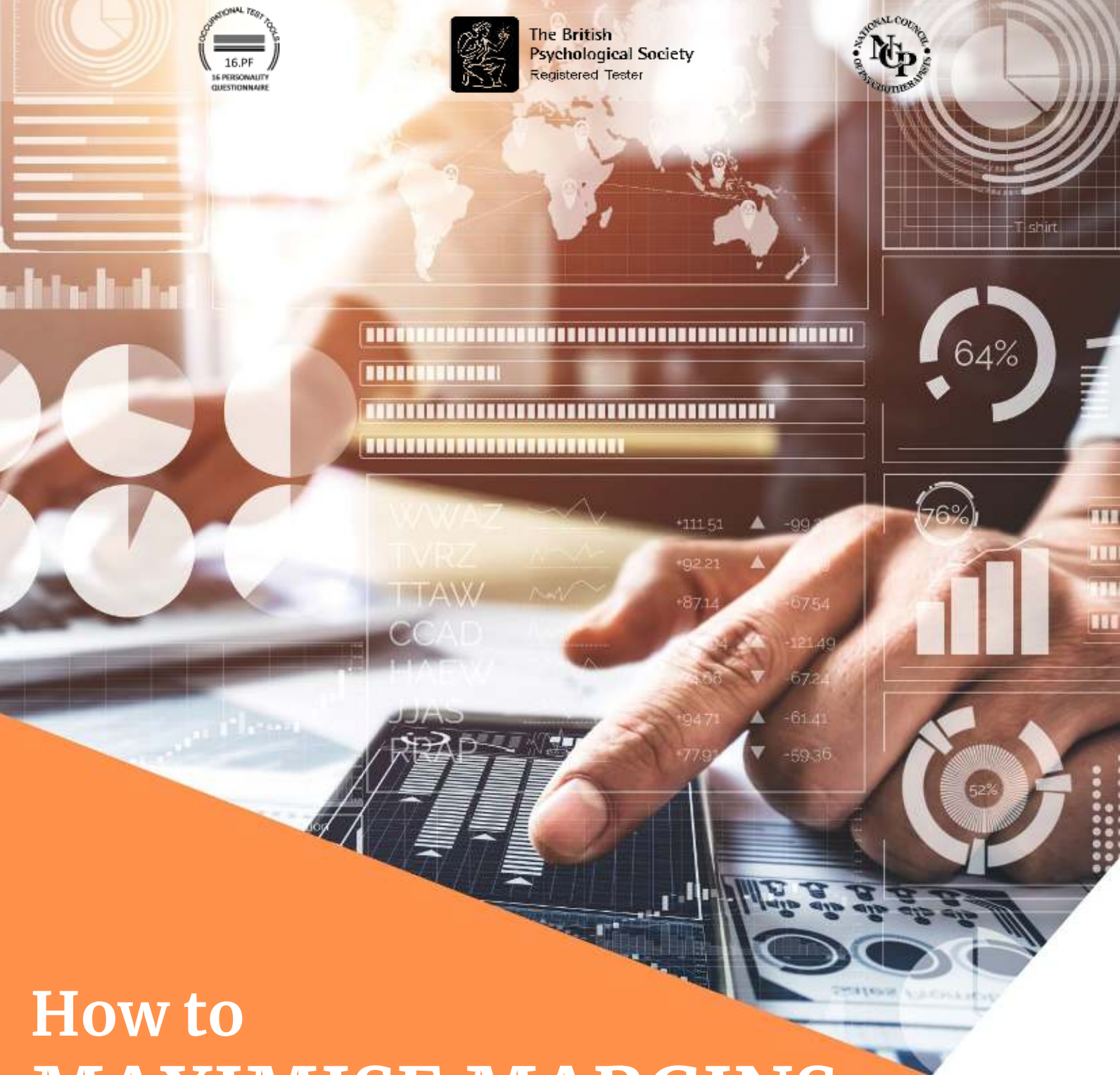




The British
Psychological Society
Registered Tester



How to MAXIMISE MARGINS

with PRICE TESTING METHODS in less than
3 MONTHS

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CEC MAGAZINE
INSPIRING THE BUSINESS WORLD



Dear executive,

Over the past decade, big data and analytics have become really popular in business. Everyone's talking about it. Businesses are upgrading their systems. And analysts and managers are keen to acquire the latest data science skills.

However, in pricing and revenue management, most businesses are far from data-driven; and most managers are relying on good old-fashioned gut feel or basic cost-plus pricing to set customer prices.

The reason for this delay in progress is not complex. The problem comes down to uncertainty and skills gaps. Businesses just don't know how to apply the latest pricing strategy and analytics in their businesses.

So, they don't... They keep doing the same thing year in and year out — even though traditional cost-plus methodology has an immediate and damaging effect on the bottom line profitability.

At Taylor Wells Advisory, we strongly believe in data-driven pricing decisions. What's more, we have seen how bringing just a little bit more science to price setting, can have an immediate and positive impact on the bottom line (as well on team morale). After all, every good team wants to improve and learn.

So, in this article, we will show you that good pricing doesn't have to be difficult. Most companies will capture more value from just using simple price trials and experiments. They really don't have to do anything fancy at all to make more revenue and margin.

We will share with you some simple price testing methods to get you started.

We will argue that managers – across pricing, sales, and commercial, need to become more adept at using basic research techniques to improve price setting and go-to-market strategies.

By the end of this article, you'll learn how you can improve your pricing strategy to drive immediate, dramatic and safe improvements in profit.

Price Testing Methods to Test Consumers' Buying Decision



Experimentation and testing products is already a way of life in some companies. Test and learn methodology is not new. For example, credit card companies' offers undergo many marketing tests before they are released. In fact, we know a major credit card company with offices in Sydney that carries out tens of thousands of experiments annually to improve customer acquisition. They have found that, by applying rigorous testing, they are able to calculate and maximise their customers' lifetime value and discontinue unprofitable ones. The company attributes its success to learning using the latest product and price testing methods. It also apportions a large proportion of its accelerated growth to its approach to learning. It's global market capitalization is c.\$23 billion. It started from a small section of a major Bank and is now a leading company globally.

Many businesses don't use the latest pricing methods like this business because they don't know how to set up price trials and/or have data integrity issues. It is also common to find businesses (and leading tier one consultancies), for example, implementing price tests at an aggregate level only – this is a mistake. Price testing, like testing products (as stated in the credit card company case study above) requires transactional level data, knowledge of scientific research methodology and the latest price analytics, experimental design. Including how to avoid research biases.

A company's proficiency in implementing price testing methods well (i.e., to drive profitable revenue growth through price trials and test), therefore, largely depends on individual/team know-how, data quality & analytics and an organisations approach to learning.

About Taylor Wells Pty Ltd.

Taylor Wells is a pricing advisory firm based in York Street, Sydney CBD. Our sole focus and dedication is supporting leaders build high performance pricing teams and departments.

We partner with Giants of Industry, leaders and innovators to create and capture value using best-in-class pricing and HR strategies.

We invest heavily in our research capability so that businesses get a faster ROI on their strategy, people & operations using our proven teambuilding programme.

Our track record in pricing team excellence has helped our clients forge up to 5% additional margin in 12-18 months and less.

Our research and consulting shows that a world class pricing team can generate 5X-10X more profit than any other team when they are set up and integrated correctly.

Our mission is to maximise the power of pricing and HR to help leaders drive profitable revenue growth without the usual pain of change.

- Joanna Wells,
Director of Taylor Wells

6 Step Guide for Price Testing Methods



If you want to learn how to set up effective price testing, start small and keep it simple. Meaning, 1) conduct experiments that are not difficult to implement. 2) Choose price analytics that will yield fast and clear insights. And 3) focus on a low-risk sample of customers or product lines.

Remember: when you make any price action in the market (however small you think it is or without really knowing what the customers' response may be); like raising or reducing a price or even sending out a direct-mail offer to customers, then you may get a nasty and unwelcome surprise such as: customers switching to competitors leading to volume and margin loss.

We strongly recommend to test and then observe your customers' reactions to price changes and trials.

Here are the 6 smart steps in doing price testing methods correctly:

1. Concentrate on individual customers or microsegment.

The most precise experiment involves actions to individual customers or if this is not possible microsegments. Avoid broad market segments or geographies. Concentrate your tests on settings where customers would respond right away.

For example, when UBS used experiments to boost its wealth management business, it realised that the best place to start experimenting was customer acquisition rather than customer lifetime value. They found that the impact of experiments on customer acquisitions could be measured immediately and give them useful insights, while the effect on customer lifetime value would have taken them c.25 years to evaluate properly.

2. Make it simple.

Look for price tests that are simple and easy to accomplish using existing resources. Much of what businesses learn from huge experiments came from smaller tests that include smaller variables, thus, saving resources for the next follow up tests.

3. Establish a proof-of-concept test.

It's essential to first set up a proof of concept in a business environment. Do this by changing as many variables you believe have the highest probability of giving you the best result (i.e., more margin and revenue).

4. Slice the data accordingly.

For instance, if your sample for your price experiment includes both male and female, evaluate the result with men and women separately. When you examine aggregate data, you might get an inaccurate result and incorrect conclusion that there no effects on any customers.

5. Challenge your thinking.

Engage in “what-if” thinking to yield breakthrough improvements in your experiments. Doing experiments that only incrementally change current policies is a common mistake that businesses make.

6. View results in context (in relation to the actual market and your customers needs).

Embed feedback measures to capture all the necessary effects. Viewing outcomes in context is important whenever actions in one channel impact sales or revenue in other channels; or if short-term actions lead to long-term results. As mentioned earlier, it's vital to start with actions that have short-term outcomes only, just like actions that promote customer acquisition.

Common mistakes businesses make when conducting price testing methods

Why are some price tests not successful even when a business has researchers and data scientist with the know-how to set up price experiments?

In short, we find that businesses still work in silos. They may have a pricing team and sales team running experiments in isolation of the data scientists. But really, to run effective price trials, you need teams to work together. A pricing team does not have the data team's knowledge or experimental design or regression analytics. And the data scientists don't have the pricing expertise of the pricing team to know what to focus on, monitor or interpret from the data.

Misleading interpretations like poorly set up price trials and experiments can waste time and resources. However, what's worse than this is not trying anything at all – or relying on what you know to understand a changing market or pricing environment i.e., not challenging your assumptions.

Discussion: **Be experimental with pricing!**

Nowadays, businesses cannot afford to play it safe anymore. They need to get experimental with pricing.

Considering that every business and its customers' needs differ, it might take a fair few price experiments for your company to develop a pricing strategy that perfectly matches your business model and customer base. Whatever the circumstances may be, never forget to innovate and keep on creating a pricing strategy. A strategy that adapts to the market and pushes price ranges closer to the Total Value To the Customer (price ceiling).

Remember, if you want long-term success, the secret is to take control of your pricing. And also adapt to your customers' changing needs. Price testing methods can give you the chance to obtain fundamental knowledge about your business real pricing power. Not only that but also your customers' real margin objectives.

Implications

A business may never know how to price their products or services to reach their price ceiling (Total Value To The Customer) unless they learn to do price experiments.

When analysing your offer price, gut feel will usually fail to deliver the best results. Conducting a price test is the only way to know which approach will generate the

highest profit. Either a low price that drives more buyers, or a higher price that may attract only a few buyers but delivers more profit per sale. We know that every business is unique. The guidelines discussed above will help you identify your own ideal pricing structure.

The pricing structure you use for your business may differ. However, the best way to determine how to reach customers effectively is to explore a number of options. Never settle on the first option.



Conclusion

Don't do price testing methods on a whim. Make sure to have a plan, clear hypothesis, skills and data set up correctly.

Improving your positioning, brand and strategy, is easier when you have more knowledge and skills than your competitor. Simply following what your competitors do with pricing is not best in class. As your cost structures and business model are different.

Price testing methods make it easier and safer for you to change your prices or reposition prices. Which means it pays to recognise when and how to conduct price testing methods.

Experiments and or price tests require a more quantified decision-making method; and a willingness to try more expansive approaches to pricing and learning. As you test and learn, you'll find that some of these approaches will not work for your business when you thought they would. You'll also be painfully aware that not all your deeply held assumptions on what your customers' value will not turn out to be true.

SUCCESS





Joanna Wells

Director
BA / MA Psychology
University of Cambridge

“My passion is building world class pricing teams because **they can generate 5X- 10X more profit than any other team** when they are set up correctly.

My mission is to maximise and combine the power of pricing and HR to help leaders drive profitable revenue growth without the usual pain of change.”

Joanna Wells is the founder and director of Taylor Wells Advisory, a specialist pricing firm that advises Fortune 500, private Equity and ASX Listed companies in organisation design, talent strategy, capability building and specialist recruitment for the revenue, pricing and commercial management functions within a business.

A Cambridge University qualified psychologist with over 10 years' consulting experience and several years' experience practicing advanced pricing and revenue management across B2B and B2C markets in Australia, Joanna's sole focus and specialisation is helping business leaders build world class pricing and commercial management teams and functions.

ACHIEVE HIGH PERFORMANCE TEAMS & CULTURE

Over the past 10 years', Joanna has studied talent and performance in the specialised field of pricing, commercial management and analytics to address and answer the following questions:

- How can we build high performance teams and culture without disrupting business as usual operations?
- How can we hire the absolute best pricing team for our business?
- Why are some teams better at getting results than others?
- Why do we often find ourselves spending so much on our teams, but see little benefit?
- How can we build a high-performance team in a relatively short time frame to drive more complex business outcomes?

Our experience and research show that building high performance teams and culture does not have to be onerous, disruptive or unsettling for the rest of the business.

How you set up and recruit your teams are key determinants of how fast you can accelerate earnings growth. With the right team and strategy implementation in place, incremental earnings gains can begin to occur in less than 12 weeks. After 6-12 months, the team is often able to find additional earnings gains as they identify more complex and previously unrealised opportunities, efficiencies and risks.

FIND THE RIGHT PEOPLE FOR PRICING & REVENUE MANAGEMENT ROLES

Taylor Wells is a talent advisory firm that has developed a next generation search, evaluation and capability programme in the field of pricing, finance, commercial and analytics. Our business was started after identifying weaknesses in the traditional agency recruitment model.

Our purpose is to support business leaders and our HR partners to eliminate the risk of bad hires and underperforming teams. Our workshops and programmes ensure pricing or commercial management teams are highly competent and deeply engaged with the strategic objectives of the business to achieve greater levels of margin and earnings growth. We have developed our own digital assessment platform, proprietary longitudinal research and people analytics to identify, evaluate and benchmark talent quickly and objectively. We have a high calibre consulting team and extensive partnerships and networks to ensure you get the best support and outcomes.

