Managing Price, Gaining Profit

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The fastest and most effective way for a company to realize its maximum profit is to get its pricing right. The right price can boost profit faster than increasing volume will; the wrong price can shrink it just as quickly. Yet many otherwise tough-minded managers shy away from initiatives to improve price for fear that they will alienate or lose customers. The result of *not* managing price performance, however, is far more damaging. Getting the price right is one of the most fundamental and important management functions; it should be one of a manager's first responsibilities, a nuts and bolts kind of job that determines the dollar and cents performance of the company.

The leverage and payoff of improved pricing are high. Compare, for example, the profit implications of a 1% increase in volume and a 1% increase in price. For a company with average economics, improving unit volume by 1% yields a 3.3% increase in operating profit, assuming no decrease in price. But, as Exhibit 1 shows, a 1% improvement in price, assuming no loss of volume, increases operating profit by 11.1%. Improvements in price typically have three to four times the effect on profitability as proportionate increases in volume.

With such extreme profit leverage, pricing is one function that a company can always improve. One consumer durable products company increased operating profit dollars by nearly 30% with a mere 2.5% improvement in average prices. An industrial equipment manufacturer boosted operating profits by 35% by carefully managing price levels up a modest 3%. According to our research, a wide variety of businesses, including those in consumer packaged goods, energy, and banking and financial services, have achieved comparable results.

Even if a company's managers make the right pricing decisions 90% of the time, it's worthwhile to try for 92%—the payoff is that high. But the price lever is a double-edged sword. The messages of Exhibit 1 also apply in reverse: a mere 1% price decrease for an average company, for instance, would destroy 11.1% of the company's operating profit dollars.

Pricing issues are seldom simple and isolated; usually they are diverse, intricate, and linked to many aspects of a business. But while most managers have a handle on the bulk of pricing issues, many overlook a key aspect of this most basic management discipline: transaction price management. Without realizing it, many managers are leaving significant amounts of money—potential profit—on the table at the transaction level, the point where the product meets the consumer. Most companies use invoice price as a reporting measure, but the differences between invoice and actual transaction price can mean significant reductions to bottom-line profit.

Some companies that have identified this problem are handling it by applying two basic concepts: the pocket price waterfall and the pocket price band. Reduced to their essentials, these concepts show companies where their products' prices erode between invoice price and actual transaction price, and

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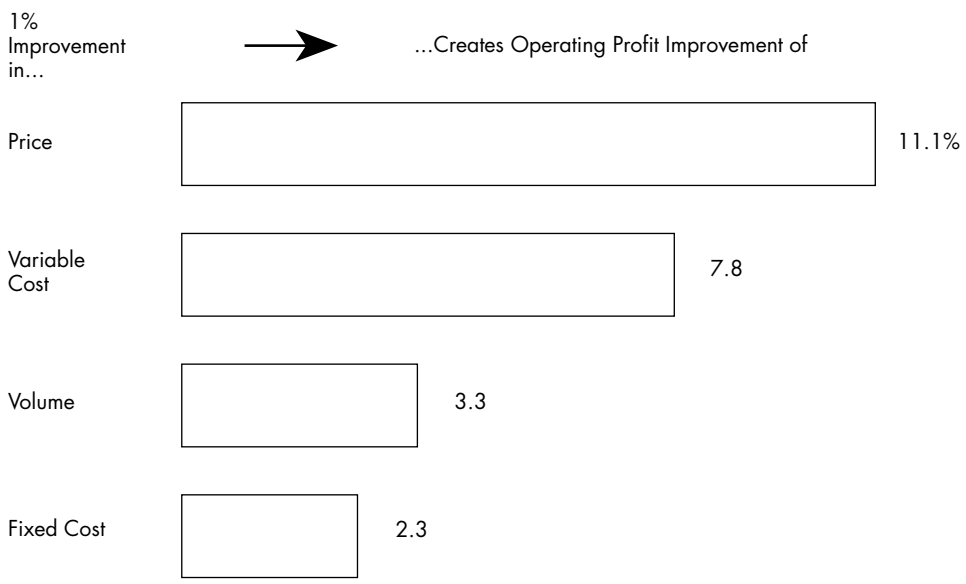
Exhibit 1. Comparison of Profits Levers*



*Based on average economics of 2,463 companies in Compustat aggregate

they help companies capture untapped opportunities at that level.

The Three Levels of Price Management

The pricing puzzle is more manageable when taken in pieces. Price management issues, opportunities, and threats fall into three distinct but closely related levels.

1. *Industry supply and demand.* At this highest level of price management, the basic laws of economics come into play. Changes in supply (plant closings, new competitors), demand (demographic shifts, emerging substitute products), and costs (new technologies) have very real effects on industry price levels.

Managers examining pricing in this context should understand the pricing "tone" of their markets—that is, the overall direction of price pressure (up or down) and the critical marketplace variables fueling that pressure. This knowledge allows managers not only to predict and exploit broad price trends but also to foresee the likely impact of their actions on industry price levels.

2. *Product market strategy.* The central issue here is how customers perceive the benefits of products and related services across available suppliers. If a product delivers more benefit to customers, then the company can usually charge a higher price versus its competition. The trick is to understand just what factors of the product and service package customers perceive as important, how a company and its competitors stack up against those factors, and how much customers are willing to pay for superiority in those factors.

Market research tools, like conjoint analysis and focus groups, can help managers understand customer perception of benefits. And understanding at this second level of price management helps guide both the product's price positioning and the fine-tuning of product and service offerings.

3. *Transactions.* At this last level of price management, the critical issue is how to manage the exact price charged for *each* transaction—that is, what base price to use, and what terms, discounts, allowances, rebates, incentives, and bonuses to apply. Where concern at other price management levels is directed more toward the broad, strategic positioning of products in the marketplace, focus at the transaction level of price management is microscopic—customer by customer, transaction by transaction, deal by deal.

The three discrete levels of price management are clearly related. If, for example, a company foresees an industrywide supply shortage of its product, repositioning the product by lowering the price would be a mistake. In the same way, the product's market strategy should set the context for transaction-level pricing decisions: a move by Toyota to discount its Lexus luxury sedan at the transaction level would conflict with the market positioning of that model as a high-benefit, fair-priced alternative to competitors like Mercedes Benz, BMW, or Jaguar.

Unfortunately, many top managers perceive transaction pricing decisions as unimportant and often relegate them to low-ranking managers or even entry-level clerks, with some flexibility at the sales force level. By doing so, companies may be foregoing one of the most substantial profit opportunities available.

The Transaction Pricing Opportunity

The objective of transaction price management is to achieve the best net realized price for each order or transaction. Transaction pricing is a game of inches where tens, hundreds, or even thousands of customer- and order-specific pricing decisions daily comprise success or failure—where companies capture or lose percentage points of margin one transaction at a time. But top management neglect, high transaction volume and complexity, and management reporting shortfalls all contribute to missed transaction pricing opportunities.

The complexity and volume of transactions tend to create a smoke screen that makes it nearly impossible for even the rare senior managers who show an interest to understand what is actually happening at the transaction level. Management information systems most often do not report on transaction price performance, or report only average prices and thus shed no real light on pricing opportunities lost transaction by transaction.

The pocket price waterfall and the pocket price band have proven valuable in lifting this smoke screen and providing a foundation to capture opportunity at the transaction level.

The Pocket Price Waterfall. Many companies fail to manage the full range of components that contribute to the final transaction price. Exhibit 2 shows the price components for a typical sale by a manufacturer of linoleum flooring to a retailer. The starting point is the dealer list price from which an order-size discount (based on the dollar volume of that order) and a "competitive discount" (a discretionary discount negotiated before the order is taken) are subtracted to get to invoice price. For companies that monitor price performance, invoice price is the measure most commonly used.

But in most businesses, particularly those selling through trade intermediaries, invoice price does not reflect the true transaction amount. A host of pricing factors come into play between the set invoice price and the final transaction cost. Among them: prompt payment discounts, volume buying incentives, and cooperative advertising allowances. When you subtract the income lost through these transaction-specific elements from invoice price, what is left is called the pocket price—the revenues that are truly left in a company's pocket as a result of the transaction. Pocket price, not invoice price, is the right measure of the pricing attractiveness of a transaction.

The manufacturer offered a series of discounts and incentives that affected its product's pocket price. The company gave dealers a 2% payment terms discount if they paid an invoice within 30 days. It offered an annual volume bonus of up to 5% based on a dealer's total purchases. Retailers received cooperative advertising allowances of up to 4% if they featured the manufacturer's products in their advertising. And the company paid freight for transporting

Exhibit 2. In the Pocket Price Waterfall, each Element Represents a Revenue Leak

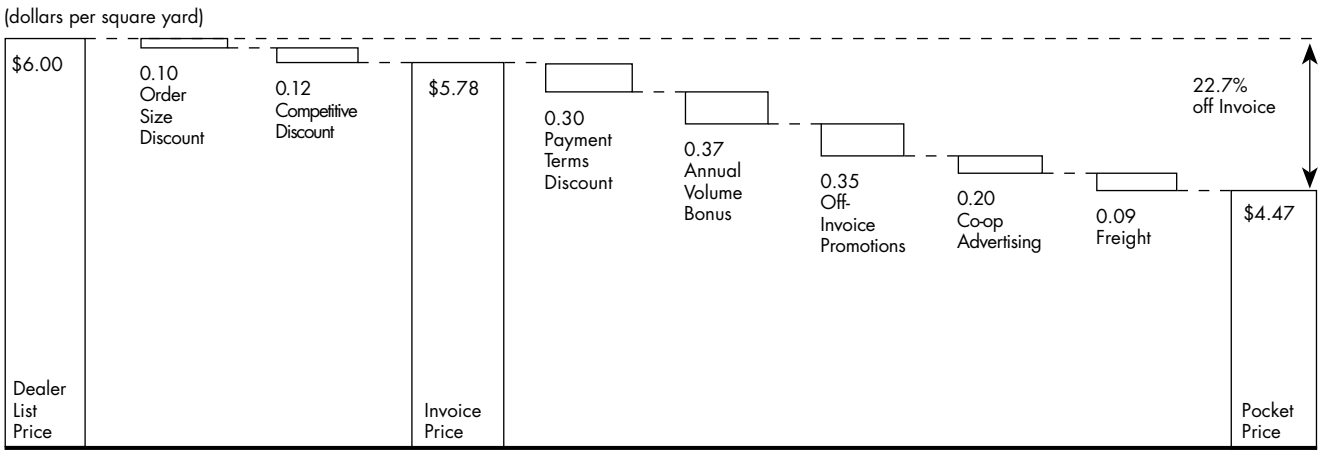
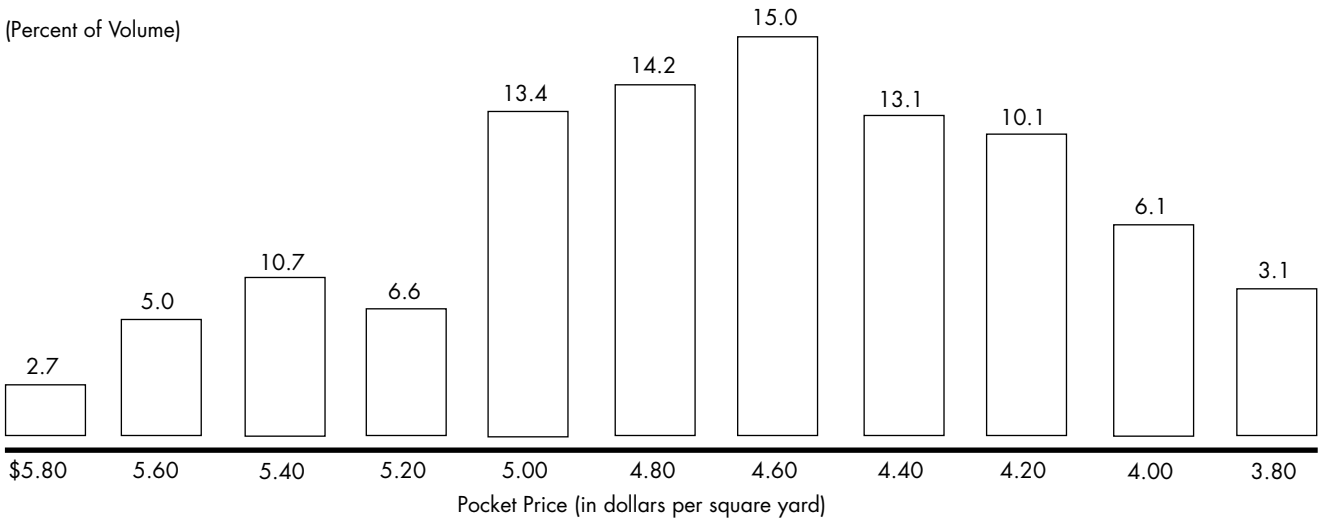


Exhibit 3. The Elements of a Pocket Price Band Reveal Profit Opportunities



goods to the retailer on all orders exceeding a certain dollar value. Taken individually, none of these offerings significantly affected profit. Together, however, they amounted to a 22.7% difference between the invoice and pocket prices.

Otherwise competent senior managers often fail to focus on pocket price because accounting systems do not collect many of the off-invoice discounts on a customer or transaction basis. For example, payment terms discounts get buried in interest expense accounts, cooperative advertising is included in companywide promotions and advertising line items, and customer-specific freight gets lumped in with all the other business transportation expenses. Since these items are collected and accounted for on a companywide basis, it is difficult for most managers to think about them—let alone tally them—on a customer-by-customer or transaction-by-transaction basis.

Exhibit 2, which shows revenues cascading down from list price to invoice price to pocket price, is called the pocket price waterfall. Each element of price structure represents a revenue "leak." The 22.7% drop from invoice price down to pocket price is not at all uncommon. The average decline from invoice down to pocket price was 16.7% for one consumer packaged goods company, 17.7% for a commodity chemical company, 18.6% for a computer company, 20.3% for a footwear company, 21.9% for an automobile manufacturer, and 28.9% for one lighting products supplier.

Companies that do not actively manage the entire pocket price waterfall, with its multiple and highly variable revenue leaks, miss all kinds of opportunities to enhance price performance.

The Pocket Price Band. At any given point in time, no item sells at exactly the same pocket price to all customers. Rather, items sell over a range of prices. This range, given a set unit volume of a specific product, is called the pocket price band.[1,2] Exhibit 3 shows the flooring manufacturer's pocket price band on a dollars per yard basis for a single product. Note that there is a 35% difference between the highest and lowest priced transactions. Although the width of this pocket price band may appear large, price bands that are much wider are commonplace. Pocket price bands that we examined ranged up to 60% for a lighting fixtures manufacturer, 70% for a computer peripherals supplier, 200% for a specialty chemicals company, and 500% for a fastener supplier.

Understanding the variations in pocket price bands is critical to realizing a company's best transaction pricing opportunities. If a manager can identify a wide pocket price band and comprehend the underlying causes of the band's width, then he or she can manipulate that band to the company's benefit. Recall from Exhibit 1 the huge operating profit payoff from a 1% increase in average price. When, as in the case of the linoleum flooring manufacturer, pocket prices vary over a 35% range, it's not hard to imagine how more deliberate management of such wide price

[1]Arleigh W. Walker, "How to Price Industrial Products," HBR September–October 1967, p. 125.

[2]Elliot B. Ross, "Making Money with Proactive Pricing," HBR November–December 1984, p. 145.

variations might yield several percentage points of price improvement—and the rich profit rewards that would accompany that improvement.

The width and shape of a pocket price band tell a fruitful story. Managers are invariably surprised not only by the width of their pocket price bands but also by the identity of customers at the extremes of the band. Customers perceived by managers as very profitable often end up at the low end of the band, and those perceived as unprofitable at the high end. The shape of the pocket price band provides the astute manager with a graphic profile of a business—depicting, among other things, what percentage of volume sells at deep discounts, whether there exist groups of customers who are willing to pay higher prices, and how appropriately field discounting authority is being exercised.

The Castle Battery Company Case. The following, somewhat disguised, case shows how one company used the pocket price waterfall and band to identify profit leaks and regain control of its pricing system. It illustrates one way in which the waterfall and band concepts can be applied, and shows how, if a company doesn't manage its pricing policies on all levels, experienced customers may be working those policies to their own advantage.

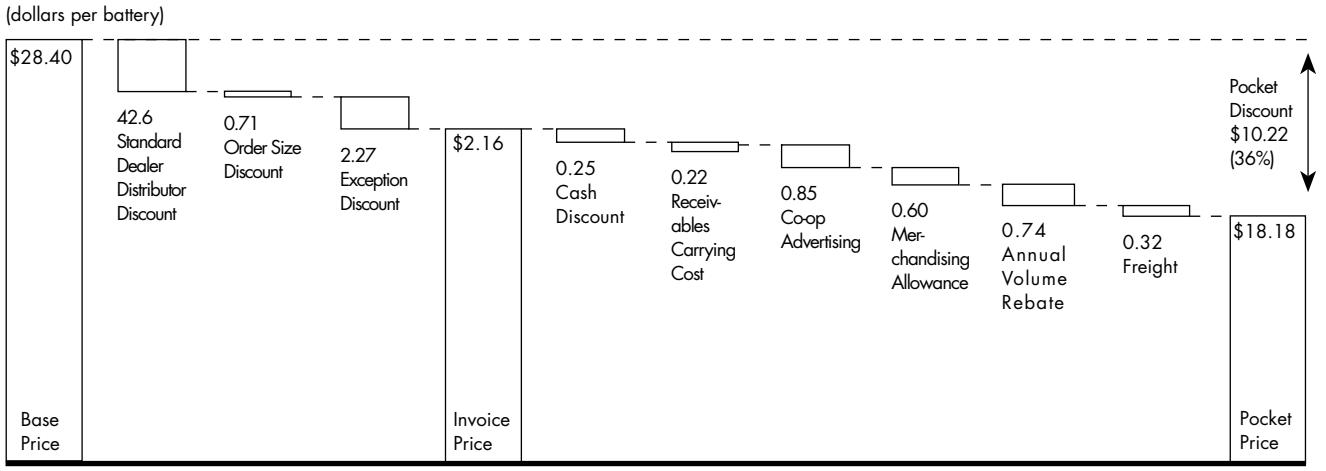
The Castle Battery Company is a manufacturer of replacement lead-acid batteries for automobiles. Castle's direct customers are auto parts distributors, auto parts retailers, and some general mass merchandisers. With return on sales averaging in the 7% range, Castle's profitability is very sensitive to even small improvements in price: a 1% increase in price with no volume loss, for instance, would increase operating profit dollars by 14%.

Extreme overcapacity in the battery industry and gradual commoditization made it increasingly difficult for Castle to distinguish its products from competitors. So Castle senior management was skeptical that there was much, if any, potential for price improvement. But Castle managers had entirely overlooked lucrative pricing opportunities at the transaction level.

Exhibit 4 shows the typical pocket price waterfall for one of Castle's common battery models, the Power-Lite, sold to an auto parts retailer. From a base price of $28.40, Castle deducted standard dealer/distributor and order-size discounts. The company also subtracted an on-invoice exception discount, negotiated on a customer-by-customer basis to "meet competition." With these discounts, the invoice price to the retailer totaled $21.16. What little transaction price monitoring that Castle did focused exclusively on invoice.

That focus ignored a big part of the pricing picture—off-invoice discounting. Castle allowed cash discounts of 1.2% for timely payments by accounts. Additionally, the company granted extended terms (payment not required until 60 or 90 days after receipt of a shipment) as part of promotional programs or on an exception basis. For this transaction, the extra cost of carrying these extended receivables totaled 22 cents. Cooperative advertising, where Castle contributed to its accounts' local advertising of Castle products, cost 85 cents. A special merchandising program in effect at the time of this transaction discounted another 60 cents. An annual volume rebate, based on total volume and paid at year end, decreased revenues by yet another 74 cents; and freight paid by Castle for shipping the battery to the retailer cost 32 cents.

Exhibit 4. Off-Invoice Discounts: a Big Part of the Pricing Picture



The invoice price minus this long list of off-invoice items resulted in a pocket price of only $18.18, a full 14% less than invoice. The total revenue drop from base price down to pocket price is the "pocket discount"—in this case, $10.22, of which $2.98 was off-invoice.

Of course, not all transactions for this particular model of battery had the same pocket price. As Exhibit 5 shows, each element of the pocket price waterfall varied widely by customer and transaction, resulting in a very broad pocket price band. While the average pocket price was $20, units sold for as high as $25 and as low as $14—plus or minus greater than 25% around the average. A price band like this should trigger immediate questions: What are the underlying drivers of the band's shape and width? Why are pocket prices so variable, and can that variability be positively managed?

Castle managers were quite surprised at the width of the price band for their Power-Lite model, but on reflection, concluded that it was due to differences in account sizes. The company had a clear strategy of rewarding account volume with lower price, rationalizing that cost to serve would decrease with account volume.

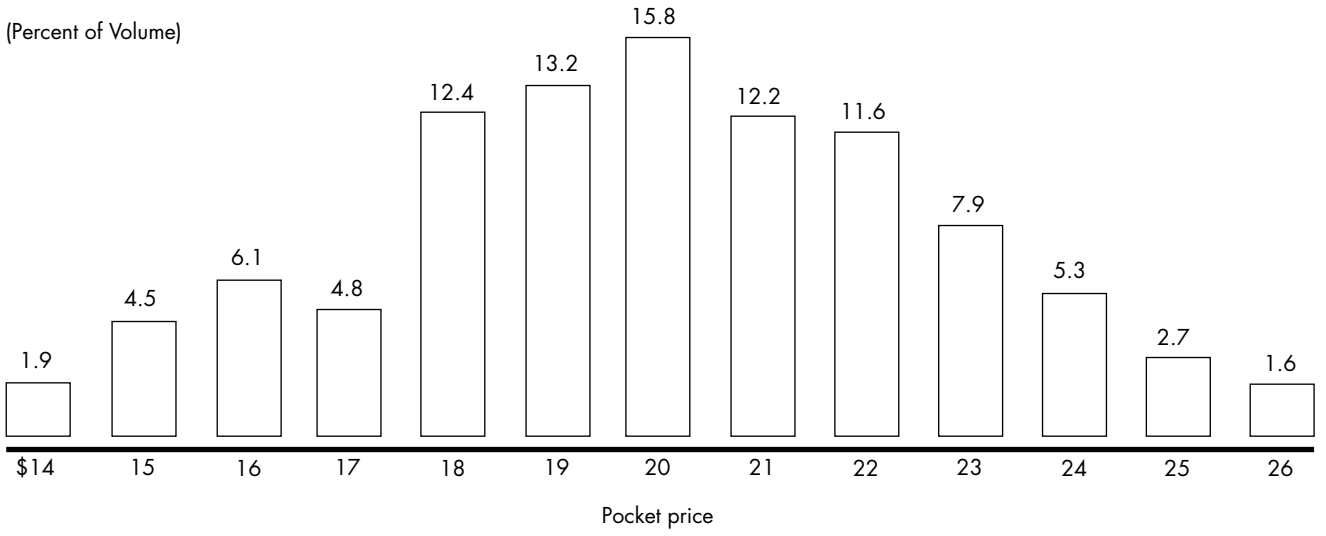
But when management examined the Power-Lite pocket prices against total account sizes for a sample of 50 accounts, it found no correlation—it was a virtual shotgun blast. A number of relatively small accounts were buying at very low pocket prices while some very large accounts were buying at very high pocket price levels.

Castle managers, perplexed by the scatter of pocket prices by account size, launched an immediate investigation. In most cases, they found no legitimate reason why certain low-volume accounts were paying such discounted prices. Often, they discovered that these accounts were unusually experienced and clever accounts—customers who had been dealing with Castle for 20 years or more and who knew just whom to call at Castle headquarters to get that extra exception discount, that percentage point of additional co-op advertising, that extra 30 or 60 days to pay. These favorite old accounts were granted extra discounts based on familiarity and relationships rather than on economic justification. These experienced clients understood Castle's pocket price waterfall and were working it against the company.

Castle senior management realized that its transaction pricing process was out of control, that decision making up and down the waterfall lacked discipline, and that no one was focusing on the comprehensive total of those decisions. The end result was a pricing reality that didn't square with Castle's strategy of rewarding account size with lower prices, and that was costing Castle millions.

To correct its transaction pricing situation, Castle mounted a three-part program. First, it took very aggressive corrective actions to bring the overdiscounted, "old favorite" accounts back in line. Management identified the problem accounts and explained the situation and its impact on overall company profits to the sales force. Then the company gave the sales force nine months to fix or drop those outliers. Fixing meant decreasing the excessive discounting across the waterfall so that outlier accounts' pocket prices were more in line with those of accounts of similar size. Salespeople who couldn't

Exhibit 5. A Single Product Can Have a Wide Pocket Price Band



negotiate their outlier pocket prices up to an appropriate level were to find other accounts in their territory to replace them.

Within the time allotted, the sales force fixed 90% of the trouble accounts. Sales' newfound realization that every element of the waterfall represented a viable negotiating lever contributed to this success. And, in most cases, the salespeople easily found profitable replacements for the other 10%.

Second, Castle launched a program to stimulate volume in larger accounts that had higher than average pocket prices compared with accounts of similar size. Management singled out the attractive "target" accounts for special treatment. Sales and marketing personnel investigated them carefully to determine the nonprice benefits to which each was most sensitive. The company increased volume in these accounts not by lowering price but by delivering the specific benefits that were most important to each: higher service levels for some, shortened order lead times for others, more frequent sales calls for still others.

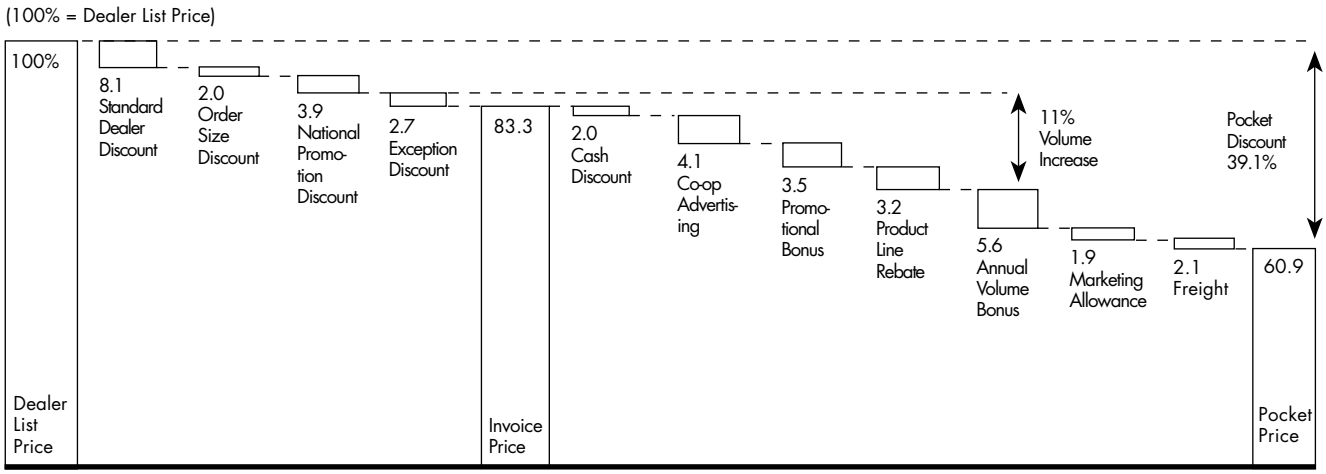
Finally, Castle embarked on a crash program to get the transaction pricing process back under control. This program included, among other components, setting clear decision rules for each discretionary item in the waterfall. For example, the company capped exception discounts at 5% and granted them only after a specific volume and margin impact evaluation. Management also set up new information systems to guide and monitor transaction pricing decisions. And Castle established pocket price as the universal measure of price performance in all of these systems. It began to track and assign, transaction-by-transaction, all of the significant off-invoice waterfall elements that were previously collected and reported only on a companywide basis. Further, pocket price realization became a major component of the incentive compensation of salespeople, sales managers, and product managers.

Castle reaped rich and sustained rewards from these three transaction pricing initiatives. In the first year, average pocket price levels increased 3% and, even though volume remained flat, operating profits swelled 42%. The company realized additional pocket price gains in each of the two subsequent years.

Castle also received some unexpected strategic benefits from its newfound transaction pricing capability. Account-specific pocket price reporting revealed a small but growing distribution channel where Castle pocket prices were consistently higher than average. Increasing volume and penetration in this emerging channel became one of Castle's key strategic initiatives this past year. The fresh and more detailed business perspective that Castle senior managers gained from their transaction pricing involvement became the catalyst for an ongoing stream of similar strategic insights.

The Tech-Craft Company Case. Consider another case—one that takes an even finer cut than the Castle example. Here, top management used both the pocket price waterfall and the pocket price band as broader tools. The company not only assimilated valuable information about its pricing policies but also used that knowledge to manipulate its pricing system and influence its retailers. The Tech-Craft Company took the waterfall and band and extended the concept, successfully applying the lessons of a financial tool to benefit its marketing strategy.

Exhibit 6. Tech-Craft Gave a Pocket Discount of 39.1% After Waterfall Elements



Tech-Craft is a manufacturer of home appliances, with microwave ovens as its primary line. Tech-Craft sells its microwave ovens directly to appliance retailers and a variety of mass merchandisers and department stores. With dozens of major and minor brands available, the microwave market is highly competitive and most retail outlets carry multiple brands.

Very complex price structures had evolved over the years in this competitive market. Exhibit 6 shows the average pocket price waterfall (on a percentage of dealer list price basis) for a Tech-Craft transaction to an appliance retailer. The company gave a total pocket discount of 39.1% over 11 different waterfall elements.

Research into competitors' pricing practices revealed that most competitors' price structures were just as complex as Tech-Craft's but varied in form—particularly off the invoice. For example, they varied by cash discount terms, co-op advertising rates, volume bonus discounts, volume break points, and freight payment policies. The variety and complexity of price structures made it somewhat difficult for appliance retailers to compare microwave prices among competitors. Further research showed that most retailers used just invoice price minus cash discount as their yardstick for comparing prices, taking for granted most of the off-invoice items. So a dollar discount on the invoice had much more impact on the retailer's buying decision than a dollar off the invoice.

With this knowledge, Tech-Craft managers made a simple price structure change to one product line. They took their largest off-invoice discount—the annual volume bonus—and shifted it to on-invoice. To do this, they estimated each account's annual purchases at the beginning of the year, paid the volume bonus on the invoice based on that estimate, and then made an end-of-the-year adjustment if necessary. The result was an 11% increase in same-store volume, not by deeper discounting but rather by tailoring the pocket price waterfall so that Tech-Craft's price reflected the criterion that retailers used in comparing prices.

The result so intrigued Tech-Craft managers that they researched their pocket price waterfall even further, discovering evidence that retailers were not equally sensitive to price changes across all elements of the waterfall. For example, they found that retailers were much more sensitive to a $1 change in the national promotion discount than to a $1 change in the order-size discount, despite the fact that they affected Tech-Craft's pocket price equally. Tech-Craft managers used such insights regarding dealers' unequal sensitivity to different pieces of the waterfall to alter their pricing approach in several areas.

First, when they wanted to lower price to stimulate volume, Tech-Craft managers adjusted the waterfall elements to which their retailers were most sensitive—thus engendering the maximum volume growth. Conversely, when they wanted to raise price to increase margins, they adjusted the elements to which their retailers were least sensitive—thus minimizing loss of volume.

Second, over time they decreased the amount of discounting in the waterfall elements that just didn't matter to retailers, shifting part of that discounting to those elements that really influenced retailer buying decisions. By doing so, Tech-Craft made sure it was getting the most retailer buying preference for its discount dollars.

Tech-Craft management became quite skillful in the fine art of "waterfall engineering"—that is, fine-tuning the components of its pocket price waterfall to optimize the effect on buyer behavior. Not unlike Castle, Tech-Craft reaped rich rewards from its newfound skills and initiatives in transaction pricing. Within a year, the company had not only grown its unit volume by over 11% but also had increased average pocket price levels by 3.5%, resulting in a 60% operating profit improvement.

Capturing Untapped Transaction Pricing Opportunity

While the specific moves required to capture untapped transaction pricing opportunity can vary widely from company to company, the most useful improvement actions fall into three general areas.

1. *Manage the pocket price band.* An understanding of pocket price and its variability across customers and transactions provides the bedrock of successful transaction price management. The entire pricing process should be managed toward pocket price realization rather than invoice price or list price. Pocket price should be the sole yardstick for determining the pricing attractiveness of products, customers, and individual deals. All price measurement and performance gauges should be recast with pocket price used as the base for calculating revenues. As the Castle Battery Company case demonstrates, considering business from this pocket price viewpoint can drastically change a company's perspective on the relative attractiveness of segments, customers, and transactions.

Creating information systems that correctly measure and report pocket price is problematic for many companies. Elements of the waterfall often reside on different systems or do not exist in data systems at all. These difficulties notwithstanding, companies should make the investment to produce a correct and

comprehensive pocket price calculation. Managers must resist the temptation to leave elements out of the waterfall because they are difficult to calculate or inconvenient to include from an information systems standpoint. Effective transaction price management often requires tough customer initiatives, but incorrect or incomplete pocket price reporting gives managers an excuse not to initiate necessary pricing policies.

Once a company establishes a pocket price measure, it should drive explicit sales and marketing steps off the "tails" of the pocket price band. Excellent transaction pricers look to the pocket price band and target specific actions for the best and worst 10% to 20% of transactions and customers. Marketing and sales should target customers with transactions at the high end of the price band for increased volume. These departments should also identify clients at the low price end, marking them for actions that will either result in improved price levels or their termination as customers.

Management should not exclude any low-price customers, regardless of their history or relationship with the company, from such corrective actions. The hard pocket price numbers must determine which customers require remedial price action. Price band management initiatives quickly lose credibility and momentum if exceptions are made that allow favored customers to languish at the low end of a pocket price band.

2. *Engineer the pocket price waterfall.* The best transaction pricers understand the leverage of waterfall engineering. Despite the fact that a dollar anywhere along the waterfall affects a company's pocket price and profit equally, the Tech-Craft case demonstrates that not all waterfall elements equally influence customer buying. A knowledge of which pieces of the waterfall matter to customers can guide not only how a company changes overall price and price structure but also how it negotiates with individual customers. Managers shouldn't be at all surprised if different sets of waterfall elements are important to different customer segments or different channels of distribution. Sales representative input can further enrich understanding of specific customer sensitivity to waterfall elements.

Each component of a company's pocket price waterfall deserves careful and explicit management. Top managers should set a quantifiable objective for each element of the pocket price waterfall, and if that goal is not achieved, they must change or even discontinue that element. Too many companies put in place a waterfall element like annual volume bonuses and leave it there unchanged, regardless of its effectiveness in influencing customer behavior. The sales and marketing organization should set hard objectives for each waterfall element. For example, the objective for an annual volume bonus might be to cause sales volume to grow at an average of 8% annually in existing accounts.

A company should take an annual snapshot of the results of its efforts. If it fails to meet its objective for a waterfall element, it should either adjust or eliminate that element. Excellent transaction pricing companies, like Tech-Craft, routinely reengineer their pocket price waterfalls and make each piece of the waterfall work for them.

3. *Get organizational involvement and incentives right.* With percentage points of return on sales in the balance, transaction pricing merits broad organizational involvement; it is too important for even the president and CEO of a business to ignore. Companies that are best at transaction price management have general managers who understand its importance, set specific goals for transaction price improvement, and monitor those goals through regular and concise transaction price performance reports.

Exhibit 7 shows a quarterly "Pocket Price Source of Change" report that the president of Castle now uses to monitor the waterfall for major product lines. From it he can quickly see changes in average pocket price and understand the key sources of those changes along the price waterfall. He can recognize and reward pocket price improvement, question price performance shortfalls, and communicate to his organization that transaction pricing is important to him.

Deeper in the organization, superior transaction price performance seldom occurs unless top management offers appropriate incentives to key pricing influencers and decision makers like pricing managers, salespeople, sales managers, and marketing managers. Individuals incur an unavoidable risk when they strive for higher prices from customers—the risk of alienating the customer or losing the business altogether. It's always easier and less risky to price low. To offset the risk of pushing for higher price, tie incentives like compensation to pocket price realization.

Sales force incentives based on total sales revenue are not enough of an inducement for salespeople to push for higher prices. The pricing leverage for sales revenue-based compensation is always out of balance—a 5% decrease in price, for instance, will cause only a 5% decrease in a salesperson's compensation. But assuming average company economics, it will engender a 60% operating profit decrease for that transaction. Only sales incentive plans that abundantly reward above-average price realization and deeply penalize below average price levels will draw

Exhibit 7. A Quarterly Report Monitors the Waterfall for Major Product Lines

(Dollars per unit)	1989 Q4	1990 Q4	Change (in dollars)
Base price	$27.83	$28.40	$0.57
Standard dealer-distributor discount	4.05	4.26	-0.21
Order size discount	0.68	0.71	-0.03
Exception discount	2.98	2.27	0.71
Invoice price	20.12	21.16	1.04
Cash discount	0.23	0.25	-0.02
Receivables carrying cost	0.26	0.22	0.04
Co-op advertising	0.83	0.85	-0.02
Merchandising allowance	0.71	0.60	0.11
Annual volume rebate	0.74	0.74	0
Freight	0.39	0.32	0.07
Pocket price	16.96	18.18	1.22

smart and profitable transaction price management from a sales force.

Even if salespeople have no explicit pricing authority, some sales force incentive for transaction price realization may still be prudent. Salespeople are usually the frontline negotiators and the carriers of a company's benefit and value message. They know the discounting limits their company will approve and will drop to those limits unless adequately compensated to do otherwise. The sales force role in transaction price management is simply too important for much progress to be made without their committed buy-in and support. In both the Castle and Tech-Craft cases, pocket price-based incentives for all pricing decision makers, including the sales force, fueled ongoing improvement in transaction pricing performance.

The transaction pricing opportunity is real and achievable for most companies today. The investment and risk of capturing this opportunity are low; the keys to success are mostly executional—doing a number of small things right. What is more, advances in information technology tend to make many of these small things easier than ever to do. And, as the Castle and Tech-Craft cases show, the payoff is extremely high, both in near-term and sustainable profit improvement and in valuable strategic insights. With its extremely favorable risk-effort-reward profile, improving transaction price management may be one of the most attractive and overlooked profit enhancement opportunities available to most managers.