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# **Selling After the Crisis: Pricing, Profits, and Customer Value**

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*ELT Malta Conference: Business & Management Stream  
(October, 2021)*

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# Agenda for This Session

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- Use Research and Data from a new Book to discuss:
  - What Is and Is Not Changing in Business Development
  - Linking Pricing, Profits, and Customer Value:  
Hallmarks of Effective Pricing Programs
  - Small-Group Workshop
  - Q&A, Discussion, Wrap-Up

# What Is Changing & Why

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- **Buying: From Funnels to Streams**
  - A sequential A-I-D-A hierarchy of effects model has been the basis for most sales pipeline, training, and CRM models for 60+ years
  - But buying journeys in most markets are now a dynamic process: explore, evaluate, engage in parallel streams via tech tools
  - Pandemic accelerated omni-channel buying but also made online marketing increasingly cluttered, expensive, diminishing returns
- **Changes in Sales Tasks and Management Requirements**
  - People: Hiring, Training, Required Competencies
  - Process: Sales Models, Relevant Metrics, Required Analytics
  - Partners: Multi-Channel Marketing is now the Norm
  - Pricing: Impact on Value Pricing Opportunities and Challenges

# Pricing

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- Compared to other business actions, Pricing tends to be:
  - Most visible, quickest to modify, a signal to customers and competitors, and often elicits an emotional response
  - Core profitability driver: builds or destroys value faster than other business actions → e.g., 1% price increase = 8 - 12% profit increase for typical Global-1200 firm (multiple studies)
  - A “Moment of Truth”: where you test the viability of a strategy and value proposition in the market place
  - Industry implications: “The worst business to be in is one where price is determined by your most-desperate competitor”

# *Hallmarks of an Effective Pricing Program*

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## ***KEY QUESTIONS:***

- Is it driven by customer value?
- Does it recognize that value varies across customer segments?
- Does it align and manage channel partnerships?
- Do we test prices and pricing as the market inevitably changes?

# 1. Value from the Customer's Perspective . . . .

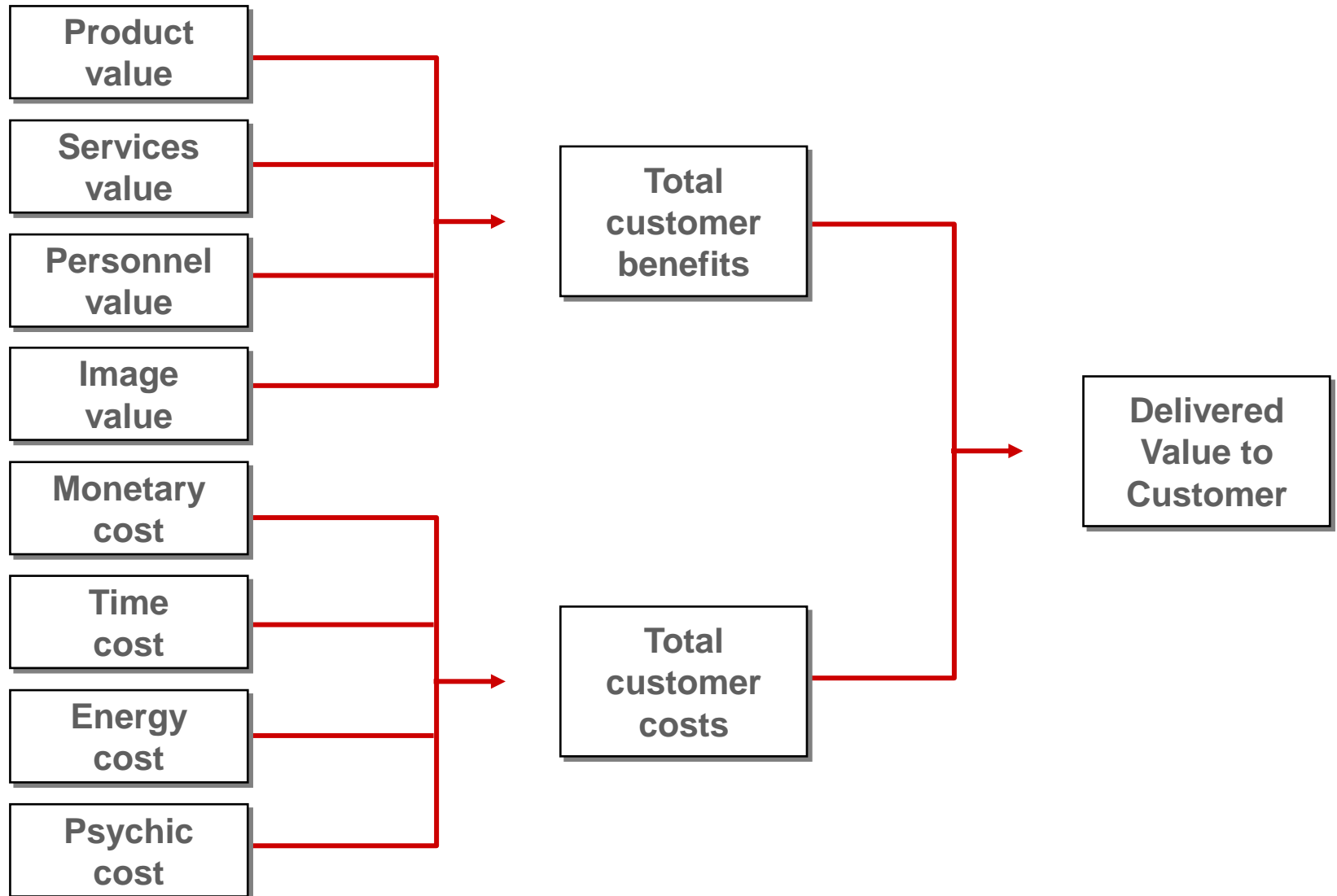
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$$\text{Value} = \text{Benefits} - \text{Costs}$$

Competitive advantage means continually creating more value than competitors do for customers

- If there is value, there are quantifiable benefits
- For customers, there are *always* costs, and the costs are not just financial

# Determinants of Customer Delivered Value



# Identifying and Communicating Value: Some Implications

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- Understand the total customer experience and buying journey at each level of the channel . . . and how it may be changing
- Evaluate activities that your customers and channel partners do (or should) value and their evolving expectations of benefits
- Identify and build appropriate relationships
  - Who is the customer by segment? Who are key influencers? What are their motivations & perceptions (of us, competitors, outcomes)?
  - Then, Selling and Framing Value and Price



# Selling Value: Some Things to Remember

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- Incentives: Focus on Maximizing Profits, Not Just Volume
- Train Sales People in Negotiation and Access to Right Buyers, and Institute Regular and Disciplined Account Reviews (“After-Action Reviews” as a potentially useful model)
- Look for Small Value/Price Opportunities . . . Constantly
- Frame Price in terms of the relevant Value Proposition and Always Remember: Value Differs By Customer Segment & Use

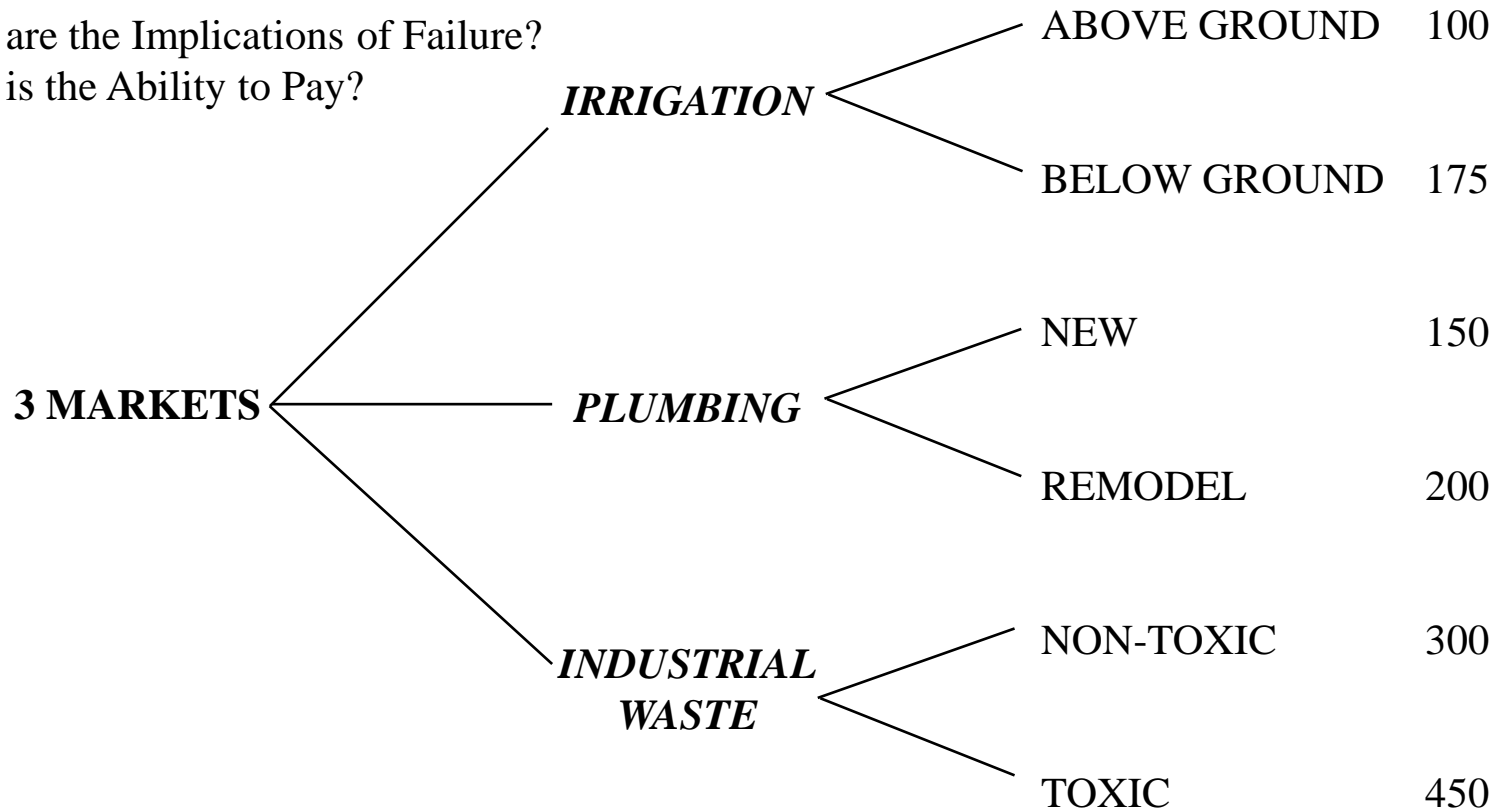
## 2. Value Varies Across Customer Segments

- *Drivers of Differential Customer Value for “Same” Product*

- What is it Used For?
- What are the Performance Needs?
- What are the Implications of Failure?
- What is the Ability to Pay?

- *Example: Du Pont Alathon Pipe*

Failure Rate: 8% → 2%



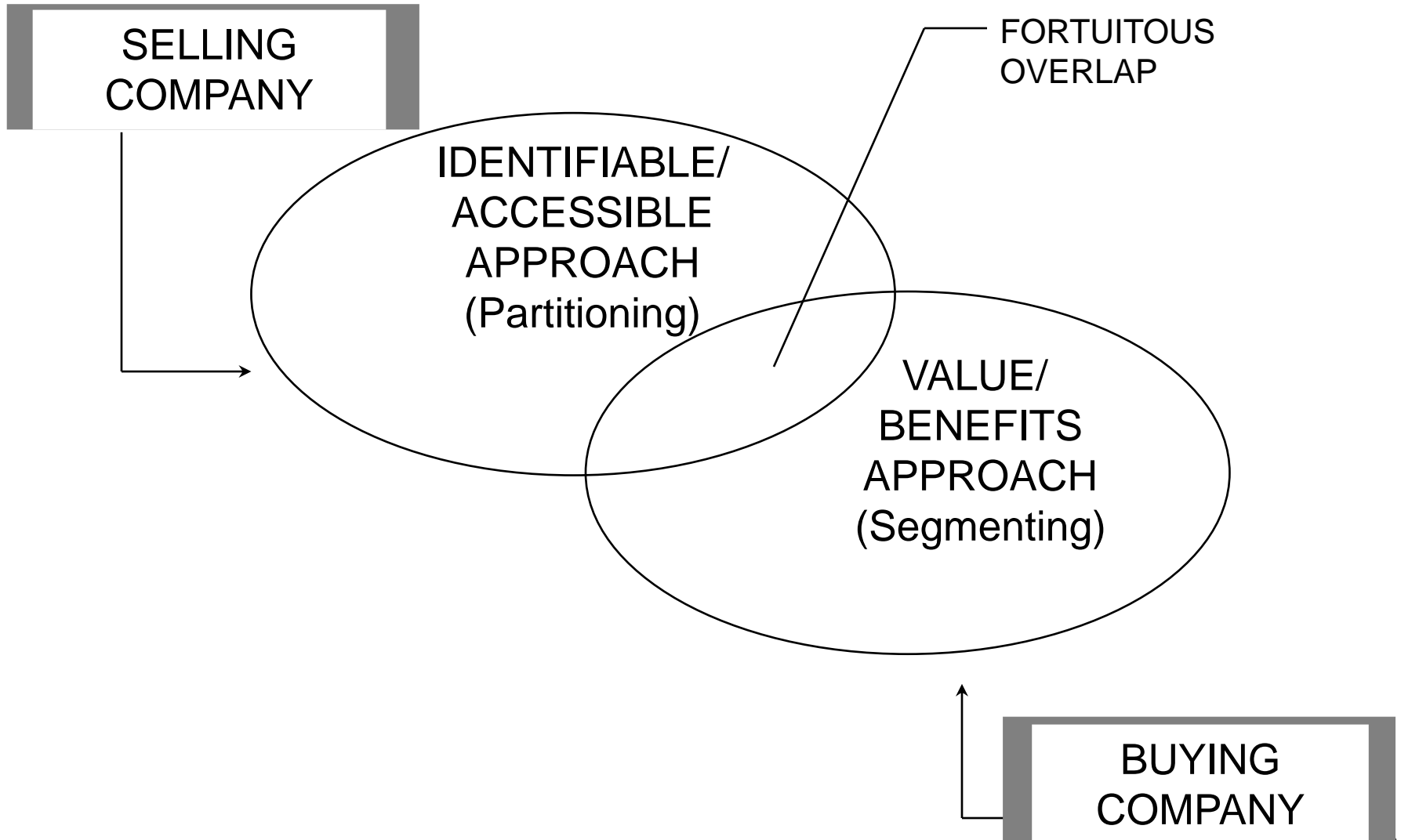
# To Understand How Value Varies . . . .

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- Segmenting vs Partitioning a Market
- Price vs Cost-to-Serve different types of buyers/channels

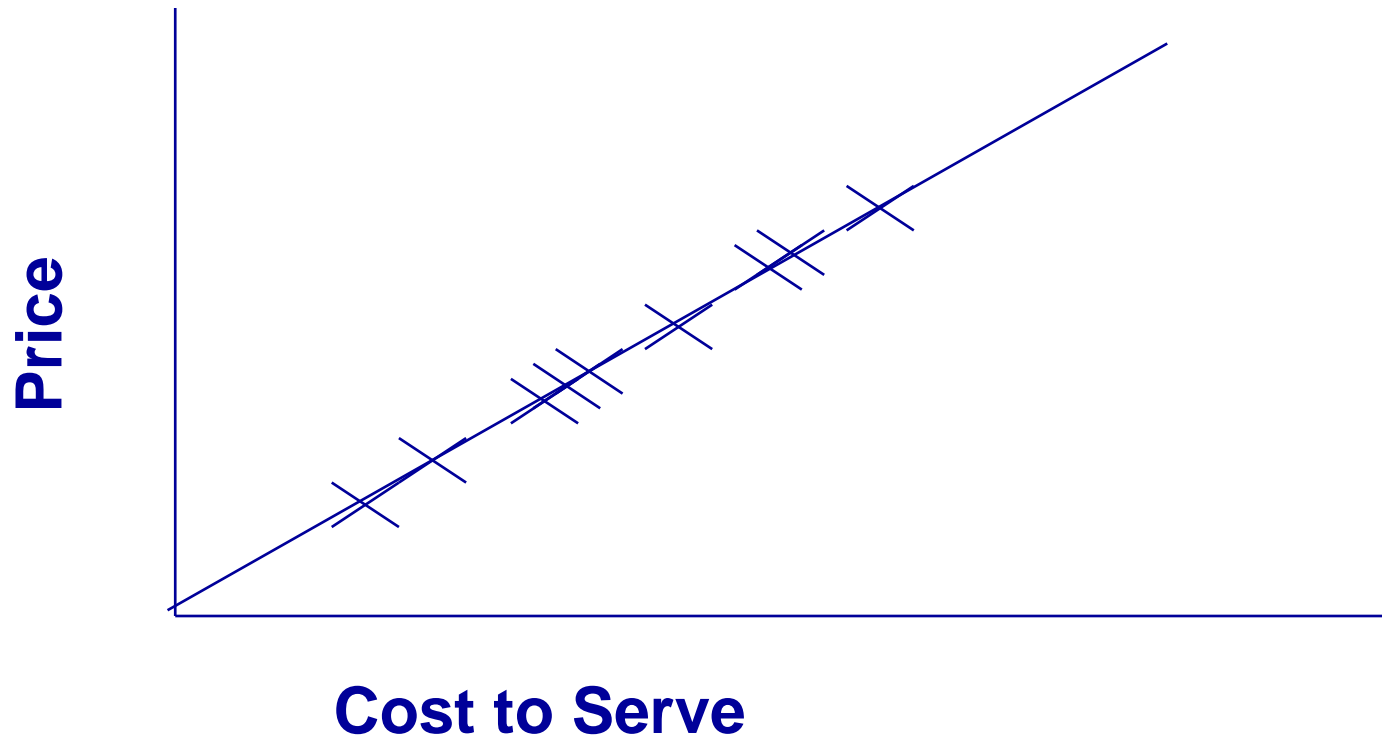
# ***Two Basic Approaches to Customer Groupings . . . And They Are NOT Equal!***

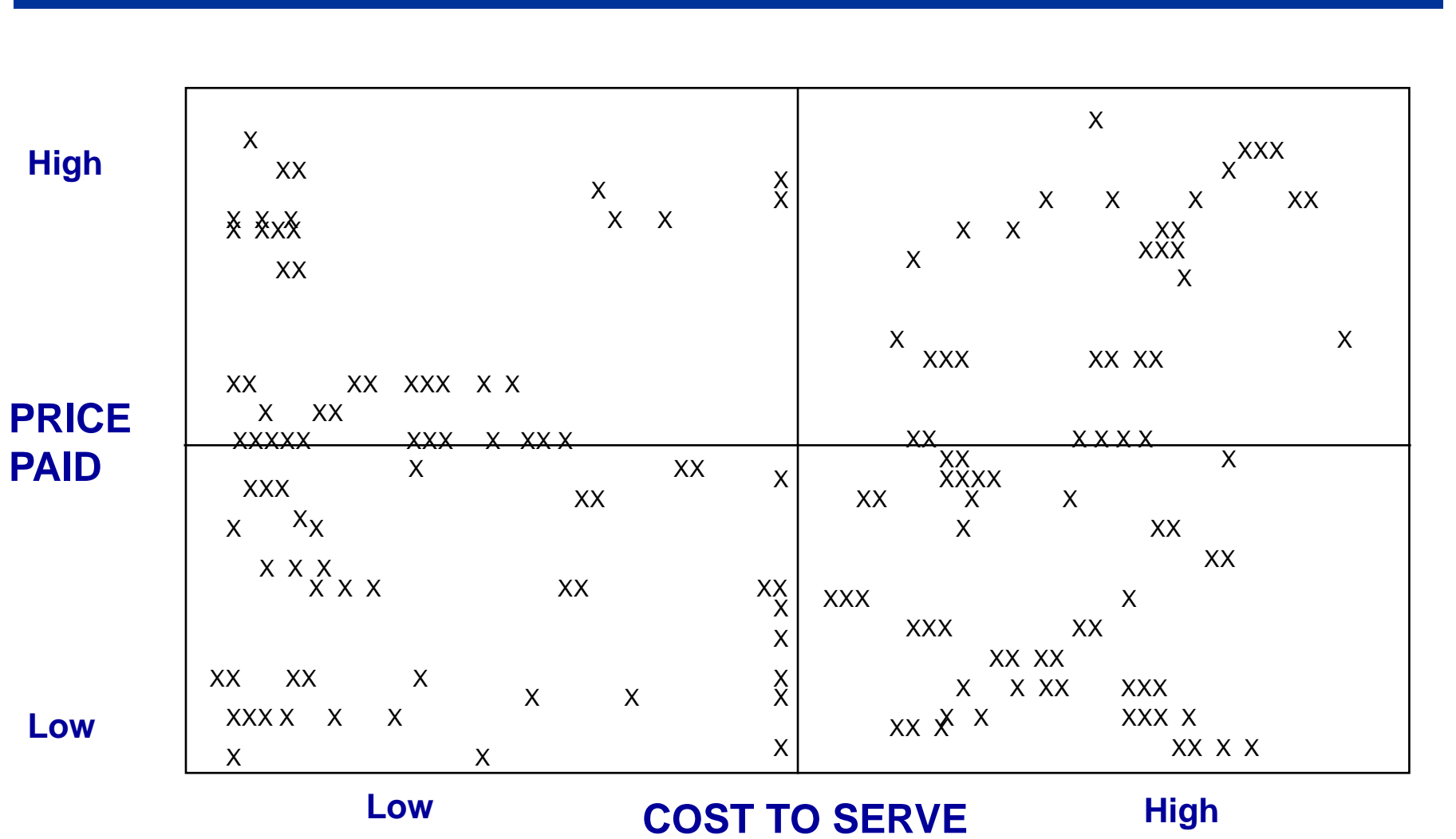
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**In effective pricing programs, there should be a correlation between price and cost-to-serve that customer . . .**

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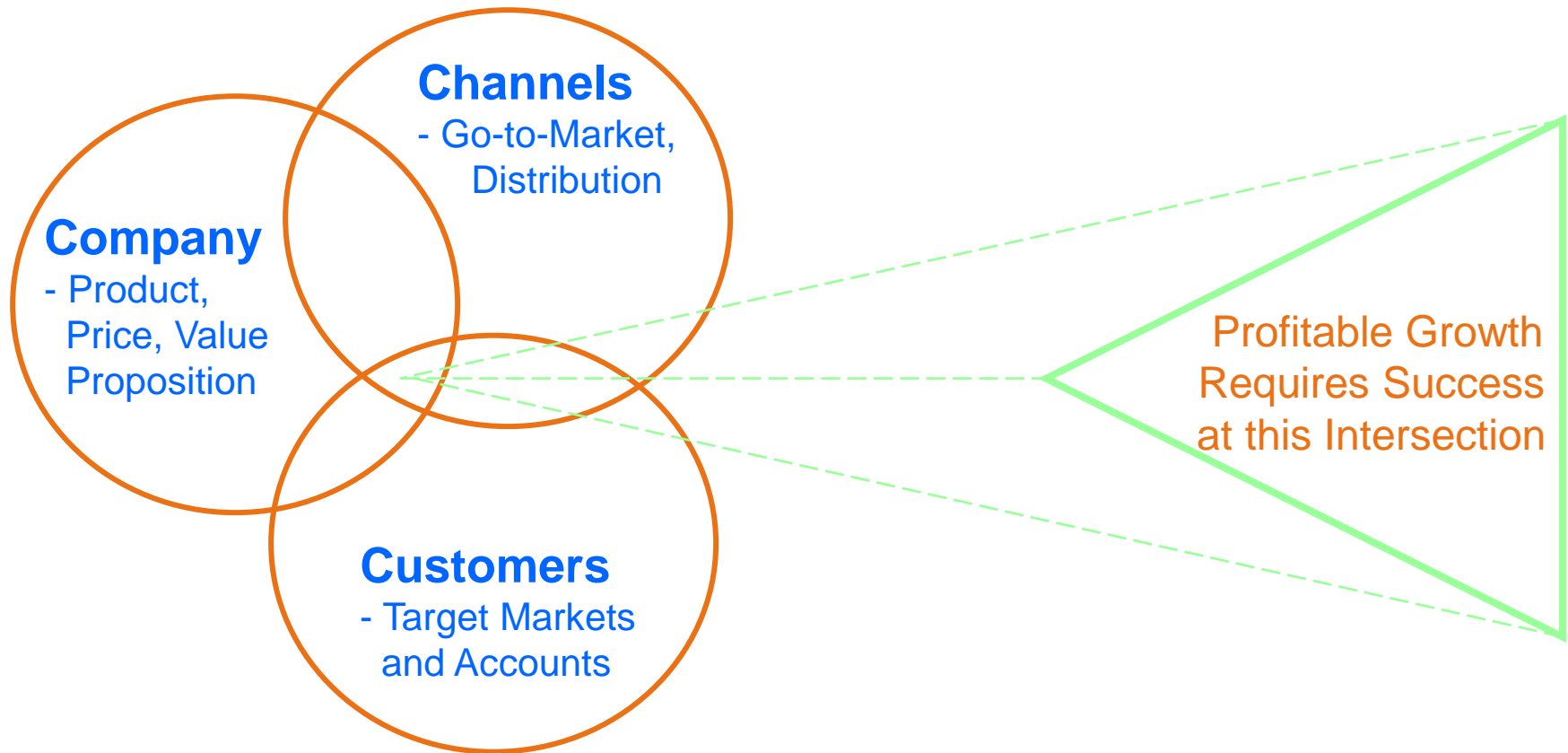
## To Link Price and Cost-to-Service . . . .

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- Know why the customer buys and what the customer values
- Know our own costs and capabilities
- Use that knowledge to
  - Understand High vs Low Cost-to-Serve Customers
  - Select Opportunities and Apply Resources
  - Set Prices and Communicate Value

# 3. Aligning Company, Customers, Channels

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# Successful Channel Partnerships: Reciprocity

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- We Give to Channel Partners
    - Product knowledge
    - Responsive product changes
    - On-going attention/support
    - Pricing & presentation support
    - Emerging best practices about the above
  - We Get from Channel Partners
    - Customer access/information
    - Responsive promotions
    - Sales attention & incentives
    - Sales forecasts and results
    - Emerging best practices about the above
- In a service business, the product's perceived value, adoption criteria, and willingness-to-pay vary by customer segment *and* the channel used to reach that segment
- This has implications . . .

# Channels of Distribution

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**A given channel is not only a source of leads and costs. It is also a go-to-market *system* encompassing often implicit assumptions about:**

- The product
- Buyer behavior
- Service needs
- Customer value and price

*You can and should think through these assumptions*

*Firms now have more options for their go-to-market tasks . . . and more complexity*

# Some Principles of Effective Channel Management

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1. Channel relations = “adversarial collaboration”: Mutual interests and shifting perspectives over time and over a market life cycle
2. The goal is **not** to eliminate channel conflict, but to manage it profitably:  
First grow the pie, so we argue over things worth arguing about
3. Many established distribution arrangements lag market developments and are vulnerable to channel innovators and disruption
4. In an omni-channel buying world, ***Beware of go-to-market inertia***

# A Channel Diagnostic: Questions to Consider

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- What is the channel's role in your growth strategy?
  - Cost efficiency? Market access? Supplement to scarce resources? Necessary part of the solution package? Other?
  - Are they “Sell-With” or “Sell-Thru” partners?
  - Do terms and conditions reflect the tasks performed?
- Are key customer care-about's changing as the market evolves?
  - What are the options for shifting a sales or service task to a different, more cost-efficient channel (offline or online)?
- How many target segments and channel partners can you realistically support and manage at this stage of your business?
  - Tradeoff between control versus resources
  - Tradeoff between focus/depth versus access/breadth

## 4. Why Test Prices and Pricing?

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- Identify reactions to different prices and pricing structures as markets, competition, substitutes inevitably change
- Understand factors that drive willingness-to-pay among different customer types/segments and key interactions between Pricing, Product, and the Go-to-Market model
- Overcome common inertia of legacy prices, sales' fear of price increases, and “gut-feel” approach to price

*“People assume that companies use scientific methods to determine their product’s price. But in almost every case I’ve seen in my career, the process is guesswork.”*

*– David Ogilvy, Confessions of an Advertising Man*

# Price Testing: Use a Combination of Methods

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- You need data: price – cost – product interrelationships
- Surveys: Asking customers about price tends to anchor them on price independent of other value components (quality, brand etc.)
  - What they Say versus Do (actual marketplace behaviors)
  - Distinguish buying contexts: *Yes/No* (e.g., durables) vs *Variable quantity purchases* (# of units at a price) vs *Experiential Goods* where price is often a quality signal to customers
- A/B Tests: viable online (e.g., ads with same product at different prices): info about behavior, not only stated preferences
- Internal judgments of price elasticities: often hostage to history, but useful inputs for *hypotheses* that you can and should test

**Questions? Comments? Observations?**

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# **Small-Group Workshop Discussions**

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# Small-Group Workshop Questions

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- What, in your view, are the 1 – 3 key Market Realities that ELT firms must monitor and confront over the next 1 – 3 years?
- Why? Are there significant trends or changes that you face in buyers, suppliers, substitutes, channels, or opportunities?
- What are the implications for Pricing, Profits, Customer Value?
- What should we Start, Stop, Continue, or Do Differently?

# Wrap-Up

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- Articulating a Value Proposition
- Aligning Price, Profits, Value, and Strategy
- To Learn More About This Topic

# Articulating a Value Proposition

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- What benefits, other than price, count when customers decide to buy from your company?
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## Articulating a Value Proposition (cont.)

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- Can you fill-in these blanks, with appropriate specificity?

For \_\_\_\_\_ (Target segment or account)

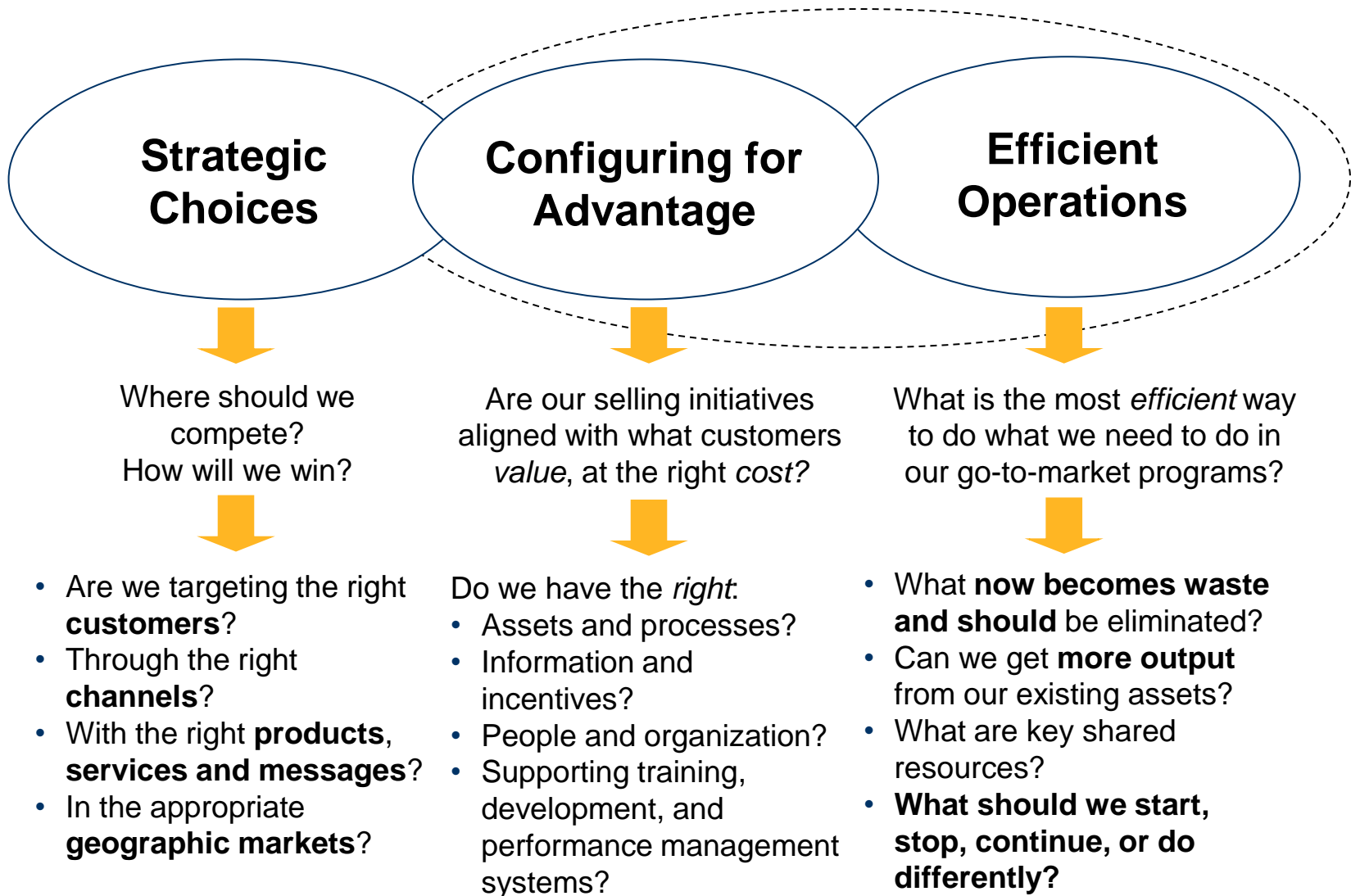
our products provide \_\_\_\_\_  
(Most important customer benefits)

to these people at the customer or channel partner \_\_\_\_\_  
(buyers/users)

because \_\_\_\_\_  
(Key features or activities supporting the cited benefits)

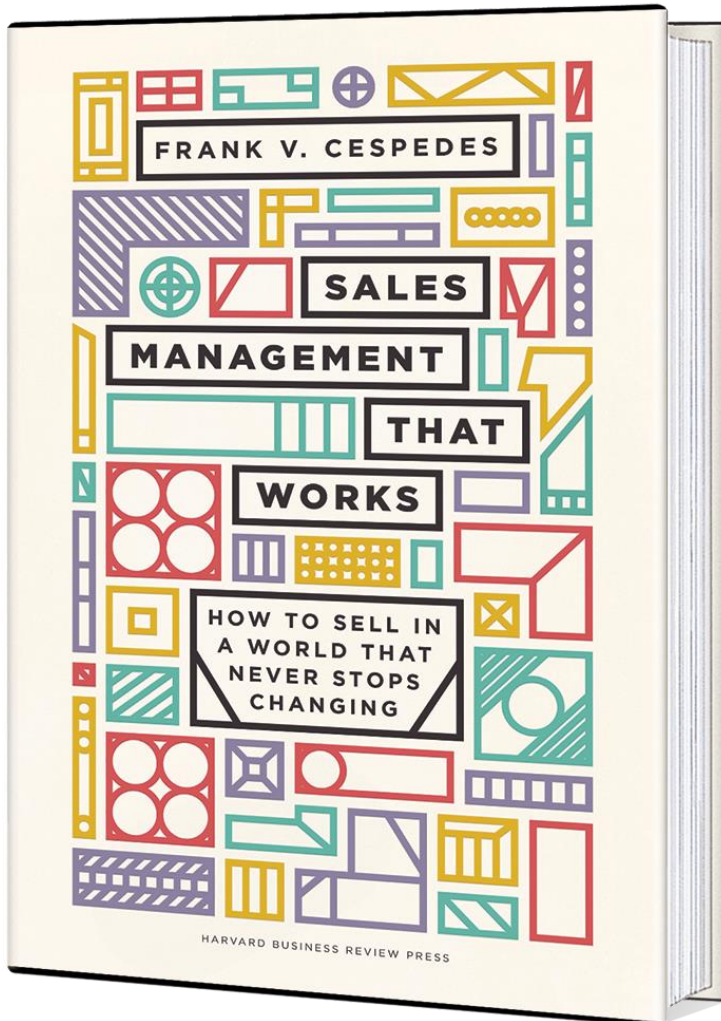
# Aligning Pricing, Profits, Value, and Strategy: Some Questions To Ask . . . and Answer

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# For more on these topics: A Good Book!

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# Thank You!

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- *And Best Wishes for Success in Your Business,  
in Your Career,  
and in Life.*

*Stay Positive . . . . and Test Negative!*

*Frank Cespedes*