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Make pricing power a strategic priority for your business

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Abstract In the face of rising business complexity and competitive pressure, many firms succumb to price pressures and enter pricing wars. Others focus on creating, quantifying, and capturing pricing power from their market. Since 2011, with help from Warren Buffet and Jim Cramer, Wall Street financial analysts have begun paying close attention to firms with great pricing power. But what is pricing power? How do firms know whether they have it? And how does it affect profit? This research, based on a survey of 128 organizations, identifies and validates the drivers of pricing power and its impact on firm performance. In this article, I create and validate a pricing power assessment instrument that firms can use to get started. This article offers practical recommendations for go-to-market functions on how to start the pricing power discussion, how to measure it, and how to operationalize it.

1. Competition is fierce

Cutting prices or putting things on sale is not sustainable business strategy. The other side of it is that you can't cut enough costs to save your way to prosperity.

—Howard Schultz, CEO of Starbucks (Gossage, 2011)

The business world continues to experience dynamic changes. Change is everywhere. Its pace feels exponential, it has tremendously increased competitive pressures, and it has disrupted the world of pricing (see Table 1). Faced with tremendous pricing pressures, many executives have succumbed to competitive intensity by entering price wars, not fully realizing the consequences of such actions (Kramer, Jung, & Burgartz, 2016). A 2016 global pricing study reported that 82% of companies complained of pricing pressures, 49% were experiencing a price war in their industry, and only 30% managed

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to increase prices successfully in their market (Simon-Kucher & Partners, 2016).

While most firms compete on price, others have realized that, after being faced with pricing pressure, years of flat demand, and several waves of cost optimization efforts, they must think differently. They cannot cut their way to prosperity. There is no winning in a price war. Firms have no choice but to invest massively in innovation processes to create value for their customers and markets (Hinterhuber & Liozu, 2012). Wall Street has begun to pay attention to this shift, and financial analysts have started assessing firms' pricing power (Krishna, Feinberg, & Zhang, 2007). Success stories of pricing power masters have emerged in the financial news (e.g., Apple, Starbucks, Google, Lego, Disney, 3M, Grainger, Netflix, Johnson & Johnson, Caterpillar, Sealed Air). In March 2016, Jim Cramer (Stevenson, 2016) observed: "Sometimes, it just comes down to figuring out who has pricing power: who can raise prices and who can't. You can't compete with the lowest-cost producer on price and not expect your stock to get clobbered."

This trend prompts several questions: What is pricing power? How can it be calculated? What are the drivers that positively or negatively influence pricing power? What is the relationship between pricing power and profit performance? This article presents the results of a unique research study on the topic of pricing power with the goal of responding to these critical questions. Since price wars are not an option, and since competing solely on price cannot be the only answer to today's business dynamics, companies require more insight on how to generate pricing power, design programs to find it, and deploy tools and systems to capture it in their market. This article is intended to help pricing, marketing, sales, and innovation managers grasp the concept and embed it in their firms' pricing and marketing activities so that they avoid price wars.

I begin by explaining pricing and discussing how it has recently become more visible in financial circles. Then, I discuss the drivers and dimensions of pricing power and how firms can generate more of it. Finally, I look at the impact of pricing power and how to operationalize it in firms and offer five practical recommendations for managers to consider. Pricing power does not come by itself: It requires attention and intention from organizations, from the CEO down to the front-line-facing customers and competitors in the market place.

Table 1. The new pricing reality

1.	Costs are creeping up: labor, utilities, raw materials, insurance rates, health benefits.
2.	Customers are demanding more for less: price concessions, credit terms, service levels, etc.
3.	Low-cost competition is putting lots of pressure on price levels.
4.	Competitive intensity makes price increases very hard to justify and to capture.
5.	Traditional demand/supply and cost/price cycles are no longer valid.
6.	Traditional pricing structures for distribution/retail channels are being disrupted.

2. Pricing power explained

In November 2011, Warren Buffet (Wachtel, 2011) said:

> The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10%, then you've got a terrible business.

This conceptualization of pricing power is not too far from reality. Many people talk about pricing power, but few executives know what it refers to exactly. Warren Buffet's statement put pricing power on the map. However, confusion remains. Practitioners conflate the power of pricing with pricing power. Recently, scholars and consultants published articles claiming the power of pricing and its impact on the bottom line (Jubas, Kiewell, & Winkler, 2015; Liozu, 2017). Most of them agree that pricing is a powerful level of the P&L and that firms that have embarked on pricing transformations show greater profit results than those that have retained cost-based or competition-based pricing strategies (Liozu & Hinterhuber, 2013, 2014).

However, the same cannot be said about the concept of pricing power. The marketing literature is silent about its conceptualization and impact (Carricano & Kanetkar, 2015). Pricing power is discussed in economics classes traditionally, often in conjunction with price elasticity or price sensitivity in demand/supply models (Bijmolt, Heerde, & Pieters, 2005; Parker, 1992). Pricing power is close to the concept of inelastic demand according to which volumes stay flat or slightly decline (Nagle & Holden, 1987) when prices rise; pricing power refers to continuous increases in demand while prices go

Table 2. Pricing concepts definition

Concept	*Definition*	*References*
Price sensitivity	"The extent to which customers vary their purchases of a product as its price changes."	Tellis (1988, p. 331)
Pricing power	Pricing power is the ability to enact price increases.	Krishna et al. (2007)
	Pricing power is related to customer relative preferences for product features and price premium.	Archak et al. (2011)
	Pricing power is the process through which organizations extract a superior value from the market as a result of a higher willingness-to-pay for their products (and therefore a lower price sensitivity) and/or superior marketing and sales efficiency.	Carricano and Kanetkar (2015)
	Pricing power is the ability of a company to get the price it deserves for the value it delivers.	Simon-Kucher and Partners (2016)
	Pricing power is demonstrated when a company can unilaterally define and extract prices without regard to direct competitive pressures. It requires that the firm is able to deliver a product or service to the market that competitors cannot easily replicate. Furthermore, that product or service must be desired, if not preferred, by the market, than its nearest comparable alternative.	Smith (2016)
Price elasticity	The percentage change in sales for a 1% change in price.	Simon (1979), Parker (1992), Tellis (1988), Nagle and Holden (1987), Bijmolt et al. (2005)

up until firms potentially reach the maximum price they can charge (Huber, 2014). Thanks to Warren Buffet and Jim Cramer, pricing power has recently received more attention from financial analysts and marketing practitioners. Marketing and pricing scholars seem to converge on a definition of pricing power that links price increases and growing demand levels (Carricano & Kanetkar, 2015; Krishna et al., 2007), as shown in Table 2.

According to Smith (2016), pricing power is demonstrated as follows:

> When a company can unilaterally define and extract prices without regards to direct competitive pressures. It requires that the firm is able to deliver a product or service to the market that competitors cannot easily replicate. Furthermore, that product or service must be desired, if not preferred, by the market, than its nearest comparable alternative.

Simply put, pricing power is the ability to increase prices without losing demand and while maintaining business levels. Other scholars link pricing power to strategy and to the notion of competitive advantage. One article defines pricing power as "the process through which organizations extract a superior value from the market as a result of a higher willingness to pay for their products (and therefore a lower price sensitivity) and/or superior marketing and sales efficiency" (Carricano & Kanetkar, 2015).

While the definition of pricing power is still in development, its materialization in practice is not yet fully understood. What does it mean to be able to increase prices or to move pricing levels upward? There are many ways to raise prices or to positively affect the overall price-realization levels of a firm in its markets (Hinterhuber & Liozu, 2012). My research—which covers practitioner blogs and short essays, discussions with pricing experts, and experience in pricing strategy—identifies six actions or activities that help achieve that goal. These are summarized in Table 3 and detailed in Section 2.1.

2.1. Six actions/activities of pricing power

2.1.1. Ability to successfully defend a price premium against competitors

Often, negotiations with B2B accounts and their buyers become difficult in terms of pricing pressure. A firm's ability to maintain a price premium through value selling is often challenged. Defending a premium against competition and resisting negotiation tactics is a sign of greater pricing power.

Table 3. Six actions/activities of pricing power
Ability to successfully defend one's price premium versus competitors
Ability to make price moves first in the marketplace
Ability to capture a large share of the value delivered to customers
Ability to price and launch innovative and differentiated offerings at a premium
Ability to raise prices consistently every year without losing demand
Ability to capture a large share of the intended price increases

2.1.2. Ability to make price moves first in the marketplace

Pricing leadership means making price moves early and often to establish norms and anchors in the marketplace. When industry leaders create new product categories, pricing leaders also establish the value perceptions for these new products or services (Stevenson, 2016).

2.1.3. Ability to capture a large share of the value delivered to customers

Firms with great pricing power understand the value pool they make available to share with customers and intend to keep a large share of it (Liozu, 2016). They also do not hide the fact that they capture much of that value pool and that they are worth the premium their customers end up paying (Hinterhuber & Snelgrove, 2016).

2.1.4. Ability to price and launch innovative and differentiated offerings at a premium

Pricing power masters introduce superior technologies, products, and services that create true value for customers (Ringen, 2015). With these, they can introduce innovations at a higher price, sometimes cannibalizing previous generations of products, and thus lead their industry technologically (Pino, 2014).

2.1.5. Ability to raise prices consistently each year without losing demand

Pricing power masters base price increases on delivered value and consistently focus on raising prices to capture value. Some experts distinguish between nominal pricing power and real pricing power, whereby a firm's price increase can exceed the industry inflation rate (Huber, 2014). Raising prices also implies being surgical: one-size-fits-all pricing increases are no longer relevant. Data-supported price increases target pockets of pricing power (Krishna et al., 2007) bolstered by a level of uniqueness and differentiation. Starbucks, for example, has demonstrated that such targeted price increases can improve overall price-realization levels.

2.1.6. Ability to capture a large share of intended price increases

Simon-Kucher & Partners (2012) found that for every intended dollar in price increase, firms capture only 50 to 53 cents on average. Increasing prices and making increases stick is a materialization of superior pricing power.

3. What drives pricing power?

The first steps of the research focused on identifying the relevant drivers or dimension of pricing power, which I now present as the six critical drivers of pricing power; each driver is composed of several criteria that positively or negatively influences pricing power (see Figure 1). Information was drawn from the few publications related to brand power, channel power, and differentiation power, as well as from interviews with clients and peers in the pricing field who have conducted pricing power projects. These dimensions and individual drivers were then tested during pricing capability assessments in several companies over a period of 18 months.

3.1. Six critical drivers of pricing power

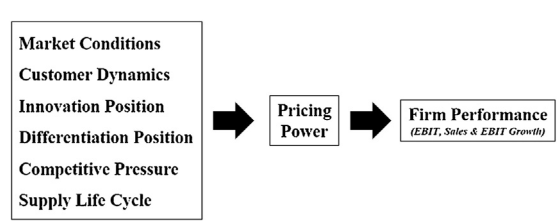
3.1.1. Market conditions

This dimension refers to the overall health of markets, including markets that are rich in opportunities, that are growing or at least stable, that are attractive for differentiated offerings, and that present long-term predictability. Market dynamics can positively or negatively influence the ability of firms to deploy pricing strategies, especially those targeted at greater value extraction (Hinterhuber, 2017).

3.1.2. Customer dynamics

This dimension relates to the behavior of customers with regard to value, perceptions of the price/

Figure 1. The antecedents of pricing power



quality ratio, customer insights, value co-creation, and deeper segmentation opportunities. When customer dynamics are favorable, firms can expand their value-based strategies. They can also gauge customer preferences and behaviors for products and services and more easily extract pricing power from customer data (Archak, Ghose, & Ipeirotis, 2011).

3.1.3. Innovation position

Innovation has seldom been linked to pricing power. Innovation position refers to the introduction rate of innovations to market, the uniqueness and nature of these innovations, the ability to uncover customers' hidden needs and derive willingness-to-pay for new things, and the ability to capture greater value through pricing. The recently reborn Lego Company is a good example of the potential link between great innovation position, pricing power, and profit performance (Ringen, 2015).

3.1.4. Differentiation position

When differentiation exists, companies can formally calculate the differentiation of their offerings and justify the premium to the market (Liozu, 2016). Differentiation can be demonstrated and more easily accepted by customers (Ingenbleek, Frambach, & Verhallen, 2013), leading to superior sales effectiveness (Carricano, 2016). Differentiation position includes elements of price premiums, technical and nontechnical switching costs, and brand equity.

3.1.5. Competitive pressure

This dimension is the one most recognized and mentioned by practitioners as a potentially negative driver of pricing power. Competitive pressure refers to the overall price aggressiveness of suppliers and to the presence of low-cost competitors, inflexible and price-driven request-for-proposal processes, and a general culture of price competition and price war in the ecosystem—including when power retailers are involved (Kadiyali, Chintagunta, & Vilcassim, 2000). Competitive pressures often penetrate the mindset of commercial teams and reduce their confidence in pricing (Forsyth, Gupta, Haldar, & Marn, 2015).

3.1.6. Supply lifecycle

Some industries might be affected by supply and product lifecycle conditions. This dimension refers to the rate of product obsolescence in the marketplace, the rate and speed of technological change, and the overall production capacity available for supply. Slow-moving inventory, capacity utilization, and fixed-cost absorption considerations often influence manufacturers' pricing strategies and tactics. They are at the heart of cost-based pricing (Wilkes & Harrison, 1975), especially in capacity-intensive sectors and in industries where price elasticity might vary greatly and quickly in product or brand lifecycles (Parker, 1992; Simon, 1979).

3.2. Pricing power assessment

Based on these six dimensions, I created a pricing power assessment (PPA) instrument composed of 30 individual items. This is shown in Figure 2 (five items per dimension). Each item in the instrument is rated on a scale of 1 to 4, for a potential total score of 120 points. The higher the score, the higher the pricing power level.

Armed with the PPA instrument and with the support of the Professional Pricing Society (PPS), I collected 128 responses from Certified Pricing Professionals around the world. This quantitative inquiry focused on identifying the dimensions with the greatest influence on pricing power as well as the impact of pricing power on firm performance. Another goal was to test the PPA instrument for predicting levels of pricing power. Table 4 summarizes the research findings.

Pricing power has little to do with pricing; it mostly concerns innovation and differentiation. While the relationships between innovation position and differentiation position with pricing power seems intuitive, this study is the first formal research study to statistically validate them. More compelling is the lack of significance found in the relationship between competitive intensity and pricing power. Often, leaders succumb to

Table 4. Research findings

1.	Innovation position is the most significant positive driver of pricing power.
2.	Differentiation position is the second most significant positive driver of pricing power.
3.	Competitive intensity has no significant impact on pricing power (no significance).
4.	Pricing power is significantly and positively related to relative firm performance.
5.	The aggregation of all 30 drivers of pricing power into one construct/index is positively and significantly related to pricing power.

Note: Sample size of 128 distinct organizations.

Figure 2. Pricing power assessment instrument

Market Conditions

Our markets are rich in profitable opportunities
Growth in market demand is healthy and sustained
Market demand is stable and steady (no steep demand and supply cycles)
Markets are attractive for innovative and differentiated offerings
We have a healthy pipeline of opportunities and existing orders
(4-point scale: 1=No; 2=Rarely; 3=Sometimes; 4=Yes)

Customer Dynamics

We have the opportunity to sell value to various customers' stakeholders besides procurement/sourcing
Most customers understand the concept of quality/price relationship and value
Customers engage actively in innovation co-development and value co-creation
We are able to segment our customer base into distinctive clusters offering growth avenues
Customers are sensitive to and interested in recurring revenue models & multi-year contracts
(4-point scale: 1=No; 2=Rarely; 3=Sometimes; 4=Yes)

Innovation Position

We bring lots of unique innovations to markets
We are able to introduce regular radical or disruptive innovations to markets
Our innovation teams are able to uncover customers' hidden and unmet needs
Most customers value the introduction of differentiated product and service innovations
We are successful in capturing a price premium for our innovations
(4-point scale: 1=No; 2=Rarely; 3=Sometimes; 4=Yes)

Differentiation Position

Premium suppliers can maintain a certain price premium in the market
We are able to extract true differentiation that is acknowledged and perceived by the market
There are technical switching costs which somewhat protect our business
There are non-technical switching barriers which protect our business (brand, reputation, loyalty, etc.)
Only a few competitors can reach the required level of product and service quality
(4-point scale: 1=No; 2=Rarely; 3=Sometimes; 4=Yes)

Competitive Pressure

We have aggressive price competitors in the market
We have too many competitors in our markets
Our markets suffer from a culture of price war and price competition
Our channel partners are tremendously price driven
We have large customers with a very strict RFP process (including government)
(4-point scale: 1=Yes; 2=Sometimes; 3=Rarely; 4=No)

Supply Life Cycle

Products/services quickly become obsolete in our industry
Our business must frequently change its products and practices to keep up with competitors
Technology changes more quickly in our industry than in other industries
The industry overall supply capacity utilization is…
New capacity in our industry can be built up in…
(First 3 items were rated on a 4-point scale: 1=Yes; 2=Sometimes; 3=Rarely; 4=No - 4th item was rated: 1=Low; 2+Average; 3=High; 4=Full - 5th item was rated: 1=<1 year; 2=1 to 1.5 years; 3=1.5 to 2 years; 4=>2 years)

competitive pressures and wave the white flag when faced with competitive pricing pressures (Liozu, 2015). This might also explain why so many leaders declare that they feel they are in a price war (Simon-Kucher & Partners, 2016). The research results indicate that the appropriate response to competitive pressures might not be more price competition or potentially fatal price wars but more innovation to improve the level of true differentiation. This study also demonstrates a positive and significant link between pricing power and firm performance as defined in terms of EBIT, sales growth, and EBIT growth—also a first. Finally, the validity of the PPA instrument was tested and confirmed.[1] The aggregation of the 30 items into one index score significantly and positively explain the level of pricing power. By assessing and completing this PPA, managers can predict the level of pricing power potential in their organization for a specific market. Taking this assessment as part of a price capability and maturity assessment is a first positive step along the pricing power journey.

4. The impact of pricing power is real

Wall Street is paying more and more attention to pricing power. Over the past few years, financial analysts have used it to make stock recommendations (Forbes, 2013; Kulikowski, 2016; Petro, 2014; Rasmussen, 2013). Best-in-class companies with superior pricing power are often mentioned in the financial media. Recent examples include Lego's rebirth (Ringen, 2015), Netflix's fast global growth (Wang, 2016), Verizon's results in the face of intense competition (Levy, 2016), Disney's unstoppable price increases (Holodny, 2015), and Starbucks's continuous but targeted price increases (Taylor, 2016). These firms all face tremendous price competition in their relevant markets. They have responded by continuing to innovate and to focus on their differentiation power while managing pricing with discipline. Pricing power is the ability to introduce a new iPhone X at a price of over $1,000 and to sell 50 million of them. It is also about having brand loyalists lining up at 3 a.m. to buy this new and expensive phone (Team Trefis, 2017), despite continued price competition.

Pricing power is not only relevant to the B2C world. Many companies in the B2B world enjoy high levels of EBIT or EBITDA in the midst of flat demand, modest inflation, and price competition. 3M is one such example (Pino, 2014). Other companies with 2016 EBIT levels over 20% include Honeywell, Monsanto, Bayer, and Cisco. These companies are traded on stock markets and are visible worldwide. For each of these large companies, there are thousands of small and medium firms that also assiduously manage innovation, differentiation, and pricing. This research further confirms that pricing power increases profit power. A similar study conducted in 2011 showed that superior pricing power leads to superior financial results when comparing the stock value of the top performers in pricing power with the S&P 500 index over a 10-year period (Carricano, 2016).

[1] See the Appendix for more information about the analysis.

5. Having pricing power is not enough

The intentional management of pricing power as one of the drivers of firm performance provides the necessary evidence for more firms to get started. The present study further confirms the power of pricing and the importance of managing pricing power as a priority.

But pricing power does not come on its own; it must be intentionally captured. A firm might have the necessary market position to capture pricing power through innovation, differentiation, and customer management, but its leaders might not understand where their pricing power resides and how to capture it fully. For that, they must invest in the right tools and systems to properly identify the pocket of pricing power, as shown in Table 5.

Essential to this process is the deployment of advanced pricing tools and systems that allow business leaders to conduct critical activities, including scientific segmentation, pricing and customer analytics (Healy, 2014), pricing optimization, and pricing research. These tools and systems enable pricing power. They inform a firm's pricing strategies and tactics. Each of these tools offers tremendous documented benefits to the firms that deploy them (Hinterhuber & Liozu, 2015). They also empower go-to-market teams with the right information to make intelligent decisions when faced with pricing opportunities. There are other tools and systems available to identify and extract pricing power, including CRM systems, business intelligence platforms, or simply a spreadsheet software analyzing the right data.

6. How does a firm operationalize pricing power?

Over the past 2 years, dozens of PPAs and deep strategic discussions with go-to-market experts on the drivers of pricing power and its impact were conducted. The first reaction once the PPA is taken is generally something like: "Now that I know that I have a 56% pricing power score, what do I do with this information?" This is an important trigger. The following actions and activities may help firms pay attention to pricing power and operationalize it in the organization.

Table 5. Pricing tools and system to enable pricing power

Pricing tools, systems, and methods	*What is it?*	*How does it enable pricing power?*
Scientific segmentation	Methodology using qualitative and quantitative data to classify customers into homogenous segments based on preferences, purchasing behaviors, customer needs, and pricing historical data	• Defines pricing strategy by segment • Develops good-better-best approach • Uncovers segment value drivers • Defines segment-specific pricing and revenue models
Pricing analytics platform	Pricing software focused on critical pricing analysis: pricing cloud, pricing waterfall, margin bridges, price sensitivity, price elasticity	• Uncovers pricing opportunities • Identifies price outliers • Discovers profit leakages • Extracts pure price effect • Reports discount effectiveness
Pricing optimization software	Pricing software using data, algorithms, and mathematical analysis to determine how customers will respond to different prices for its products and services through different channels and for different customer segments	• Identifies areas of pricing power • Defines targeted price increases • Models outcome of pricing choices • Models pricing level of product versions
Value-based pricing software	Cloud-based software to manage the process of value-based pricing and publish dollarized customer value propositions for the sales team	• Systematizes the quantification of customer value • Calculates the customer value pool • Assists in price premium justification • Models value in the new product development process
Pricing research	Primary pricing research techniques such as conjoint analysis, A/B price testing, online pricing intelligence, willingness-to-pay research, price perception and satisfaction	• Derives willingness-to-pay for new products • Estimates the value of functionalities and product attributes • Dynamically tests acceptance of price level • Collects competition pricing levels

6.1. Conduct a formal PPA as part of a comprehensive pricing capability or pricing maturity assessment

Peter Drucker (Prusak, 2010) said: "What gets measured gets managed." Before reaching the pricing power zone, leaders need to know their starting position. The types of pricing assessments generally conducted by firms willing to embark on a transformational pricing journey (Liozu, 2015) include the Pricing Capabilities Assessment, Pricing Culture Assessment, or Value-based Pricing Readiness Assessment. Adding the 30-item PPA to the overall assessment process can highlight the areas managers need to prioritize in order to boost their pricing power, keeping in mind that these areas will be outside the pricing realm.

The interesting part of the debrief and synthesis from the pricing capability assessment—but specifically from the PPA—is examining the overall pricing power score across divisions, functions, and regions. It is less important to pay attention to the 56% pricing power score and more important to explore why sales might think the score is 43% while innovation teams stand at 67%. Differences in perceptions might allow teams to openly discuss their pricing power and encourage them to bring real structural issues to the surface (Liozu, 2013). Results from the PPA can also be included in the overall summary and long-term change roadmap.

6.2. Add pricing power to the annual marketing performance dashboard

Pricing needs to become an organizational strategic priority, not just a pricing project. This implies mobilizing much more than the pricing team.

Table 6. Using the dimensions of pricing power in the strategic planning process

Dimension	*Controllable*	*Uncontrollable*
Market conditions	• Industry innovation leadership • Corporate communication campaigns on value • Leveraging business development efforts • Leading value constellations	• Economic crisis • Deep commoditization mindset • Shrinking industry profit pool • Over-regulatory pressures • Governmental intervention
Customer dynamics	• Investing in customer intimacy • Investing in scientific segmentation • Reinforcing customer insights process	• Industry consolidation • Customer strategic size • Professionalization of procurement
Innovation position	• Tracking innovation rate • Investing in innovation • Embracing self-disruption • Talent capital • Digital investments	• Corporate cost cutting program • Shareholder pressure for more dividends • More innovative competitors
Differentiation position	• Strengthening customer experience • Reinforcing technical and marketing switching costs • Leveraging hidden assets • Investing in brand power	• Disruption by new entrants • Dilution of differentiation during recessions • Radical shift in value perceptions
Competitive pressure	• Anticipating competitors' behaviors • Managing coordinated & controlled responses • Communicating a clear strategic positioning	• Number of competitors • Industry price wars • Behavior of low-cost players
Supply life cycle	• Technology roadmap • Creative self-destruction • Developing integrated solutions • Supply chain innovation • Controlled obsolescence	• Accelerating of obsolescence • Government regulation • Industry over-capacity

Because pricing power touches critical aspects of the firm's go-to-market strategy, some alignment is needed between the marketing, sales, innovation, and pricing teams in the form of language, objectives, compensation systems, and performance indicators. Tracking pricing power over time as part of a marketing performance dashboard is essential for creating this required level of alignment.

6.3. Focus the marketing plan on the significant drivers of pricing power

This is the heart of the discussion. Often, go-to-market leaders will begin the pricing power discussion by saying that they cannot control most of the items or drivers in the PPA. This reaction reflects a potential lack of courage and mindfulness to explore what really drives their pricing performance. This is where the deeper discussion begins about what is controllable and what is not, as shown in Table 6, and about the inability of pricing alone to solve structural problems related to strategy, innovation, and differentiation.

There is much that managers can control in the areas of innovation and differentiation, two of the biggest drivers of pricing power (Table 8 lists some examples). For example, managers can increase the level of customer research that feeds the innovation pipeline. Resource allocation and prioritization can be shifted toward the front end of innovation programs, leading to faster innovation (commonly recognized in the 3M and Lego success stories). Similarly, managers can understand competitors better and anticipate potentially irrational behaviors by investing in competitive intelligence activities, which can bring much more pricing maturity during the bidding and quoting phase. Finally, managing and controlling obsolescence for products or technologies are areas under the control of product and technical teams. In general, such discussion pivots away from pricing to differentiation strategy and investments in value-based innovation: in other words, away from long, unproductive discussions of price concessions, pricing pressure, and price wars to discussions of competitive advantage, willingness-to-pay, and customer experience. It is not about fixating on what can be controlled versus what cannot. It is about controlling one's pricing destiny by preparing better and by focusing on the elements that can improve a firm's pricing power.

6.4. Brainstorm on differentiation and focus on identifying existing, new, or hidden pockets of perceived differentiation

Faced with increased competition and commoditization, leaders in marketing, commerce, and innovation must conduct workshops and ideation sessions focused on reinforcing the level of technical and marketing switching costs to protect their business models from competitive attacks (also listed under the controllable elements in Table 6). These multifunctional brainstorming sessions should be conducted during the marketing planning cycles (marketing plans or budgeting) in order to challenge existing value propositions of the firm and its competitors. Institutionalizing these sessions can also help fill the innovation pipeline by focusing on process, product, services, and system innovation.

6.5. Create a strong bridge between the pricing and innovation councils

A strong connection and working relationship between innovation and pricing teams is needed. Since innovation is one of the main positive drivers of pricing power, the innovation process should include discussions on customer value proposition, on differentiation value, and on willingness to pay for innovative offerings. Innovation experts should visit the pricing council to understand the critical pricing concepts. Pricing experts should have a seat on the innovation council to provide insights on the attractiveness of innovations as it relates to pricing and value management.

7. What is the firm's priority?

This article focused on helping managers define pricing power, presented an assessment instrument to begin measuring pricing power, and offered practical recommendations for operationalizing it. Hopefully, one will see more anecdotes and research studies supporting efforts to make pricing power an area of focus for improving profitability.

Pricing power can be an extremely powerful tool to improve profitability when placed at the top of the agenda when it is managed with attention and intention, and when proper investments in tools, systems, and methods are made to capture it. Firms should not engage in price wars and intense price competition whether they manage price power or not. No one wins a price war.

Appendix. About the research

In 2015, the author designed and executed a research project with support from the Professional Pricing Society (PPS), the world's largest professional pricing association.

Method

The research consisted of four steps:

1. A literature review on the topic of pricing power to lay the foundation for the inquiry.
2. Qualitative interviews with six pricing professionals and consultants to complete the conceptualization of pricing power and to validate a newly developed pricing power assessment (PPA) instrument. These professionals shared their existing assessment methods and provided in-depth feedback on the instrument and its theoretical dimensions.
3. Testing of the PPA instrument in various organizations and at various conferences between 2013 and 2015, in which the instrument was added to pricing workshops and discussed with pricing and marketing professionals.
4. Distributing an electronic survey to the 750 Certified Pricing Professionals of the PPS. These are pricing professionals in organizations that manage pricing strategically and who undergo an intense certification process.

Analysis

Data analysis started with data quality analysis, test of linearity of the research model, and goodness-of-fit for the causal model. After passing all requirements, the data set was analyzed using regression analysis on each direct effect in the model focusing on standardized regression estimates and p-values at the 95% confidence level. Finally, further analysis explored the aggregation of all 30 exogenous variables into an index called Pricing Power Index as an integrated predictor variable. The results of this analysis indicate that the Pricing Power Index may have potential as an aggregate construct.

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