

Pricing in a state of emergency?

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First and foremost a health crisis, COVID-19 is likely to snowball into a two-fold test for many companies.

A RESILIENCE-TEST. How will companies respond to disruptions in cash flows, operations and supply? Fiscal or monetary stimulus may not fully offset the shock caused by confinement and restriction measures. It is therefore legitimate to wonder how long shareholders and managers will keep their business afloat. This is a test of a company's financial health but also of its ability to react. Can management define and execute commercial responses to maintain revenues? Can companies continue to serve and invoice their customers whilst introducing remote working and facing a partial shutdown of operations? How do they ensure continuity of procurement? Will they adapt their commercial strategy and communication in the context of discontinued supply?

A CONFIDENCE-TEST. How will markets react in the short and medium term? Will sales and purchasing processes take more time to complete?



Will this imply a different balance of power between sellers and buyers? Will this imply a change in loyalty and commitment level between companies, business partners and their customers? Are we going to observe a sudden volatility in price levels? Will companies be worried about immediate results or consider the long-term implication of policies on margin and brand reputation? Will they manage to provide a convincing roadmap to investors and customers? The new environment will require lucidity, accuracy, courage and determination.

Whilst some companies are merely experiencing a temporary freeze of their activity, others will be operating through unprecedented times and need to find the right pricing approach. There will be different phases to the change in the economic environment and thus different phases in defining pricing

responses. It feels rather early, and perhaps inappropriate, to talk about recovery and a new pricing normal for now.

Short-term pricing strategies for most challenged companies should address the following practical questions:

- **Demand Stimulation.** Is it a good idea to cut prices to maintain sales velocity?
- **Offer Availability.** Should prices be adjusted to reflect disruptions in product availability?
- **Online Pricing.** How to manage a radical shift in the mix of sales channels?
- **Payment Terms Flexibility.** Should companies offer stricter or more flexible payment terms?
- **Customer Treatment.** How should companies demonstrate their commitment to their most valued customers?
- **Dynamic Monitoring.** How frequently should they be monitoring and updating their pricing policies?
- **Activity Costing.** Should prices reflect new cost structures and levels?
- **Communication.** Is there a way to activate some pricing levers without putting market stability and confidence at risk?

More than ever, successful companies will need to:

Understand the price sensitivity of their market environment:

- How will customer purchasing behaviour and decision criteria be affected by the crisis? Will their hierarchy of needs change in the short and in the longer term?
- What is the price elasticity and likely impact of any price change on sales volumes and margins?

Develop innovative, data-driven and well-articulated pricing plans:

- Should pricing structures and commercial offers be adapted to better balance cashflow performance and sales conversion? How can they be adapted in the face of consumers wanting to downgrade or change consumption habits?
- How flexible should they be with pricing guidelines and targets?

Ensure strong pricing governance and close coaching of execution:

- How to promote excellence in price communication & value selling, with a tone that is adapted to the new environment?
- How to respond to the often-inevitable requests from customers for price reductions given the changes in the market?

- How to monitor and reward sales performance in a more volatile environment?
- How to measure the impact of pricing policies and learn from market testing?

Avoid a rush to the bottom:

- How are competitors reacting to the new situation? What are their relative commercial strengths and price positioning?
- It may be tempting to reduce prices in order to stimulate demand in a more price sensitive market. But the competition's strategies need to be anticipated. Well informed strategies including positioning and communication tactics can succeed. But in most cases, price cuts will only lead to further erosion of profits in an already depressed market.

To end on a more positive note, it may also be the right time to develop longer-term capabilities and a more sustainable approach to pricing.

It does not feel right to wait for recovery as day-to-day operations are usually the best excuse to postpone long-term thinking and development plans. Remotely working management teams should seize the opportunity.

At Pearson-Ham, we are focussed on these renewed pricing themes. We

would be delighted to hear about your business and to discuss practical ways through these challenging times.

ABOUT PEARSON HAM

Pearson Ham is a specialist pricing consultancy. We offer a bespoke service, tailored to your business strategy. We take great pride in our collaborative approach and are passionate about finding and unlocking value.

Our award-winning team is a mixture of consultants and industry practitioners, but ultimately, we are all pricing specialists. We have broad experience across a wide range of sectors.

To find out more or discuss specific challenges, please contact us at: +44 (0) 203 583 9969 or contact@pearsonham.com.

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