

How To Win A PRICE WAR



More than 50% of companies in Australia right now are involved in a price war. Most of these businesses believe that it's not their fault they're in a price war; blaming instead aggressive competitors' deliberately choosing to undercut them on price to gain market share quickly.

Price wars, then, raise lots of questions, uncertainties and insecurities about a business' competitive pricing strategy and defences. Price wars can seriously impact profitability across the board - and can even commoditise entire markets.

At Taylor Wells Advisory, we believe that teams really want to plan ahead of a price war so that, when they happen, the business is in control and on the front foot. In this article, we'll examine the strategies of price wars in more detail: what they are, how to avoid them and what to do if you're in one.

WHAT IS PRICE WAR AND WHY DOES IT HAPPEN?

A price war is a form of aggressive competition wherein a business decides to reduce prices in a bid to claim more market share. In many ways, a price war is a zero sum game - one firm wins more market share because another loses too much revenue or margin or even goes under.

A price war is most likely to happen when customer price awareness is high and shifting costs are low, or when there's very little product variation; causing customers to think that price is the key factor in buying decisions.

Price wars typically start when businesses in very competitive markets reduce their prices repeatedly to get ahead of their rivals. The aim, mainly, is to increase their market share. However, more often than not, they end up decreasing the profitability of the business which in turn creates more margin pressure and further brand or value dilution.

EXAMPLE OF A PRICE WAR

Take the telco industry as an example. A price war can often start when an aggressive new entrant shows up in the market. This causes existing businesses to lower their prices significantly. As a result, the new player is forced to reduce its own prices even more and so the pattern continues.

Likewise, in the logistics sector, when the industry encounters an increase in fuel prices, big carriers very often increase their airfares while small ones decrease prices to win market share. Competitive pressure will eventually force big carriers to offer low prices too, leading to a lower price level than before.

ADVANTAGES AND DISADVANTAGES

Price war “winners” often start price wars because doing so can attract a higher volume of new customers as more consumers will be lured with the cheap product or service. Below listed is a quick analysis of price wars.

1. Advantages

- Customers enjoy low-priced products
- Customers benefit from other add-on services
- Companies can attract new customers

2. Disadvantages

Price war “losers,” conversely, often lose market share and experience a sharp decline in profit which are often difficult to recoup with subsequent price rises.

- Companies may lose revenue especially if they lost the price war
- It leads to fewer competitors and higher-priced products (once the price war ends)
- Less options for products and services for customers

DISCUSSION

Many businesses taking part in price wars make price decisions that are driven by guesswork or hearsay. It is common to find, for example, managers believing that a price war started because another firm initiated an aggressive price action. Commonly, managers think they are reacting rationally to their competitors’ actions when in fact they are leading with their gut. The pricing problem is further compounded when competitors think and behave in the same way i.e., blind leading the blind scenario.

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If your firm finds itself in a price war, and no one is sure what to do next, following these three steps will guide you towards healthy market development and competition.

1. Think about value and profit:

Focus on value and profit instead of price and volume.

2. Create a backup plan and a detailed roadmap:

To effectively confront your competitors' actions, have a backup plan of possible preventive strikes and analyse the largest levers to control reactions.

3. Stop retaliating and start communicating:

Execute your roadmap and make value your focal point in your product launches, rather than price.

IMPLICATION

- Before entering a price war, have clear and documented rules in place to help the team create meaningful scenarios to manage aggressive price moves.
- Monitor what your competitors are up to and evaluate your and their strengths and weaknesses using data.
- Create a culture of customer value rather than price-centricity.

CONCLUSION

Every price slash a firm makes could potentially be viewed by another firm as the first explosion in an ongoing price war. Even a seemingly innocuous decision to discount a certain product could be the reason for a series of retaliatory price reductions or even a full-blown price war. Which means the easiest and most effective price action you can take now is to not get involved in a price war at all. As, even in the short term, building a value culture rather than a volume or lowest price culture is the most profitable and safest pricing decision you can make.

TAYLOR WELLS IS A GLOBAL PRICING & ORGANISATIONAL ADVISORY FIRM

Since 2014, our single focus and mission is to help our clients deliver increased profitability today and ongoing through our end to end approach to pricing transformation initiatives.

We work with leaders and pricing teams to develop pricing strategies, tests and trials to drive profitability. We work with sales directors to isolate the activities that lead to revenue growth and then build the tools, structures and processes to get there faster. We work with HR and marketing leaders to design organisational structures, roles and responsibilities to accelerate business outcomes and embed sustainable EBIT growth. We work with HR to hire the right pricing managers and advise them on how to build, reward, develop and motivate their pricing teams and commercial function. And, we help pricing professionals navigate and advance their careers.

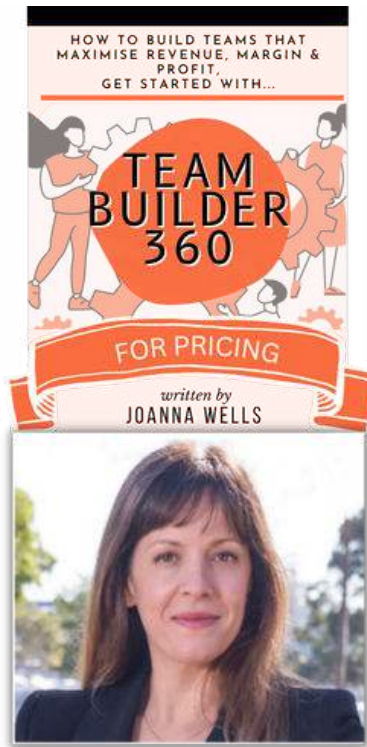
SERVING CLIENTS ACROSS THE GLOBE



THE ROI

THE REAL FINANCIAL BENEFITS

The key differentiator of our offer is that we enable our clients to internalise the pricing expertise so that they can build a sustainable pricing system that generates at least 3% - 10% additional margin each year.



JOANNA WELLS

Director

BA / MA Arts, Msc Science
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"My passion is building world class pricing organisations using the latest pricing strategy, people and operations. My mission is to maximise and combine the power of strategic pricing, teams and culture to help leaders and teams drive profitable revenue growth."

FOUNDER

MANAGING DIRECTOR

Joanna Wells is the founder and managing director of Taylor Wells Advisory, a pricing and organisational advisory firm that supports Fortune 500, private Equity and ASX Listed companies in pricing & organisational strategy, commercial capability building and talent strategy and recruitment since 2014.

A Cambridge University qualified psychologist with over 12 years' experience in latest pricing and organisational consulting across B2B and B2C markets in Australia, the USA, the UK and Ireland; 25 years experience in industrial psychology & hiring; Joanna's sole focus and specialisation is helping business leaders build world class pricing organisations.

Joanna has worked on > 23 major pricing transformations, studied > 100 firms' pricing strategy and culture, evaluated 7,000 global pricing skills and capability assessments, and interviewed over 4,000 executives and managers around the world to answer complex pricing and commercial problems:

- How can we accelerate the ROI in pricing in < 12 months?
- How can we move the business from cost plus to value based without disrupting teams, customers and operations?
- How can we build high performance pricing organisations?
- What's the best way to integrate a new pricing team and/or system in the business?
- Why do over 70% of price change / improvement initiatives fail?

EVIDENCE

OUR RESEARCH

Our findings show that with the right strategy, set up and pricing team in place, incremental earnings gains can begin to occur in less than 12 weeks. After 3 months, the team can capture at least 1.0 to 3.25 per cent more margin using better price management processes. After 6-12 months, businesses are very often generating between 3 to 10 per cent additional margin each year as they identify more complex and previously unrealised opportunities, efficiencies and risks.

OUR CAPABILITIES

Our unique strategy advisory de-risks pricing strategy development. Our optimised commercial system ensures your teams drive an efficient and effective transformation process. Our scalable design structures and processes; and research and experience that spans over 25 years and over 23 major pricing transformations around the world, ensure your teams learn and embed the right skills, at the right time to drive the right outcomes - no matter how tough the challenge or how challenging the business culture.



PRICING & ORGANISATIONAL STRATEGY

Our focus is to enable leaders and pricing teams to develop and implement best-in-class pricing strategy. Unlike traditional consultancy, we strongly believe that the pricing transformation is powered through your teams from start to finish, not consultants. Our advisory, expertise and optimised systems support and guide teams to reach outcomes faster. Our expertise lies in enabling and supporting teams to be the best they can be using best-class pricing strategies, structures and practices.



COMMERCIAL CAPABILITY BUILDING

Unlike traditional consultants, we specialise in unlocking the value of your teams & culture to drive & capture commercial strategy faster. Our optimised commercial system covers the basic pricing skills. Just like a fitness programme. Then, it builds up from there as teams master new skills, kick key milestones, reach personal and team goals, and achieve shared outcomes.



PRICING TEAM ASSESSMENT & EVALUATION

We are world leaders at identifying and evaluating the pricing talent you need compared to the talent you have to prepare teams for a pricing transformation. Our founder, Joanna Wells, started her undergraduate research in devising multi trait assessments & evaluations to identify high performance leaders and specialist financial teams at the University Of Cambridge, Great Britain, 22 years ago. She further developed her research as a post graduate at Manchester Business School; and continues to invest in research and development at Taylor Wells Advisory. We have now collected millions of data points and valuable insights on high performance pricing strategies, teams, business culture and pricing transformations. Our objectivity and unique research and data is crucial to strategic decision making at the executive and board level. Our clients rely on us to mitigate risk and safely forge a clear path forward.



PRICING RECRUITMENT

Our consultants are all highly qualified executives with backgrounds in pricing, economics, finance, psychology at the post graduate level. Our consultants also hold professional industry certificates in accountancy and industrial psychology and testing and all practice best-in-class value based pricing. We know exactly what great pricing talent looks like, and have worked with world leading pricing functions and executives around the world to find the right pricing professionals for their pricing and revenue management roles and transformational projects.



SCALABILITY

We have created a scalable and optimised commercial system called Value Culture to enable leaders to build and embed commercial strategy development and price-setting capability across all teams in a business.



SELECT TAYLOR WELLS CLIENTS

Taylor Wells has had the pleasure of working with many top companies in a variety of industries.



SELECT TAYLOR WELLS PRESS ARTICLES & NEWSPAPER FEATURES

Taylor Wells has had the pleasure of working with many top newspapers, magazines to educate on business, teams, psychology and pricing related topics.

