PRAGMATIC INSTITUTE

5 REASONS YOUR SALES TEAM SHOULDN'T OWN PRICING...

AND FINANCE SHOULDN'T EITHER.

A significant question that most all organizations face is “who should own pricing?” Should it be sales? Should it be your finance team or maybe even your executive team?

To answer this question, you must consider the different aspects of price. One of the first aspects of pricing that you need to address is the pricing strategy you are going to practice. Most pricing experts agree that to maximize profit, companies should deploy value-based pricing (VBP). As its name would imply, value-based pricing is dependent on the value that buyers place on your product.

Other aspects of pricing that must be considered include, what’s your pricing model? Subscription, per license? Who within our org creates value? Engineering, Product? What’s our process for quoting price and who owns this? How do we handle negotiating price and who leads the charge for that?

So many questions… When most people ask who should own pricing, they really want to know who should own setting the list price for your product.

Assuming the organization is bought into the profit maximizing power of value-based pricing, you must determine who in the organization has the knowledge necessary to implement value-based pricing.

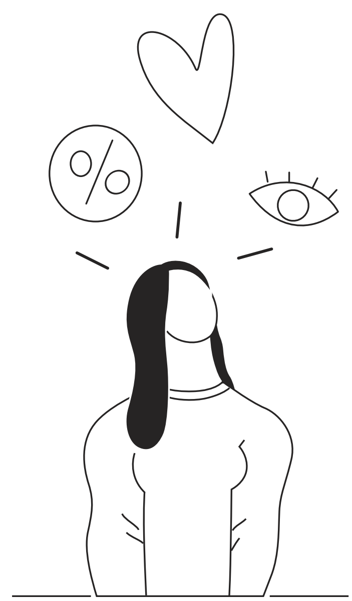
VALUE-BASED PRICING REQUIRES UNDERSTANDING BUYER PERCEPTION

To successfully implement value-based pricing, we must of course understand the value that the buyer places on our product and any associated add-ons.

In addition, we need to understand how the buyer is determining that value. Are they performing some sort of economic value ROI calculation or is their valuation based on psychological anchors and emotional triggers?

There is a need to also understand the competition. Who is our buyer comparing us to and what are the advantages and disadvantages of our product when compared to the competition? How does your buyer value those differences?

Do different parts of the market or different flavors of buyer place different values on our products? If so, how do we take advantage of those differences through our product pricing to capture as much value as we can? And...



PRICE COURSE
Learn about value-based pricing strategy in our *Price* course MORE

2

PRODUCT IS CLOSEST TO THE MARKET AND SHOULD OWN PRICING

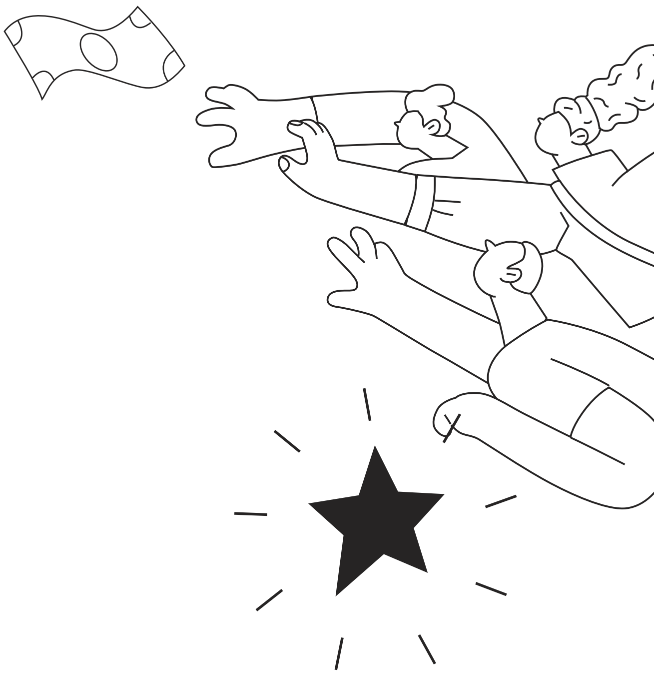
If you think about all these factors, who in your organization has this type of information? The product team. Product should own setting your list price. They are the messenger of the market. Product team members are closest to the market data. After all, they are keeping a finger on the pulse of the market, the buyers, the buying process, the competition, and most importantly, what is valued by the market.

SALES HAS CONFLICTS OF INTEREST THAT UNDERMINE PRICING STRATEGY

We know what you're saying. "Salespeople are also close to buyers, and they understand the competition and how our buyers compare us to the competition. They know all that stuff too!" Sales does know all this information, for their pipeline or the specific sales territory they are focused on. Seldom does sales have visibility into the entire market.

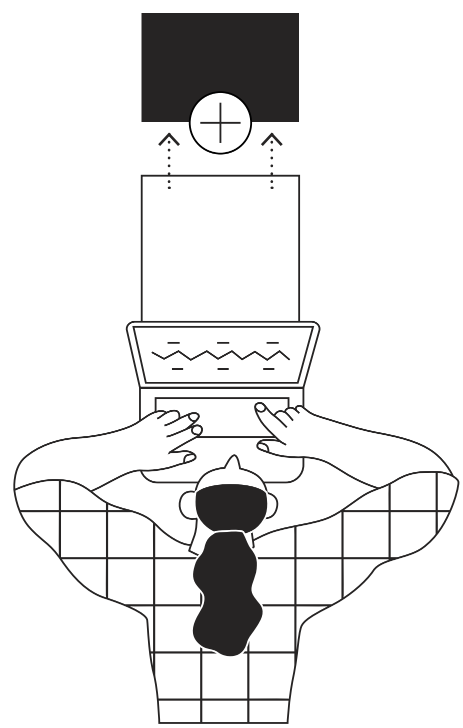
There are two additional reasons sales shouldn't own pricing. First of all, sales is incented to close deals quickly. What is the easiest way to close a deal quickly? Drop the price!

Secondly, if sales sets prices, then product teams have no incentive to prioritize the product roadmap based on the value being delivered to the market. Prioritization often devolves into he who shouts loudest or who is the best at defending made-up revenue numbers.



FINANCE RELIES ON COST-PLUS MODELS THAT DON'T REFLECT MARKET VALUE

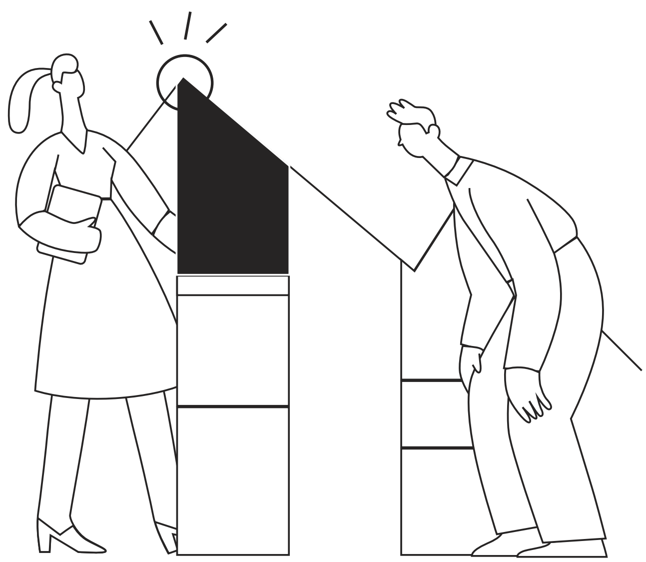
We also know what you're going to say next. "But what about our costs? Finance knows our costs, so shouldn't they own pricing?" While it's true that finance does know your costs, those costs don't matter when your buyer is determining how much value they place on your products. They matter when we are determining if we should be in a business, but not to the price the buyer is willing to pay. If Finance owns pricing, they are very likely to implement what is known as a cost-plus pricing model. They start with the cost of your product, add in the margin that the company needs to have to achieve financial goals and use the result to set price. While fairly simple and straightforward, cost-plus does not maximize profit.



Finance is too far removed from the market to understand the value your products have in the market. They lack a genuine understanding of the impact your products have and the market's willingness to pay.

SALES AND FINANCE SHOULD INFORM RATHER THAN OWN

And your next question, “Well then, what should sales and finance have to do with pricing? Surely, they have an important part to play.” Yes, they do have important parts to play regarding pricing.



Remember all those other aspects of pricing that we discussed earlier? Sales oftentimes fills the role of quoting deals, and they certainly play a very important part in negotiating individual deals.

While we said costs don’t matter to pricing, in most organizations we do need to understand whether our products are profitable or not. Finance is excellent at calculating those kinds of profit margins. They are also very good at monitoring actual results. How much discount do we have to give? Does that discount vary by industry or geography or salesperson?

Product teams need to stop handing pricing decisions off to sales or finance. In the end, when we empower product management teams to own the understanding of our markets and our personas, they become the repository of the knowledge needed for value-based pricing decisions and pricing simply can’t be done successfully without them.