Tactics for Implementing Price Increases in Inflationary Times

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Implementing a price increase is challenging, but it allows companies to capture the full value of their products and services. There is substantial evidence that companies under-price due to a lack of internal confidence, poor incentives, inadequate capabilities, or the absence of processes. It is not customer need, but rather internal fear and consequences of implementation that leads to great caution and ultimately, under-pricing.

Unusually high levels of inflation present a great opportunity for companies to pass through greater price increases. The question is: how can companies do this effectively?

In most instances, the level of price increase must be adapted to the industry context and the company's standing in the market. However, all companies must think about price change justification, customer differentiation and communication. By adopting pricing best practices, companies can make their price increase a success.

Price Change Justification

The easiest, low-risk tactic to justify a price change is to focus on rising external costs. Customers are more likely to accept this approach as they understand that businesses must cover their costs. However, this approach is not always applicable when business costs are constant or only rise slightly. In this situation, companies should enact a price increase as quietly as possible to optimise the amount of positive or neutral responses from customers.

Differentiation and Communication

The two parameters that drive customer differentiation are importance and severity. Importance refers to the size and loyalty of customers and severity explains the size of the price change. Important customers need to be treated kindly given their support of the business, and severity is the tool used to differentiate between customer segments.

Once an appropriate price increase is determined for each customer segment, companies must consider their preferred communication channel. Important customers will want a higher standard of care, warranting visits or phone calls from salespeople or the management team in advance of the increase to handle objections and preserve that relationship. For other customers, an announcement in the press or a simple letter explaining the price change would be an easier route and bring less attention to the change.

Best Practices for Pushing Through Price Changes

Price increases can be put through unilaterally across all products and services, but frequently price increases are executed at the same time as a change to the product offering. With multiple changes going through at once, it makes direct price comparison difficult and allows for an easier, broader conversation to have with your customers about product value and justify the price rise.

It is best practice to offer your customers choices between different product offerings. Customers can choose to stay with their original product at a higher price, downgrade to an inferior product for the same price, or upgrade to a better product for a better value price. With this approach, customers will directly associate price with value, and it prevents them from feeling exploited.

A price increase should be treated as a complex, integrated commercial project. This project requires a full understanding of the desired price increase, a redesign of product offerings, creation of pricing processes, and defined monitoring mechanisms to arrive at the best outcome for the company.

Quickfire Q&A

Would you advocate making price moves incrementally or all at once?

No, I would not. If you are going to make more than one price change, you should have at least six months of elapsed time between each change. People prefer annual changes because they recognise the legitimacy of annual inflation and its impact on costs.

Is the approach or challenge different in B2B and B2C?

Yes, there is a big difference between a contract-based situation in B2B where customers are repeatedly buying the same thing versus a consumer retail context where there's no need to communicate the move and consumers will not recognise the price changes as easily.

Should price increases be more ambitious, more cautious or match inflation?

It would be rare to put in an increase that is below inflation, but that is dependent on the competitive landscape. Independent of cost, a company must assess how much value it is creating alongside the level of price increase. Companies must learn to match customer expectations of price.

Do price decreases occur when inflation comes down?

Historically, inflation has been driven more by wage inflation rather than input costs. Wage inflation does not revert to historical levels, but inputs like commodities or energy will, so prices adjust accordingly.

How involved should the management team be in the price move decisions and plans?

Management should be involved because pricing is the most important driver of profitability, but there are trade-offs between volume and profit targets. The decisions of how hard to push pricing must be made at the top of the organisation because this a significant decision about strategic business priorities.