

# Pricing Strategy

Unlocking Profits In A Slow Growth World



# Pricing Matters More Than Ever Before

→ Economic growth in the developed markets of North America and Europe have slowed to a pace that is often lower than inflation. Most economic forecasts believe that slow growth or even stagflation will remain for next three years or more as these economies continue to de-leverage from both private and public debt incurred before 2008

→ While cost take-out programs can increase operating margins, they tend to be one-time events. The public markets may also penalize companies with shrinking valuation multiples if topline growth shows signs of tapering off

→ Pricing strategies suffer the most neglect – and few companies are capturing the value lying on the table

→ There are exceptions. Apple and the Four Seasons Group have grown through the recession while retaining and strengthening their price premium. For some time, Zynga had overtaken Electronic Arts as the worlds most valuable gaming company – using a Freemium pricing strategy that did not even exist 10 years ago. In developing markets, FMCG companies have introduced price points that enable them to address the bottom of the pyramid and create new markets for themselves

→ Our experience with several clients leads us to believe that pricing is a neglected and poorly implemented matter in most organisations, and that companies can realise significant financial benefits from a review of their pricing strategy.



# A Well Defined Pricing Strategy Creates Significant Upside

- Products built around a superior consumer experience
- Expanded its price premium through the recession



→ Stock has increased by 180% since Sept. 2008; has become the world's most valuable company

- Competes on pricing analytics
- De-averaging of risk in auto-insurance



→ Has outperformed the S&P 500 by 12% since Sept. 2008

- Retained room-rates during the recession
- Strengthened the focus on customer service and employee engagement



FOUR SEASONS  
*Hotels and Resorts*

→ Strengthened overall brand position; bookings are up dramatically over 2008

- Leveraged a "freemium" pricing model
- Built a gaming model around social networking platforms



→ Largest IPO since Google. Market cap overtook Electronic Arts briefly

- Used penetration pricing strategy to enter China, instead of the standard premium charged by Western retailers



→ 6 million visitors to the Beijing store annually  
Market leadership

# However, The Consequences Of Getting It Wrong Can Be Disastrous

## Pricing Strategy Should Be A Competitive Advantage – Not A Weakness

There is a general lack of appreciation of the “real elasticity” of demand and scale economics

Few companies have a clearly defined pricing strategy; many try to be everything to everyone

Analytics capabilities are woefully underdeveloped – resulting in “average pricing” and an inability to develop customer specific offerings

Sub-optimal price administration results in sizeable leakages - companies are often unaware of how much is lost through poor billing practices

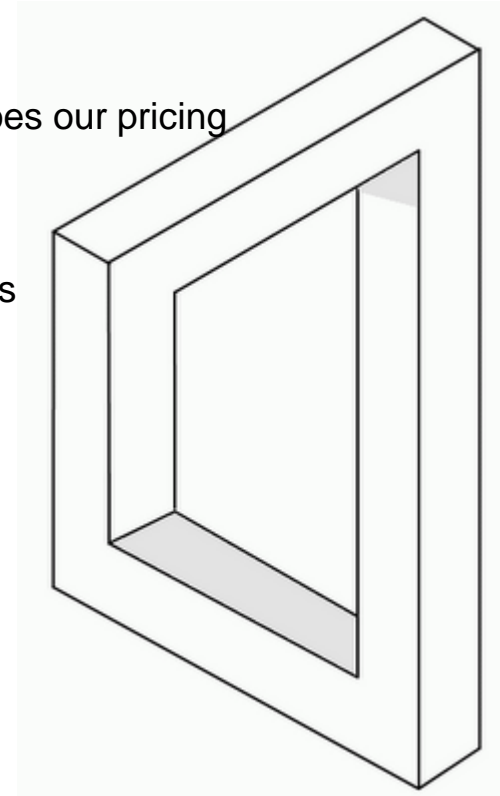
Price structures are rigid and tend to follow the market – providing no competitive leverage whatsoever

Netflix stock performance on the NASDAQ



# Five Questions: A Moment of Introspection

- 1 How is our pricing structure linked to our business strategy? Are we a premium player, a price warrior, or a **“company stuck in the middle”**?
- 2 Do we truly understand the potential **impact of pricing on our business economics**? Do we know what a shift in pricing would mean in terms of volumes and consequently cost structures?
- 3 Are we **fully capturing the pricing opportunities** available to us? How does our pricing structure compare when benchmarked with the competition?
- 4 How efficient are our **billing practices**? Do we know if we are losing profits because of front-end leakages?
- 5 How much **time do we spend discussing our pricing strategy** and structure? Do we have the capabilities and bandwidth to truly leverage the power of pricing?



# How We Can Help: Four Offerings That Deliver Fast And Measurable Results

## 1. Pricing Audit

Identify opportunities across the organization

## 2. Strategy Formulation

Enhance market share and profitability

## 3. Benchmarking

Regain competitiveness in the marketplace

## 4. Execution

Eliminate leakages across contract life cycles



# 1: A Pricing Audit Helps Uncover Multiple Opportunities

## SYMPTOMS

- Pricing is no longer talked about as a **strategic weapon** for the company
- The company seems to be a **price follower**
- Customers have started exploiting **differences in price structures** within the company
- **Market share** and **profitability** are dipping

## Strategy

- Alignment between business and pricing strategy
- Consistency of the strategy across products, channels, and geographies
- Success indicators for the strategy

## Price setting

- Triggers for pricing changes
- Benchmarking with competitors
- Existence of pricing structures and rules

## Execution

- Compliance with pricing structure
- Effectiveness in the marketplace
- Potential for leakages across contract life-cycles

## Capabilities

- Understanding of alternate pricing scenarios
- Experimentation / analytics capabilities
- BI / reporting tools being used

## Governance

- Ownership of pricing decisions
- Alignment with incentive structures
- Capability enhancement programmes

**Short programme:** Typically between 4 to 6 weeks

**Rapid ideation:** Project results in a comprehensive diagnostic and ideas one can work with

**Works best for:** Any company that has not had a pricing strategy review in 2 years

# Uncovering Pricing Opportunities

BACKGROUND: Client was a retail bank who did not have a clear service pricing strategy. Our mandate was to help understand the opportunity from improved pricing structures

1

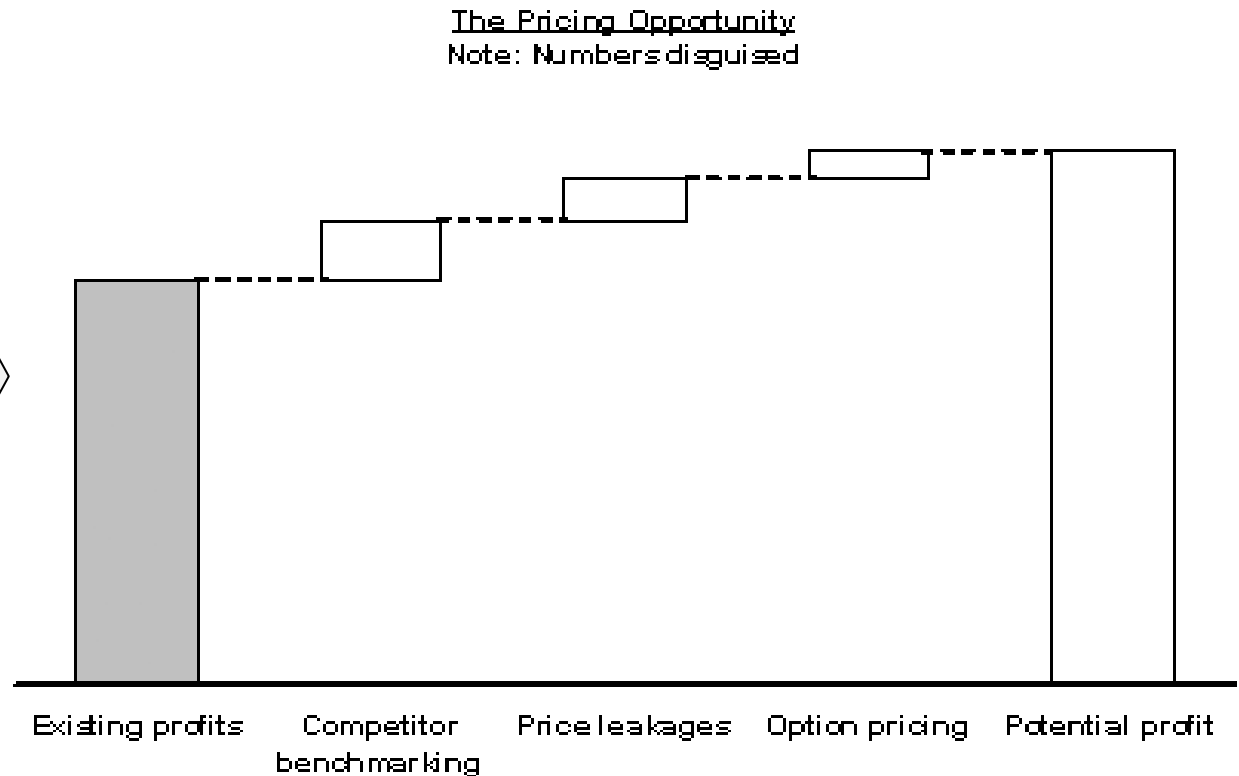
Prices benchmarked across key competitors. Client found itself under-priced in several areas

2

Interviews revealed that billing practices were lax, and several services were not being charged for

3

Customers were looking for additional options and were willing to pay a premium for the same



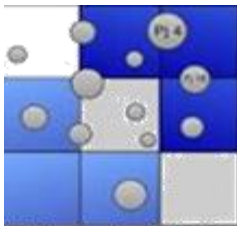
IMPACT: Based on our work, the bank was able to realize a 30% improvement in its' service profitability over a 3 month period, without any loss of market share



# 2: Our Pricing Strategy Toolkit Reshapes Competitiveness And Helps Maximise Value Capture

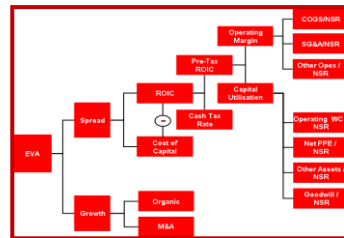
## Portfolio Management

- Matching bundles and pricing to curve structure of demand
- Rationalize pricing strategies
- Enhance / rationalize product and service portfolios



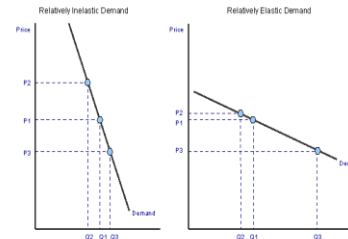
## Competitiveness

- Realign pricing to market strategy
- Understanding competitive set
- Identify premium features and penalty sets
- Graded pricing structures



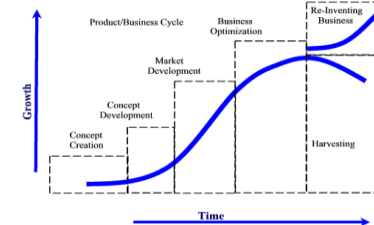
## Elasticity

- Capture true value
- Understand demand sensitivity to price
- Expand pricing opportunities



## Lifecycle Management

- Align pricing to the lifecycle of the product/service
- Maximize value capture, while preparing for the next stage
- Improved management of product exits

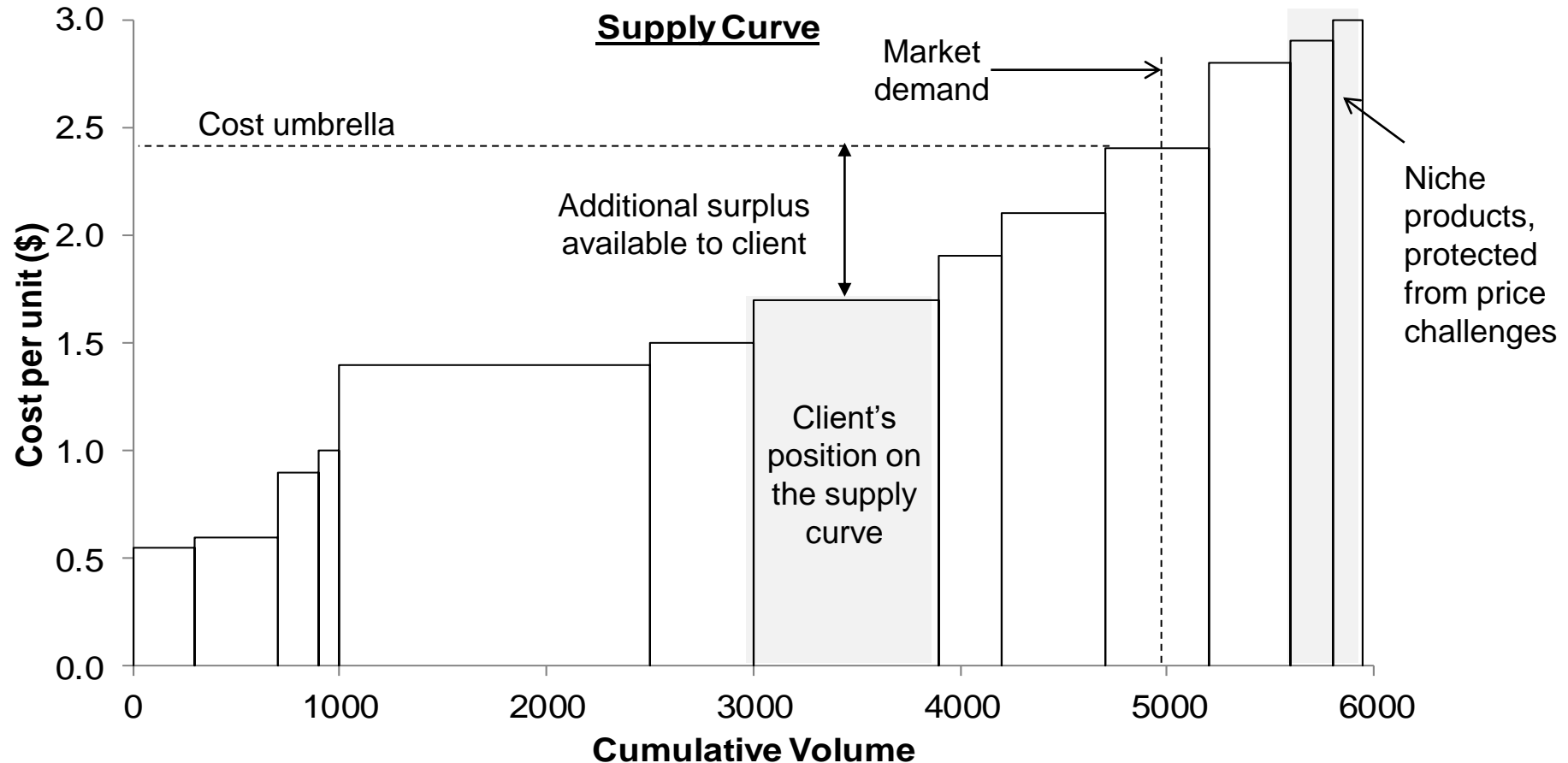


Projects are customised to individual client requirements  
360 degree approach – analytics, interviews, scenario creation, pilot design  
Significant improvement in profitability

# Case Study

## Supply Curve Analysis

BACKGROUND: Client was entering a new market and needed to understand the supply curve of the industry in order to optimize pricing – maximizing their capacity utilisation and pricing opportunity



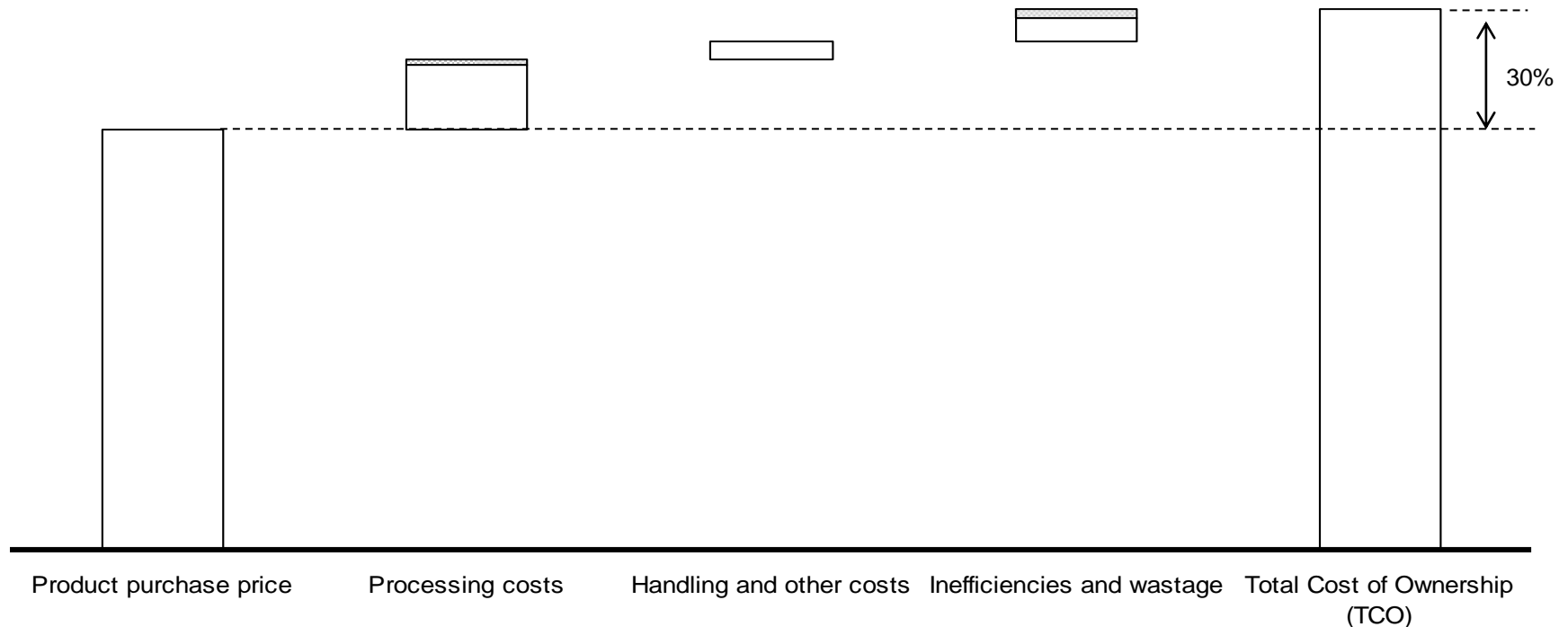
IMPACT: Our analysis indicated that the client had a highly competitive cost structure and could price its products for supernatural gains in the current demand-supply environment. A simple cost-plus approach to pricing would have no realistic impact on volumes, but would destroy value for the company

## Case Study

# Pricing Based On Total Cost Of Ownership

BACKGROUND: Client was launching a new product and needed to understand the economic value of the product to customers, and price it accordingly

### Total Cost of Ownership for Customers



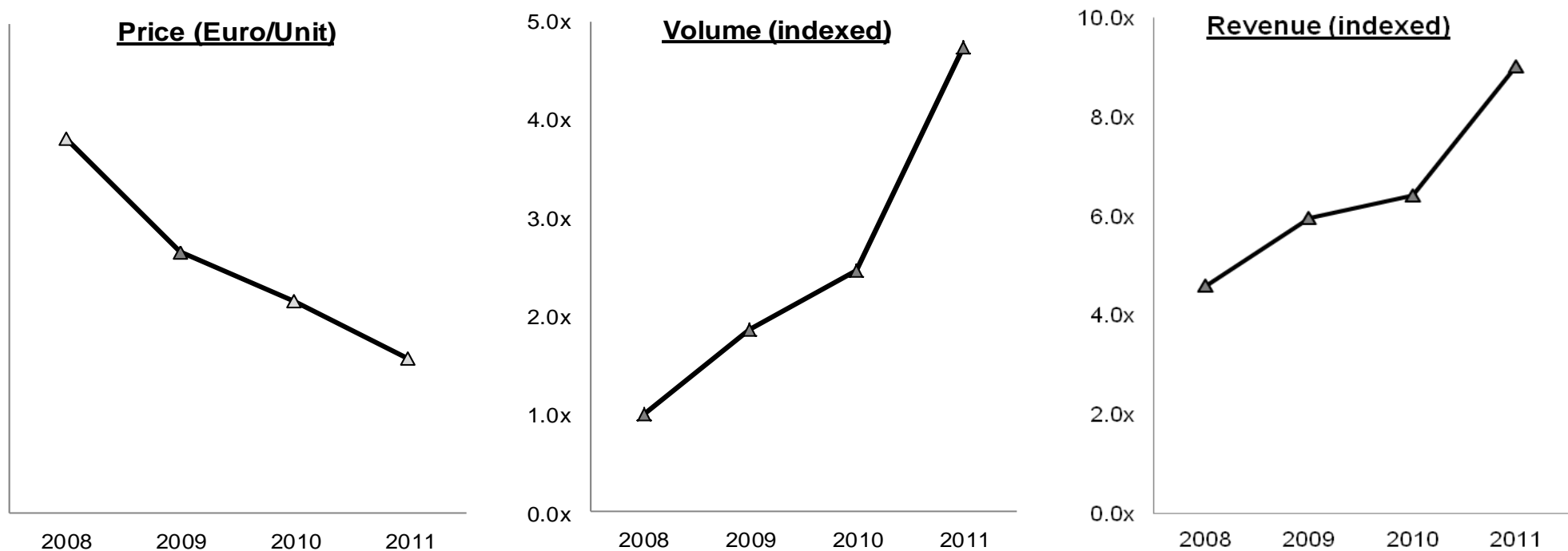
IMPACT: TCO-based pricing strategy helped the client right-price and successfully launch the product. By abandoning a “cost-plus” pricing strategy, the client was able to derive significantly higher profits

# Case Study

## Understanding Price Elasticity

BACKGROUND: Client was a challenger in a market where prices were artificially high, and possibly unsustainable. They wished to understand, from other markets, the impact of price reductions – and the viability of a low price strategy

### Price and volume trends; impact on overall revenue



IMPACT: Our study of a closely comparable market in the EU indicated that that once price reductions happened, they would decline rapidly – but with a disproportionately higher impact on volumes. We used this insight to create a “price warrior” strategy and drive both market share and profits for our client

# 3: Price Benchmarking Provides Quick And Easily Executable Results

## SYMPTOMS

- Your product and service portfolio is considered competitive, but **market share** is eroding consistently
- **Pricing** is only a "cost+" or "target margin" calculation
- Your **profitability** (especially on new customers) is believed to be lower than your competitors
- Your **customer profile** is changing rapidly

## Define

- Set pricing objectives
- Define competitor set
- Develop hypothesis about the pricing opportunity

## Benchmark

- Systematic and contextual comparison across competitors
- Impact and complexity analysis; prioritisation
- Customer / sales force validation

## Improve

- Develop implementation programme
- Test and measure results
- Institutionalise learnings

**Short programme:** Typically between 4 to 8 weeks

**Rapid results:** One financial services client got a 10% improvement in service profitability

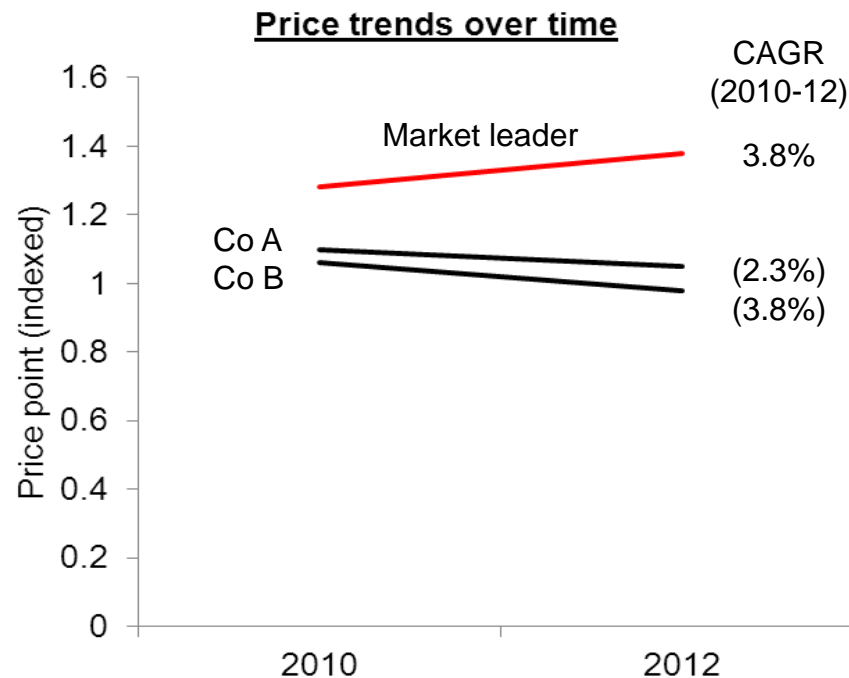
**Works best for:** Retail-oriented companies, with multi-product/service portfolio

## Case Study

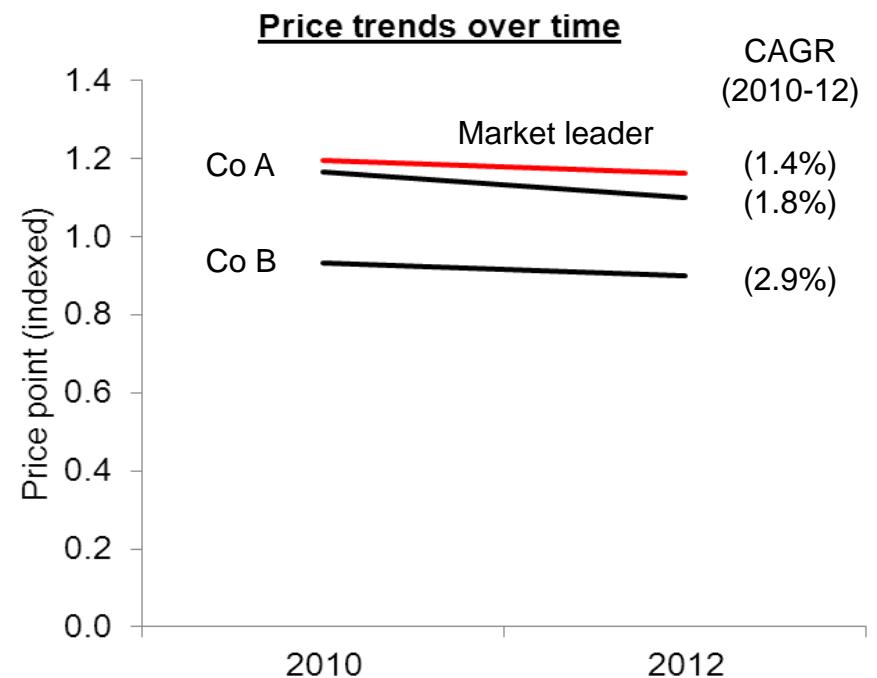
# Building Price Premiums Across the Product Lifecycle

BACKGROUND: Client had products in two different stages of the product lifecycle. One product was in decline, and the other in fast growth stage. The prevailing wisdom in both markets was that price discounting was key to survival and growth

Declining product category, leader goes against market pricing trends



Growing and competitive product category, leader strengthens premium



IMPACT: Our analysis showed that the market leader in both cases was adopting a more sophisticated pricing strategy than the market and was improving its price premium as well as market share. By thinking more carefully about pricing, our client was able to prevent value destruction and strengthen their position

# 4: Price Execution Is An Area Of Improvement For Most Service Companies

## SYMPTOMS

- There is an unexplained gap between **planned and actual service profitability**
- There seems to be several **ad-hoc pricing** decisions being taken
- There is a lack of clarity over who has the **final decision on pricing**

## Define

- Develop hypothesis on the improvement opportunity
- Define a sampling process

## Audit

- Conduct an audit on the contracts
- Analyse gaps across the life-cycle
- Quantify and prioritise opportunity areas
- Interview employees to identify root-causes

## Improve

- Redefine pricing policies
- Update/create pricing tools
- Strengthen pricing governance
- Create tracking metrics
- Communicate

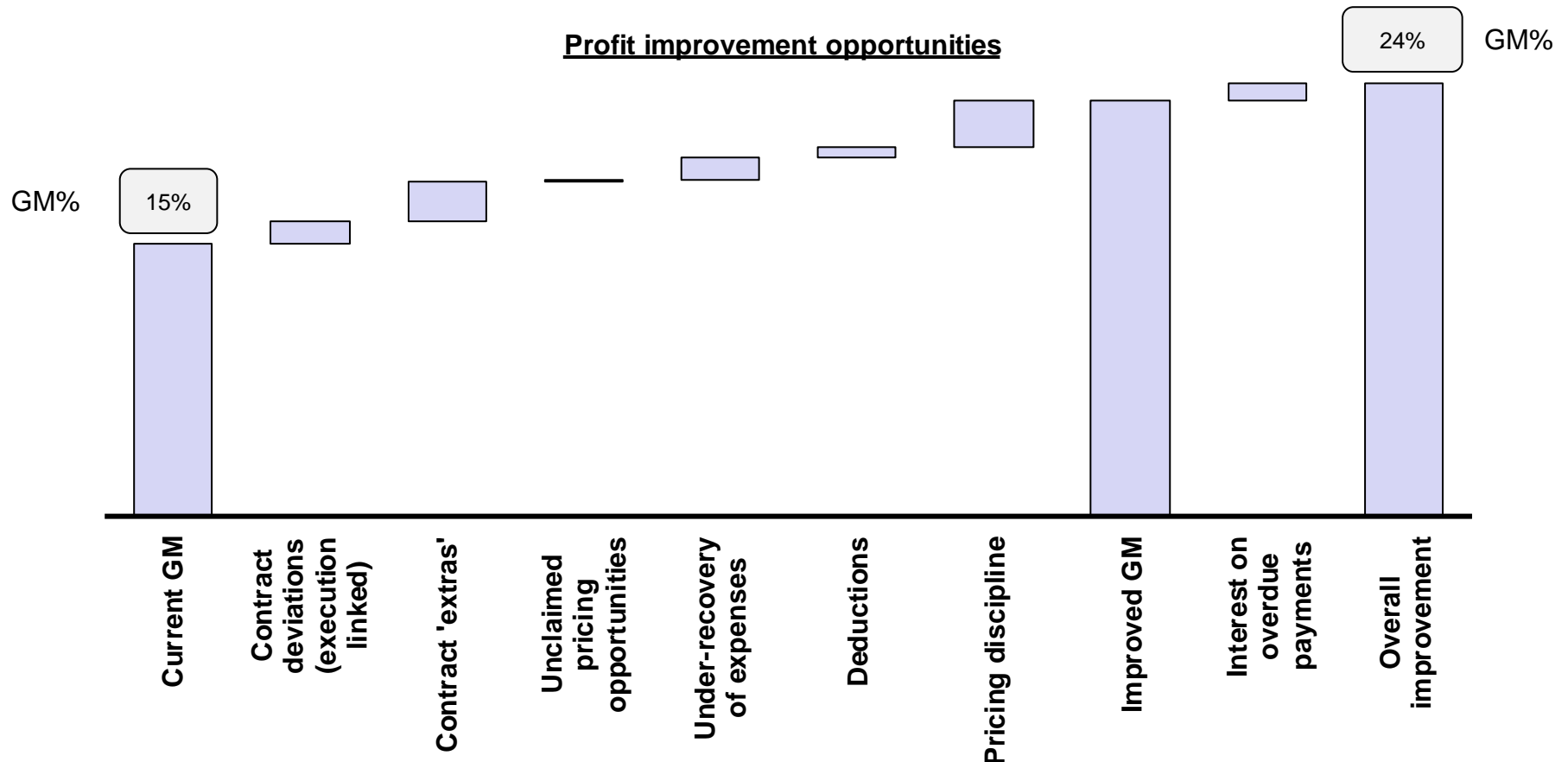
**Short programme:** Typically between 4 to 10 weeks

**Rapid results:** A client increased operating profits by 25% through better contract management

**Works best for:** Services companies operating on long-term contracts and SLAs

# The Opportunity In Price Execution

BACKGROUND: Client was in a services business which involved annual performance contracts. The company was suffering from low overall profitability and our mandate was to identify opportunities for improving contract profitability



IMPACT: A detailed analysis of contract and pricing execution revealed that there was a 9% improvement opportunity in the area. Improved pricing discipline, billing and collections practices helped the company improve its PBT by 4% over the next 6 months



# About MXV Consulting

- MXV Consulting ([www.mxv.in](http://www.mxv.in)) is a strategy and management consulting firm based out of Bangalore in India. Our focus is on building sustainable competitive advantage for our clients and helping them become industry leaders
- We have the experience of working across multiple industries and functional areas - enabling us to bring in fresh ideas and a strategic perspective to every engagement. Our insights are backed up by a rigorous process of analysis and solution development. This ensures that our recommendations are well researched, practical and tailored to an organisation's requirements. In many instances, we also take on the role of implementation managers
- Our clientele includes leaders across various industries. We believe in long term relationships with our clients, and have worked on multiple engagements with most of them. Our team has worked with clients across the globe – including India, Australia, the US, Middle East, Europe and Asia



**MXV CONSULTING**  
**[www.mxv.in](http://www.mxv.in)**

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**Chandra Bhavan Building,  
3<sup>rd</sup> Floor  
Nehru Place # 67-68,  
New Delhi 110 019**

**812 Oxford Towers, 7<sup>th</sup> Floor  
139 Old Airport Road  
Bangalore 560 008**