

Daring Caution Reader Tools

Evaluating Your Industry Environment

As discussed in Chapter 6 of Daring Caution, evaluating your business environment is a crucial step in developing an improvement initiative appropriate to your company's current degree of pricing power. The point of this industry assessment is to judge how strong a force Comparative Prices exert in the tug-of-war with Qualified Customer Value.



First, a few questions to make sure that the Daring Caution framework is applicable to your marketplace:

Price Determination

1. Are your prices set in impersonal auction marketplaces, where offers to buy standard, graded commodities can be fulfilled indistinguishably by any provider's offer to sell?
2. Are prices in your market set by your company and other distinguishable sellers providing quotes or bids in response to an identifiable customer's request for quotation?
3. Are offer-to-sell prices set by each seller, but subject to negotiation with each buyer?
4. Are sellers' offer-to-sell prices accepted as "givens" by buyers, so that actual selling price equals the offer-to-sell price?

If prices in your market are determined by either 2, 3 or 4, please continue.

If prices in your market are determined by the first method, you have a true commodity and the following framework doesn't apply.

The following questions are intended to help you judge the forces affecting your pricing power.

Price Sensitivity

Roughly what percentage of your potential and actual orders do you win (or lose) based on being priced below competition?

Daring Caution Reader Tools

Company Brand Awareness

Have you surveyed prospects and existing customers to learn how aware they are of your company and products/services?

If yes, where is your company (or relevant product line) positioned on the Brand Awareness Scale below:

Brand Awareness

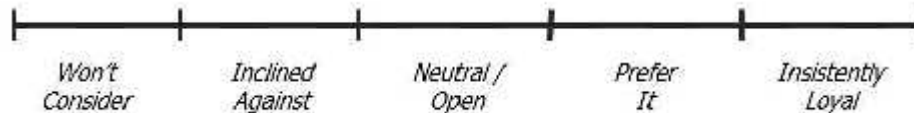


Company Brand Strength / Customer Brand Preference

Have you surveyed prospects and existing customers to learn how disposed they are to buy from your company?

If yes, where is your company (or relevant product line) positioned on the Brand Preference Scale below:

Brand Receptivity / Preference



The higher the awareness of and preference for your company and your solution(s), the greater your pricing power and pricing “headroom” in the short run.

If you currently have weak pricing power, then your pricing initiative will need to incorporate efforts to improve your product / service offering, improve the customer experience, and increase awareness and preference through marketing communications.

Competitors

Are competitors many or few?

How close a match to your offering?

How strong are the company’s market position, capabilities, and financial resources relative to competitors?

Do competitors operate in most countries around the world, or in narrower geography(ies)?

Is there a recognized market leader, and/or pricing leader? Is there a pattern of followership on pricing?

Is any competitor visibly trying to shake up the status quo - for example, aggressively seeking to gain market share?

Are any potential market entrants known to have interest in entering?

Daring Caution Reader Tools

Cost Structure & Cost Behavior

What is your cost structure? What are the cost structures of competitors?

High fixed costs accompanied by low variable costs can induce one or more industry players to cut price in an attempt to keep their staff and/or plant more fully loaded with volume.

Substitutes

If neither the company's nor competitors' solutions were available, what would customers substitute as a solution? How much of a difference would that make to the customers?

The more life would be adversely affected, the more freedom you have to price to value.