Results and recommendations based on our latest survey

MERCURI INTERNATIONAL

HOW TO SUCCESSFULLY IMPLEMENT PRICING INITIATIVES IN ECONOMICALLY CHALLENGING TIMES

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2022 sees us in the third year of the pandemic. Along with the impact on broader society, there is also increasing discussion of supply bottlenecks and supply chain disruption, linked to exorbitant increases in energy, logistics, air freight, production, and procurement costs.

Take just one example - sea freight containers. In January 2020, demand stood at 2T€. Today that figure stands between 16T€ and 18T€. In addition, that price is no guarantee of availability, which in turn delays deliveries and increases prices. Overall, the power in the markets is shifting more strongly from customers to suppliers. At first glance, it might seem easy and opportune to use this momentum to reflexively raise prices and distribute the goods to one's own advantage. **But is this the right approach with which to enter a sales negotiation? And have we really considered the impact of future developments on the market?**

KEY QUESTIONS:

How do you communicate price increases?

Should sales discuss price increases in general terms, pointing to the relevant supply chain factors already mentioned? Or should they be armed with more detail - with commodity indices, for example - given that calculations based on indices have previously been more in the domain of purchasing?

How are distribution priorities determined and discussed?

How are the security of supply and failure risks managed? Which customers should be granted preferential delivery and at which prices should we supply these customers?

How interchangeable is the portfolio?

Do price increases for some products have an impact on the rest of the portfolio? How secure is our position with the customer - just how good is our negotiating position, and in which areas are we easily replaced?

Are customer or volume losses taken into account?

Exactly how are customers to be given support after taking a loss?

WITH THIS IN MIND, MERCURI INTERNATIONAL CONDUCTED A FLASH SURVEY FROM DECEMBER 15, 2021 TO JANUARY 10, 2022.

The participation of over 100 companies in such a short period - which also contained the Christmas vacations - clearly demonstrates that this is a key topic and one that will continue to be of interest to sales for the foreseeable future.

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SHOULD WE RAISE PRICES NOW? IT'S EASIER SAID THAN DONE...

THE MOST IMPORTANT RESULTS AT A GLANCE

80% Over 80% of respondents say market conditions are becoming significantly more challenging due to supply/logistics bottlenecks and significantly rising costs.

87% 87% of respondents plan to increase their prices in 2022, 27% of them by more than 7.5%. This shows how current cost factors and scarcity of raw materials and goods are forcing companies to increase prices. How these price increases are justified will be critical, with liabilities on delivery dates forming part of the discussion.

66% 66% plan to adjust prices differently according to customer segment (i.e. key accounts vs. smaller accounts). Discussions will also vary in format, including written communication, personal on-site meetings, and virtual meetings.

82% 82% plan to realign sales in 2022.

91% 91% assume that their competitors will also increase their prices. This is not surprising in itself, but it is a new phenomenon for sales, which has traditionally been more concerned with losing business due to competitors lowering prices.

70% More than 70% of respondents expect customers to understand the price increases but expect very tough negotiations. It is also assumed by 81% of respondents that customers will be able to pass on price adjustments.

In general, the respondents estimate – with some variation – that their sales teams are well to very well prepared for the challenges of 2022. This applies in particular to the communication of supply bottlenecks and the realization of growth, but also to the implementation of price adjustments.

These results are surprising, given that this combination of challenges – bottlenecks, prices, etc. – is new in terms of severity.

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5 RECOMMENDATIONS

RECOMMENDATION 1

No freeflow: The implementation of price adjustments - as well as the management of scarce goods - should be a strategic decision and not left to the individual's experience or intuition of the sales team. Instead, there needs to be clear standards, procedures, and uniform argumentation guidelines. Without these, it will result in greater expense, with customer relationships suffering, and potentially positive negotiations derailed.

RECOMMENDATION 2

Assess the consequences of customer approach: How do the fixed and variable costs of production change if bottlenecks change output volume? Price increases are particularly critical for products with a high proportion of fixed costs, as volume losses are more critical than for products with high variable costs. How interchangeable is the portfolio? Do comprehensible, justifiable price increases for some products have an impact on the rest of the portfolio? How secure is the relationship with the customer? How good is the negotiating position? In which areas could we be easily replaced?

RECOMMENDATION 3

Define a negotiation strategy by customer segment: Define segments for customers who are to be given preferential delivery treatment. Offer contractual delivery preference tied to higher prices. Integrate inside sales for active phone calls. Decide upon leading with details/indices or more general reasoning. Choose between personal on-site visits or virtual contacts.

RECOMMENDATION 4:

Preparation
(Excerpt from preparation checklist)*

- When was the last price increase and by how much?
- What impact will the increase have on other products in the portfolio and future cooperation?
- BATNA (Best Alternative To a Negotiated Agreement): What is the best alternative if the presented increase is not accepted?
- What delivery volumes are realistic for each customer segment and when?
- What reactions are expected? What are the consequences of the increases for the customer (simulate!)?
- Can the customer pass on price increases to their customers?
- With which position and which goals do we go into the negotiation (how strong is our position)? What role do we play with the buyer?

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RECOMMENDATION 5

Evaluation and best/poor practice sharing:

Outcome effects and customer responses need to be continuously monitored, with management needing up to date information on the state of the various sales initiatives. Sales should provide regular structured feedback on their experiences to this effect. Results must be retrievable in a timely manner and offer answers to internal questions: How do fixed and variable costs in production change, if the output quantity changes due to customer losses? Price increases are particularly critical for products with a high proportion of fixed costs (reason: fixed cost degression), as volume losses are more critical here than for products with high variable costs. Consequence: shadow calculations have to be established; possible consequences of price increases/volume decreases on production costs have to be simulated.

FLASH SURVEY CONCLUSION:

Sales needs close support in implementing higher prices in challenging times. There is a great need for explanation and negotiation with customers – which presents challenges due to the mix and complexity of the factors mentioned above. Teams therefore need the tools that give them the confidence to implement strategic guidelines professionally and successfully.

» A tsunami has broken over companies and their salesforce!

-Quote, study participant

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