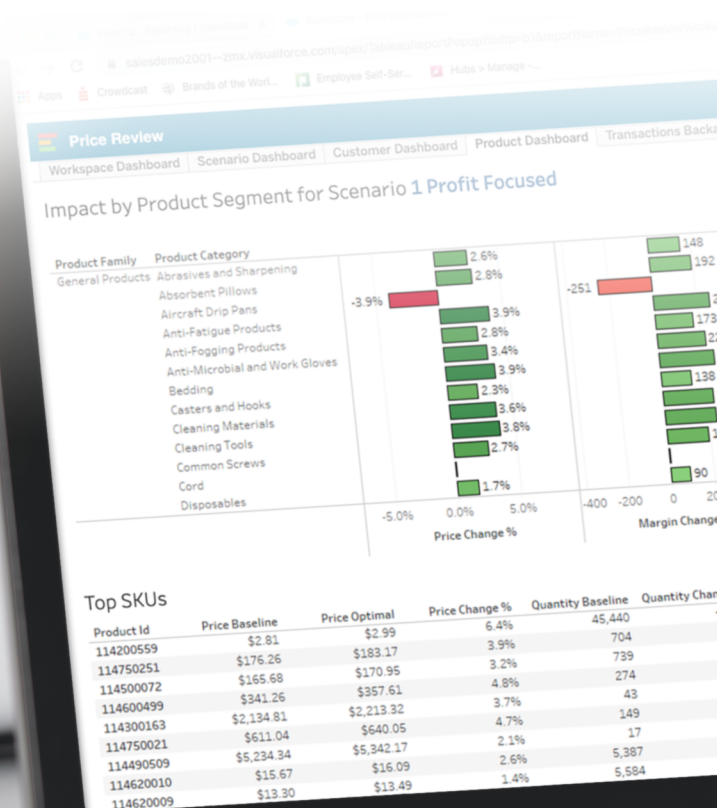




RATIONAL PRICING:

What it is and how it helps
you beat expectations

WHITEPAPER



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CONSIDERATION

Companies expend significant effort administering pricing rules designed to ensure margins and price relationships line up. What they don't realize is that declared rules and backward-looking analytics are a lost cause. Innumerable customer-product-market combinations and the speed of change make manual rules-based pricing infeasible.

DO YOUR PRICES MAKE SENSE?

What we mean by that is, do the prices you recommend to the field seem logical to sales people? How about to customers? For prices to make sense to these stakeholders, they must align with local market dynamics and customer relationships, as well as the perceived value of your products and services.

From a corporate and P&L perspective, the same question has a different meaning. To your executive team and shareholders, prices should line up with your strategic and financial goals. For the business to be successful, you need to set prices that deliver the growth and gross margins committed to in your business plan.

1. Market Dynamics
2. Value
3. Strategy

Defined this way, it's evident how complex it is to achieve what we call Rational Pricing in a business with thousands of customers and products, dynamic competitive strategies, and complex interrelationships between them all.

In this white paper, we'll discuss why prices often fail to meet rational expectations and explain how rational pricing can improve sales reps' decision making, customer satisfaction, and overall business performance.

WHY PRICES FAIL TO MEET RATIONAL EXPECTATIONS

Massive complexity as a result of product proliferation, market dynamics and economic volatility make it virtually impossible for a few pricing analysts using spreadsheets or simplistic analytics to determine the right price for every transaction. Creating meaningful guidance remains extremely complex and dynamic for manual administration or analysis.

As a result, price guidance and realized prices regularly defy basic business logic. For example, high-performance and premium-brand products often sell for the same or less than mid-tier alternatives, undermining merchandizing strategies. Large, loyal customers may pay much more than cherry-picking, casual customers.

In an attempt to address this, companies expend significant effort administering pricing rules designed to ensure margins and price relationships line up. What they don't realize is that declared rules and backward-looking analytics are a lost cause. Innumerable customer-product-market combinations and the speed of change make manual rules-based pricing infeasible. Declared or heuristically-derived pricing guidance can't possibly support the millions of specific decisions that need to align with market flows, reps' account plans and business strategies.

The resulting guidance is irrelevant for the vast majority of selling circumstances, rarely aligning with competitive and customer realities. Without reliable guidance, the sales team's only options are ad-hoc overrides and subjective negotiations. Not only do these improvised price decisions leave money on the table, they often are at odds with broader business logic and the corporate strategies that should be reflected in your prices. We can't blame sales reps for looking at each deal in isolation. Even if they wanted to be more holistic, they don't have the time or the tools to evaluate how each price decision compares to others and how it will affect overall results.

Another significant consequence of poor guidance and irrational prices is distrust between buyers and sellers. When prices are opaque, lack solid justification, and are negotiated without context, reps lack conviction about what is the "right price," and customers feel obliged to push back to be sure they're getting it. It's no wonder pricing practices are usually a top source of customer dissatisfaction.

When price misalignments reveal themselves, as they ultimately do, not only is the credibility of the pricing program damaged, but in many cases, there is real cost in terms of lost market share, margin and customer goodwill. While customer-centric strategies and profit improvement initiatives abound, most pricing programs fail to meet the expectations of sales, customers and executives.

MEET AND BEAT EXPECTATIONS WITH RATIONAL PRICING

When prices are rational, the expectations of all key stakeholders are satisfied. Sales reps quote with confidence knowing that the guidance is aligned with market realities and corporate objectives. They can clearly explain to customers how to earn better deals and discounts. Customers know they are getting the right price on every deal, and what they can do to earn better terms. With deeper ties and better communication, relationships, revenue and profits are stronger.

With more satisfied customers, higher morale in the sales force and better P&L outcomes, your company is well positioned to beat shareholder expectations. Rational Pricing is truly a win-win.

For more information, visit www.zilliant.com

