



Redefining the Price Agreement

Reinventing your commercial proposition to challenge the status quo

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STARTING SITUATION

Price is fundamentally an agreement between supply and demand. It is set through a combined influence of cost of delivery and strategic intent of suppliers, needs and perceived value from buyers, within specific competition landscape market conditions. Needless to say, that this is often a complex and not exact science. In any given market, the probability that existing price levels are the reflection of well-balanced market forces is low. Rather, legacy prices “agreed between suppliers and buyers” should always be open for challenge.

Legacy prices should always be open for review

The price agreement usually consists of a price structure, price levels and a surrounding sales narrative that binds them together. By price structure, we mean the different components and dimensions which define the offering and the price explanation or calculation scheme. The price level refers to the monetary amount paid by the buyer and expressed within the price structure.

How to challenge the status quo?

TRADITIONAL APPROACH

Tradition has it that price structures and price levels are addressed differently and for different motives.

Companies willing to optimise price levels would focus on measuring price elasticities and anticipating the impact of price changes.

A change in price structure is rather a disruption, not something we deliberately aim for - unless it is called by external challenges.

Companies willing to optimise margins often focus on price levels whereas a change of price structure is considered in more extreme circumstances.

INTERESTING CONTEMPORARY TRENDS

The evolution of the economic landscape and the nature of new businesses creation is leading to a renewed focus on pricing architecture. New technology-led start-ups based on digital resources and scalable sales activities often have a fantastic pricing potential. They can easily reconfigure or package their services and price structures in order to define propositions and commercial agreements which support high growth, new feature monetisation, customer differentiation and the development of predictable revenues. The news of burgeoning alternative monetisation models is spreading like wildfire into other business sectors. We thus see many companies and sectors rethinking their commercial models, moving from product to service, from up-front charges to recurring subscription models, from cost-based to value-based price setting, from all-in-one to disaggregated services, from fixed stable pricing to performance-based pricing, from one size fits all to more personalisation and choice, etc.

AN OPPORTUNITY TO DRIVE COMMERCIAL VITALITY & PERFORMANCE

We would like to see an opportunity in these new business trends. In many markets, it has become difficult to improve prices over time. Customers, resellers, and competitors expect prices to stay within the range of their anticipations. These are driven by experience and available benchmarks. Any small variation is easily challenged and deemed as illegitimate. Years pass and market habits or conservatism only get worse. However, as discussed above, it is rather unlikely that market habits are crystallising a well-balanced and fully justified definition of value. Furthermore, many businesses keep on investing to improve their products and services. **Leaders willing to challenge the status quo and question well-established prices in their market can find a solution in contemporary pricing trends.** A change in pricing architecture is a good way to change the rules of the game” and create room for change.

A HEALTHY EXERCISE

We thus encourage companies seeking for additional growth levers to **reconsider the fundamentals of their pricing agreement with customers.** Starting from simple questions around delivery and value perception: How do you create value for them? What dimensions of your offering deliver most value? How do customer needs and potential vary across market segments? What truly differentiates suppliers in the marketplace? How are customer needs and usage likely to evolve overtime? Is value perception for the different offer dimensions likely to change? Where is it possible to create a competitive edge? Etc. Then moving on to question the shape of the current pricing

agreement, such as: Is your product and pricing architecture reflecting value created? Are price metrics enabling you to capture future growth levers? Does the current approach to create packages and set the price for commercial offers support optimal monetisation? How effective is the process of providing customised alternatives to customers? ... **Going through this initial questioning might help to identify new ways of improving customer experience and pricing performance at the same time.** It is in our view a very healthy exercise for a business, contributing to mid-term marketing strategy development and as well short-term revenue and margin enhancement.

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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.

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