



# Strategies for Pricing in an Inflationary Environment

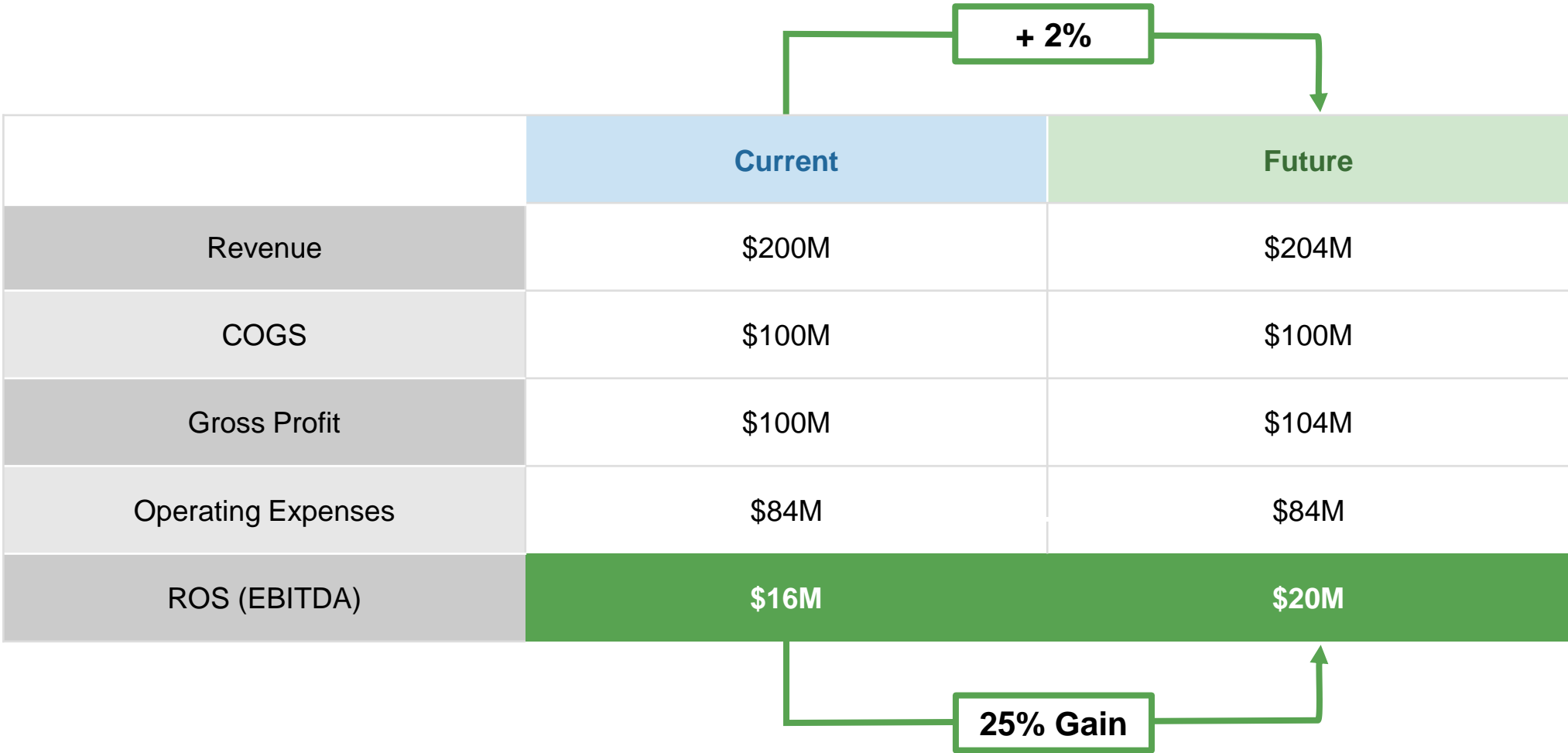
**Paul Hunt, Founder**

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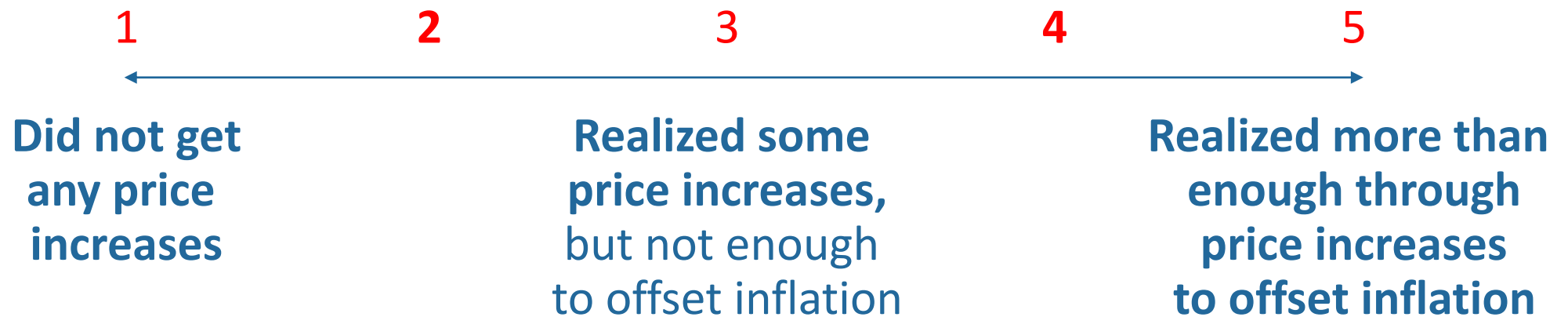
... pricing's impact is immense.

# The Business Impact of a 2% ROS Improvement



## 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



## ■ **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



## Risks A Deeper 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

## 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

Month	Probability (%)
Jan. 2021	10
March	15
May	20
July	25
Sept.	30
Nov.	35
Jan. 22	40
March	45
May	50
July	55
Sept.	60
Nov.	63

## Jobs Data Show Few Cooling Signs

By Gabriel T. Rubin

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.

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

Month	Net Change
Jan. 2021	150,000
March	200,000
May	250,000
July	300,000
Sept.	263,000

Labor-force participation rate

Month	Rate (%)
Jan. 2020	60.5
March	61.5
May	62.0
July	62.5
Sept.	62.3

Unemployment rate

Month	Rate (%)
Jan. 2020	15.0
March	10.0
May	5.0
July	3.5
Sept.	3.5

Hourly earnings and inflation, change from a year earlier

Month	Hourly Earnings (%)	Inflation (%)
Jan. 2020	2.0	2.0
March	3.0	3.0
May	4.0	4.0
July	5.0	5.0
Sept.	5.0	5.0

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

Headlines from the WSJ in October, 2022

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



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On average, economists put

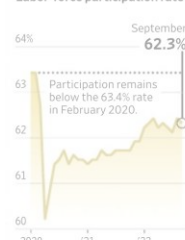
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Probable  
recession  
includes

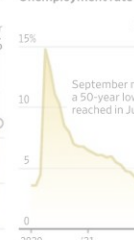
U.S. nonfarm payrolls, one-month net change



Labor-force participation rate



Unemployment rate



Hourly earnings and inflation, change from a year earlier

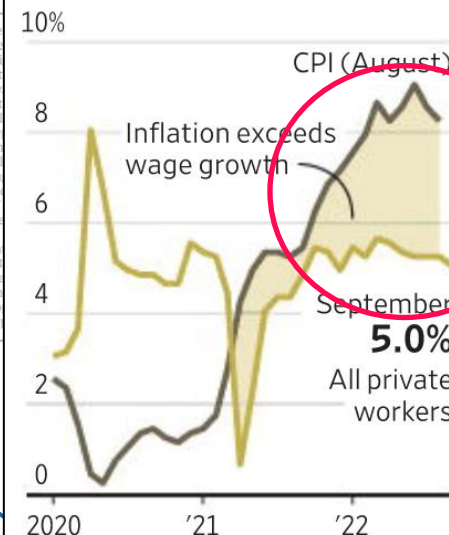


### Jobs Data Show Few Cooling

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 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 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.**

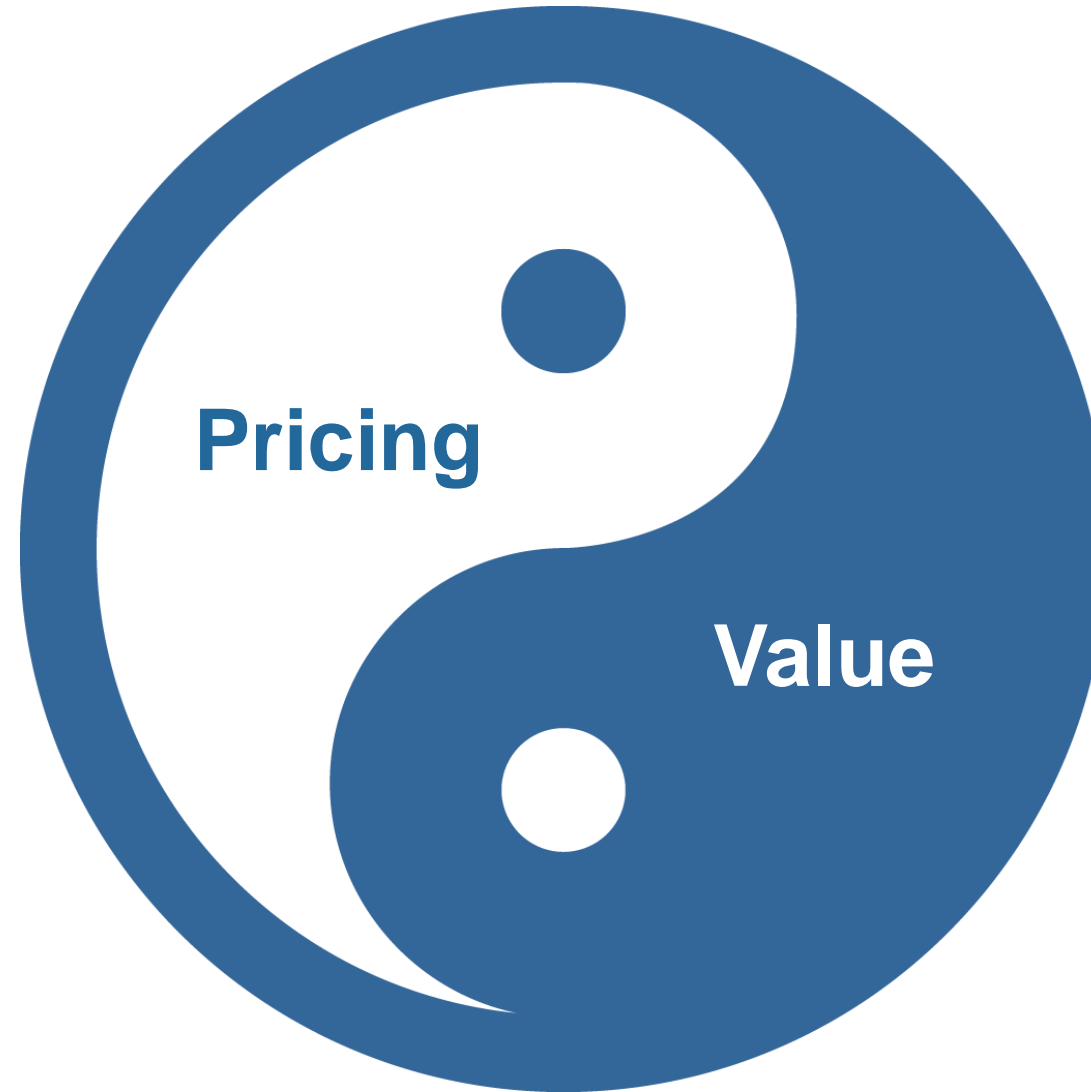
**In many cases, companies will continue with smaller increases multiple times per year (vs single annual increase)**

**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



**70%**



**95%**



# Tire Case Study



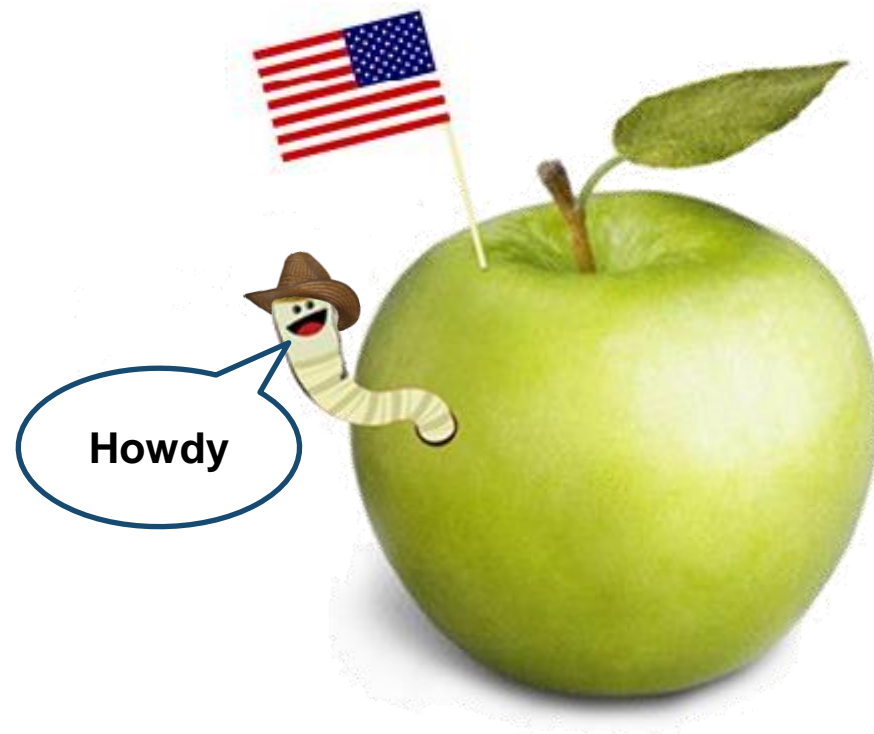












# Planning Your Surgical Price Increase

# 1. Targeted Price Increases

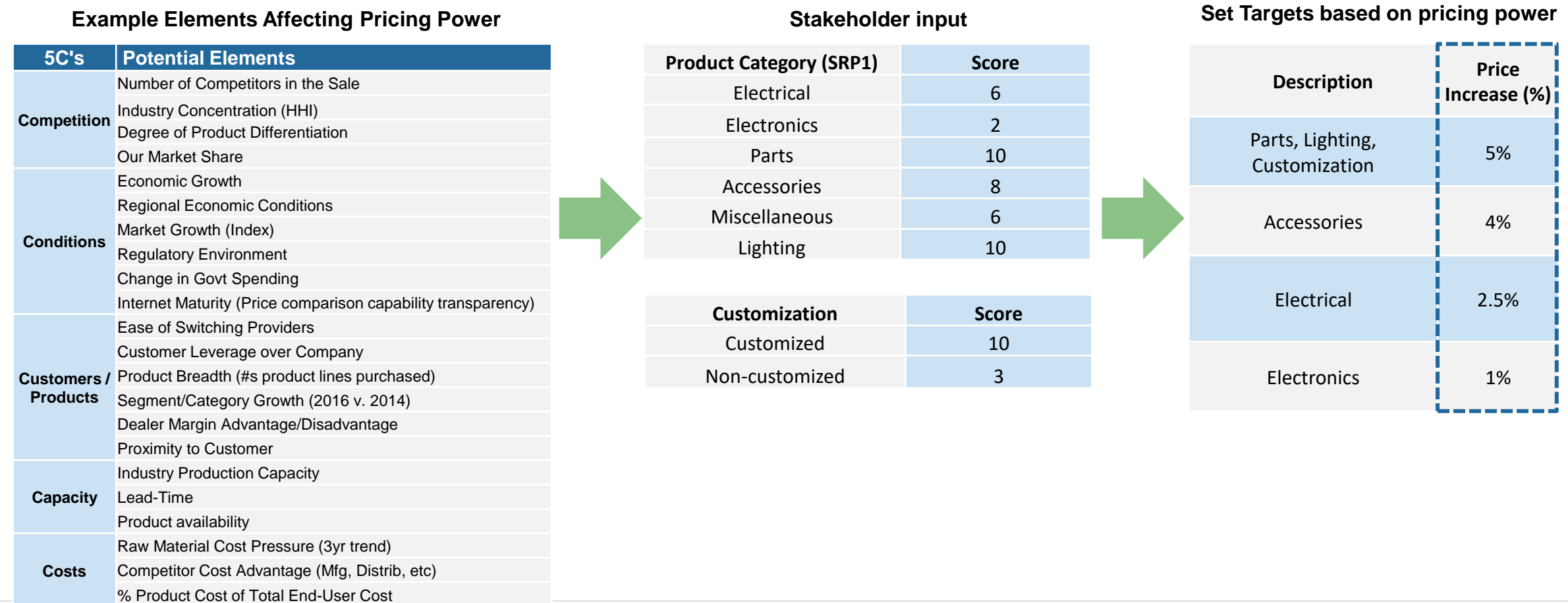


## Where's the lakefront property?

# 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



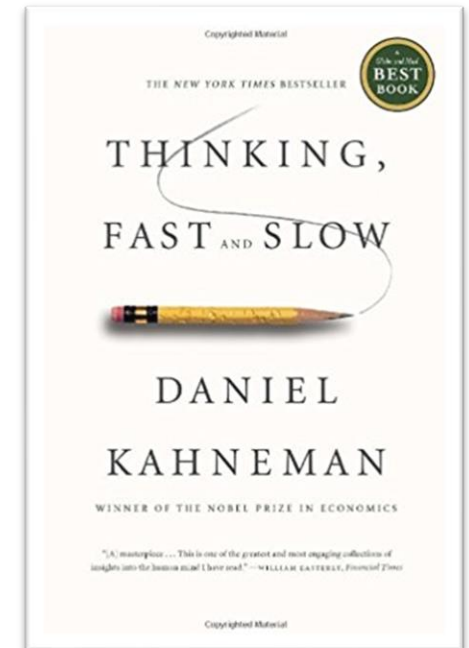
## 2. Price Points

### — “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

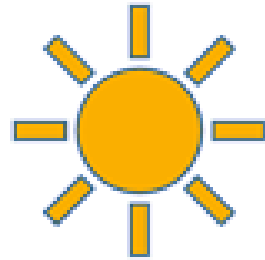
Item Description 01	Item Description 02		List Price
AP UNCTD BND 316SS 1/2X82X.030	Pub B9- S3		95.11
JR CLAMP,2-1/4X5/8 S.I.D G.C.S			402.52
VALUBAND, 1/2 X 100' SS	Pub B9- S3		49.22
NIPPLE, M 5/8ID 3/4 NPT CS	Pub B9- S3		58.92
MINI TIE-LOK II TOOL	Pub B9- S3		336.31
TIE-LOK II TOOL	Pub B9- S3		336.39
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**



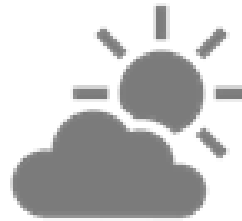
# Price Points Cont'd

## 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

- .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

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

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

## Example:

\$52.45 → \$55.00  
\$57.36 → \$59.00

>\$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

- 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

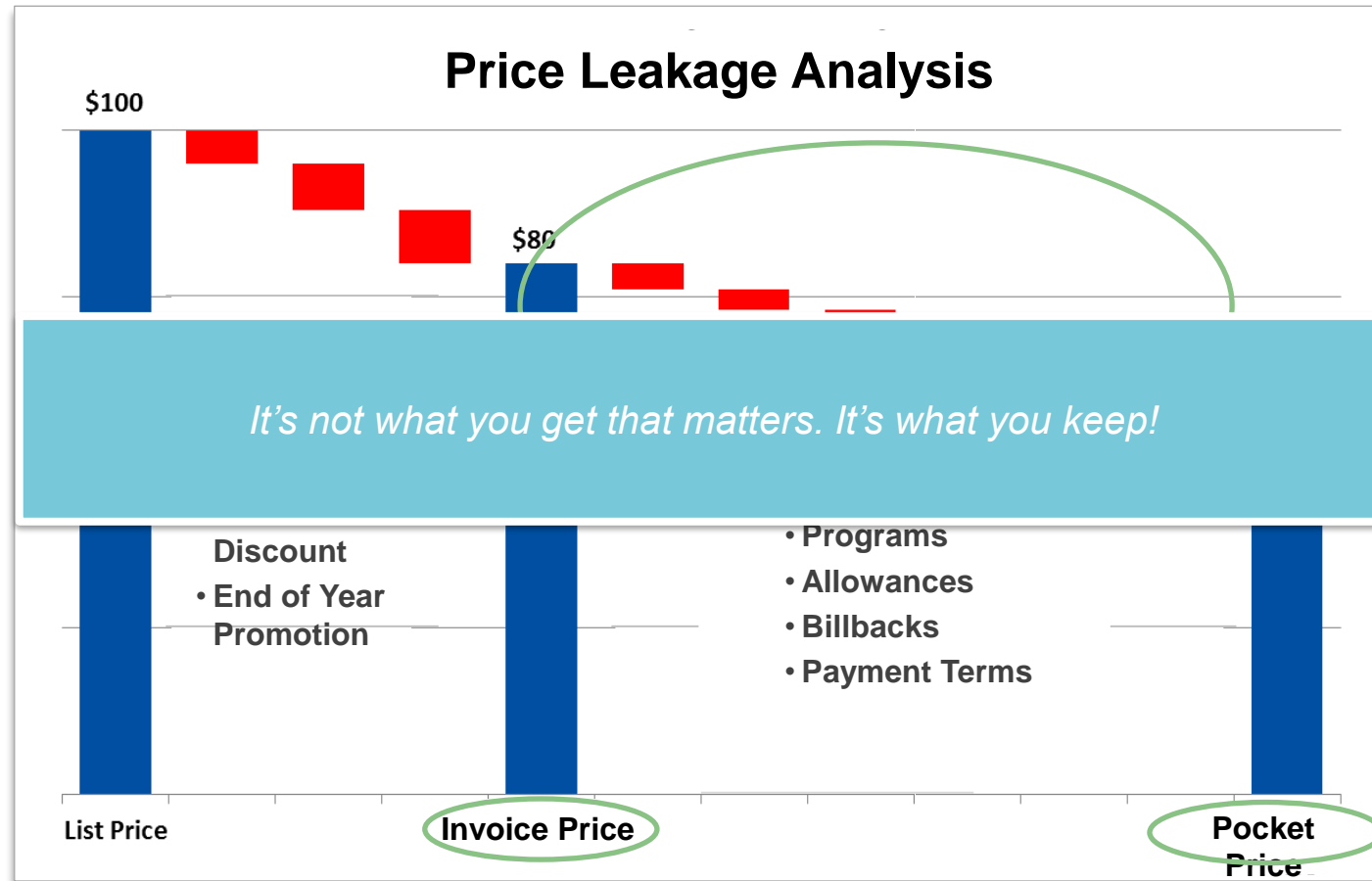
>\$1000, <=\$10,000		
Low	High	Rule
\$xx00.00	\$xx24.99	\$xx25.00
\$xx25.00	\$xx44.99	\$xx45.00
\$xx45.00	\$xx74.99	\$xx75.00
\$xx75.00	\$xx99.99	\$xx95.00

- \$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
Quallity 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

## 4. 80/20



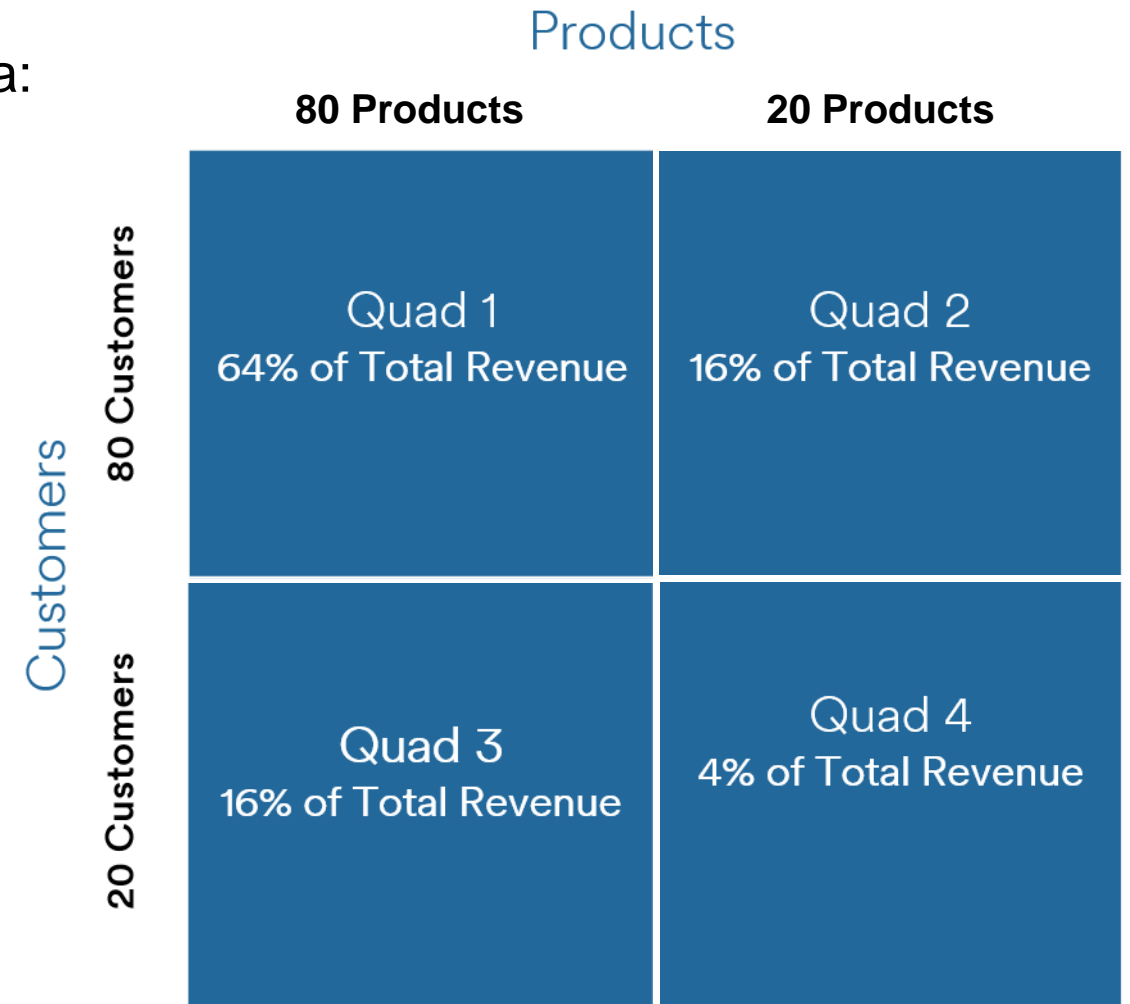
Vilfredo Pareto

- 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%

		Products	
		80 Products	20 Products
Customers	80 Customers	Quad 1 64% of Total Revenue <b>Customers 138</b> <b>Product's 1150</b>	Quad 2 16% of Total Revenue <b>Customers 132</b> <b>Product's 8600</b>
	20 Customers	Quad 3 16% of Total Revenue <b>Customers 916</b> <b>Product's 780</b>	Quad 4 4% of Total Revenue <b>Customers 1042</b> <b>Product's 6183</b>

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

- 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

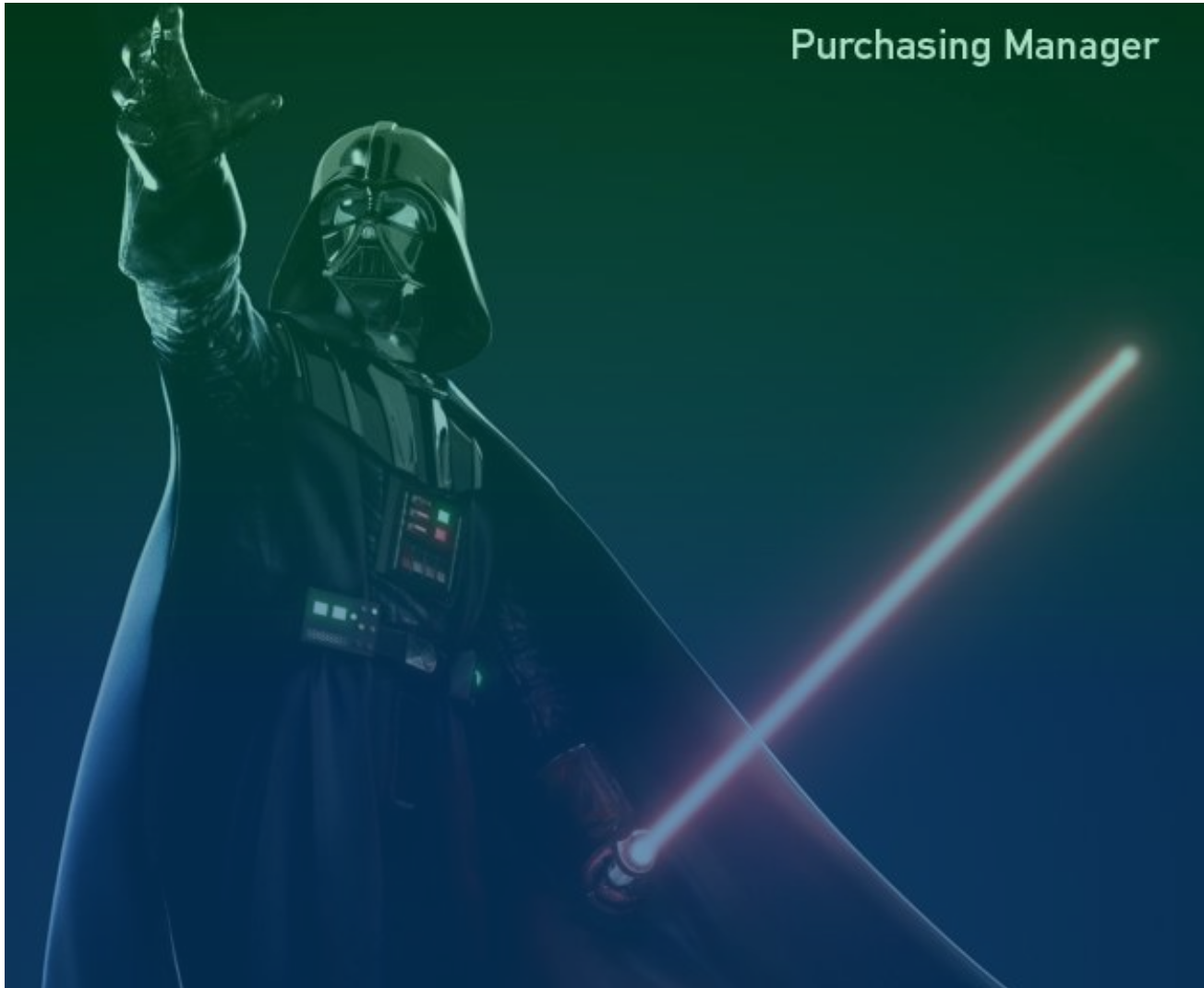
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Customers	80 Customers	Quad 1 64% of Total Revenue <b>Avg Margin 45%</b> Index 1.0	Quad 2 16% of Total Revenue <b>Avg Margin 42%</b> Index 1.05 <b>+1.3% EBITDA</b>
	20 Customers	Quad 3 16% of Total Revenue <b>Avg Margin 39%</b> Index 1.03 <b>+1.4%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

40% 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

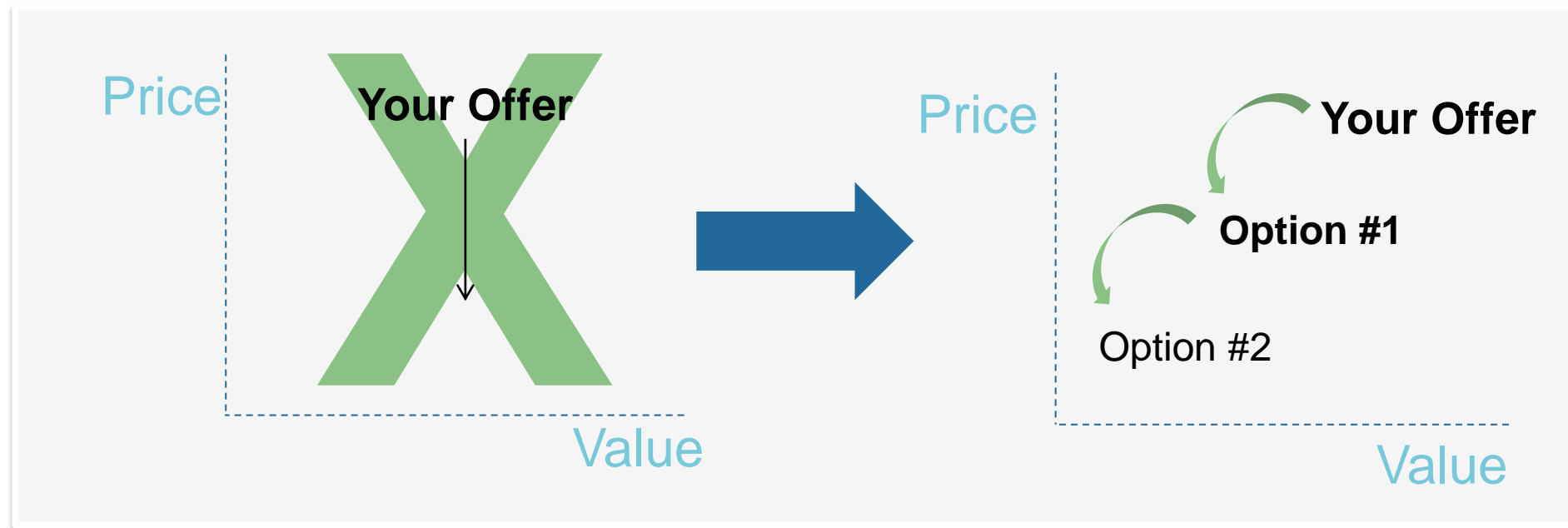
1. Demonstrate how we are sharing in this....
2. Reinforce that we have reduced cost everywhere we could without hurting quality....
3. Show charts & data supporting why you are raising prices (e.g., commodities, fx, inflation, indexes, etc.)

# 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

## 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!



	Current	Future
Revenue	\$200M	\$204M
COGS	\$100M	\$100M
Gross Profit	\$100M	\$104M
Operating Expenses	\$84M	\$84M
ROS (EBITDA)	\$16M	\$20M
Sale at 6x EBITDA	\$96M	\$120M

+ 2%

\$24M Difference



# 3 Takeaways

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**1. The impact of 2%**

**2. Be Surgical**

**3. Challenge**

