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PROFESSIONAL PRICING

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PROFESSIONAL PRICING

IMPROVING SALES, PROFITABILITY, AND LIQUIDITY

In recent years, business-related discussions have been dominated by two topics. On the one hand, there are new business models related to innovation, AI, and the realignment of international markets. On the other, many companies want to improve their productivity and are breaking new ground through digitalization, agility, and new ways of working. Both topics are important, but one factor is still underestimated - professional price management. It is a crucial prerequisite for sales, profitability, and liquidity.

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1. WHY IS PRICING IMPORTANT?

The easiest way to understand the importance of pricing is to compare prices and costs. Prices have an external effect, while costs are internal. Prices can be quickly adapted by competitors, while costs require more time to have a lasting impact. Price changes rarely have an emotional effect on the workforce, whereas cost reductions almost always do. It is still astonishing how little attention is paid to pricing in practice and academia. In many cases, the substance of the content does not go beyond a normative positioning, such as "We have premium prices" or blanket price adjustments are implemented based on market levels or inflation indices. Managers - not specialists - are needed to ensure and develop pricing skills and competencies within the company. Anything else is a commercial risk.

Pricing remains a "blind spot" in many companies.

Professional pricing[1] is a driver of sales, profitability, and liquidity. In addition to knowledge of calculations, it requires a sound understanding of customers, competition, and the market. The business-related core of a business is derived from the simple formula "price x quantity - costs." The first multiplier is price. Many organizations neglect this factor and focus one-dimensionally on quantity and costs. In relation to sales growth or productivity improvement, only a fraction of the effort is put into professional pricing. Most managers are simply unaware of the connection between price reductions and the necessary increase in sales to maintain the same result. The consequences can be illustrated using the price-sales function (see Fig. 1). If, for

[1] Meffert, H., et al., Marketing, Wiesbaden 2024, p. 465 ff.

example, the contribution margin return is 10% and prices are reduced by only 5%, sales must be increased by 100%, i.e., doubled, in order to maintain the same result. A single-digit price reduction must therefore be offset by a triple-digit increase in sales. This is precisely what can be described as "business-related flying blind."

Fig. 1: Price-sales function: Necessary increase in sales due to price reduction

Contribution margin return in percent (CMR = CM / net revenue)						
CRM	10	15	20	30	40	50
Price reduction	Necessary increase in sales in percent for the same DB return					
1	11	7	5	4	3	2
2	25	15	11	7	5	4
3	43	25	17	11	8	6
4	67	36	25	15	11	9
5	100	50	33	20	14	11
10		200	10	50	33	25
15			300	100	60	43
Formula	Sales increase when prices are reduced = price reduction divided by contribution margin return minus price reduction					

2. WHAT PRICING LEVERS ARE THERE?

Professional pricing involves five approaches that can be used either individually or in combination[2] (see Fig. 2). First, pricing decisions can be made based on customer or competitor focus. Customer focus means that the business is clearly segmented and a recognizable price position is created based on customer benefit. For new business models or digital market services, this is the linchpin of market presence. Price positioning based on the level of competition is the simplest pricing strategy. The price points of market competitors are taken, and a company's own positioning is determined based on these coordinates.

The second lever for pricing is the experience curve and cost position. Low prices are intended to increase sales and thus market share disproportionately. This forms the basis for economies of scale, where fixed costs are distributed over more sales. Unit costs fall, thereby increasing profitability. However, this effect does not occur automatically, but must first be ensured through appropriate productivity management. This is precisely where the tension becomes apparent as offering competitive prices is not an art. The question is whether the cost structure can sustain such prices. In addition, greater market power through market share leads to more attractive procurement conditions. Better purchase prices are then a consequence of effective pricing.

[2] See Monroe, K., Pricing Management and Practice, Broomfield 2024, p. 151 ff.

Fig. 2: Levers for professional pricing	
1. Customer or competitor focus	• Segmentation of the business and clear price positioning based on customer benefit • Price positioning according to competitive level
2. Experience curve or cost position	• Low prices as a catalyst for higher market share and good purchasing conditions • Parallel assurance of a cost structure that is commensurate with prices
3. Price differentiation	• Splitting and different billing of products or services • Differentiation according to life cycle, market performance, brand, quantities, customers, regions, etc.
4. Distribution system	• Design of all sales and distribution processes ("selling center"): training, incentives, etc. • Rapid absorption of market signals to understand market developments and price dynamics
5. Accompanying price elements	• Pricing instruments such as discounts, flat rates, subsidies, additional services, exchanges, bonuses, etc. • Psychological, communicative, and negotiation-tactical understanding of the purchasing structure among customers ("buying center")

Thirdly, there is what is known as price differentiation. In this case, differentiation from the competition is not meant, but rather splitting products or services in terms of price and charging them differently. For example, many industrial companies are moving toward marketing and pricing services over their entire life cycle using pay-per-use models. Price differentiation can be based on the respective maturity of the market performance, but also on brand, quantities, customers, regions, and so on. Here, too, the focus is on customer benefit and the company's ability to recognize this and translate it into a priced service. For example, in recent years, Microsoft has systematically shifted its marketing and pricing from individual software products to usage.

Pricing always starts with market knowledge.

A fourth pricing option is the design of the distribution system. A price only becomes effective when sales or distribution ensures that the right prices are determined, calculated, planned, and implemented. This system consists not only of the price tag, but also of all other factors involved in realizing these prices. Training and incentives are just as much a part of it as the competent and timely recording of market signals. "Sales" is much more than the function shown in the organizational chart. It encompasses all contributions that ensure that not only products and services are sold, but also customer value is created. Correct pricing therefore also has organizational implications. A buying center on the customer side can only be addressed once the selling center within the company is functioning properly.

The fifth lever is accompanying price elements that supplement the price position and price decision. In general, pricing refers to cash purchases, financing models (equity) or leasing (debt capital). These three forms can be specifically designed and incentivized. Each of these can be combined with discounts, flat rates, subsidies, additional services, returns, exchanges, or bonuses. Accompanying price elements have a psychological, communicative, and tactical effect on the purchasing system that should not be underestimated. Once again, this requires knowledge of customer benefits and decision-making structures.

3. HOW DOES IMPLEMENTATION WORK?

Pricing is one of the "4 P's of marketing" alongside product (product or service quality), promotion (communication), and place (distribution) and receives recognition as such everywhere. However, practice shows that managers in particular pay far too little attention to this key issue. As a result, pricing decisions are made too quickly, too operationally and too unsystematically. These are often ill-considered price reductions or increases. Price reductions have three disadvantages. The first is that they can be quickly imitated by the competition. The second disadvantage is that once prices have been reduced, it is difficult to raise them again. The third is price reductions lead to a permanent deterioration in earnings unless they are offset by experience effects. However, blanket price increases in the context of inflation can also be unprofessional, either because they do not exploit the full potential or because they have a negative impact on image and market position.

The pricing cockpit is the basis for professional price management.

The pricing cockpit is a proven tool in price management (see Fig. 3). It can be used to quickly generate systematic momentum without having to implement sophisticated methods such as conjoint analysis[3]. First, the individual pricing levers are discussed and price positioning targets are developed with a corresponding time frame. This also includes an initial assessment of the impact on sales. This price positioning can then be used to develop a concrete list of measures. This defines responsibilities and ensures the positive effect of pricing on sales, profitability, and liquidity.

[3] Simon, H. / Fassnacht, M., Price Management, Wiesbaden 2016, p. 497 and 504.

Summary: Application and Benefits

1. Knowledge of the impact of pricing on sales, profitability, and liquidity
2. Identification of the right levers for pricing
3. Consistent and professional implementation with the pricing cockpit

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Fig. 3: Pricing cockpit: tool and example (plant engineering)

A plant engineering company wants to increase the effectiveness of its pricing and develops a pricing cockpit. This is an integral part of a new sales strategy for the company and its individual branches.

1. Price positioning

Lever	Price approach and implementation time	Impact on sales	Responsible
1. Acquisition and implementation of projects	• Enforcement of flat rates (6-12 months) • Approach: 15% indirect project surcharge (3 months)	12 million euros	Each acquisition manager / Branch management
2. Increase in project prices	• Increase in effective project rates by 5% (3-6 months) • Consistent billing of services (1-2 months)	18 million euros	Each sales representative / Branch manager
3. Discounts and rebates	• Reduction of discounts and rebates by 80% (1-2 months) • Discontinuation of material and service discounts (1-2 months)	13 million euros	Sales management
4. Industrial services	• Separate pricing of industrial services (3-6 months) • 10% price increase (3-6 months)	9 million euros	Each sales representative / Branch manager
5. …	…	…	…
	Total	70 million euros	

2. Price implementation

No	measure	Deadline	Responsible
1	Enforcement of flat rates and project surcharges: per branch for three A customers	March 31	Branch management
2	Gradual price increase: implementation of price increase: average of 5% by April 30 or achievement of an average of 5-8% for the second half of the year	October 31	Branch management, every sales representative
3	…		

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