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What experience tells us about the right way to make price changes

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How can you achieve the revenue and return benefits of changing prices, whilst minimising the risks of upsetting customers, eroding sales volumes or devaluing your brand?

You can't sustain margins and returns without increasing prices. But this is easier to do at some times than others.

With inflation spiralling upwards over the past year, business and retail customers have been readier to accept significant price rises. Now, however, the rate of inflation is set to subside. This will provide welcome relief from the cost-of-living crisis but create potential headaches for many businesses.

Pricing pitfalls

In the past, changing prices has often proved problematic. A common mistake is to follow a competitor in cutting prices. But if prices slide too far, perceptions of value can shift, turning a quality product into a bargain brand. Just as potentially damaging is using a crude cost-plus-x approach to price setting or making percentage changes in prices across the product range, both of which ignore both perceptions of value and market realities on the ground. The third and closely related problem is a lack of knowledge about what prices the market will bear and the levels of elasticity within that. The upside price can vary quite markedly depending on levels of competition and how much the customer prizes the product.

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On the front foot

But price changes don't need to be such a minefield. Reasonable price rises are still possible if you get your strategy and tactics right. If experience teaches us one thing it's to stop being reactive and take control over your price changes. Four priorities stand out:

1. Plan and implement strategically

Price changes work best as part of a strategic process. They need to be backed up by sufficient time, resources and executive level input to make the right choices at the right time and make sure the implementation is effective.

Where to start? The foundation is the customer analysis and insight needed to match prices with their perception of the product or service's value. Alignment allows you to bring prices up to what different customers are prepared to pay - and raise prices in line with product innovations, improvements, and increased choice.

There's no one-size-fits-all change. It's important to judge where and how much prices can change according to customer perceptions, customer segments, product portfolio and location. [ERF1] For example, quality, speed or convenience may be bigger factors than price when customers choose a product. Similarly, price elasticity for a £4000-£5000 holiday in an exclusive resort is likely greater than for a closely scrutinised and more readily comparable £400-£500 one.

2. Move from a position of strength

If you're on the front foot, you can choose when and how much to change.

Again customer analysis and insight are the starting point. In the current market environment, this includes gauging how inflation has affected different customer segments, their product choices and perceptions of value.

Moving at a time of your choosing means you can assign people from sales, marketing and IT to focus on the change and plan communications around it. It also gives you more time to tailor communications to different segments – one-to-one engagement for key accounts, for example.

3. Bring the business on board

Involve product teams closely in decisions on pricing, so changes are consistent with product strategies. And make sure marketing and communications teams have enough time to develop and manage messages to customers, staff and the market.

Staff may resist changes they believe could damage volumes and client relationships. They may also transmit their own price sensitivity to the customer. So it's important to make a compelling case for change. This includes sharing analysis on what customers value and their price elasticity. It also includes demonstrating the benefits for the salespeople, such as making it easier to reach sales targets.

Investing the time and resource early on to bring frontline salespeople on this price change journey is vital, not only so they can defend the changes, but also to avoid the risk that they will simply ignore them.

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4. Monitor and manage the response

Once prices have been changed, it's important to monitor the market response, while holding your nerve and avoiding any knee-jerk reaction. This can help to determine key questions such as whether customers buy the expected volumes and mix of products and whether any response depends on the size of the price change.

One of the key challenges is that compliance can slip after a while, with prices adjusted without approval. Any gains in margin or return can quickly dissipate as a result. So it's important to monitor compliance within your organisation alongside the response from customers.

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1-3% above inflation boost

As inflation rates dip over the coming months, don't just follow the market down. Instead, take the initiative on price setting. This will help you to navigate the turbulence in the short-term. And, in the longer term, a proactive, strategic approach can boost revenues and returns by 1-3% above inflation.

Get In Touch

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