



# Performance NOW - Food & Beverage

## Pricing Management: Profit Killer or ROI Maker

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The Top Five Pricing Management Challenges in the Food & Beverage Industry

- 1) Widespread overcapacity
- 2) Fluctuating commodity prices
- 3) Slow industry growth
- 4) Pressure from customers to provide more for less
- 5) Internal cultural issues

Managing pricing is one of the most difficult and critical activities facing food and beverage investors and executives today. Big box retailers control so much volume that even the slightest pressure from them sends food and beverage executives for the Maalox. The loss of even one SKU can have a major impact on a company's profitability and future viability.

When the swing of one cent in pricing can change company profits by hundreds of thousands and even millions of



dollars, the pressure can be nerve racking and the results incredibly rewarding - or devastating. Just as detrimental is when a company capitulates to real or imagined demands to provide lower prices, support unplanned promotional expense, join special recognition clubs, or increase discounts to intermediaries in the distribution network.

Many of the issues and challenges pertaining to pricing management are internal and relate to existing culture and relationships within the company. They are often imbedded within the very fabric of the business/social model of the company. The pressure on a company to constantly reduce prices often times results in internal departmental conflict between production management, sales, the finance, and the company's executives.

When a production manager's efforts are marginalized by falling spreads between the purchase cost and sell price, they feel victimized and want to blame the sales force and the company's executives. As the face to the customer, the sales force feels the pressure directly as merchandising managers apply continuous pressure on them to provide more for less or else lose the business. For the finance department, it is clearly a matter of reality. The numbers are what the numbers are.

The company's executives must listen to the voice of the customer while concurrently being responsible to a Board that expects them to deliver results, and

a management team that relies on them for incentive compensation. Frequently the outcome is a board meeting where management reports disappointing profits which are purely a result of the company being forced to reduce prices in the face of competitive pressure ending with disappointing earnings. Only when a company begins to align its own pricing disciplines can it begin to change the relationship and culture between the company and the customer.

MainStream's *Performance NOW* senior financial professionals will assist with overhauling the pricing process by first dealing with the science of pricing and then provide management with the cultural tools to bring change within their own organization. Who controls pricing, how is it managed on a day to day basis, and how individual pricing decisions are made should result from structural conversations and collaborative decisions. Changing these processes involves both science and art.

MainStream's *Performance NOW* brings rapid change to food and beverage organizations whether there is a specific problem to be solved, such as yield recovery, pricing management, or quality issues, or if there is a need to improve the performance of the organization as a whole.

For more information about MainStream Management, LLC or to discuss this article further please email [info@mainstreamllc.com](mailto:info@mainstreamllc.com) or call +1 (877) 785.6888.