy (it's one of the biggest challenges in pricing : crossing the pricing chasm - meaning ; not realizing the change moving ahead towards full value capturing.)

The insights derived from the EPP Pricing Maturity Model have also resulted in developing skill cards to help define the capabilities needed on each pricing maturity level. These skill cards are the fundamentals of the EPP Certification Programs (Certified Pricing Manager®)³. If you are looking for in-dept learning on the techniques, tools and best practice sharing we recommend you to join the EPP Certified Pricing Programmes.



The EPP Pricing Maturity Model describes not only what to do, but also how to do it - and as important, in what sequence to do it.

Joining the EPP CPM programme will accelerate your project deployment with actionable insights and world best practices.

³For more info on the EPP Certification Programs: visit www.pricingplatform.com

CHAPTER 1

THE EPP PRICING MATURITY MODEL

A QUICK OVERVIEW OF THE 4 STAGES IN THE PRICING MATURITY MODEL

The EPP Pricing Maturity Model helps you to not only determine which maturity level you are operating on today, but also to set your pricing aspiration and how to prioritize your efforts.

We consolidated real-life best practices and advice from pricing leaders, experienced in pricing maturity development, across all industries into the EPP Pricing Maturity Model®. Each stage in the pricing maturity roadmap has its own challenges and companies operate at different maturity levels across regions or business units. Wherever you are in your pricing maturity, the model functions as a compass needle to guide your through the journey.

The model consists of 4 stages which will be described in detail in the next pages:

- Level 1 - Price list maintenance
- Level 2 - Gaining transactional control - PRICING AS A PROJECT
- Level 3 - Achieving full value-capture - PRICING AS A PROCESS
- Level 4 - Deploying pricing science - PRICING AS A SYSTEM

LEVEL 1 PRICE LIST MAINTENANCE

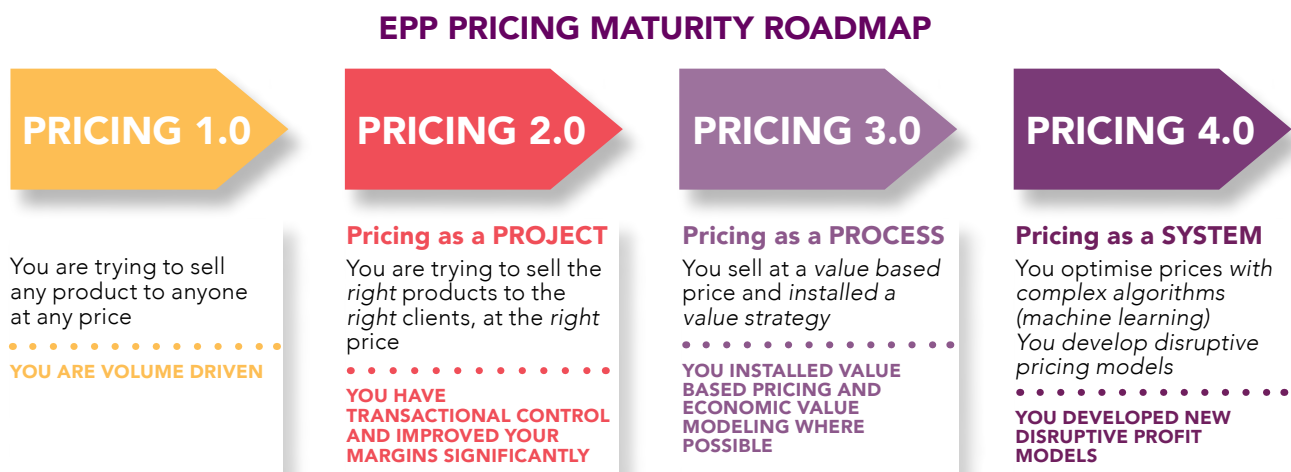
Companies operating at pricing maturity level 1 are very often volume driven (and trying to sell the same product to almost everyone at every price) - or have uncontrolled pricing due to historical negotiations resulting in inconsistencies in price levels.

Sales targets are typically on volume or total revenues only, and most management reports also focus on volume or revenues versus budget targets only as well.

Pricing responsibility is typically scattered within the organisation, with mainly product managers setting the list price, on cost plus basis, with sales controlling the net selling prices (including discount and channel policy).

Our 2019 Global Pricing Maturity survey shows that approx. 25 % of companies operate on pricing maturity level 1. While companies at level 1 are forgoing significant profits, the good news is that the steps to get to level 2 are clear.

Figure 1 - The EPP Pricing Maturity Model®



LEVEL 2 TRANSACTIONAL CONTROL

These companies have implemented vital pricing reports, based on reasonable complete and 'trusted' data. Pricing initiatives have been completed that have further improved data quality and visibility. The pricing initiatives focused on margin realization and improved pricing processes (price deviation process, discount- and surcharge policy) with consistent pricing metrics in place.

These initiatives are very often triggered and supported by finance and led by a commercial manager (enabled by a strong business analytics). And the margin improvement is proven and visible.

However, some companies risk to regress since pricing is seen as a one-off project– hence 'pricing as a project'. Therefore, once the projects are delivered, the risk of regression (falling back on the old habits) needs to be tackled.

Companies at level 2 have therefore typically a dedicated pricing manager who supports pricing decisions and manages the core pricing processes. It's important to mention that this person is definitely not a policeman, but needs to be a trusted advisor of the commercial teams!

You can never walk alone in pricing!

The pricing managers' role is to support the sales teams in closing more deals at better prices/margins. Getting this trusted advisory role means working every day on building trust, step by step, together.

With focused efforts, most companies can reach this level in 12-24 months.

Our 2019 Global Pricing Maturity survey shows that approx. 60 % of companies work towards operating on pricing maturity level 2.

LEVEL 3 FULL VALUE CAPTURING – PRICING AS A PROCESS

For companies operating at level 3, consistently identifying how their products and services create value, and capturing a fair-share of that value are central to their pricing success. That means that price segmentation, price elasticity and value needs to be fully and consistently understood. At this level, pricing becomes part of the commercial (excellence) organisation and fully aligned with commercial strategy.

Powerful pricing research techniques are appropriately used, with the pricing team involved early in the innovation process. Insights in (micro-) segments and price elasticity triggers testing and implementation of more innovative pricing models such as first-generation dynamic pricing (automated rules based), subscription based pricing, performance based pricing, etc.

Implementing a value strategy goes of course far beyond value based pricing; you will also need to implement value communication, value selling, value research, value management. This requires a leadership focussing on a value culture. Maintaining full value capture is an ongoing activity.

It is important to note that this level 3 of pricing maturity is not the necessary, desired, target for the whole company. Probably not every region or business unit needs to perform at level 3. That's why a corporate pricing maturity roadmap, focusing on doing the right things right is so important.

Our 2019 Global Pricing Maturity survey shows that approx. 15% of companies work towards operating on pricing maturity level 3.

LEVEL 4 PRICING AS A SYSTEM (OR SCIENCE)

Level 4 - B2C (B2Me) - companies are mostly young, digital born, enterprises. Pricing is using highly sophisticated pricing software and online price watch engines delivering predictive analytics (on price elasticity, demand, sales etc).

Advanced machine learning algorithms, driven by big data collection, enables second generation dynamic pricing models (beyond automated rules based pricing). Recent and very visible initiatives like Amazon's predictive pricing or Uber's dynamic pricing models are examples of very advanced machine learning supported pricing models.

Level 4 - B2B - companies further explore disruptive new pricing models; i.e Michelin selling airlines tires at a price/landing, or introducing token pricing, etc.

Pricing is at the core of the business model. Most companies will not aim for level 4. But if you compete against Uber, Alibaba or Amazon, you better be ready.

Our 2019 Global Pricing Maturity survey shows that approx..2 % of companies work towards operating on pricing maturity level 4.

CAPABILITY MATURITY MODEL CONCEPT

The pricing capability maturity model roadmap is based on the organizational capability model; a concept to enhance organizational capabilities, popularized by the Carnegie Mellon University in the 90's. Their first Capability Maturity Model* (CMM) was developed for IT management, but subsequently, nearly every management domain has maturity models to draw upon. A maturity model defines a set of structured levels that describe how well the behaviours, practices and processes of an organization can reliably and sustainably produce required outcomes.

**The Capability Maturity Model was initially funded at the Carnegie-Mellon Software Engineering Institute to create a model (abstract) for the military to use as an objective evaluation of software subcontractors. The result was the Capability Maturity Model, published as Managing the Software Process in 1989. The CMM is no longer supported by the SEI and has been superseded by the more comprehensive Capability Maturity Model Integration (CMMI).*

IMPROVING THE WHOLE PRICING FRAMEWORK

Improvements do - of course - not come from better price setting alone. You have to develop and align your capabilities in all pricing related activities. We visualise this via the EPP Pricing Framework®.

There are five core processes:

- Price Strategy
- Price Policy & Setting
- Discount Policy
- Execution
- Monitoring/KPI's/Analytics

The five core processes are supported by two supporting building blocks :

- Organization/People
- Governance/Tools & Systems.

The building blocks underpin the definitions of each pricing maturity level. In chapter two, where we zoom-in on each pricing maturity level, we will give actionable advice how to improve at every maturity stage. It is important that you balance the different building blocks of the pricing framework. Pricing organisation in a level 2 pricing organisation is organised in a different way than a level 3 organisation and it is important to have the right fit (centralised or local, or hybrid, in finance or commercial, etc). The same for all the other building blocks. That's why we advise what to do on each pricing maturity stage on every building block. That should help you make the right choices and balance your pricing framework.

Figure 2
The EPP Pricing Framework®



WHY HAVE A PRICING MATURITY ROADMAP

In the latest EPP Global Pricing Maturity Survey⁴, a score that got our attention was the 2.04 (on 5) low score on the question 'do you have a pricing roadmap'? This means that many companies still have a limited view on the road ahead.

Organisations that are executing solid pricing maturity roadmaps make huge steps forward, demonstrated by their superior profitability. We regularly see Certified Pricing Managers making huge progress in advancing the pricing capabilities in their organisation, delivering impressive ROI's. But the reality is that still approx. 60 %⁵ of our companies struggle to get 'transactional control' over their pricing. In other words, they still struggle to understand what happens and why it happens when it comes to prices (and margins)....

We strongly recommend these companies to invest immediately in vital pricing reports with integer data as the basis to start margin optimisation projects. This first pricing maturity step is for that reason often defined as ; "pricing-as-a-project".

Pricing at level 2 is mainly focussing on margin improvement projects and embedding the pricing rules, discounts and authorisation rules in the sales process. Under optimal conditions, it will take you about 12 months to bring your organisation from level 1 to level 2, installing the vital margin improvement projects (read further for a concrete action plan).

It is important to stress that without transactional control, supported by trusted data and successful implementation of the vital margin improvement projects (realised on level 2), the level 3 maturity is harder to reach and the risk of regression (falling back in the old habits) is real. Believe us; ensuring 'transactional control' is a must to embed the essential pricing rules and authorisation process in your systems.

The good news is that the level 2 margin improvement projects deliver concrete, measurable and fast profit impact. But, what happens when these projects are successfully delivered? You do not want that the pricing maturity roadmap stops.

Indeed, the next step in the pricing maturity development is often more challenging: embedding the pricing know-how into all commercial processes (moving away from pricing-as-a-project only), heading towards a value and profit strategy and culture.

You will need a strong vision, leadership support and change management skills to realise this next step in the organisational pricing maturity. Closing the margin leakages and (even) pricing on value are indeed relatively easy steps. However, aligning your product innovation around value and willingness to pay, turning your sales force towards value selling and your marketing on value communication - and implementing a value/profit culture is another thing.

Different studies show that a strong profit culture really makes the difference between low and high performers in any industry⁶ - and we see that pricing managers can be important change agents to lead the organization towards such a value and profit orientation culture. Many pricing professionals have come to recognize that realising this impact requires a comprehensive approach, based on a long-term roadmap.

Most companies need at least 3 to 7 years to bring their organization from pricing maturity level 2 to level 3. This is what many pricing professionals mean with 'pricing is a long-term journey'. Make sure you have a solid pricing maturity roadmap.

Do the right things right at the right moment - and never walk alone; if you keep these two key things in mind, the likelihood of success in your pricing journey increases significantly.

⁴ The EPP Global PMI survey is a 3-yearly international pricing maturity survey. The full 2019 EPP Global PMI survey report can be downloaded from the www.pricingplatform.eu portal.

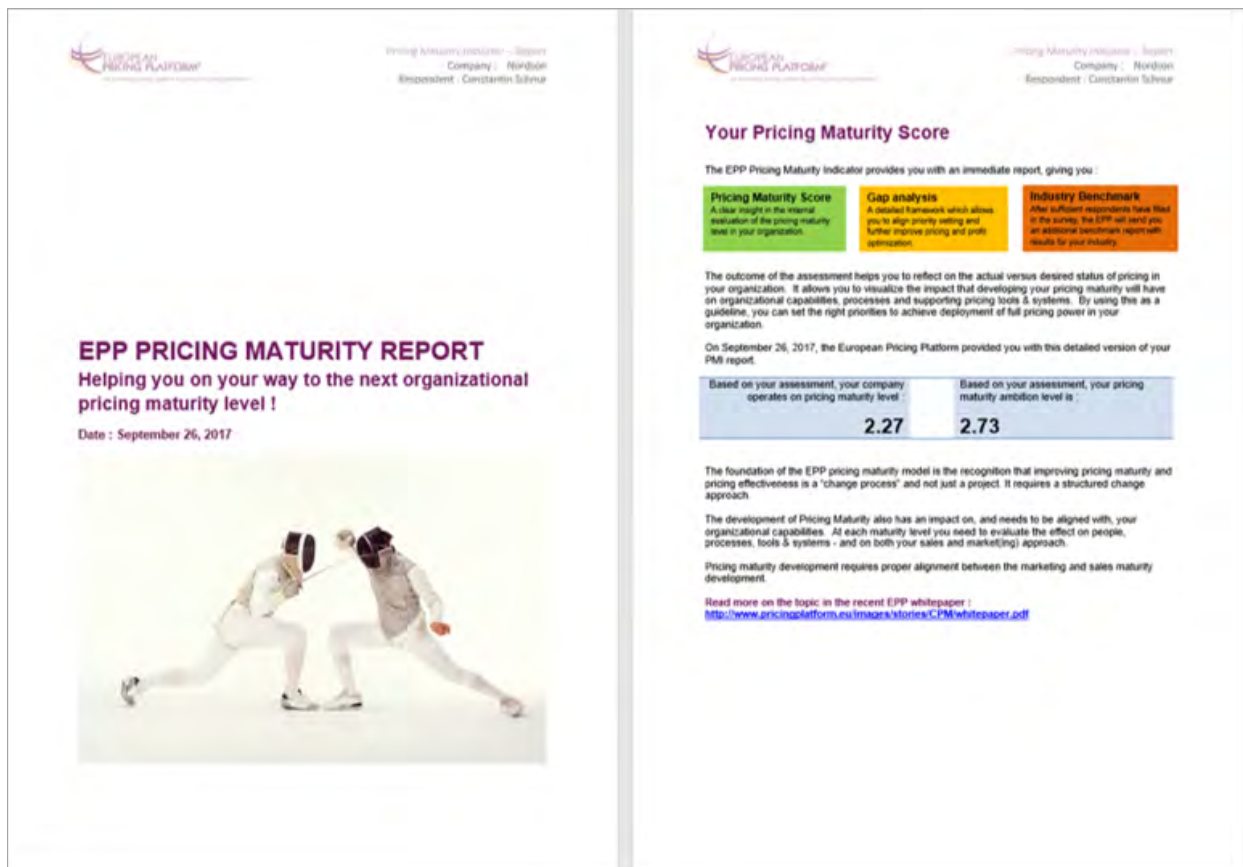
⁵ 2019 EPP Global Pricing Maturity Survey

⁶ Different studies show that organizations with a strong top management involvement in advocating a profit orientation culture realize up to 25% higher return on sales- SKP Global Pricing Study 2012

Your FREE Pricing Maturity Assessment



To help you start the discussions in your organisation, we developed the EPP Pricing Maturity Indicator; an online - and free - assessment on the 'as-is' and 'to-be' pricing maturity level in your organisation. The EPP Pricing Maturity Indicator (PMI) is a free online tool, use the following link to get access. You receive an automatic PMI® Report to start your journey increasing your organisational pricing maturity.



Start your PMI here

For a customized pricing maturity assessment, contact:
Ripsime Matevosian - Learning and Development Manager
ripsime.matevosian@pricingplatform.com

**TAKE YOUR
PRICING MATURITY
ASSESSMENT HERE**



THE IMPORTANCE TO TAKE METHODOICAL STEPS

You have probably seen - or been in the middle of - typical pricing project kick-offs in organisations where margin objectives were under pressure. Typically commercial management starts to investigate if a margin improvement project should be started - but there is no one to do a proper analysis. The right data is not available or worse; people simply do not trust the data in the spreadsheets.

The organisation decides to bring in external expertise and a pricing audit is conducted. The audit reveals that 'there are a lot of improvement opportunities'. The outcome is a long list of capability gaps and organizational challenges.

As a result, the organisation struggles to allocate the right priorities in the long list and, unfortunately, often choosing the wrong projects: those projects which, at first sight, are evaluated as 'easy to implement, but with high margin impact'.

Many organisations chose to do 'the wrong things first', focussing on the wrong pricing projects or tools for the maturity level they are in - and the initiatives fail... We have seen many good people focussing on the wrong things.

Examples of the wrong sequences:

- Installing value based pricing, but without having a good insight in market segmentation.
- Implementing a 'value based price' methodology, with sales teams not involved (reacting with, "How in the hell did the pricing team decide on such a price?") and thus not able to sell or defend the value.
- Installing a new sales incentive plan, sticking to volume and revenue focus, while pricing teams focus on price realisation and margin improvement.
- Implementing a target price, but sales regions barking that 'they have their own P&L responsibility' to manage - and as a result do not want any guidance from anyone (especially not from HQ).
- Over-investing in pricing software when the basics are not in place.

All these organisations had a false start in their pricing maturity development.

These organisations finally get confronted with quickly melting commitment and trust within sales, leaving them with very low enthusiasm to go on with new pricing initiatives. Pricing teams get frustrated, leave the company, or leave the pricing role or worse; get fired.

You can avoid all this by doing the right things right, at the right moment.