



The Review

INSIGHTS, IDEAS & INFORMATION

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Thinking profit? Think price.

BY BOB EMPSON

Many businesses are less profitable than they could be because they give insufficient attention, and take an over simple approach, to pricing. This article highlights the power of price for improving profits, discusses pricing techniques and identifies some key questions that could be considered so that price is managed profitably. The aim of the article is to challenge readers to think more about price, profitably.

Management's focus over the last 20 years has usually been to improve the bottom line through improvements in, for example, efficiency, quality, costs, technology, procurement and people (remember all those Three Letter Acronyms (TLAs!)... ABC, BPR, TQM, HRM, ICT, CRM?). However, as competitors pursue similar initiatives, new ideas are needed for improving profitability. The focus is moving to improving the top line. Many managers do not spend much time thinking about price; and when they do, they often just set prices using simple techniques. However, price is probably the most powerful lever that a company has for improving the top line and for making profits.

Numerous studies have shown that small increases in price can have a dramatic positive impact on net profit. The mantra is, and studies have shown, that a 1% increase in average prices can typically lead to a 10% increase in net profit (and a Swedish consultancy is reported as showing that low margin businesses can even double their profits with a 1% average increase in price).

Prices ending with 9 are a common tactic. Most consumers probably interpret these as denoting a bargain or special offer. The consequent opportunity to use 9s to increase profits was shown by an experiment which reported sales of a dress increasing by a third when its price was increased from \$34 to \$39! Clever use of the 99p price point was illustrated recently by our local Tesco in Hammersmith where two types of fresh produce promoted at 99p were significantly more expensive in terms of £/Kg than adjacent versions of the same products in the same store (see table below).

White Maple is a strategy consulting firm. We aim to deliver results for clients that produce lasting improvements to performance through facilitating alignment between strategy, the market and brand, and the organisation's people, structure and processes.



We focus on working with service organisations. Principal sectors include:

- Commercial (business-to-business)
- Government
- Member organisations and charities
- Professional services

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THE POWER OF PRICE

Price can be a powerful influence on profit in many ways. Some interesting examples include the potential impact of small increases in price, the power of the number 9 and the potential implications of price guarantees.

	Broccoli		Tomatoes (Class 1)	
	Form/price	£/Kg	Form/price	£/Kg
99p version	Wrapped (99p/300g piece)	£3.30	Loose (99p/Kg)	£0.99
Other version	Loose (£1.27/Kg)	£1.27	Boxed (66p/750g box)	£0.88

Price matching guarantees (where suppliers promise to meet or beat competitors' prices) can increase profits by reassuring customers and encouraging them to buy "there and then" rather than shop around. However, it has been argued

SOURCES

This article has drawn on my experience of working with business, government and not-for-profit clients on pricing. In addition I have referred to the following books and articles.

The Price Advantage

Discusses the fundamentals of price strategy at the industry, product/market and transaction levels. Also covers topics such as new product pricing, bundling and technology-enabled pricing

M. Marn, E Roegner & C Zawada.
Wiley Finance, 2004.

Winning the Profit Game

A thorough but practical review of pricing strategy and tactics (for example, advice on tactics for raising prices and "quick hits" for price improvement). Special coverage of pricing techniques, price and brand, and on-line auctions.

R. Docters et al.
McGraw-Hill, 2004.

Pricing: Making Profitable Decisions

The mother of pricing books! Quite academically oriented, but an excellent chapter on guidelines for better pricing.

K. Monroe.
McGraw-Hill, 3rd Ed. 2003.

The Art of Pricing

Written in an easy style, this practical book focuses on value pricing.

R. Mohammed.
Crown Business, 2005.

Mind Your Pricing Cues

Discover retailers' pricing tricks for improving profits.

E. Anderson & D. Simester.
Harvard Business Review, Sept. 2003.

Pricing and the Psychology of Consumption

Looks at how customer consumption and retention can be managed through various pricing techniques.

J. Gourville & D. Soman.
Harvard Business Review, Sept. 2002.

that these guarantees can also be used to increase profits by warning competitors that any price cutting by them will lead to a price war; the consequent negative effect for purchasers is a reduction in price competition.

"...RELIANCE ON JUST THESE TECHNIQUES CAN BE DANGEROUS."

PRICING TECHNIQUES

Many businesses set their prices using relatively simple techniques such as marking-up costs, setting them relative to competitors or making an adjustment to historic prices (typically an inflation related increase). However, reliance on just these techniques can be dangerous. Marking-up costs may produce a price that it is uncompetitive (base costs and/ or the mark-up are too high) or it could result in income not being maximised if the price ends up being lower than the market would have paid. Pricing relative to competitors might be fine but it is often very difficult to find out what competitors are actually charging (eg there are often hidden discounts or the product/service might vary in quality). A simple adjustment to historic prices is easy; but it assumes the historic price was optimal and that nothing has changed externally (other than inflation) or internally (eg costs).

There are numerous other price setting techniques that can be considered. These include, amongst many others:

Value-based. This focuses attention on how much a customer values a product or service. Value is fundamental to profitable pricing. The value, as perceived by the customer, is often not easy to calculate. However, just thinking about the value of the product/service for the customer will often challenge the appropriateness of the cost-based, competitive and historic prices. There are also many instances when financial value can be estimated (and this can be very handy when it comes to negotiating).

Segmentation. Market segments are groups of customers (or potential customers) with similar needs, desires, purchasing behaviors and/or price sensitivity. Segment-based pricing will often result in multi-price strategies and can also employ differential pricing tactics (eg payment terms, payment methods, discounts, service bundling).

Brand. Brands are "a tool for pricing". At their simplest, brands are how customers perceive a product, service or organisation in terms of a set of benefits and value that they deliver. As such, they are a special form of value-based pricing. Strong brands (ie that are valued and trusted by customers) can usually be priced at a premium.

Economic models. An example of these is the yield management models used by airlines; one of these systems can, apparently, adjust prices for a flight every few minutes. Another is the sophisticated computerised models of retail petrol markets used by some oil companies to test price sensitivities in different locations.

THINKING ABOUT PRICING

Pricing issues and opportunities for businesses will vary considerably. Here are some of the issues and questions that you might want to think about:

Market analysis. Are competitors' prices regularly monitored? Might a more segment-based pricing strategy be appropriate? Are prices based on value provided to customers?

Pricing strategy. Is there an explicit pricing strategy and set of pricing policies that are consistent with the overall business strategy?

Decision processes. What authorities and/or limits do people have for setting and negotiating prices? Do the regularity, scope and process of price reviews need to be looked at?

Pricing function. Could there be a benefit from establishing a centralised pricing function (or role) to take a strategic and "joined up" perspective on pricing?

Management information and systems. Does the business have the management information and systems to enable it to monitor and manage pricing and profitability by market/segment, product/service, customer and transaction? Is there accurate cost information?

Board agenda. How often does pricing feature on the top management agenda (other than just as an implicit item within the annual budgeting process)? Should senior managers be giving more attention to price strategy and tactics?

Skills. Do staff have the pricing skills that they need? Skills such as: market analysis, value analysis, pricing techniques and tactics, cost analysis, customer/transaction profitability analysis and negotiating.

Thinking about profit? Think price.

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Strategic recruitment

BY MAIRI BANNON AND MIKE HAFFENDEN



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Suppose you are responsible for an investment of c.£2 million, spread over five years. You are told that the returns or the losses may be many times that. It would be cavalier of you not to produce a project plan with accountable leadership and regular review. Yet such laxity remains common when appointing executives; and at the most senior levels, the sums involved are even higher than in the example cited above.

At Strategic Dimensions, we have worked with major companies in sourcing top executives, and have often found that there is a lack of understanding of the nature of the role they wish to be filled, or of the person they wish to fill it, and insufficient rigour in testing effectiveness. And there isn't always a link to any broader strategy surrounding development of talent.

People use the violent imagery of 'head-hunting', or the casual one of 'hiring'. In reality, appointing at a senior level is more akin to project management. We have found that the best results come from careful research of the requirements, an understanding of how these may evolve over time, and proper project management to select the best person and evaluate the effectiveness of the appointment.

The first priority is to know what you want. It is common to fill a post with an individual whose requirements are similar to the previous incumbent. But is the business in the same place as it was when the predecessor was hired? It might have moved from a fast-growth phase to operating in a mature market, with significant implications for the skills required.

The second priority is to know what you already have. In our experience it is common for a talented insider to be overlooked in favour of a higher profile individual from outside. An insider will have the considerable advantage of institutional knowledge and internal networking. The business writer Jim Collins, in his detailed analysis of commercially successful US companies chronicled in his book 'From Good to Great', found that 10 out of the 11 most effective chief executives had been promoted internally.

Treating recruitment as a business project means linking all core processes together: succession planning, talent development, understanding of the role and its

evolution, the recruitment process, induction, and performance management. As professional recruiters, we would expect evaluation to come six or 12 months after appointment, not immediately after.

It is important not to over-complicate the processes, however. We have found that some traditional approaches are more reliable and useful at identifying skills and potential than some newer techniques based upon competency theory. The 50-year-old interview frameworks, Munro-Fraser's Five-Point Plan, and the Seven-Point Plan by Alec Rodgers, can structure a recruitment process to help identify generic qualities, such as attainments, attributes, disposition and intelligence.

"HIGH GENERAL INTELLIGENCE AND EMOTIONAL INTELLIGENCE ARE A MUST."

For senior posts, high general intelligence and emotional intelligence are a must. It is surprisingly common not to test for them at executive level. It can also be appropriate to set an exercise – for example a verbal presentation, to test for linguistic skills, confidence and general comprehension.

There can be confusion over the role of testing, including psychometric testing – with rival tendencies either to over-estimate or to ignore what they can tell us. In our experience, testing can give us valuable information over certain attributes, especially intelligence, numerical and verbal reasoning and ability to influence. They can also give some indicators about personality; but the important point here is that personality – and personal interests – are not really useful indicators at senior levels. Meritocratic measures are more important. Success in business doesn't really come from being introvert or extrovert or chatty or brusque. It comes from being good at what you do.

There is perhaps one caveat here; considering whether your candidate has a sinister side to his or her personality. There is increasing discussion in recruitment circles around whether to test for hidden psychoses. How do you spot a potential bully or a potential fraudster? There are some tests, for example the Hogan test; but, again, it is important to look at past records and use considered judgement as well, and not rely entirely upon tests.

There are so many techniques and theories in recruitment that it is important to recall timeless principles. For example:

- No one is ever better than their CV.
- The past predicts the future.

This does not mean, however, that you should wait for A-list attainments before appointing to a senior post. What matters are ability and potential; and if you test more thoroughly for the former, you are better positioned to identify the latter. For example, we sometimes encounter an excellent candidate turned down because they 'lack international experience'. This is a weak explanation. The more appropriate question is: 'Are they suitable for international work?'

Applicants will form a view of the organisation based upon their experience. Candidates rejected for frivolous reasons, or subjected to prolonged, poorly managed interviews, or treated rudely, will have a poor image of the organisation. They will not be working for you, but they may be a customer, or a future business partner. It is easy to forget that the recruitment process is exposure to the outside world, as much as a high street shop or an exhibition stand.

Despite the increasing popularity of the concept of the 'employer brand', it is only partially developed in most companies. A report last year by CRF Publishing found that 'No companies [in the study] had developed a true employer brand and only three ... were considering it.' Yet the same report also chronicled some of the studies showing a correlation between good talent management and improved business returns. Some sources indicate that the cost of operating without a key player is \$7,000 a day.*

Recruitment isn't easy, however. As one seasoned recruiter dryly observed: 'Even Jesus Christ only got it right 11 out of 12 times.' Treat it as a proper business project, though, and you may get close to that 91.7% success rate.

*Differentiating Talent Management, by Morton L et al, CRF Publishing, 2005. www.crfpublishing.co.uk

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"...NOWHERE NEGLECT THE USE OF INTELLIGENCE..."

Book Reviews

This issue's books are on the theme of strategy and planning. They include something old (and philosophical) and something new (and practical)! Something old is *The Art of Strategy*, written by Sun Tzu about 2,500 years ago. Something new is *Making the Business Case*, published in 2006.

WEB SITES

Climate change is probably the greatest challenge the world faces today. Here are some sites with information and views about scientific analyses, potential impacts and possible solutions.

GreenFacts

www.greenfacts.org

Aims to make "scientific consensus" reports on health and the environment accessible to lay people. Key questions are answered in the Climate Change report (see popular studies).

OVERALL RATING 

Intergovernmental Panel on Climate Change

www.ipcc.ch

This international body offers information on the scientific basis for climate change, its impacts and mitigation options. Rather scientific. Includes a library of downloadable PowerPoint slides.

OVERALL RATING 

Pew Center

www.pewclimate.org

This site, from the Pew Center on Global Climate Change, has an excellent set of summaries and FAQs on global warming, including fact sheets about frequency of hurricanes and the relatively fast warming in the Arctic.

OVERALL RATING 

Scientific Alliance

www.scientific-alliance.org

"The Scientific Alliance is concerned about the many ways in which science is misinterpreted and at times misrepresented". Questions some of the science behind the climate change debate.

OVERALL RATING 

Tomorrow's Climate, Today's Challenge

www.climatechallenge.gov.uk

Part of a UK Government campaign to communicate climate change, this site summarises "the facts, myths and history of climate change – and what it means for the UK". Quick and easy to navigate and to understand!

OVERALL RATING 

The Art of Strategy

A translation of Sun Tzu's classic by R L Wing

The traditional title for this book is *The Art of War*. Wing has translated the relevant character as "strategy" because he argues convincingly that this is "the most faithful to Sun Tzu's intended objective: the achievement of triumph through tactical positioning without resorting to battle".

This masterpiece is often used in military education and at business schools; Wing provides helpful notes for its use and interpretation at work and in one's personal life. He identifies four types of conflict to which Sun Tzu's strategies can be applied: in the self, in the environment (at home or work), interpersonal and between organisations. Each of the thirteen chapters is interpreted in terms of each type of conflict.

The Art of Strategy includes principles and practical advice on diverse matters. These include, for example: strategy (unsurprisingly!): "leaders who understand strategy preside over the destiny of the people and determine the stability and instability of the organisation"; knowing costs; leadership (eg the five weaknesses including being over reckless and over cautious); teamwork; and the need for analysis. On this last point, Sun Tzu promotes the use of intelligence to avoid costly mistakes; in a business sense, this is an eloquent reminder about the necessity of having good information about competitors and other stakeholders: "nowhere neglect the use of intelligence."

Although short, this is not a one-sitting read: it's a philosophical work that you'll have to think about and interpret. However, this skillfully translated and annotated Chinese classic is a source of timeless advice which you can dip into when you have time for contemplation and reflection.

OVERALL RATING 

Broadway Books, 2000. £8.76 (Amazon)

Making the Business Case

By James Cannon

Let's first declare an interest. The author of *Making the Business Case*, Jim Cannon, is an associate consultant with White Maple. We still think it's a good book! The business case – "a considered course of action in terms of impact on the success of the enterprise" – is not really the focus of this book; rather, it emphasises and explains how to turn "sometimes theoretical costs and benefits" into business plans – "practical plans for implementation". And it's all the better for this.

Making the Business Case reviews both the content and process of business planning. The process covers not only how to engage others and build support for the plan (with a detailed section on facilitation) but also how to ensure that it is implemented effectively: "turning the plan into action". Implementation topics include such issues as how to clarify accountabilities and responsibilities, service level agreements, monitoring/evaluation and what to do when things go wrong. The financial aspects of plans can often stump people. Jim addresses this, not by providing a course on accounting but by identifying the information that will be needed (so at least one knows what to ask for!).

It is Jim's natural style to be very practical, and his book reflects this. For example, he provides a template for a business plan and numerous checklists. A 60 page appendix offers tools and techniques for effective business planning; these include, for example: balanced scorecard, fishbone analysis, Gantt charts, problem-solving, and risk analysis.

Although written specifically for people in the Human Resource function, *Making the Business Case* will be a very handy resource for anybody involved with business planning or making business cases.

OVERALL RATING 

CIPD, 2006. £24.99

WHITE MAPLE NEWS

RECRUITMENT PARTNER

Clients regularly seek our advice on management succession and recruitment. We do not offer search and selection services ourselves but prefer to direct clients to specialists we know. Consequently, White Maple has established a strategic partnership with the recruitment consultancy Strategic Dimensions who have worked successfully with a number of our clients in recent years; they focus on recruitment in senior general management, human resources, engineering, technology and transport.

INTERNATIONAL WORK

Over the last year we have worked for UK and non-UK clients in France, Germany, the Netherlands, Poland, South Africa and Spain.

50 CLIENTS

Since being founded nearly 4 years ago, White Maple has now worked with over 50 clients. These have included businesses, charities, government agencies, housing associations, professional institutions, solicitors, other professional service firms and trade associations.

THE REVIEW: FORMATS

All issues of *The Review*, including this one, are available on our web site in the resources section in pdf format. Printed copies of all issues are available on request (while stocks last!). A version can also be provided in Word to facilitate production as large print or in Braille.