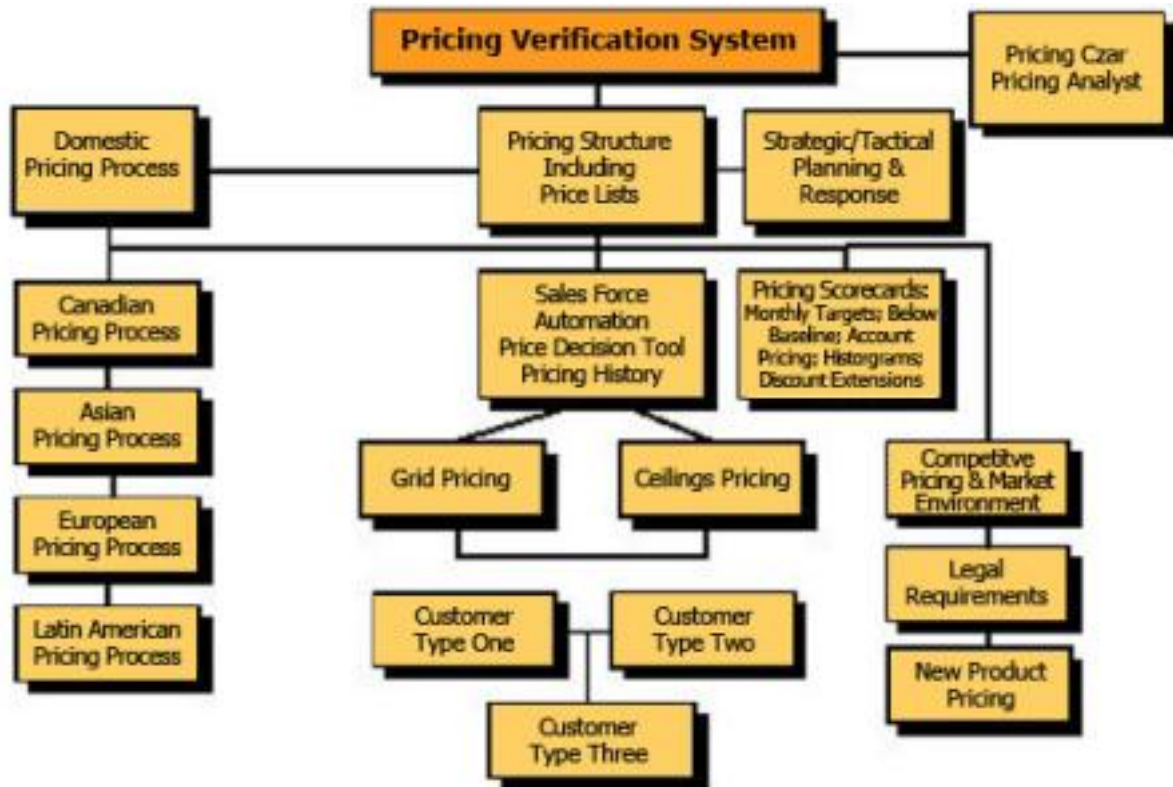


Price Verification System Adds \$12MM Profit in First Year

A \$5 million proprietary pricing verification system called "The Price Is Right," built by Armstrong World Industries, paid for itself within 6 months. Six months later, the building materials manufacturer proudly claimed \$12 million in profit over the year before. How did it make a new pricing strategy deliver such incredible returns? By managing price against a baseline.



After the implementation of "The Price Is Right," an Armstrong saleswoman met with a familiar contractor customer. The client had won a new school building project and approached Armstrong about its lowest price commercial ceiling product, material that had a baseline price of 23 cents per square foot. The customer had requested a price of 20 cents per square foot given that it needed 200,000 square feet — an enviable order among the Armstrong sales group.

There was a time, pre-"The Price Is Right," when anyone on the Armstrong sales staff, all the way up to the most senior sales executive, would have accepted the order without a second thought. That decision fit in well with the way sales representatives were compensated; their commissions came primarily from sales volume. Prices fluctuated wildly, day to day, through competitive bidding, by channel, and by geography.



In 1996, however, Armstrong embarked on a 4-year process to establish effective price management. It identified key functional areas and responsibilities, then set out to prove the relationship between price gain and operating profits. Appropriate metrics for measuring pricing effectiveness — how much volume flows below the baseline, how much volume flows against list vs. discount pricing, and price variations when price is discounted — coincided with training of management, sales reps, and customers on the new pricing system. Once the new system made sense to the sales department, a new incentive structure was instituted that reflected three equal goals — volume, product mix, and price.

The immediate effect was that the saleswoman offered 20 cents per square foot paused to consider the cost of jumping on it as she or any of her colleagues would have previously. She was allowed to discount the ceiling 3 cents below the baseline price according to parameters set by the pricing department (15% above and 15% below the baseline) but would have lost most of her pricing incentive for the quarter just by completing this one sale. And although the volume was significant, on the lowest priced product in the line, at a lower price than Armstrong had ever sold it before, the saleswoman would have an incentive net loss.

Recognizing this, she negotiated a slightly higher price, still below the baseline of 23 cents, and made up for the discount with volume from other sales. Accountability for pricing as well as volume and product mix goals in this example and others that happen everyday at Armstrong has decreased price discounting dramatically and resulted in more consistent pricing overall.



Armstrong constructs pricing maps, charting price growth (or loss) and unit growth (or loss), then breaks down data further by transaction type, geography, field sales behavior, and customer behavior. It also constructs Pocket Price Waterfalls (see [Can You Take a Price Increase?](#)). It makes sure salespeople intimately understand Armstrong's Waterfall and keep their senses attuned to information about competitors' Waterfalls. This awareness has helped Armstrong stay out of pricing wars.

