

## Ten Ideas for More Effective Pricing

Blue Ridge Partners is the most experienced, impactful and respected firm exclusively focused on helping companies improve the performance of their “revenue engine”. We have examined the performance of over 150 revenue engines and based on this experience we have identified these Ten Ideas for More Effective Pricing

Getting pricing “right” is one of the most powerful tools for accelerating revenue growth and expanding profit margins. For the average S&P 500 company a price increase of 1% would generate an 8% increase in operating profit, assuming stable volumes. Such a price increase also generates an operating profit impact 50% greater than a 1% decline in variable costs (such as costs for material and labor) and more than three times greater than a 1% increase in volume.

During the course of our work with over 150 companies, we have seen what works and what doesn’t in the area of pricing. These ten ideas come from what the best performing companies do well—and what others do not.

Pricing can be a highly sophisticated topic but, in our experience, fixing the basics of sound pricing practices can often deliver the greatest impact. By implementing these ten ideas, our clients have experienced positive top line growth (even when considering any volume erosion from price increases) and significant improvement in margins.

### Ten Ideas for More Effective Pricing

1. **Establish a “pricing czar”**— create a central focus for pricing by appointing a person or small team, supported by adequate management processes, with responsibility for monitoring market prices, adjusting prices, and monitoring yield (the interplay of price and volume) across the organization.
2. **Sell value rather than discounting prices**— justify higher prices by demonstrating incremental business value against important customers values, and do not rely on discounting as the easier way to win new business.
3. **Make pricing decisions based on facts not anecdotes from the sales force**— often, sales force anecdotes can paralyze pricing strategies...“if we raise prices we’ll lose XYZ customer” or “we just lost the ABC deal because we were over priced”. Get the facts about competitive prices and gather input from customers and lost prospects.
4. **Use customer segmentation and buyer values as the basis for differential pricing**— the ability to add differential value in exchange for differential pricing is a key to revenue growth and margin expansion.
5. **Adequately monitor terms and conditions (T&C)**— ensure that volume commitments by companies are met for any price concessions or other favorable pricing terms granted.
6. **Cross sell or bundle price effectively**— cross selling and product/service bundling is often required to capture the full potential of each customer relationship but this is typically very difficult to achieve—organizational barriers,

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## Ten Ideas for More Effective Pricing (cont.)

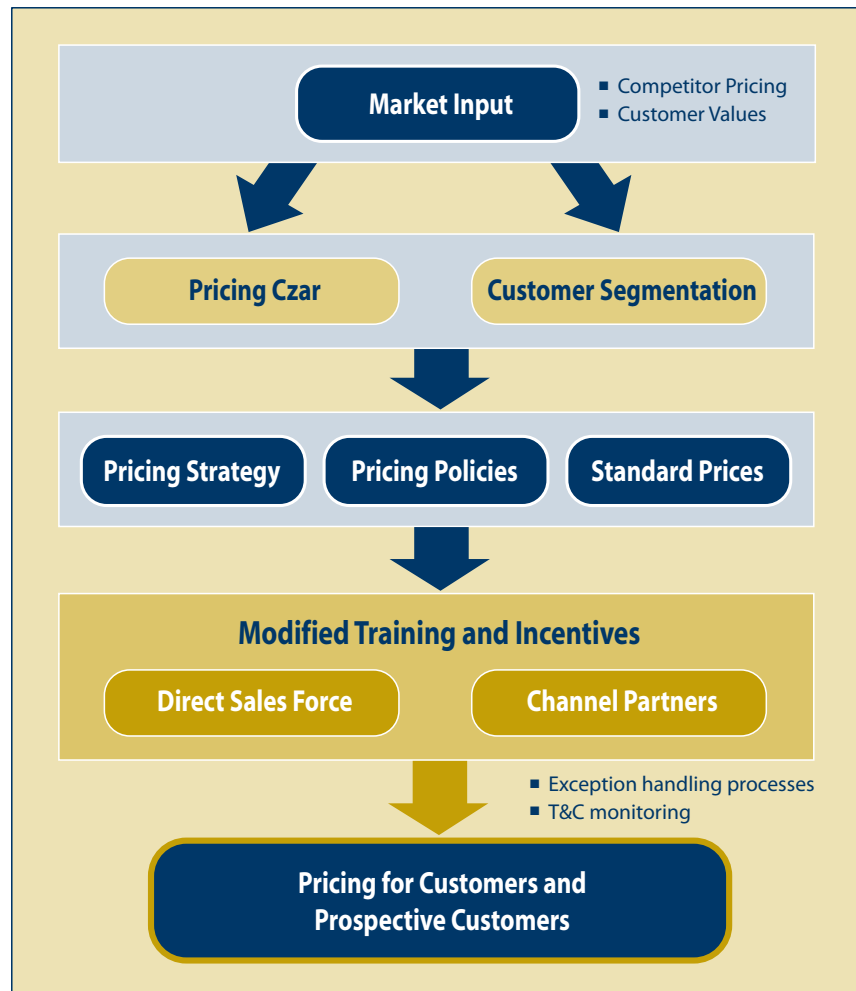
cultural issues and conflicting incentives must be resolved.

- 7. Build “courage” to ask for higher prices**— many companies, including those with dominant market share and strong competitive positions fear telling customers that prices (or surcharges) have gone up.
- 8. Align sales incentives to encourage profitable business**— base incentive schemes on margin rather than simply revenue achievement to discourage excessive price discounting.

- 9. Utilize a “value added” methodology in setting prices**— set price points based on the customer’s perception of value and alternative costs rather than an internal “cost plus” mindset.

- 10. Allow product margin rates to fluctuate**— avoid the thought that the margins on all products need to be the same—many factors, such as the availability of alternatives, customer switching costs, product interrelationships and other factors will cause product margins to vary.

### Illustration of a high performing pricing model



If you believe there may be opportunity for more effective pricing of your products/services, contact us at 703-448-1881 for an independent assessment of your pricing strategies, approaches and processes.



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