



# Strategies for Pricing in an Inflationary Environment

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A photograph of an iceberg floating in the ocean. The top part of the iceberg is visible above the water surface, while the much larger, submerged part is visible below. The water is a deep blue, and the sky is a lighter blue with some clouds.

... pricing's impact is immense.

# The Business Impact of a 2% ROS Improvement



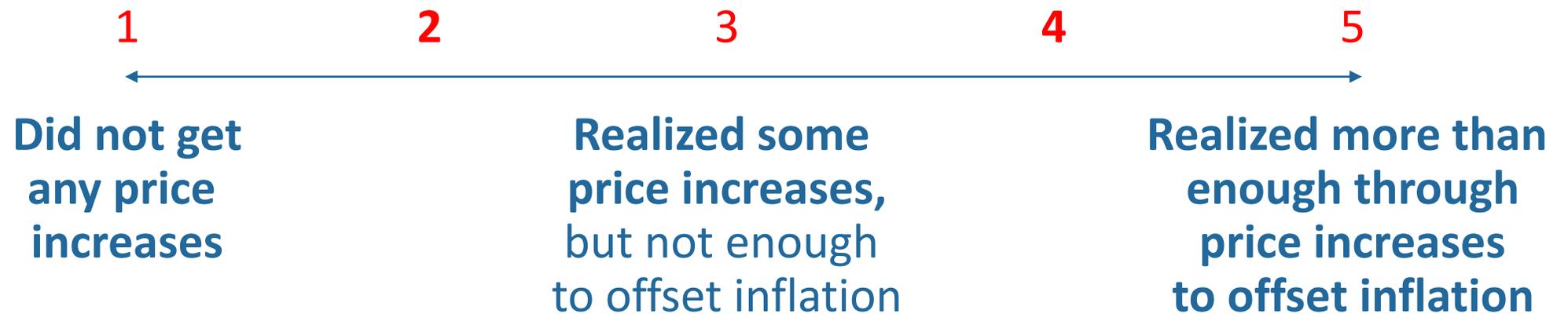
	Current	Future
Revenue	\$200M	\$204M
COGS	\$100M	\$100M
Gross Profit	\$100M	\$104M
Operating Expenses	\$84M	\$84M
ROS (EBITDA)	\$16M	\$20M

+ 2%

25% Gain

## Question 1:

**On a scale of 1-5 how well do you think your business did at raising prices to offset inflation?**





# 2022 Recap and 2023 Outlook

## 2022: What We Saw Across Industries

- All companies had success in 2022 getting price increases. They **“rediscovered their pricing muscle” (and gained confidence in the process)**. **It is important to carry this forward!!!**
- **Most price actions were across the board price increases**
- **Most raised prices multiple times in 2022**
- **Most realized high single digit or low double digit average price increases**
- **In most cases, the price increases DID NOT offset the full impact of inflation and supply chain issues**

# 2022: What We Saw Across Industries

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## ■ **The Good**

- Conscious focus on developing pricing best practices (ie process, skills, reporting)
- Rates were mostly increased 10-20%
- Introduced fees/surcharges for travel, tech, disposal, admin, recording, fuel
- Identified differentiated (and undifferentiated) offers and customers (started using 80/20)

## ■ **The Bad**

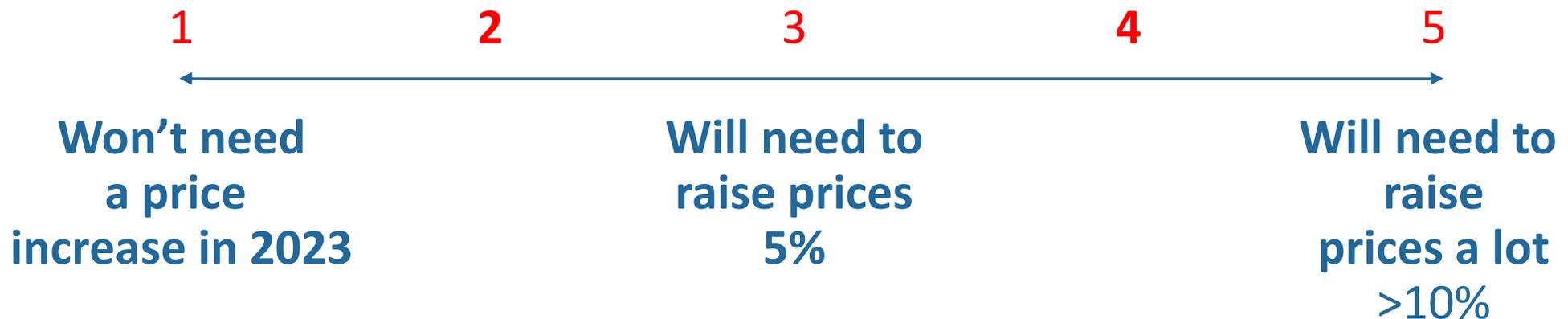
- Costs were higher than forecast... from labor to travel to supplies
- Open positions were difficult and costly to fill

## ■ **The Ugly**

- In most cases, we did not “realize” enough in price to offset the full impact of all cost increases

## Question 2:

On a scale of 1-5 how strongly do you feel that you that you will need to increase prices in 2023?



# 2023 Outlook: Headwinds are Forming



## Recession Now Seen as More Likely

The U.S. is forecast to enter a recession in the coming 12 months as the Federal Reserve battles to bring down persistently high inflation, the economy contracts and employers cut jobs in response, according to The Wall Street Journal's latest survey of economists.

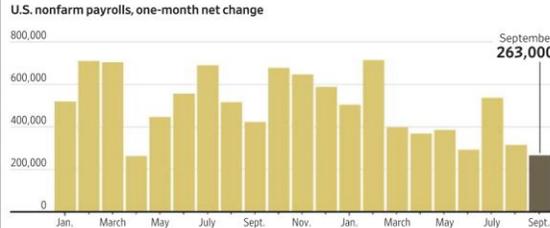
Economists surveyed in October by The Wall Street Journal forecast a 63% likelihood the economy will head into recession within 12 months as the Federal Reserve raises interest rates to battle inflation.

The past few years have been volatile for the U.S.

**Probability the U.S. is in a recession in next 12 months including today**



September's job growth, while robust, was below this year's monthly average gain, while labor-force participation, unemployment and hourly earnings growth all eased last month. The report sent stock indexes lower.



## Jobs Data Show Few Cooling Signs

By GABRIEL T. RUBIN

The U.S. labor market lost some momentum in September, but remained strong, as high inflation and rising interest rates weighed on the economy.

Job growth slowed, with employers adding a seasonally adjusted 263,000 jobs in September, the Labor Department said Friday. The increase, while still robust, was less than August's increase of 315,000 and the monthly average gain of more than 400,000 during the first half of the year.

The unemployment rate fell to 3.5% last month from 3.7% in August, matching a half-century low that was last reached in July. The number of people in the labor force fell in Septem-

ber after increasing the prior month.

Stocks fell and Treasury yields climbed on concern that the relative strength of the jobs market would keep the Federal Reserve on track to approve another large interest-rate increase at its meeting next month. Officials are trying to lift borrowing costs high enough to slow hiring, spending and investment to reduce four-decade-high inflation.

"We are seeing labor demand cool," said Sarah House, senior economist at Wells Fargo. "But we have a long way to go towards restoring balance." *Please turn to page A2*

◆ Heard on the Street: Jobs data still too hot for the Fed... B12

## Risks of a Deep Global Slump Escalate

Finance officials warn rising borrowing costs and high inflation boost chances of a recession

By ANDREW DUEHREN AND YUKA HAYASHI

WASHINGTON—Risks of the

Headlines from the WSJ in October, 2022

# 2023 Outlook: Big Unknown is What Happens to Labor Costs



## Recession Now Seen as More Likely

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Finance officials warn rising borrowing costs and high inflation boost chances of a recession

By Andrew Duehren  
and Yuka Hayashi

WASHINGTON—Risks of the

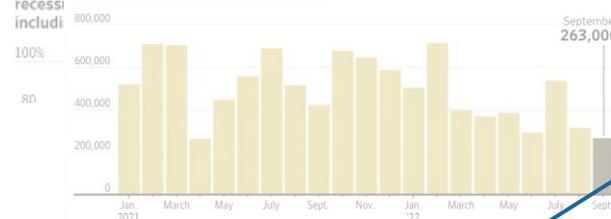
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On average, economists put

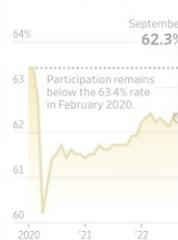
Economists surveyed in October by The Wall Street Journal forecast a 63% likelihood the economy will be in a recession by the end of 2023. September's job growth, while robust, was below this year's monthly average gain, while labor-force participation, unemployment and hourly earnings growth all eased last month. The report sent stock indexes lower.

Probable recessions include

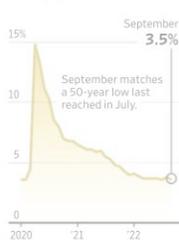
U.S. nonfarm payrolls, one-month net change



Labor-force participation rate



Unemployment rate



Hourly earnings and inflation, change from a year earlier

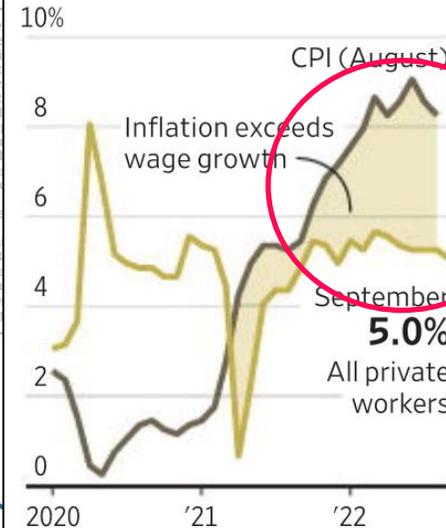


### Jobs Data Show Few Cooling

By Gabriel T. Rubin

The U.S. labor market showed some momentum in September but remained strong, as high inflation and rising interest rates weighed on the economy. Job growth slowed, with employers adding a seasonal 263,000 jobs in September, the Labor Department said Friday. The increase, while robust, was less than an average monthly gain of 315,000 in the first half of the year. The unemployment rate fell to 3.5% last month from 3.7% in July, matching a half-century low that was last reached in July 1969. The number of people in the labor force fell in September.

### Hourly earnings and inflation, change from a year earlier



## 2023: Hoping for a “Soft Landing”...but Planning for Downturn

**Customers have “price increase fatigue.” Across the board price increases are off the table.**

**But most companies still need 5%+ price increases to offset past shortfalls and continued inflation.**

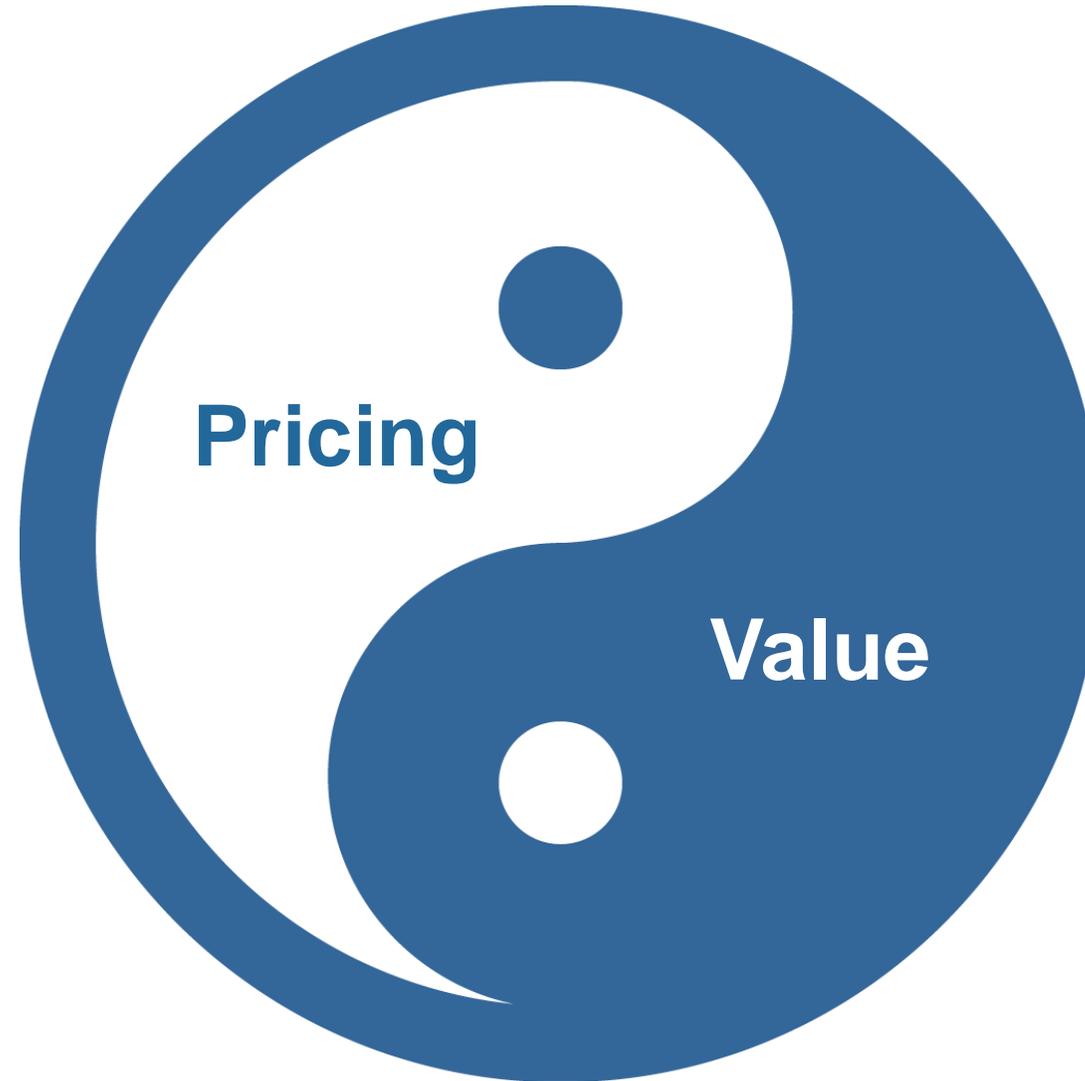
**In many cases, companies will continue with smaller increases multiple times per year (vs single annual increase)**

**Planning for surgical price increases focusing on: (i) differentiated offers; (ii) differentiated customer segments; (iii) lowering cost to serve with fees and surcharges; (iv) small (or Quad 4) customers**

**Watching backlog and order cancellations as early warning signs**

# Value-Based Pricing Refresher

# Inseparable



# Two Types of Value

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- Economic Value
- Perceived Value



# Economic Value Tradeoffs



- Size
- Certainty
- Speed



# CUSTOMERS WANT A CHEQUE THEY CAN CASH



# Pick One



Lotto



EXACTLY **\$14,000,000**

The image shows a grey rectangular card with a white border. At the top left, the word "Lotto" is written in a grey, sans-serif font. Below it is the "Lotto MAX" logo, which consists of three overlapping circles: a blue circle on the left containing the letter "M", a green circle in the middle containing the letter "A", and a blue circle on the right containing the letter "X". Below the logo, the word "EXACTLY" is written in a small, grey, sans-serif font. To the right of "EXACTLY" is a white rectangular box with a black border containing the text "\$14,000,000" in a large, bold, black, sans-serif font.

**70%**

Lotto



EXACTLY **\$7,000,000**

The image shows a grey rectangular card with a white border, identical in layout to the one on the left. It features the "Lotto" text, the "Lotto MAX" logo, and the word "EXACTLY" in grey. The white box with a black border contains the text "\$7,000,000" in a large, bold, black, sans-serif font.

**95%**

A photograph of a person wearing a high-visibility yellow vest and a headset, operating a large camera mounted on a mechanical arm. The camera is positioned over a large aircraft tire. The scene is set outdoors, likely on an airfield, with a clear sky in the background. The image has a blue-green color cast.

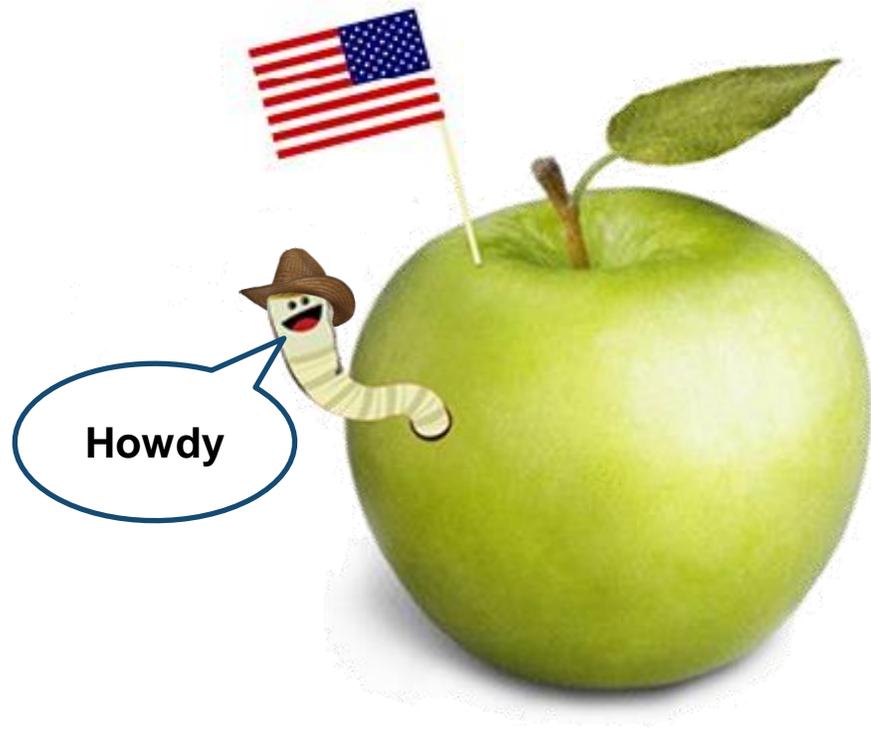
# Tire Case Study











# Planning Your Surgical Price Increase

# 1. Targeted Price Increases



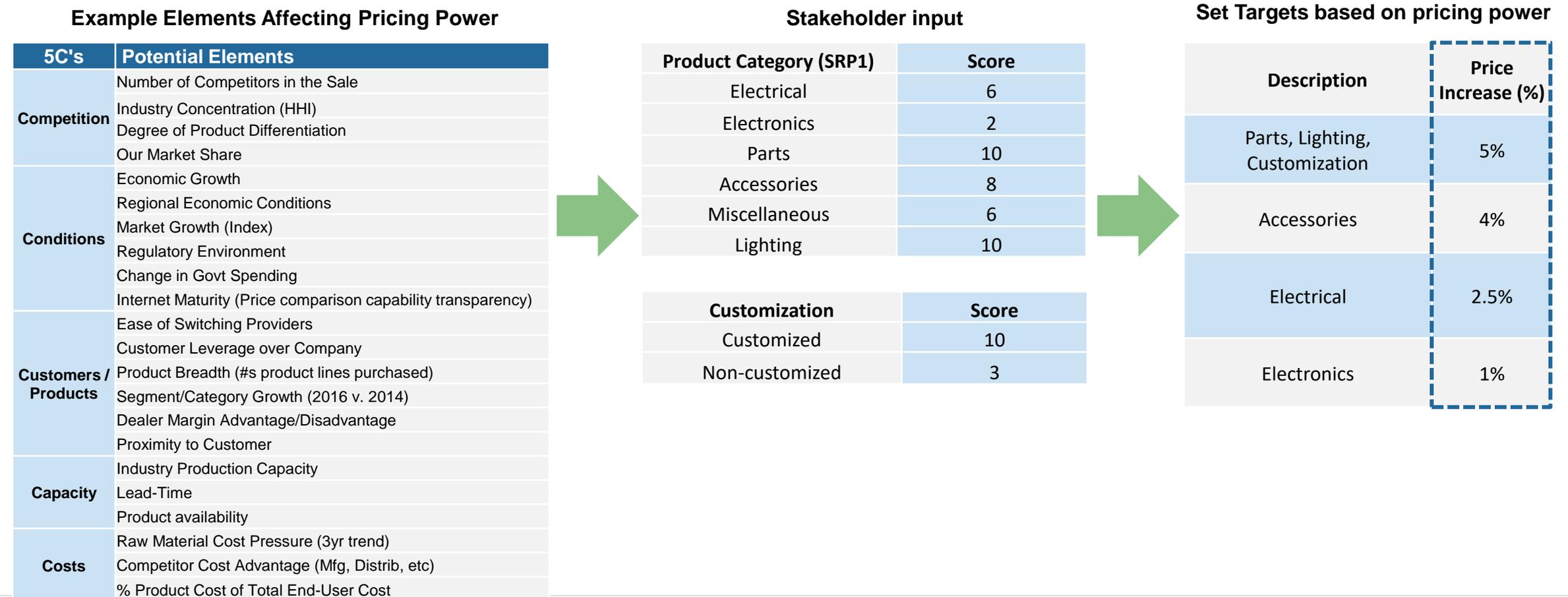


# Case Study #1

Where's the lakefront property?

# Assessing Pricing Power Increases Price Realization

Pricing Power helps identify which products, even ones with high margins, can absorb a price increase and /or are underpriced in the market



## 2. Price Points

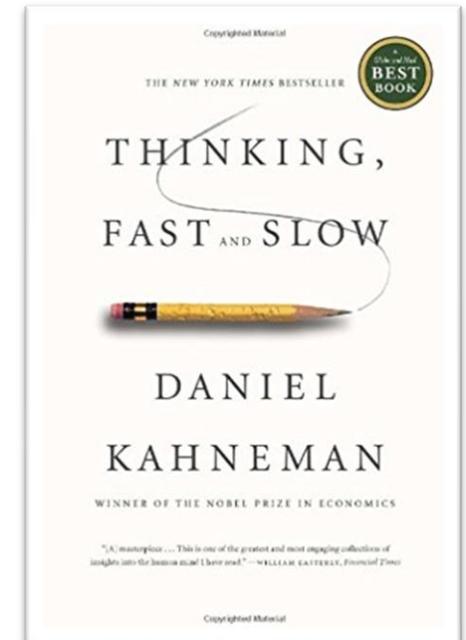


### — “Left Digit Effect”

- read prices from left to right
- tend to round prices to accepted price thresholds
- tend to exhibit “zones of indifference” to prices within those thresholds

### — Example

- Increase \$56 to \$59, or “under \$60”



# BU Price List

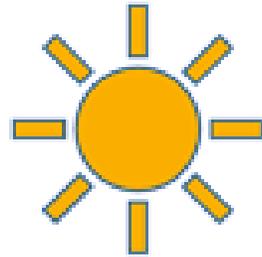


## Products

Item Description 01	Item Description 02		List Price
AP UNCTD BND 316SS 1/2X82X.030	Pub B9- S3		95.11
JR CLAMP,2-1/4X5/8 S.I.D G.C.S			402.52
VALUBAND, 1/2 X 100' SS	Pub B9- S3		49.22
NIPPLE, M 5/8ID 3/4 NPT CS	Pub B9- S3		58.92
MINI TIE-LOK II TOOL	Pub B9- S3		336.31
TIE-LOK II TOOL	Pub B9- S3		336.39
BAND, 5/8X100 GCS	Pub B9- S3		39.34
CABLE TIE,3/8X24SS COATED	Pub B9- S3, GLOBAL STYLE		272.33
BAND-IT TIE,1/4X9 SS COATED			148.22
JR CLAMP, SID 201SS, .5X2.75	Pub B9- S3		213.47
JR CLAMP, 3 X 3/4 S.I.D 201SS	Pub B9- S3		150.43
EASY L OR EASY NO. 7	Pub B9- S3		32.27
JR CLAMP 5 1/4 X 3/4 SID G.C.S	Pub B9- S3		50.08

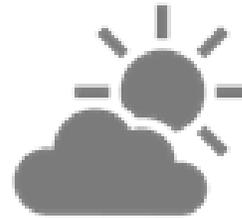
**There's plenty of opportunity**

## Sun, Shadow & Shade products



### Exposed

- Highly visible
- Minute changes



### Shadows

- Some awareness
- Create step increases



### Shade

- Gains little attention
- Maximize rounding rule

# Price Point Playbook

- Left digit remains the same
- For Sun product higher levels of granularity appropriate

<=\$10		
Low	High	Rule
\$x.00	\$x.48	\$x.49
\$x.50	\$x.98	\$x.99

>\$10, <=\$100		
Low	High	Rule
\$x0.00	\$x4.99	\$x5.00
\$x5.01	\$x9.99	\$x9.00

>\$100, <=\$1,000		
Low	High	Rule
\$x00.00	\$x29.99	\$x29.00
\$x30.00	\$x49.99	\$x49.00
\$x50.00	\$x79.99	\$x79.00
\$x80.00	\$x99.99	\$x99.00

>\$1000, <=\$10,000		
Low	High	Rule
\$xx00.00	\$xx24.99	\$xx25.00
\$xx25.00	\$xx44.99	\$xx45.00
\$xx45.00	\$xx74.99	\$xx75.00
\$xx75.00	\$xx99.99	\$xx95.00

- .49 & .99 used to have a couple of price points for small ticket items.
- Include .29 & .79 for “Sun” products

**Example:**

\$4.41 → \$4.49  
 \$7.86 → \$7.99

- \$5 is good midway point
- \$9 used to leverage “just under” price

**Example:**

\$52.45 → \$55.00  
 \$57.36 → \$59.00

- 9 rounding used to leverage just under.
- 29,49,79,99 are common thresholds

**Example:**

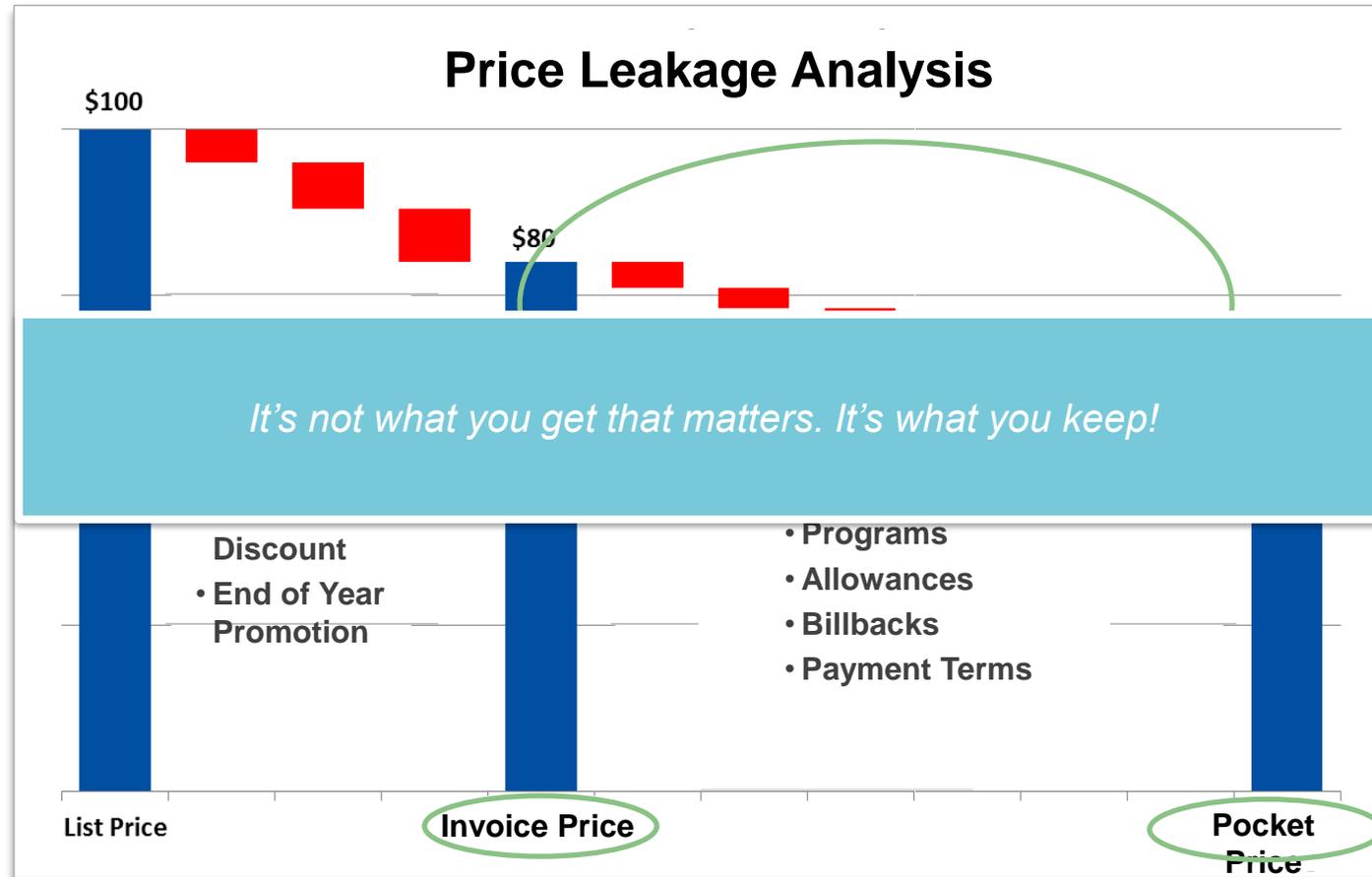
\$316.51 → \$329.00  
 \$741.23 → \$749.00  
 \$271.22 → \$279.00  
 \$983.11 → \$999.00

- \$5 rounding used to reduce “formulaic” approach.
- Round up to 25,45,75,95 as they are common thresholds

**Example:**

\$1316.51 → \$1325.00  
 \$1741.23 → \$1745.00  
 \$1271.22 → \$1275.00  
 \$1983.11 → \$1995.00

### 3. Pricing Waterfall - Watch Your T&C's!



# Waterfall Elements



Customer Discounts	Freight	Payment Terms	Returns & Samples	Other
<ul style="list-style-type: none"> <li>– Channel Discount</li> <li>– Order Level Volume Discounts</li> <li>– Invoice Level Volume Discounts</li> <li>– Competitive Discounts – One Time</li> <li>– Rebates</li> <li>– Change Order</li> </ul>	<ul style="list-style-type: none"> <li>– Freight Terms</li> <li>– Freight Invoicing</li> <li>– Expedite Carrier Fees</li> <li>– Air Shipment</li> <li>– Selection of Shipment Type (LTL/ FedEx/ Pickup)</li> <li>– Minimum Order Size</li> <li>– Fuel Surcharges</li> </ul>	<ul style="list-style-type: none"> <li>– Terms Authority &amp; Controls</li> <li>– Terms Clarity &amp; Complexity</li> <li>– Grace Period Allowances</li> <li>– Unearned Discounts</li> <li>– Cash/ Credit/ Debit</li> </ul>	<ul style="list-style-type: none"> <li>– Return Policy</li> <li>– Return Abuse</li> <li>– Return Validation</li> <li>– Return Credits</li> <li>– Restock Fees</li> <li>– Sample Policy</li> <li>– Sample Management</li> <li>– Free Trials</li> </ul>	<ul style="list-style-type: none"> <li>– Warranty/ Guarantee</li> <li>– Pre-order Support</li> <li>– After Sales Support</li> <li>– Product Inspections</li> <li>– Rush Order</li> <li>– Vendor Managed Inventory</li> <li>– Value-added offers</li> </ul>

# Case Study – Program Delivered \$3.3M on \$50M Business



*“Our goal is to have our customers comply with our program. It not only helps us to reduce cost and eliminate waste, but also add additional revenue.”*

## Implementation Considerations

- Rolled out in stages to new customers followed two months later to existing customers
- Sales team provided cost calculator of standard vs. non-standard offering
- Performance tracking weighted in favor of elements that drove the most \$ impact on revenue and costs
- Set internal target of ave. \$100k per Sales rep

## Price and Offer Program

Excludes lower costs from increased efficiency

Annual Revenue	Margin Impact Goal	Change	Profit Gain
\$50,000,000	7%	New Fees	\$3.3M

Target Waterfall Items	Cost % of Revenue	Margin	Revenue
Fee for Rush Orders	14.0%	3.4%	\$ 1.7M
Fee For Change Orders	2.0%	0.5%	\$ 250K
New Freight Program	11.0%	2.8%	\$ 1.4M

Price Schedule	New Fees
Fee for Rush Orders	\$300/Order
Fee For change Orders: Order minimum quant/order of 10K	
Surcharge for less than minimum	\$300/order
Special Batches	\$1000/Batch
Quality Check on Special Batches	\$500/batch
New Freight Program	
Fuel Surcharge	\$50/truck
Non-Standard Shipping/packaging	At Cost (materials/handling)
Off Hours Shipment	\$500/shipment
Same Day Shipment (all)	\$300/shipment
Special Handling	\$25/order
Storage Fee	Based on space/handling costs

Charge for even small exceptions to standard offer that can drive costs



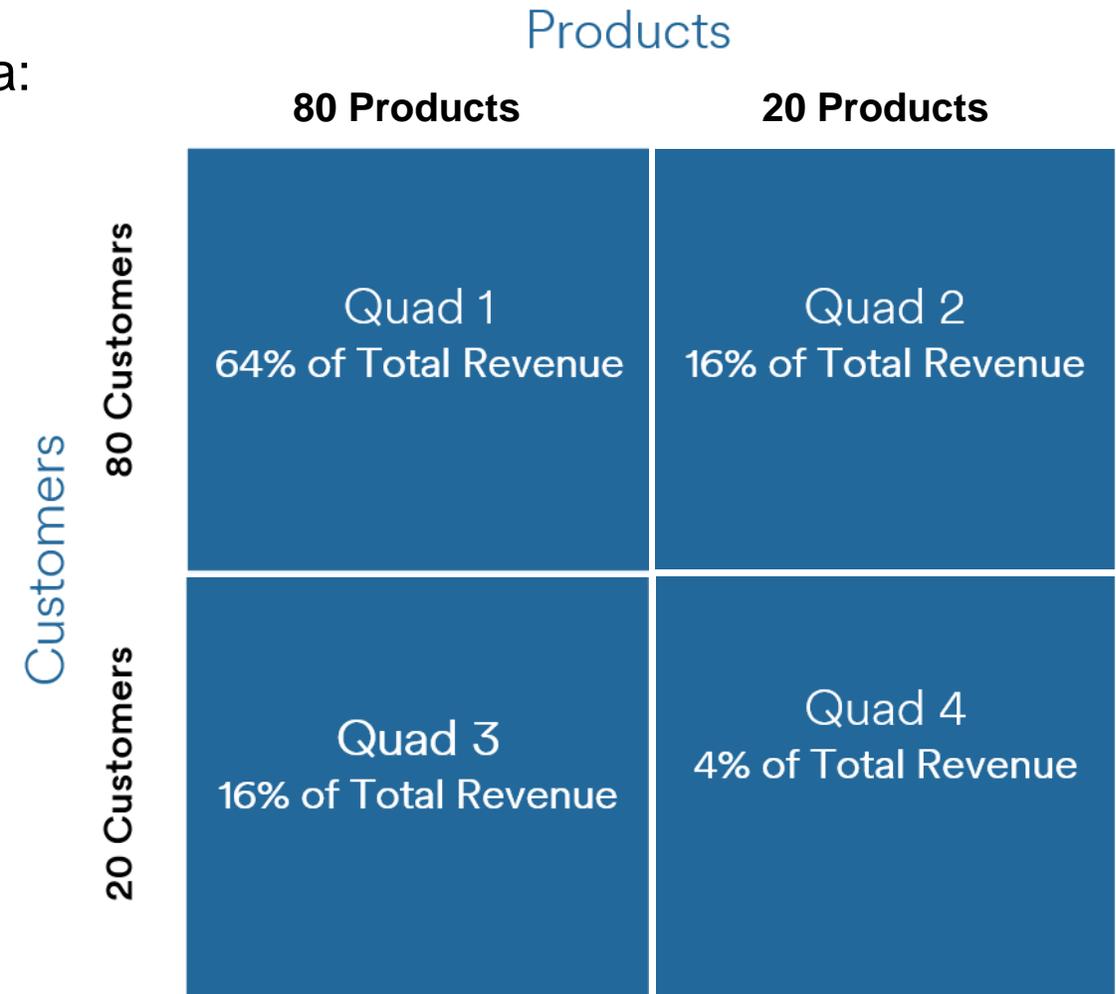
Vilfredo Pareto

- Discovered by Vilfredo Pareto in 1897
- A lot means a little and a little means a lot
- Businesses typically do not like to turn away customers or product ideas
- Not all customers are created equal

# 80/20



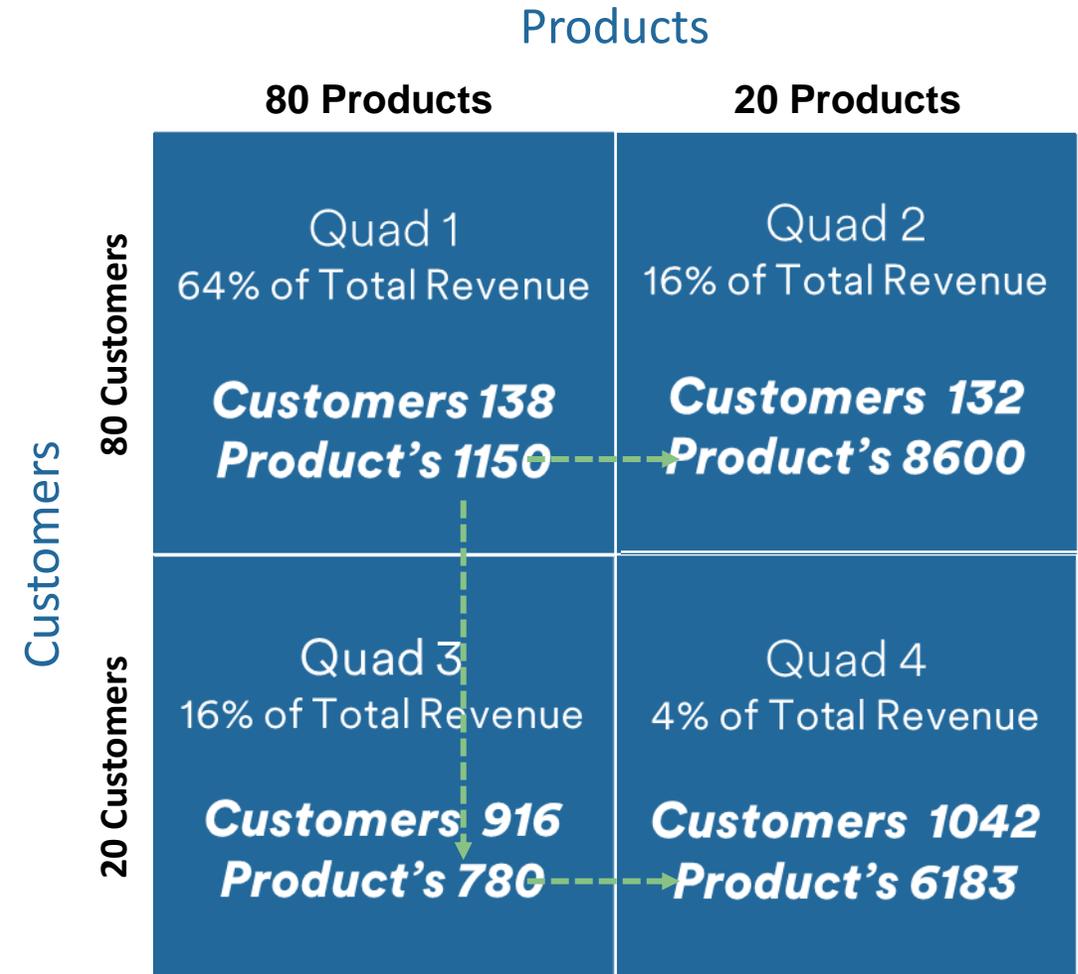
The Quad Chart is created by using revenue data:



Source: [Finding Hidden Profit Through Quad Analysis](#) (Strategex, November 1, 2015)

# Customer and Product Counts by Quad

- Quad 1 to 2 # of products grows by 750%
- Quad 1 to 3 # of products grows by 690%
- Quad 3 to 4 # of products grows by 800%



Source: Disguised from Client Project Work

# Quad Profits Are Misaligned

## Products

		80 Products	20 Products
Customers	80 Customers	<b>Quad 1</b> 64% of Total Revenue  Avg Margin 45%	<b>Quad 2</b> 16% of Total Revenue  Avg Margin 42%
	20 Customers	<b>Quad 3</b> 16% of Total Revenue  Avg Margin 39%	<b>Quad 4</b> 4% of Total Revenue  Avg Margin 38%

- Business Unit not getting paid for their 20's product complexity
- Quads 2 & 4 should have higher average margins than Quads 1 & 3

# Realigning the Quads Represents a Major Profit Opportunity!



## Products

		80 Products	20 Products
Customers	80 Customers	Quad 1 64% of Total Revenue <b>Avg Margin 45%</b> Index 1.0	Quad 2 16% of Total Revenue <b>Avg Margin 42%</b> Index 1.05 <b>+1.3% EBITDA</b>
	20 Customers	Quad 3 16% of Total Revenue <b>Avg Margin 39%</b> Index 1.03 <b>+1.4% EBITDA</b>	Quad 4 4% of Total Revenue <b>Avg Margin 38%</b> Index 1.15 <b>+1% EBITDA</b>

- **3.7% EBITDA Improvement**
- Price increases
  - Quad 2 - 8%
  - Quad 3 - 9%
  - Quad 4 - 22%
- Implementation is key!

# Implementing Your Surgical Price Increases

MOST SALESPEOPLE WOULD RATHER CATCH A  
**COLD** THAN ANNOUNCE A PRICE INCREASE

# Procurement Is Getting Stronger...



## Ongoing Struggle of:

- Dealing with third party negotiators
- Blind RFP's
- Reverse auctions
- Commodity pricing
- "Should" costs
- Hardball sales negotiating tactics

# Relationship Selling Is Dead



7%  
4%

A large red arrow pointing downwards, indicating a decrease from 7% to 4%.

40%  
64%

A large green arrow pointing upwards, indicating an increase from 40% to 64%.

## Relationship Builders

- Develop strong personal & professional relationships
- Advocates across the customer organization
- Generous with their time
- Strive to meet every customer's need
- Work hard to resolve tensions

## Hard Workers

- Show up early; stay late
- Always go the extra mile
- Make more calls in an hour than anyone else
- Conduct more visits in a week than anyone else

## Lone Wolves

- Deeply self-confident
- Rule-breaking cowboys of the sales force
- Do things their way or not at all

## Reactive Problem Solver

- Highly reliable and detail-oriented
- Focus on post-sales follow-up
- Ensure that service issues related to implementation and execution are addressed quickly and thoroughly

## Challengers

- Use their deep understanding of customers' business to push their thinking and take control of the sales conversation
- They're not afraid to share even potentially controversial views and are assertive – with both their customers & bosses

Source: Matthew Dixon and Brent Adamson (<https://hbr.org/2011/09/selling-is-not-about-relatio>)

# 3 Types of Objections

- **Fairness**
- **Value**
- **Negotiation**

## 3 Important Messages

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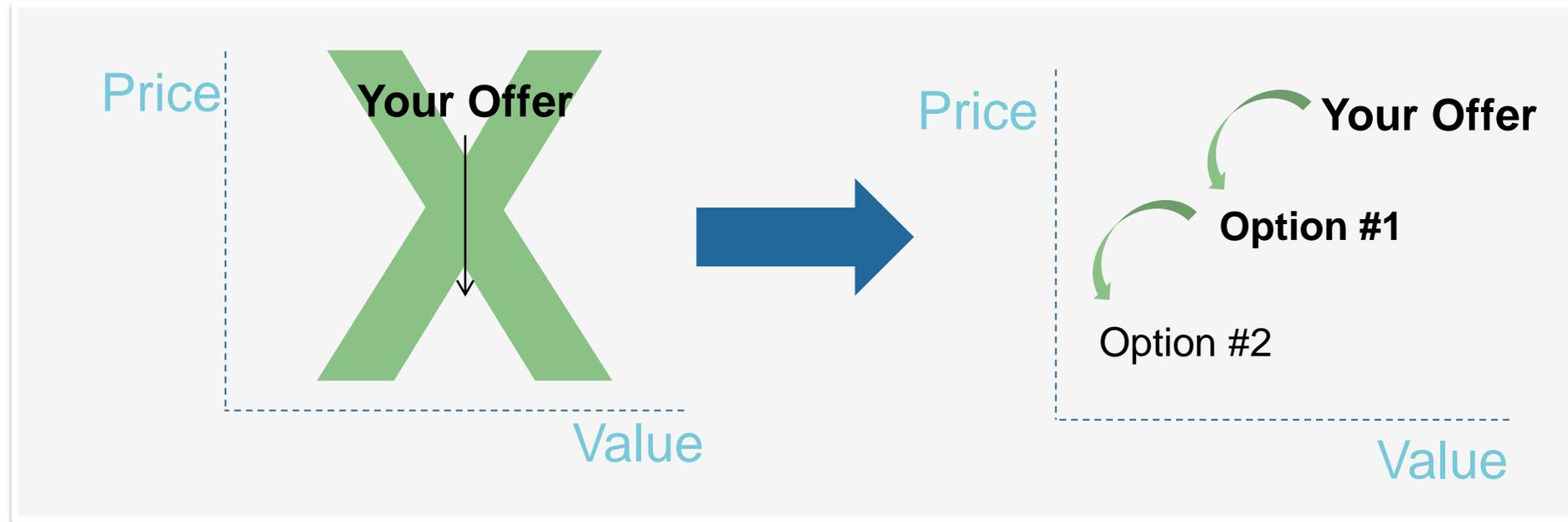
1. Demonstrate how we are sharing in this....
2. Reinforce that we have reduced cost everywhere we could without hurting quality....
3. Show charts & data supporting why you are raising prices (e.g., commodities, fx, inflation, indexes, etc.)

# Value Objections

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- Your competitor's product is just as good at a lower price
- Your delivery is poor, I'm not accepting this
- The quality is superior but not worth it

# Vary Your Offer as You Vary Your Price!



# Negotiation

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- I need a 10% price reduction
- We're not accepting price increases right now
- If you can match the competition the business is yours

# NEGOTIATIONS: Seek First to Understand

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## Best Practices

- Ask good questions, ask lots of questions...make sure you understand the REAL issues
- Be confident...know your value proposition
- Never discuss price until the end...and minimize discussing it during the selling process

*“If the customer is negotiating with you then you are the preferred supplier”*

# ....and Watch Your Profits and Business Value Grow!



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Revenue	\$200M	\$204M
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<b>Sale at 6x EBITDA</b>	<b>\$96M</b>	<b>\$120M</b>

+ 2%

\$24M Difference

## 3 Takeaways

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1. **The impact of 2%**
2. **Be Surgical**
3. **Challenge**

