



# Organisations are striving to unlock their full potential through pricing

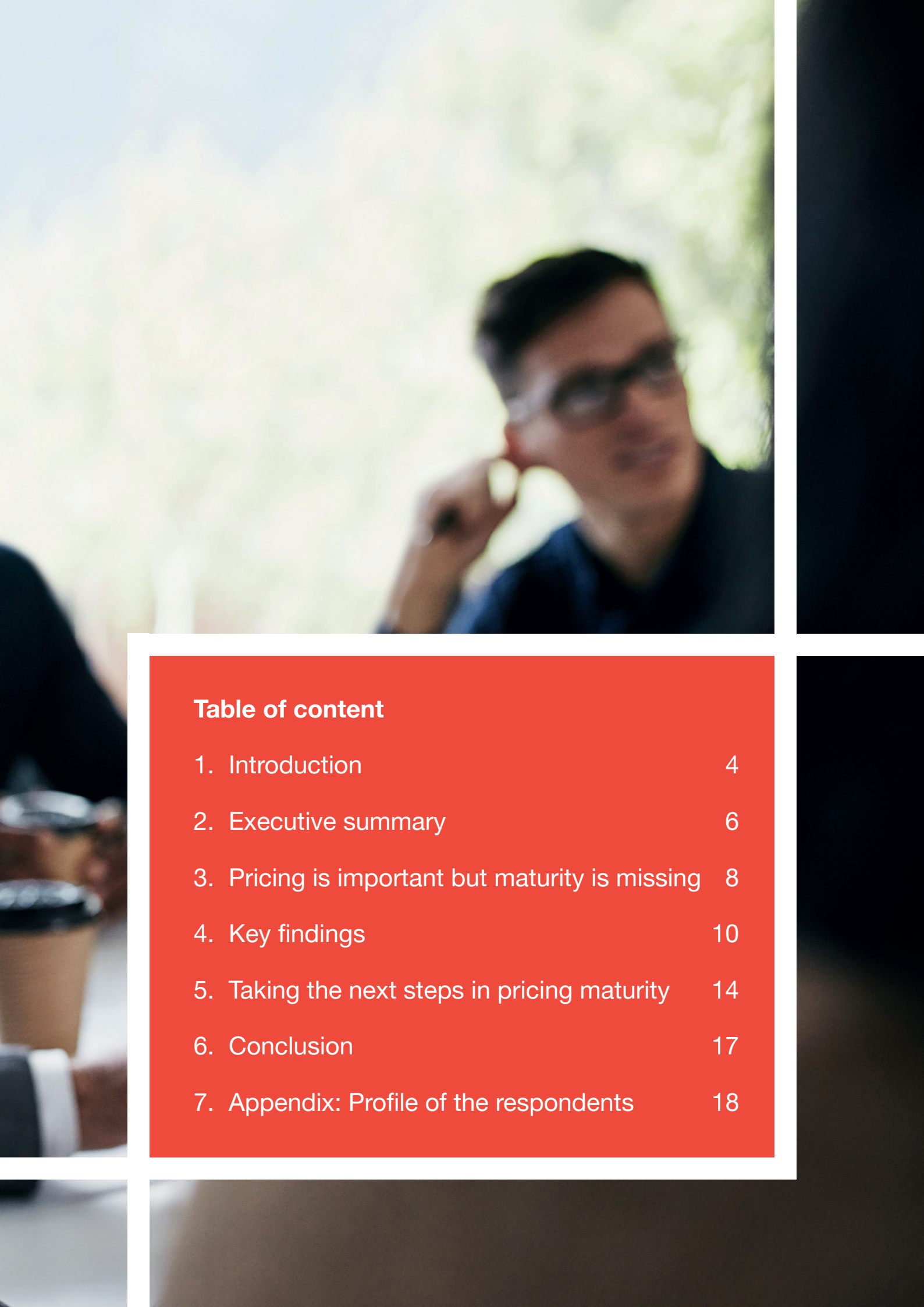
PwC Belgium's  
Pricing Maturity Survey











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# 1

## Introduction: the importance of pricing

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The single most important  
decision in evaluating a business  
is pricing power.

Warren Buffet



Most companies have the basics of pricing under control, but struggle to structure the end-to-end pricing process. Expected economic headwinds have convinced most that significant investment in pricing is required to ensure future profitability and growth. That's why PwC Belgium launched a survey to assess the maturity of pricing within organisations active in various industries.

Multiple studies have shown that a strong focus on price and profit can make the difference between leaders and laggards in any industry. **In today's fast-paced market, setting and controlling price levels is not an easy task.** Continuous pressure on margins, increasing costs and the complexity of other factors such as technology and competition can have a major impact on the bottom line, if companies don't act. Therefore, it's more important than ever for companies to have a solid **price and profit culture** in place to ensure profits are secured and protected against potential deterioration.

**The impact of pricing on profitability can hardly be overestimated:** for the average Fortune 500 company, a one percent improvement on the average price of goods or services sold has a bigger positive impact on profits than similar cost decreases or an identical improvement in volumes sold. Companies taking an integrated approach to pricing will be able to boost their bottom line performance. For this to work, however, they should have a detailed overview of the various building blocks that make up their profits.

To achieve successful pricing, companies have to be strong in five main areas:



### Strategy

Product and/or customer strategy needs to truly reflect customers' needs. Are your products and/or services focused on delivering value and priced accordingly?



### Processes

Need to be effective and efficient in offering the right prices for your products and/or services to the right customers. Are your sales teams able to execute these processes properly?



### Reporting

Information about your customers, price levels, products, etc. has to be continuously monitored. What decisions are supported by the available data?



### Technology

Support via the appropriate tools to serve your customers throughout the entire lead-to-cash flow facilitates the price realisation processes. How are these tools integrated?



### Organisation

Pricing should be embedded in your organisation and considered a top priority, with clear roles and responsibilities assigned. Is it enforced by leadership?



# 2

## Executive summary





Trade wars, Brexit and an overall downturn in economic growth have created **challenging market dynamics** over the past year. To understand the impact of these dynamics on a company's pricing outlook and maturity, PwC launched a survey on pricing in organisations active in different industries. The report's based on the respondents' feedback and experience of PwC consultants on the topics covered. Is pricing thoroughly embedded in the organisation and considered one of the most important levers for profitability? Or is it considered a one-off that needs to happen whenever there's a product launch or when there are customer changes (e.g. changes in preferences)?

The survey targeted companies that are active in a wide number of industries such as retail and consumer, manufacturing and chemicals. Respondents are part of executive, top or middle management teams. More information on survey participants can be found in the Appendix.

Our study shows a **correlation between a higher maturity in pricing and higher, more profitable growth**. Some companies are making advances towards reaching a higher maturity, while the majority of organisations surveyed still struggle to unlock their full potential through pricing. Most companies surveyed think that investments in pricing will be needed in the future to capture this profitable growth, which indicates that a certain maturity is missing.

Companies stress the value of creating a **compelling value proposition** which is supported organisation-wide to better serve their customers. However, most companies **struggle with converting their value proposition into the pricing strategy** and using it to **steer their pricing and sales processes, price setting and other business decisions**. Monitoring these processes to gain visibility on how the business is performing through reporting seems to be a complicated endeavor as well.





# 3

Pricing is important,  
but maturity is missing



Almost half of all respondents indicate that significant **investments in pricing are necessary to secure future growth**. This should come as no surprise, given the challenging market conditions due to Brexit and the China-US trade war that will definitely impact prices and margins in the coming two to three years.

The survey asked respondents about their maturity in the aforementioned five areas, with strategy relating to both customer and product, as well as the accompanying pricing strategy. For each of these domains a score was given to indicate the maturity in each area, with one being the most basic score and four being the most advanced.

Overall, we see that companies have a **solid organisation** built around pricing and are **strong in establishing their value proposition and customer strategy**, which is essential in today's fast-changing market. Translating

this strategy to the business by the use of a **pricing strategy seems to be challenging** for the average company. Consequently, companies **struggle to define appropriate end-to-end processes** for price setting and its subsequent execution by the sales force, which seems to contradict the organisation they have in place for their pricing roles and responsibilities. Creating **integrated reports** via technology and keeping track of the achievement of strategy objectives are often **missing**.

Although most respondents agree that focusing more on pricing in their organisation would increase profitability and shareholder value, the overall maturity across the different functional domains remains relatively low. This indicates that **companies recognise pricing as an important factor** that requires careful attention, but experience difficulties in reaching higher maturity.

### Maturity levels

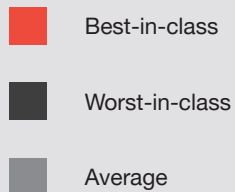


Figure 1: Pricing maturity assessment



# 4

## Key findings



Our survey asked respondents questions in five domains: (1) strategy, (2) processes, (3) reporting, (4) technology and (5) organisation.



## 1. Strategy



**6 out of 10 do not have a systematic process in place to understand the willingness-to-pay of their customers**

State-of-the-art pricing always requires an excellent customer strategy. Best-in-class companies **understand what their customers really value** and know their **willingness-to-pay (WTP)** to the full extent. An extensive set of value analysis tools is available to gain a complete view on this, such as price sensitivity research (by conjoint analysis and/or market simulations). These organisations **segment their customers** based on specific and changing customer needs. Depending on this customer information, the product portfolio is aligned with the segments and price/value mapping insights are actively steering the portfolio. The Volkswagen Group is excelling in this area. With its wide range of models (ranging from Skoda to Volkswagen, Audi and Bentley), it caters to the needs of many different automobile buyers.

Most of the organisations surveyed do have a firm customer and product strategy in place. However, most companies (36%) only use historical data to differentiate among customers (segmentation) and base their **value proposition on main customer preferences only** (44%). A small minority of the organisations surveyed (16%) claim to have a thorough understanding of the needs of their customers and the value the product brings them. As a consequence, the majority find it hard to tailor their value proposition to the exact needs of the client.

When it comes to setting out a pricing strategy that reflects the customer and product strategy, 60% of companies **do not have systematic processes in place to understand the WTP of their customers**. Consequently, the pricing strategy is developed for all products and/or services with clear guidelines (52%), but seldom adapted based on new data on factors like WTP (4%) or changing market dynamics.

Still, the bulk of respondents claim to have no difficulties in understanding the WTP at product launch. Nevertheless, two out of three respondents agree that data and analytics as well as market intelligence would be favorable as guidance for defining price strategies.



## 2. Processes



**2 out of 3 respondents give no (or very limited) price guidance to their sales team**

Providing structure and careful attention to processes when making critical pricing decisions is essential, given the direct effect on profits. Processes should be well defined and support specific pricing decisions that are critical for the overall pricing strategy of a product and/or service.

For **price setting** – defining the price level a company wants to achieve for a particular product sold to a particular type of client – most companies (38%) still set their prices based on the internal-looking **cost-plus approach**, but are exploring value components to try to better bring prices in line with the value clients get from the product. This indicates a gradual evolution towards true value-based pricing, which only four percent of companies report achieving.

When it comes to **managing sales' pricing requests, finding the right balance between sufficient freedom for sales and central guidance for pricing** is a challenge. Creating advanced approval processes with different levels of escalations to review the submitted deals coming from the front-line sales team allows for management by exception. In addition, the discount terms and conditions should be as standardised as possible. These processes provide the sales team with real-time guidance on achieving the target prices that directly contribute to the bottom line. On-the-job training and an appropriate **incentive system around profitability** aligned with the pricing strategy, rather than volume, ensure that the sales team's able to execute these processes smoothly.

**Of companies surveyed, 3 out of 10 companies don't structure or standardise their discounting process** and give discounts on an ad hoc basis. The use of conditional on-invoice discounting remains rare, most likely because companies struggle to follow up on the conditions of the discount. Furthermore, the companies surveyed continue to give significant freedom to sales teams on pricing decisions. Two out of three respondents give no (or very limited) pricing guidance to their salesforce. Combined with the fact that the key driver for a sales rep's bonus is often still volume instead of margin, this leads to sub-optimal pricing decisions.



For the above-mentioned processes to add value, **clear ownership and accountability** has to be defined and maintained through the end-to-end pricing process. All too often we see that the responsibility for pricing is split across sales, finance, product management and marketing, without a dedicated pricing function to oversee the process.

The vast majority of companies also continue to **struggle with the price/volume conundrum**. Only one of our respondents indicated the use of advanced research methodologies to understand the elasticity of their prices. All others resort to the tacit knowledge of their salesforce or basic analyses on historical transactions.

future price levels and current opportunities for profit improvements. Also, none of the respondents systematically monitor the customer lifetime value to be able to optimise it through changes in pricing, portfolio or the commercial approach.

It's strange that in these times of big data and AI, **over 80% of the companies surveyed don't have access to integrated reports on their pricing performance**. It seems, however, that a sense of urgency's been created, as three out of four respondents say that the **systematic monitoring of their own realised prices and the overall market price level could lead to faster and better decision making**.



### 3. Reporting



**Only 1 in 10 complements monitoring with tracking the achievement of pricing strategy objectives**

Given the ever-changing market dynamics, both the processes and the market require monitoring to understand the business impact of pricing. This allows for the continuous and rapid pursuit of pricing opportunities. Outstanding organisations in this respect have a set of **actionable pricing metrics**, such as the average achieved price or margin for a particular product, that are visualised in drill-through dashboards. Detailed price waterfalls for individual customers are visible in these dashboards and customer lifetime values are forecasted. Ideally, machine learning algorithms and simulation functionality are implemented to identify trends and opportunities. In addition, market data and competitor information are continuously tracked by intelligence systems.

**4 out of 10 companies struggle with monitoring profitability** and only have access to their profit and loss details on a company- or business unit-wide level. Only 10% have full visibility on a detailed profit waterfall per product complemented with simulation reports for profit improvement (such as cross- and upselling initiatives). The same goes for price monitoring: 35% of all companies monitor their prices in the market, but this also happens on an ad hoc basis. Although 45% systematically monitor their price levels, a mere 10% are more advanced and complement this systematic monitoring with tracking the achievement of pricing strategy objectives.

The **majority (60%) gather pricing data and perform basic market research ad hoc**. None of the respondents have tools with algorithms and/or artificial intelligence (AI) that process the data from these reports to predict



### 4. Technology



**5 in 10 respondents have their pricing data scattered across multiple non-integrated systems**

Systems that are able to collect reliable and recent data on pricing are in place only in organisations with well-established pricing processes. However, for best-in-class organisations, these systems are complemented with adequate tools to turn this data into usable information. These systems aren't often overly complex: the difficulty lies in **finding the right systems and tools to support a particular organisation**. Top companies first analyse and understand what information they need to see at which time, and they don't rush the implementation of the technology they need to make correct pricing decisions.

Outperformers, depending on the size of the company, collect **all relevant pricing data in a centralised pricing database that allows faster decision-making**. Otherwise, information on sales, discounts, margins etc. is spread across multiple systems and departments, which creates difficulties in integrating all the different data sources into the pricing tools. None of the companies surveyed have such a database in place.

For every 10 companies surveyed, three say they have bad data quality, meaning that pricing data is incomplete, inaccurate or unavailable (for instance, missing key variables such as discounts granted). According to one in two respondents, their company's pricing data is mostly correct and data collection is done systematically, but the data is scattered across multiple non-integrated systems. Fewer than two out of 10 say that the data's periodically updated and believed to be accurate for making pricing decisions.

**Companies mainly use spreadsheet applications for pricing**, or spreadsheets in combination with in-house developed tools. A smaller proportion of organisations use this in combination with business intelligence (BI), customer relationship management (CRM) and/or enterprise resource planning (ERP) tools. Very few have specialised pricing software, and none of the respondents say they have a Configure-Price-Quote (CPQ) engine installed. This is surprising given the increasing popularity of CPQ solutions and the fact that 59% of our respondents indicated that adding advanced pricing features to their CRM would help them price and serve customers better.



## 5. Organisation



**Only 1 out of 6 has a senior executive leading the pricing team and reporting directly to the CEO**

As pricing has such a big impact on profits, it's a strategic topic for leading organisations, thus falling under the immediate attention of the CEO. Depending on the size of the organisation, a senior pricing executive that reports directly to the CEO and is part of the executive committee is responsible for leading a dedicated pricing team.

Essentially, a leading company's **pricing executive** is responsible for both reinforcing a **proactive, continuous improvement approach to pricing**, as well as **guiding daily pricing activities**.

Although 16% of companies have a senior executive who leads the pricing team and reports directly to the CEO, in only five percent of the organisations surveyed is a pricing officer part of the executive committee. In two thirds of the companies surveyed, the **roles and responsibilities related to pricing have not been identified and are scattered throughout the organisation**.

The best organisations have **financial incentives** for sales teams that **link the performance of the individual sales representatives together with the achievement of the overall company's objectives**, being profit, growth or other company-specific goals. In addition, these companies invest in the ongoing development of capabilities and development plans for the long term, for sales as well as other departments such as pricing and product management.

Despite the fact that the majority of companies don't take into account the customer's needs in segmentation, 37% of respondents claim to have achieved the highest maturity in communicating the value of their products to clients based on a thorough understanding of their customers' needs. This, however, doesn't seem to alleviate the **need for additional sales training**, as over two thirds of respondents believe improvement of sales capabilities can increase overall profitability.





# 5

## Taking the next steps in pricing maturity



For organisations looking to take the next step in their pricing maturity, it's important to first identify opportunities in the main areas of improvement: strategy, processes, reporting, technology and organisation, and gradually grow from there. This should be done by taking stock of the current strengths related to pricing within the organisation, as well as the **gaps in capabilities for achieving higher maturity**. It's important for companies to take a systematic approach, led by the pricing team, and build momentum throughout the organisation to drive growth. This ensures that improvements will be implemented company-wide.

Once the current capabilities are assessed, companies can start improving on pricing. How, exactly, can they do this?

A thorough **understanding of customers and their needs is the foundation of every pricing process**. If an organisation still has an inside-out view on its products, the danger lies increasingly in failing to capture the full extent of the customer's WTP. A starting point can be to launch, within a specific area of the business, a number of customer and sales rep interviews to assess key buying factors and current pain points. This enables potential adaptations to the current value proposition and corresponding prices, but also in the way sales communicates this value to the market.

A potential low-hanging fruit for many organisations is to install a **basic level of price guidance and escalation for their frontline sales people in the price realisation process**. Through this guidance, a firm can reduce its pricing spread by avoiding outlier prices on the market and thus avoid entering into unprofitable deals. In our experience, this basic price guidance can be put into place without significant technological support.

Another pricing area with a potentially important ROI is the **accountability of pricing within the organisation**. Many organisations can benefit from mapping current roles and responsibilities within the end-to-end pricing process and assigning formal responsibility and accountability.

For each of these improvement areas, we suggest clients work with a **pilot/sprint approach**. Piloting new pricing capabilities can be an effective way to learn in real-time from the market and make sure that further investments in certain pricing competencies are worthwhile. Building credibility by testing the new approach in the market also **facilitates the change process for the internal stakeholders**.









# 6

## Conclusion

Our Pricing Maturity Survey examines the maturity of companies in five key areas, ranging from customer strategy to organisational design. The process of improving pricing begins with identifying opportunities based on current strengths and gaps. Identifying and initiating quick wins and pilots can often build the momentum necessary to steer the organisation towards a higher maturity in pricing, and growing the bottom-line.

The objective of the survey is to gain an understanding of the pricing maturity of companies across different industries. Companies surveyed are active in a number of industries, such as retail and consumer, manufacturing and chemicals. Executive, top or middle management teams from Pricing, Finance and Marketing were the main respondents.

Improving the maturity of pricing throughout an organisation delivers **significant top- and bottom-line improvements**. To achieve the highest maturity in pricing, the survey identifies that a **deep understanding of what customers value, monitoring the market,**

**operating well-defined processes and leveraging technology and culture** are essential. On average, organisations are well-structured and have a firm product and customer strategy in place to address the increasingly dynamic market. However, when we look at a complementing pricing strategy, this can create adversity for both average and above-average companies. In addition, accurate reporting with detailed visibility over pricing performance, as well as being able to take action by using supporting technology, isn't possible to implement in full within the companies surveyed.

Almost half of respondents indicate that **significant investments in pricing** are necessary to secure future growth. Also, most respondents agree that focusing more on pricing in their organisation would increase their overall profitability and shareholders' value. Companies thus acknowledge that pricing's a powerful lever for profitability and should be given careful consideration, but they still have a way to go to be able to reap the full benefits of pricing opportunities.

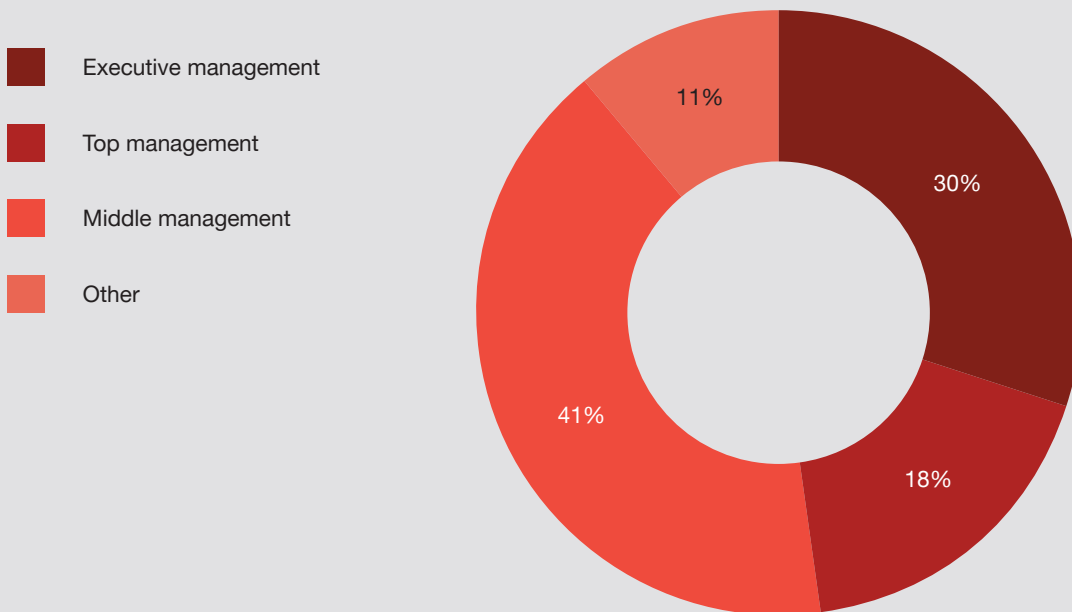


# 7

## Appendix: Profile of the respondents

### Seniority levels

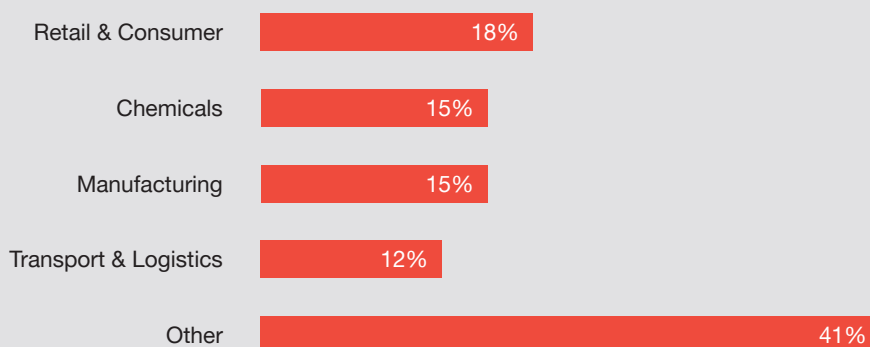
34 companies responded to the survey. The respondent's seniority level is made up of executive (30%), top management (18%) and middle management (41%), mainly in finance, pricing or marketing functions.



### Industries

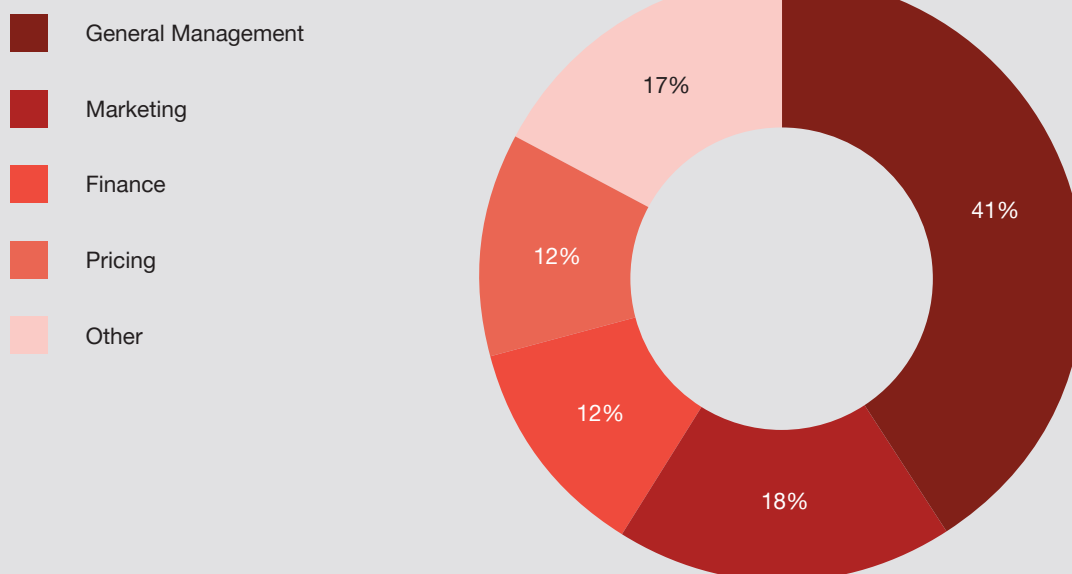
The respondents are active in a number of industries such as chemicals, retail and consumer and manufacturing.

“Other” consists of financial services, technology and IT, energy & utilities, healthcare, pharmaceuticals and life sciences, real estate and telecom.



### Functional levels

“Other” consists of sales, operations, owner and staff.





# Contacts

**Peter Vermeire**

Partner, Management Consulting, PwC Belgium  
peter.vermeire@pwc.com  
Tel: +32 493 51 87 28

**Bart Brusselmans**

Director, Management Consulting, PwC Belgium  
bart.brusselmans@pwc.com  
Tel: +32 485 88 13 56

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