

## KEYNOTE INTERVIEW

# Making pricing a priority



*Pricing is a powerful value-creation lever, but poor implementation can lead to disappointing results, say Pearson Ham Group principal **Zeba Syed** and founding director **Tim Ham***

### **Q To what extent has pricing come to the fore as a value-creation lever for private equity?**

**Tim Ham:** A decade ago, many of the conversations we had with private equity houses were focused on why pricing was something they should care about. Nowadays, it is rare to have a conversation with a private equity firm that doesn't consider pricing to be a priority to some degree.

The focus now tends to be convincing the portfolio company that pricing matters. There are certainly some private equity houses that pursue pricing in a more aggressive and systematic manner than others, but I think they all appreciate its importance.

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### **Q Do companies sometimes simply not understand that they are under-pricing?**

**Zeba Syed:** That is definitely true in some cases where we often see a combination of a legacy cost-plus mentality, plus a lack of confidence or information bias driven by sales teams being led by what they hear from customers. Pricing can be seen as something of a can of worms, and many companies just don't feel skilled and therefore tend to shy away.

To really understand the potential and get people engaged, we use robust

counter metrics in the form of detailed customer research, price tests and price elasticity assessments to demonstrate willingness to pay. Clients are often surprised by the insights we can glean to support pricing moves and, of course, in opaque markets that kind of insight is even more valuable as there is no obvious benchmark.

### **Q Is it a question of lacking dedicated resources and governance around pricing?**

**TH:** Yes, that is part of the challenge. Pricing is often neglected because it is under-resourced, and people are unaware of what good looks like. It is a complex discipline, and most companies lack the critical mass to develop

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and nurture the talent. Unfortunately, the lack of pricing resource can lead to a lack of insights, which in turn means that the money that is being left on the table is not appreciated, and this perpetuates insufficient investment.

**ZS:** We recently worked with a large events company where pricing was the last consideration on the list. They defined the product set and decided what would be included in the ticket price before they agreed on what that ticket price should be. In our view, pricing needs to be at the top of the agenda and not an afterthought, and that should be reflected in the resources allocated to pricing decisions.

### **Q What other challenges can companies face when it comes to planning and implementing price moves?**

**ZS:** In addition to ensuring that pricing is high on the agenda, it is important that it is viewed as a strategic objective that the whole company has fully bought into. If the pricing strategy is restricted to a single department, it won't get enough traction to succeed.

Pricing often needs to be viewed as an organisation-wide change management exercise. There are knock-on implications for the marketing, systems, account management and product teams. As such, it is critical to have the executive team on board. If the



### **Q Can you share an example of putting a pricing increase into practice?**

**ZS:** We recently completed a project in the life sciences industry where the company was facing myriad challenges. There was a significant degree of unstructured customer discounting and limited levels of governance, as well as variation in the sales team's negotiation experience. Sales managers also struggled to develop a structured rationale for price increases, so the sales team struggled to believe they could achieve more than 6 percent on average. In addition, the team's datasets were often messy and complex to analyse, making it difficult to produce meaningful pricing insights.

In order to help the business overcome these challenges, we focused on 20 key accounts, reviewing spending trends and discount performance overtime. That exercise produced potential negotiation approaches and practical insights that could drive continuous account improvement. These steps were key in providing well-structured, account-specific price increases and helped the client to understand that the increases were achievable. As a result of this support, the company was able to achieve 18.1 percent margin growth – well ahead of the 6 percent target.

messaging isn't coming from the top, the implementation is unlikely to be successful. I would argue communication is critical as you need to explain the rationale for the price move internally and really take the relevant stakeholders on the journey.

### **Q What are some of the pitfalls you see in terms of an underequipped sales**

### **team, and how can these be addressed?**

**ZS:** One of the most common problems we see with sales teams is a lack of understanding around the reasons for the price increase, so it is important to share supportive customer insights and competitor benchmarking. The other common pitfall is not effectively preparing a company's sales teams. If existing customers push back against a

price increase, the sales team needs to be armed with counterarguments that shift the focus of the conversation from price to value. With software, for example, that line of thinking can often be tied to product development.

It is also critical to ensure measures are in place to mitigate value leakage, which comes back to tracking KPIs and making sure there is a clear escalation process. We are currently working on a project where the sales team is walking away from deals because they don't know that they can escalate and get approval for a discount. Conversely, other sales teams ignore the escalation process and discount regardless and that, of course, leads to value leakage. In these instances, we recommend running focused training sessions around objection-handling and negotiation, and playbooks can be an effective method of codifying best practice.

We would also strongly advocate piloting any price increase. That helps test market acceptance, but also drives confidence and buy-in. Those selected sales team members that are part of the pilot become advocates, later helping their peers to understand common objections and how they can be handled. The pilot also helps the management team recognise how well the prices are landing with clients and whether adjustments are required.

Finally, I would point to the importance of ensuring that incentive schemes are appropriately structured to motivate the sales team in line with the price changes. For example, if a tiered pricing structure has been introduced, the compensation structure will need to be changed to reflect that, with higher incentives available for the higher tiers.

### **Q Is pricing a tactical lever or a strategic lever, and why is that important?**

**TH:** Pricing is a strategic lever. Tactical pricing comes in when your hands are tied and you have very little latitude. It often reflects a junior pricing

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department and a lack of direction from the top of the organisation, with pricing being viewed as something that comes in late in the overall process. Strategic pricing, however, is an integral component of a broader value-creation strategy that starts with a real understanding of what the customer needs and values, rather than starting with the product.

### **Q How sophisticated is the private equity industry generally when it comes to pricing today? Are firms bringing in specialists in the same way that they bring in data and cybersecurity consultants?**

**ZS:** There is definitely an awareness of the importance of pricing but often the implementation process is underestimated. Defining a price increase is arguably only half the battle. Private equity houses are becoming more cognisant of this fact and value the change management aspect, which requires more planning, time and buy-in from the relevant teams for a price move to be successful.

I would add that the cross-sector experience we can bring to pricing is very valuable. We are often viewed as the bridge between the portfolio company and the private equity firm. As outsiders, our broad experience can really resonate when we are talking to sales teams and other departments about the required changes.

**TH:** There is an increasing awareness of the disciplines of pricing and the value associated with delivering them well. This is driving a steady increase in the use of specialists. We are observing a steady evolution in attitudes and behaviours in this regard.

### **Q There has been increased emphasis on pricing due to rising inflation. Do you see pricing as a cyclical value-creation lever or something that will continue to remain relevant?**

**TH:** This period of high inflation has been a catalyst for engagement with pricing, but this is something that has nonetheless been on an upward trajectory. We expect that upward trajectory to continue as people continue to gain a greater appreciation of the value. I can't imagine this being a trend that will reverse. ■