

Smart Pricing for Higher Profits

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Atul Minocha – An Intro



Consulting/
Mentoring

Chief Outsiders
Sierra Angels

Honeywell



Investing
Sierra Angels

Teaching
Hult



Mech. Engg., Indian Institute of Technology
MBA, Yale University

I want to increase sales. By how much should I lower my price so I can attract more customers?

Will this decrease in price increase my revenue? Or will I end up with more unit sales but lower revenue?

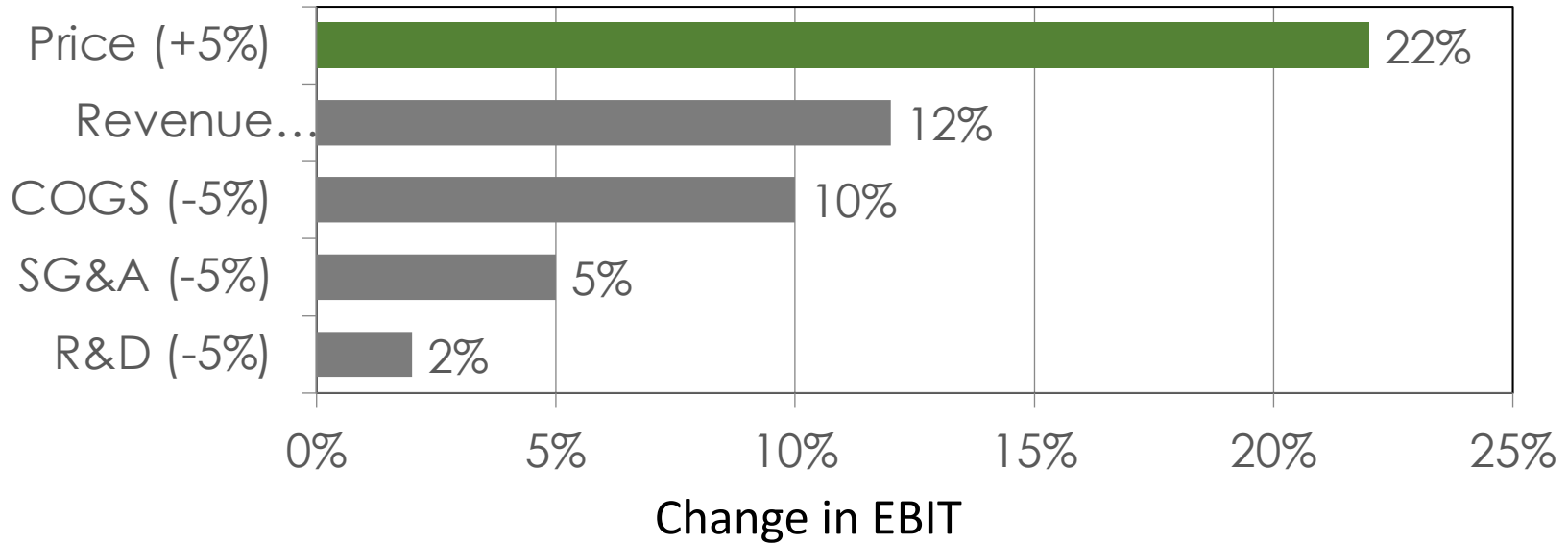
What if I increase my price instead? Will that be better for my company's health?

Since COVID, have you:

- a. Raised prices?
- b. Lowered prices?
- c. Maintained prices?

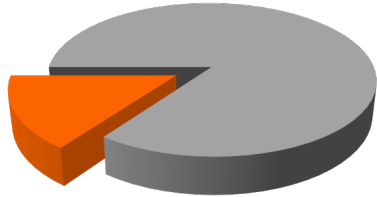
Importance of Pricing

Impact of Operating Levers on Profit

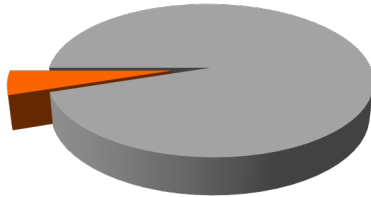


Source: Hinterhuber, Andreas. "Toward value-based pricing – An integrative framework for decision making". *Industrial Marketing Management*, 2004.

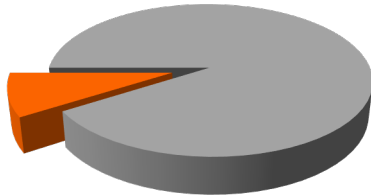
But We Also Know that ONLY ...



- <15% of businesses monitor pricing systematically



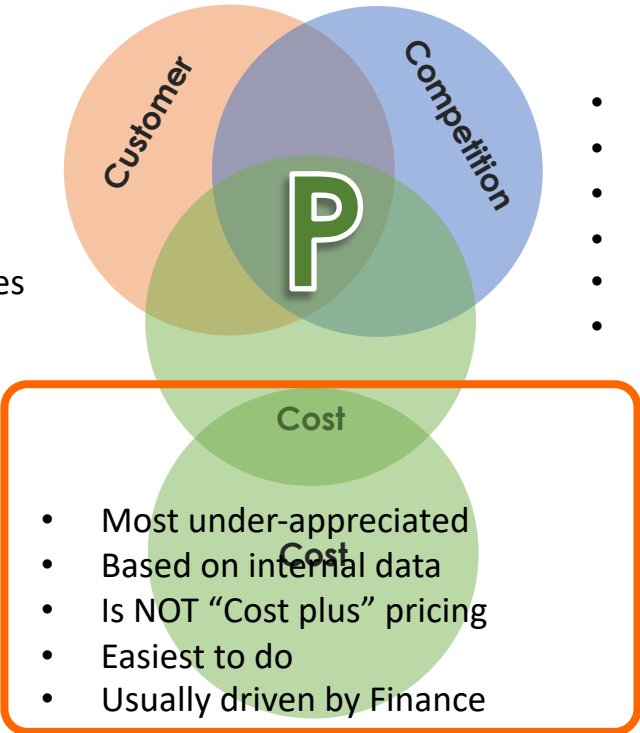
- <5% of F500 companies have a dedicated pricing function



- <9% of business schools offer a course on pricing

Source: MIT Sloan Management Review, Summer 2012

3 Perspectives

- 
- Value based pricing
 - Tries to maximize value
 - Hardest to do
 - “Willingness to Pay”
 - Usually driven (down) by Sales

- Establishes/maintains position
- Relatively easy to do
- Relatively easy to track
- May get you “wrong” customers
- May lead to price wars
- Usually driven by Marketing

- Most under-appreciated
- Based on internal data
- Is NOT “Cost plus” pricing
- Easiest to do
- Usually driven by Finance

- **CFO Perspective**

- Costs are known
- Profit expectations are set
- Appropriate price level can be set (cost +)

- **Sales VP Perspective**

- Price should be based on “Willingness to Pay” (different from “Value to Customer”)
- I have a target to meet
- How low can I go to meet/beat my sales target?

What's Missing?

Effect of Price on
Unit Volume

How Different
Costs Affect
Profitability

Post acquisition, how important is 'pricing action' for your success? :

- a. Very important
- b. Moderately important
- c. Not important
- d. What pricing?



The Smart Way To Price Adjustments *(Based on Costs)*

Basic Pricing Terminology

- **Variable Cost**

- All costs that vary with quantity (1 additional unit) produced
 - Raw material
 - Direct Labor
 - Sales commissions
 - Shipping & handling (if individually shipped)

- **Fixed Cost**

- All costs that do not change with quantity produced
 - Building rent
 - Most utilities
 - Administrative costs
 - Marketing costs

- **Unit Contribution Margin**

- Unit Sales Price minus Unit Variable Costs

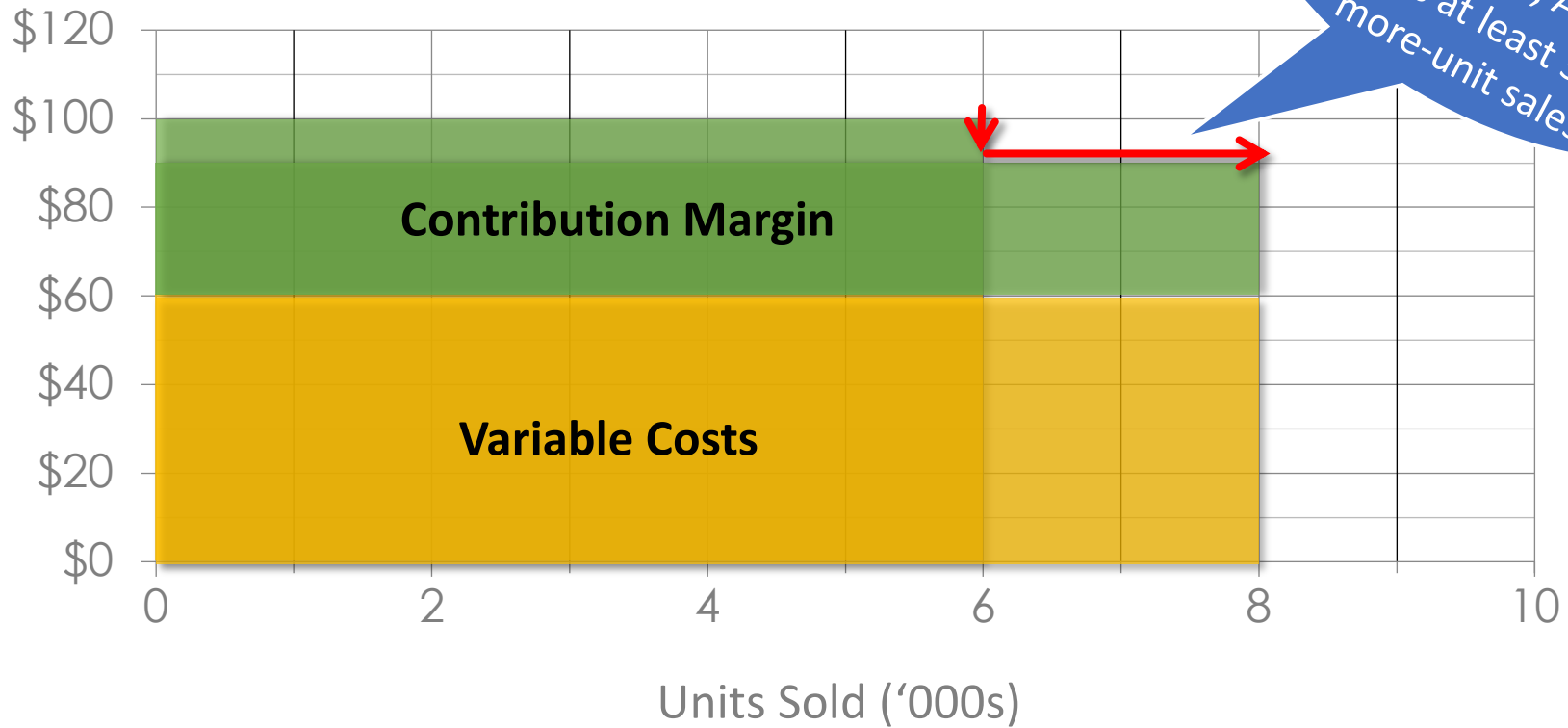
Acme Manufacturing Co(AMC)



- Net Price = \$100
- Units/Month = 6000
- Variable Cost = \$60

- Total Monthly Contribution Margin = \$240,000
- If Monthly Fixed Cost is \$150,000, Profit = \$90,000

Is 10% price reduction a good idea?



With 10% price reduction, AMC needs at least 33% more-unit sales

Reframe the Question

From...

- How will price change impact my unit sales?

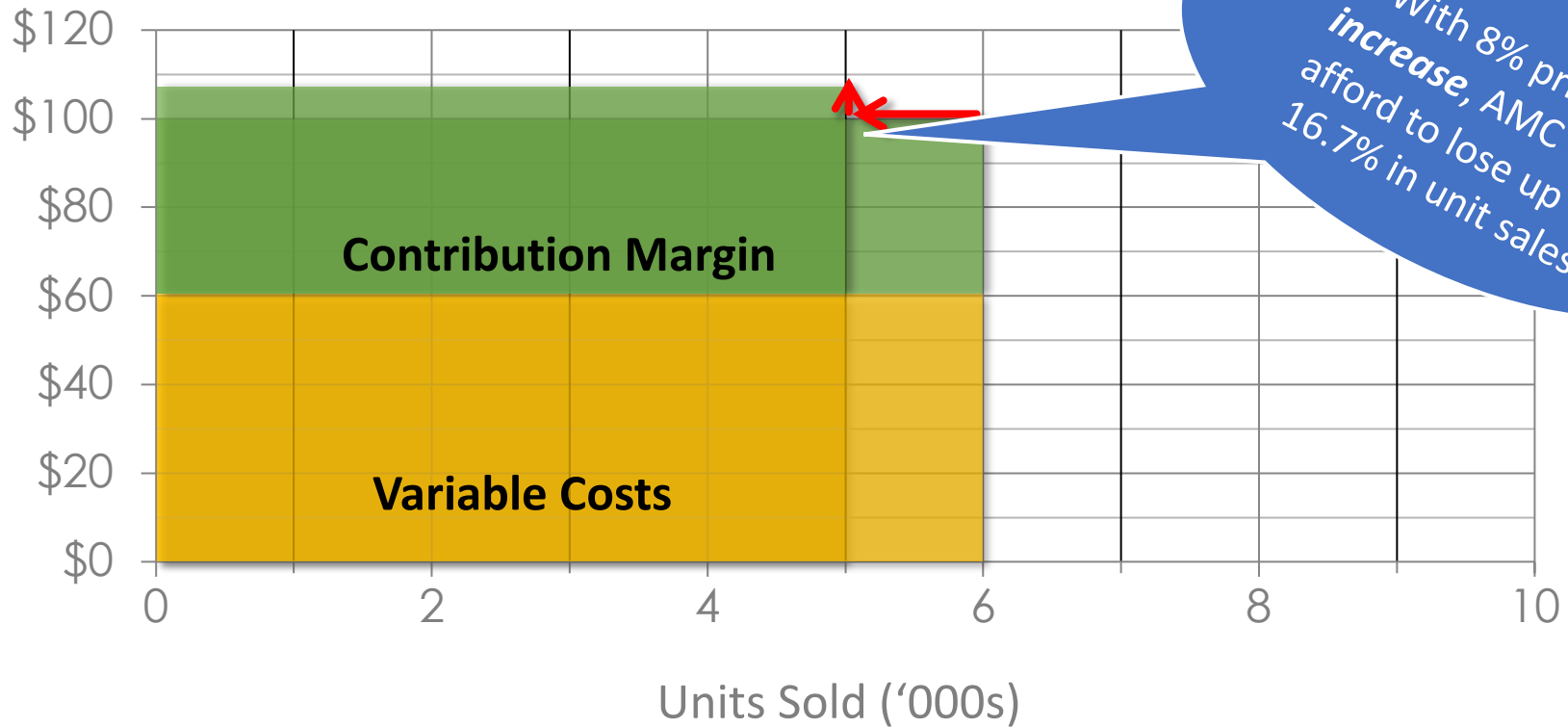
To...

- How much change in unit sales do I need to maintain status quo in profit, at the new price?


Why...

- From experience you know (or have a good feel) for where you stand relative to this break-even

What about 8% price *increase*?

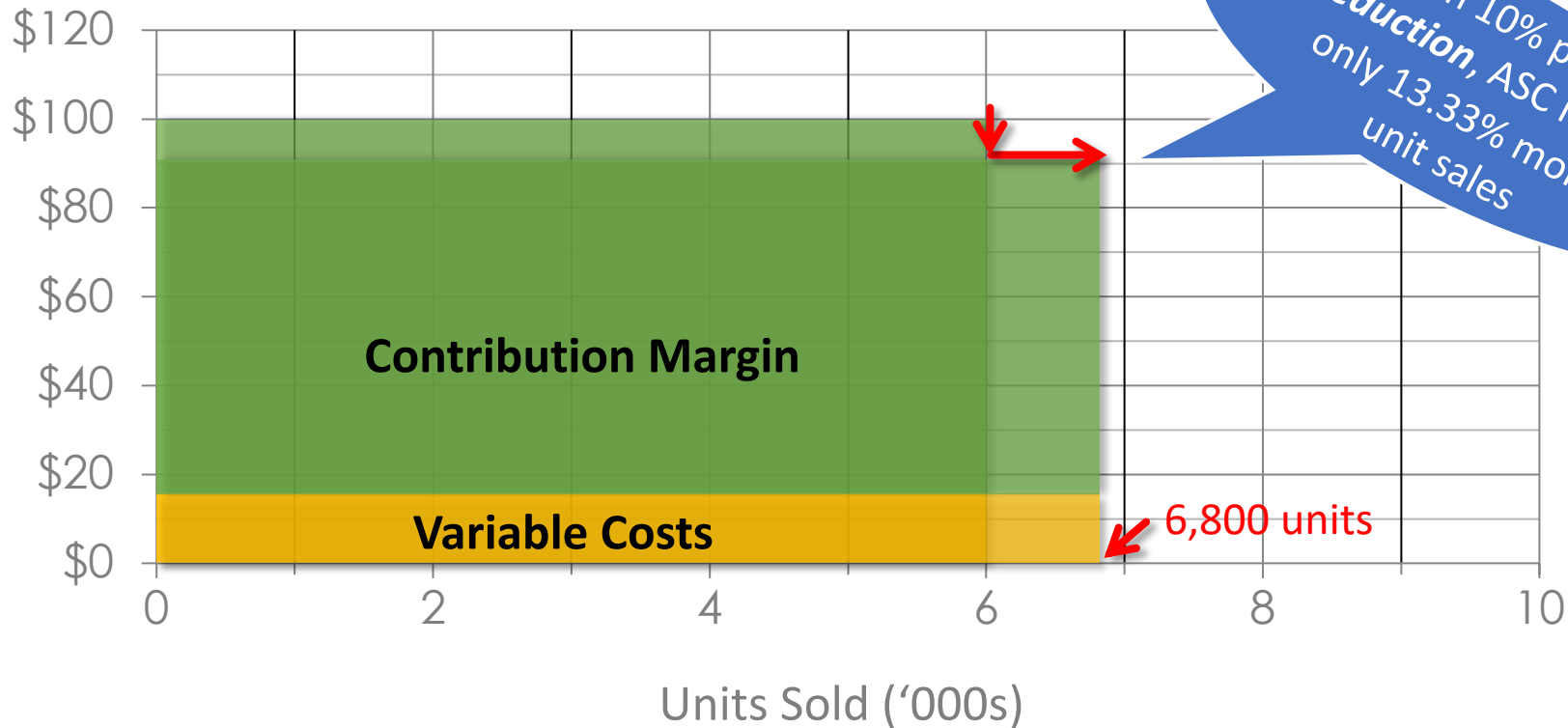


With 8% price increase, AMC can afford to lose up to 16.7% in unit sales

- Net Price = \$100
- Units/Month = 6000
- Variable Cost = \$15 

- Total Monthly Contribution Margin = \$510,000
- If Monthly Fixed Cost is \$150,000, Profit = \$360,000

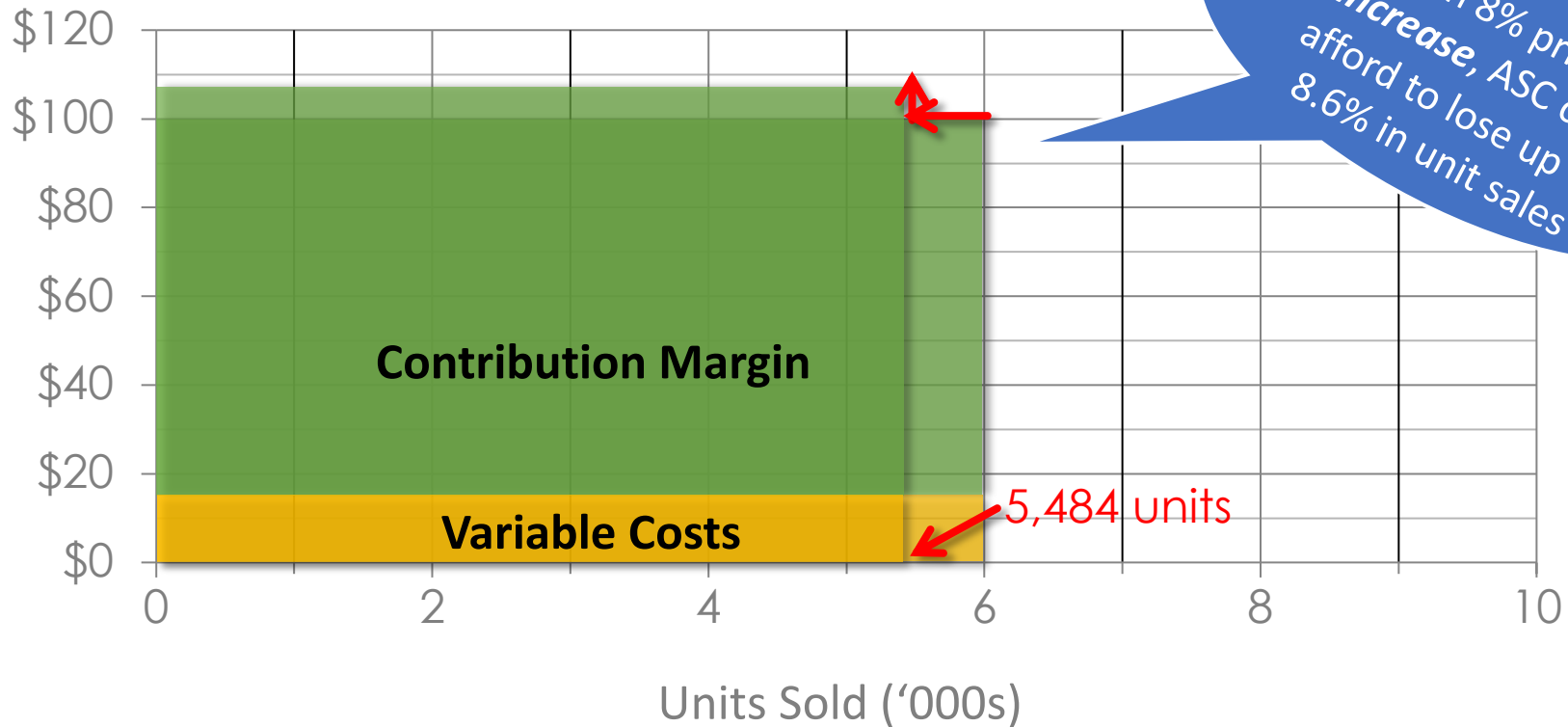
Is 10% price *reduction* a good idea?



With 10% price reduction, ASC needs only 13.33% more-unit sales

6,800 units

What about an 8% price *increase*?



With 8% price increase, ASC can afford to lose up to 8.6% in unit sales

Comparison of AMC & ASC

For breaking even ...

	Acme MANUFACTURING Co (VC = \$60)	Acme SOFTWARE Co (VC = \$15)
10% Price Decrease	Unit sales need to go up by at least 33.3%	Unit sales need to go up by at least 13.3%
8% Price Increase	Unit sales can go down up to 16.7%	Unit sales can go down up to 8.6%

The Magic Equation!

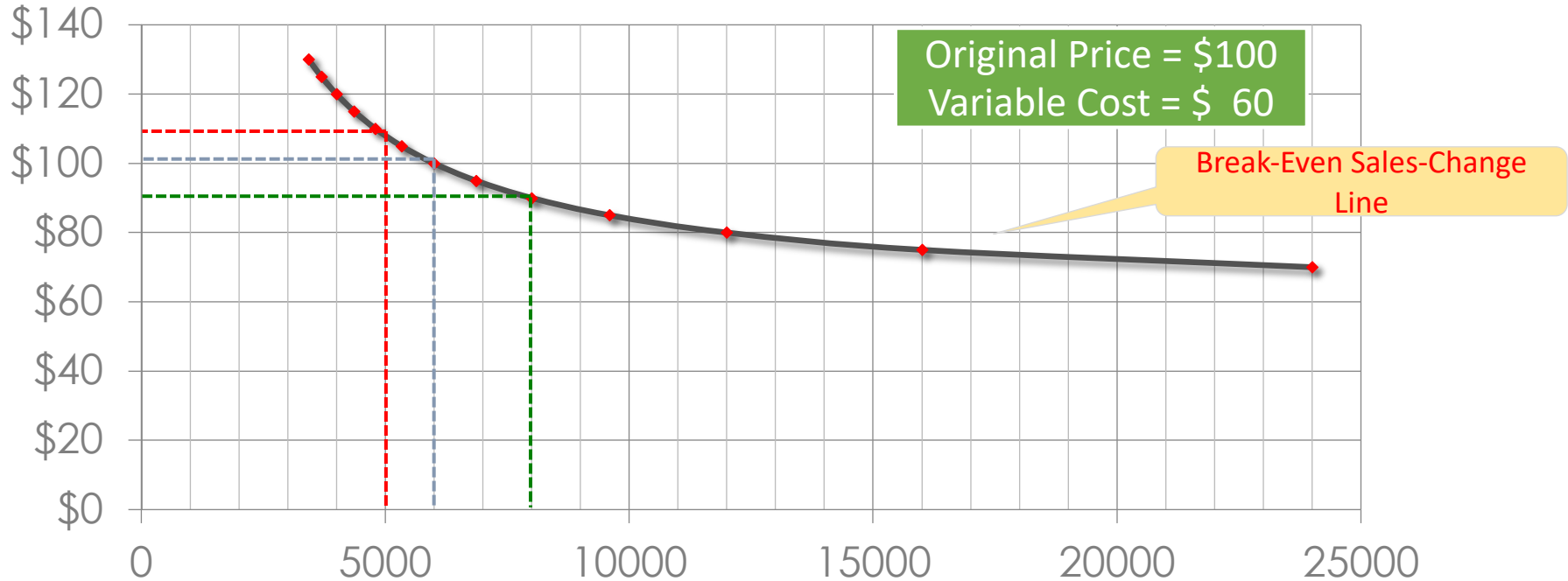
$$\text{B.E.S.C. (in \%)} = \frac{-\Delta P (\$)}{\text{CM} (\$) + \Delta P (\$)}$$

B.E.S.C. = Break Even Sales Change

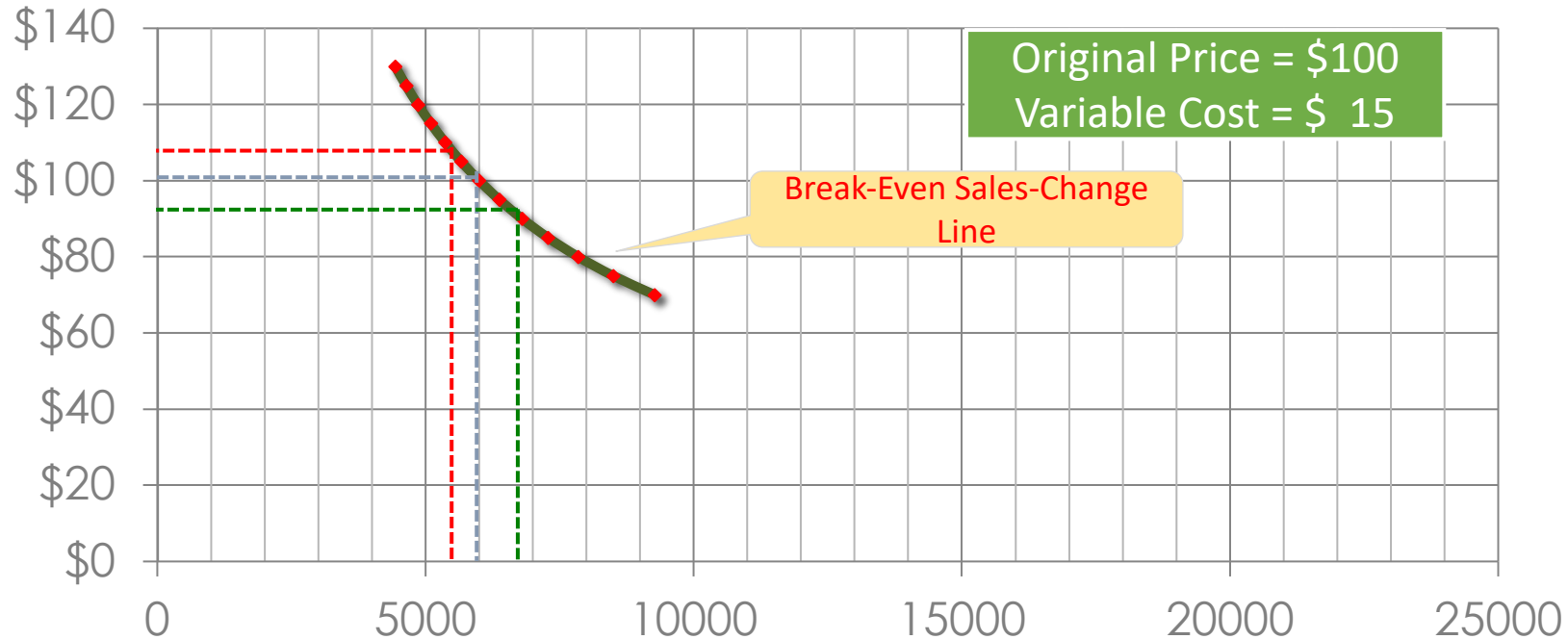
ΔP = Change in Price

CM = Contribution Margin = Price – Variable Costs

Trade Off Between Price Change and Sales



Trade Off Between Price Change and Sales



If Elasticity of Demand Is Known?

- **Elastic Demand**

- Demand is highly sensitive to price change
 - Discretionary products
 - Luxury items
 - Products with easy substitutes
 - Many competitors

- **Inelastic Demand**

- Demand is not very sensitive to price change
 - Essentials
 - Medicine
 - Certain branded items
 - Few competitors

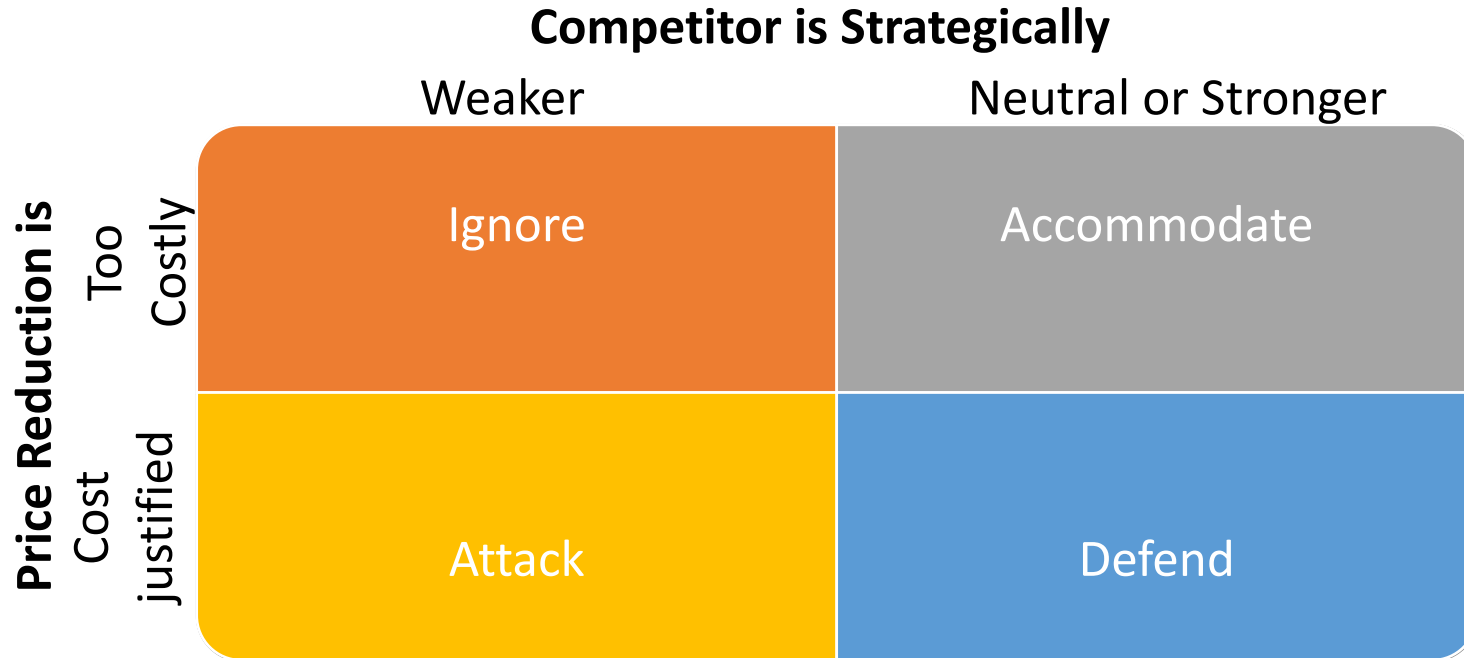
Key Takeaways

- Don't Need to Know Price Elasticity
- Contribution Margin is Key (ask for it TODAY!)
- Fixed Costs Don't Matter
- Generally, low variable-cost products benefit from a price discount
- Huge opportunity to adjust prices of bundled and complementary products (e.g. Apple hardware & software)
- Even easier (and more effective) if price elasticity is known

Pricing Based on Competition

- Pricing = **Game of Chess**
 - Others are actively involved
 - Need to think several moves ahead
- Pricing is often a “**Negative Sum**” game
 - “Winners” are often left wounded and worse off
- Competition Based Pricing \neq pricing equal to competition

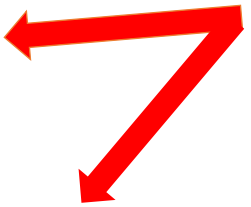
Think Before You Act





Pricing Based on Value to Customer

Pricing Based on Value (Customer)

- Cost \neq Price \neq Value
- Almost always, Price \leq Value
- Value includes tangible and intangible 
- Value includes monetary value and psychological value

Example: Tangible & Intangible Values

Software Development Co

*ni*Texico



India

Hourly Cost

Quality

Time zone inconvenience

Travel Cost (~\$1500 ticket)

Visa time (high)

Cultural differences

Mexico

Hourly Cost (~20% premium)

Quality

Time zone convenience

Travel Cost (~\$300 ticket)

Visa time (low, easy)

Cultural differences (closer)

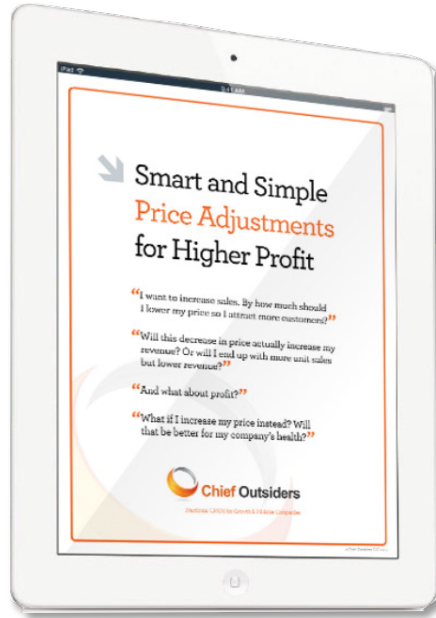
Now that you know more about pricing, do you expect to:

- a. Raise prices?
- b. Lower prices?
- c. Maintain prices?

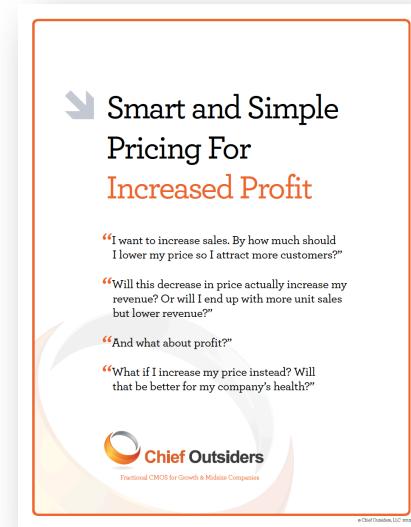
Primary reason for changing your price?

- a. Improve profit
- b. Increase/maintain market share
- c. Pressure from sales team

iBook for the iPad



PDF



Chief Outsiders: Your Partner for Growth



Firm & Talent Pool

- Nationwide, founded in 2009
- 70+ Chief Marketing Officers across the country (all former C-level executives experience)
- Inc. 5000 honoree in 2014, 2015, 2016, 2017, 2018, 2019 & 2020 (7 years in a row!)
- 2019 honoree as one of “25 Small Giants”
- Focused on helping small and middle-market companies grow

Engagement Philosophy & Model

- Core belief: Marketing is a means to an end → focus on business goals
- Model: Work as an integral part of the executive team → “insider” with an “outward mindset”
- No junior staff → WYSIWYG
- No in-house research/advertising/SEO/web resources → Objectivity and no over-selling
- No “pre-packaged” solutions → Tailored to each client’s unique situation
- Hire 1 CMO, get brain-power and experience of full “Tribe” → peer reviews & advisory councils
- Flexible engagements → to fit a wide range of needs and budgets
- Objective → set up clients for long-term success without Chief Outsiders

Atul Minocha



Background & Experience

- Understand and comfortable with science and technology businesses
- Ability to translate complex tech-speak into customer-friendly messaging
- Former Chief Marketing Officer/GM at F1000 companies
- Experienced in B2B and B2B2C verticals – automotive, healthcare, tech & others
- 22 years of “corporate” experience
- 12 years of “entrepreneurship”
- 9 years of “consulting/advising” (including industrial goods, technology)
- 11 years of “angel investing & mentoring”
- 11 years of teaching: Hult (San Francisco/Dubai/London) & Sierra Nevada University
- Vistage speaker, author and graduate-level professor of marketing, strategy and pricing



TOYOTA



Education

- B.Tech. (Mech. Engg.) – Indian Institute of Technology, Delhi
- M.B.A. – Yale University
- Executive Program in e-Business – Kellogg/Northwestern University
- Based in Reno, NV... work across North & South Americas, Europe, Mid-East, Japan and India



Honeywell



Articles:

1. [Four Time-Tested Principles to Guide Us In Turbulent Times](#)
2. [A Look Back From 2030: What Changed In 2020?](#)
3. [Purpose, Repurpose and Re-Imagine: How Leaders Can Overcome Crises](#)
4. [Reimagining and Retooling: Getting Ready for the 'New Normal'](#)

Expert Panel Contributions:

1. [14 Tips to Ensure Biz Dev Plans Go Off Without A Hitch](#)
2. [Train Your Sales Team with These 15 Effective Techniques](#)
3. [14 Overlooked Business Development Strategies](#)
4. [13 Factors to Ensure Sustainable Business Growth](#)
5. [12 Important Things Leaders can do to Improve Sales During Difficult Times](#)
6. [14 Sales Hacks to Maximize Each Prospect](#)
7. [Developing an Effective Customer Journey Map: 16 Tips for Sales Pros](#)

What Do You Think?

Open Discussion

Thank you!

Atul Minocha

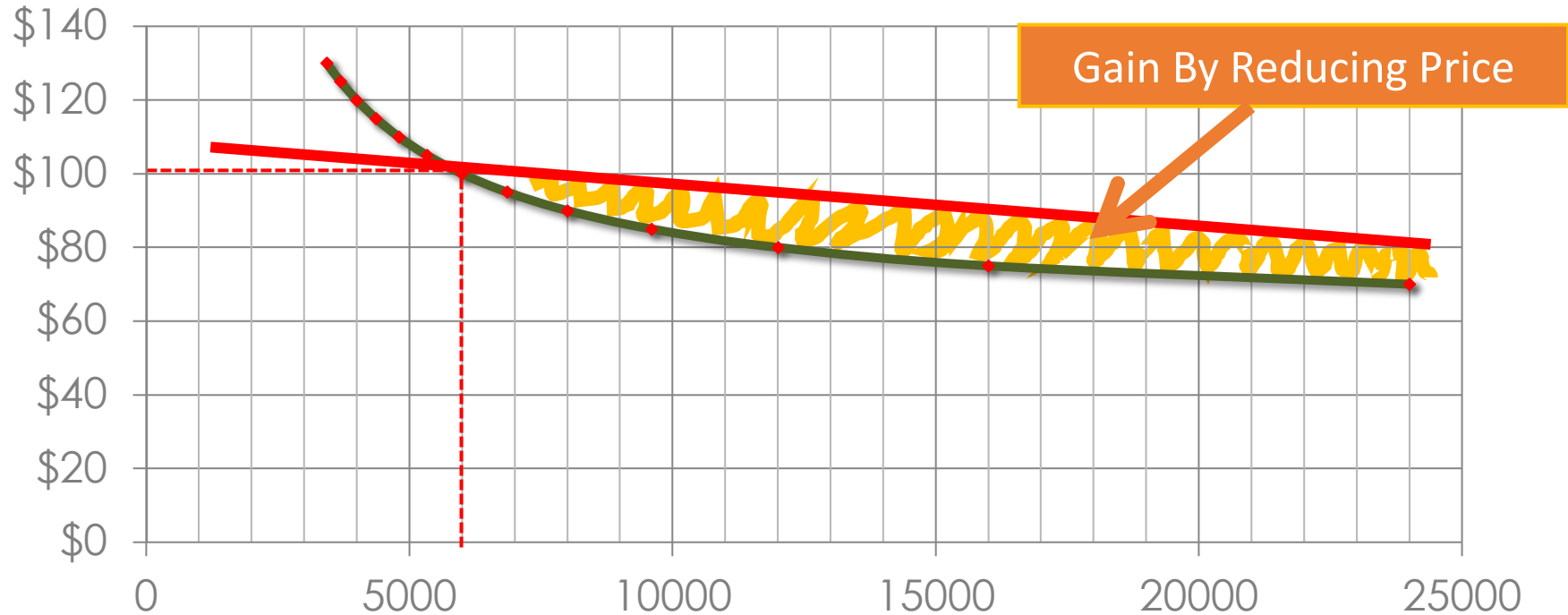
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Appendix

Trade Off Between Price Change and Sales



BESC Chart w/Inelastic Demand

Trade Off Between Price Change and Sales

