

The six most important steps to increase prices successfully



Sharply rising raw material and energy prices are currently forcing many suppliers to raise their prices, some significantly. Price increases are one of the most unloved tasks in sales and similar omissions often occur. The following short article therefore briefly describes the six most important steps to a successful price increase

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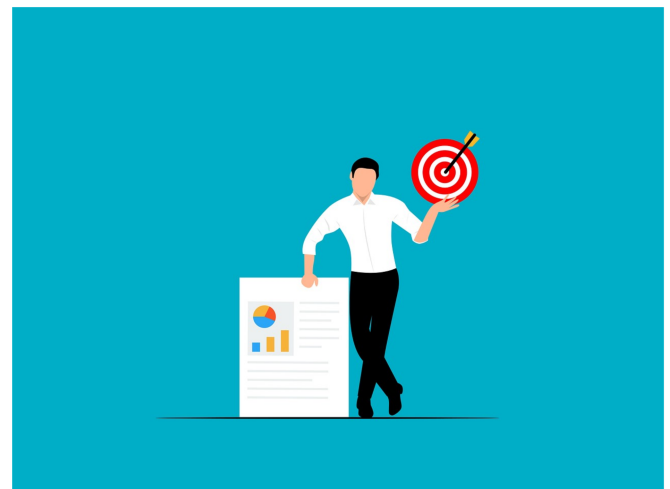
Step 1: Set realistic price targets

It is immensely important to set realistic goals at the beginning of a price increase. After all, the more realistic a goal is, the more likely it is that you will achieve it. As a provider, you can better and more objectively argue your price targets to your customers and thus also enforce them.

On the other hand, it is important that your employees consider a price increase to be feasible. This enhances the motivation of sales to work towards achieving a revenue target. In summary, it can be said that realistic price targets significantly increase the success of a price measure. This does not mean that such goals should be unambitious, but that they can be implemented.

How do I achieve realistic price targets? The basis, of course, is professional market observation and documentation. Such information and data are best collected and maintained in the CRM system. Of course, your market position is very important, i.e. are you the market leader or are you in the top three or top five.

Your market position will determine to a certain extent your options concerning your pricing activities. For example are you seen by the market as a price leader or a price follower. It is just as important to assess the behavior of individual market participants as precisely as possible, based on the patterns you could observe in previously. Are competitors price-aggressive or revenue-oriented, will they follow a price increase or try to gain market share?



Based on questions and information like these, you should develop scenarios and, based on them, realistic price and sales targets suited to optimize your revenue or cushion your own cost pressure.

An earnings target corridor (EBITDA improvement) should be assigned to the most important customers together with a price target corridor. This is important, because ultimately you are striving to optimize your profits by improving the price situation.

Step 2: Get your team on board

If your own employees aren't really convinced of a desired price increase, how can they then convincingly represent it to customers? The answer to this question is obvious.



Therefore, it is very important to emphasize this step in preparation for a price increase. Of course, no price increase is popular with sales, and you will always find resentment. Therefore it is the task of management to build up faith in your own strength and to overcome such resistance with information and facts.

The better your employees are informed as to why and to what extent a price increase is necessary for their own company, the more comfortable they will feel in discussions with customers.

In addition, this step gives management the opportunity to check their own price targets again for feasibility. Because it could well be that in this phase arguments come up that you have not sufficiently considered.

Step 3: Define specific objectives on a customer basis

After a realistic general price increase target has been set, the next step is to break down this overarching target on a customer basis. Because obviously the size of a customer, the intensity of competition, the product mix, the current price level of a customer, etc. play an important role in determining individual price targets and need to be considered.

If necessary, customer-specific planning should even take into account the scenario of customer losses if the contribution margin of individual customers is considered as being too low. Sometimes it makes more sense in terms of the result to take the risk of previously defined sales volumes if this will allow you to further increase your average revenue and thus the overall result (EBITDA).



It is valuable to be able to precisely determine the earnings contribution of at least A and B customers in order to have a good overview of the optimized earnings contribution when a defined price target corridor is reached. This will allow you to plan with different scenarios and it is much easier to accurately assess sales losses and thus the loss of contribution margins and the effects on the result. Consequently you will be able to identify those scenarios promising the most favourable earnings.

In addition this approach makes it easier to monitor during the following price increase whether you are moving within your target corridor or where there are deviations.

Step 4: Professional communication and negotiation preparation

External communication begins with advance notice of your planned price increases through various channels to different customer target groups. Reasons for a price increase that customers can understand and hardly object to should also be part of your communication.

Trade journals, business magazines, specialist internet portals, social networks or customer magazines can be used as channels, for example. At this stage absolute values should not be used in this communication, but percentage increases you think you will need.

The last step is a direct letter to the customer, in which the exact dates and information on the price increase are given as well as the reasons.

Internally, at the same time, you should draw up an argumentation paper that is consistent with the reasons for a price increase communicated to the outside world. You should try to incorporate as many external sources as possible into this paper in order to increase credibility.

It is important to review this argument paper with anyone likely or certain that customers will approach them and of course those in your team that will negotiate price increases with customers.



During such meetings, you should think about as many counter-arguments as possible that could be used in the discussion by customers and develop appropriate responses to them. The better your preparation at this stage the better you will perform. At the same time you ensure a more uniform argument to the outside world.

In addition, you should constantly keep an eye on the negotiation skills of your employees and make sure they are kept at a high level. Price negotiations are probably among the most difficult negotiations encountered in business. This is because of the high importance they hold for both sides.

Therefore, there is a risk of negative emotions leading to unfavourable decisions. In order to deal with such situations better or, ideally, to avoid them, all those negotiating on your behalf should take part in appropriate trainings regularly.

Step 5: Short-term success control

The more detailed a price increase was prepared, the more closely and quickly the implementation should be monitored. This applies in particular if you plan to accept possible sales losses in order to generally raise your market price level.

Every price increase ultimately aims to optimize profit. Therefore, of course, sales losses can only be tolerated up to a certain point. You should define this point beforehand and plan countermeasures if you touch this line.

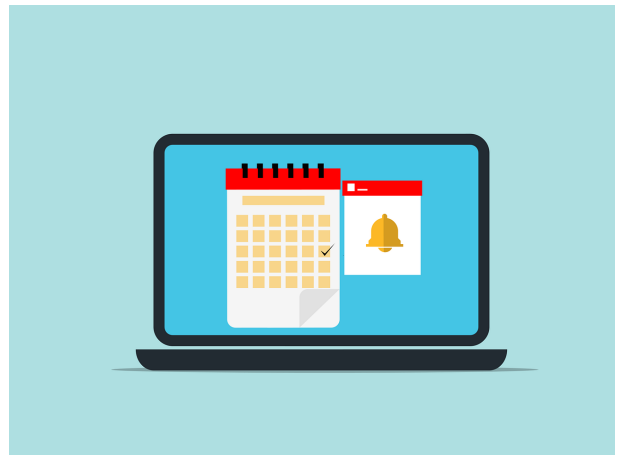
It is obvious that in this situation you need an overview of the implementation status at very short notice. In principle, the reporting should be up to date during a price increase, possibly with a delay of two days.

In order to fulfil this task, you should set up a so-called negotiation control room. This is a special report in which the relevant results are entered immediately after current price negotiations.

Examples of required data would be whether a customer could be retained 100%, whether partial sales losses are to be expected or possibly even the loss of a customer. Furthermore, it is of course important to enter which price increase has been agreed and from which date it will take effect.

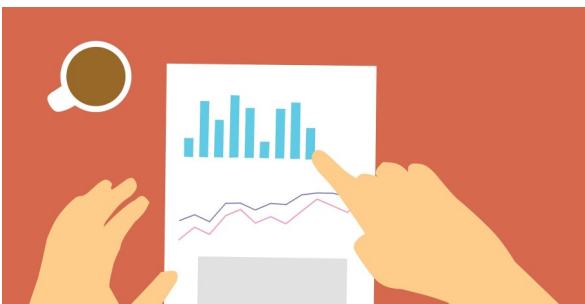
In this special reporting, the impact of a negotiation result on the operating result (EBITDA) expected for the whole year should also be immediately calculated and shown. This comparison is necessary because, as mentioned above, a price increase serves to improve the result and ultimately every price target should have been translated into a result target before the price increase.

Such kind of reporting will give you a more reliable and more precise overview about the current status of a price increase.



Step 6: Management Attention

The management should follow the entire process of price increase attentively and visibly. This underscores the high priority that a price action has. It is not enough to be active only at the beginning when it comes to the announcement, but all phases should be more or less closely monitored.



The step of setting customer-specific goals is essentially an operational task, just like the preparation of price negotiations. Nevertheless, the management should show that it is interested in the professional implementation of these steps and should also be informed about the current status and the results.

If, as described above, you pay close attention to the entire price increase process, you will significantly increase motivation and willingness of all team members involved to perform. You will also ensure that you are informed immediately in critical phases and you can change your strategy as early as possible if this is necessary.

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