Cracking the Code for Communicating Price Increases

Why Pay More
Overview

“I need you to pay more.”

No matter how you spin it, communicating a price increase message to your customers is potentially one of the trickiest, most delicate conversations you’ll ever have to navigate professionally. But, for companies with aggressive growth goals, it’s also one of the most essential.

That was validated by a recent market survey of more than 300 B2B organizations, conducted by Corporate Visions and the International Journal of Sales Transformation, which found that nearly two-thirds of B2B professionals (63 percent) believe price increases are “very important” or “mission critical” for maintaining desired profitability and revenue growth.

Unfortunately, as important as this dialogue is for hitting high growth targets, it’s not going over too well with customers. The survey revealed—among other challenges—that companies lack the confidence, strategy and messaging structure needed to effectively communicate price increases to their customers. Low marks across these key areas are leading to subpar outcomes when it’s all said and done.

So how do you communicate the price increase message most effectively? How do you achieve your growth goals without endangering the client relationships you’ve worked so hard to nurture? That’s what you’ll find in this State of the Conversation Report.

Inside, you’ll find survey data that sheds light on how companies are handling price increase conversations today, and how buyers are responding to them. You’ll also learn about new academic research that provides a tested and proven framework for developing and delivering the most effective message for this challenging and critical phase of the customer lifecycle.

We call it the Why Pay More message.
How Are Customers Reacting?

Nearly 69 percent of respondents in our survey describe their requests for a price increase as “50-50” or worse in terms of how well they go over with customers. Most believe that sometimes a price increase goes over well, other times, not so much. While they’re worried about settling for less than they want, there doesn’t seem to be a major concern about long-term damage to customer relationships and loyalty.

On the other hand, that means only about a third of companies think their price increase conversations go the way they want: either getting an acceptable increase (26 percent) or getting everything they wanted (5 percent). That’s not exactly a glowing endorsement of how this dialogue is being handled today, and it shows there’s still plenty of room for improvement.
In fact, when asked specifically about their confidence level in the approaches they are taking to price increase communications, survey respondents admitted feeling shaky.

Just 37 percent are “confident” in their approach to communicating price increases, while only eight percent feel “very confident.” This leaves 55 percent who are unsure of the appropriateness or effectiveness of their price increase messaging.

This probably explains why—as you’ll see later in this report—nearly four out of five (79 percent) in the survey say they want more structure around their messaging approach for this critical conversation. That leaves another 21 percent who are convinced they’re doing well enough.

Why do these less-than-stellar numbers matter? Mainly because the consequences of this conversation going poorly aren’t hard to imagine. At worst, it could mean concerning levels of churn. At best, it might mean you’re forced to negotiate a much lower increase than the one you requested—or no increase at all—just to keep your customers.

The rest of this report will share ways to improve the structure of your price increase messaging for increased effectiveness.
Price Increases: The Discomfort Zone

With less than a third of companies content with how customers are responding to their requests for price increases, it’s apparent that many B2B pros don’t feel as comfortable in this area as they might in other price-related selling activities, such as discounting. Sorry, couldn’t resist.

Often companies will make decisions to take away competitive business or get new business in the door that includes almost too-good-to-be-true pricing and concessions. The goal is to land and expand. This can include trying to cross-sell and upsell additional services, but it also begs for a strategic effort to begin inching the price back up to respectable rates.

Given that nearly 70 percent of the companies in our survey say their success rate is “50-50” or worse, there is clearly a lot of room for improvement. Every time I mention in a public event that we are constructing research around this topic, including academic testing to determine a winning framework, I get people begging to know when they can expect to see those results.

Companies inherently know they are leaving money on the table and getting less than they want, and perhaps even need, from their customers. Ongoing investments in servicing accounts and improving solutions, as well as the rising cost of goods, all end up in the same spot – a post-purchase price increase conversation.

Besides your profitability being on the line, this discussion carries the additional risk of tarnishing relationships, destabilizing the partnership, and possibly damaging customer loyalty in a way that makes them susceptible to a competitive alternative.

That's why a success rate of less than 33 percent, as the survey indicates, means there's room for improvement, and we aim to show you how. Read on.
A Structure and Strategy Deficit?

One factor causing many companies to underperform in their price increase conversations could be the lack of planning and structure guiding them. The survey reveals that fewer than one-third of respondents (32 percent) believe their approach to communicating price increases is "highly structured"—meaning they craft a deliberate communication plan using persuasive messaging techniques, and provide specific recommendations to those who own this responsibility, including skills training on how best to communicate and negotiate pricing to maximize results.

Among the other two-thirds of companies struggling with messaging structure, the survey found that:

- **23 percent say it's ad hoc**, meaning they have no formal approach in place for this type of conversation, and give license for the responsible parties to handle the development and delivery of this message on their own with the customers.

- **44 percent say their approach is somewhat structured**, meaning someone creates a formal communication so the story is consistent, but then leaves it up to the responsible parties to communicate or send the request via email, before letting the team follow-up with limited messaging direction.

What’s clear is there’s an appetite among B2B practitioners for creating more messaging guardrails and rigor around this story: In fact, **nearly 80 percent of companies say they want to make their price increase requests more formal and strategic.**

Interestingly, those respondents were split into three camps: those who want more structure, but have not made it a priority (40 percent); those who strongly desire to have a completely formalized structure, messaging framework and skills training to improve their communications (21 percent); and those who fall somewhere between the two in terms of level of urgency for a more formal strategic approach (18 percent).

So, there are plenty of hands raised saying, “We can do a lot better in this area.” Turns out, part of what holds companies back is the lack of consensus in terms of who owns this process.
While the survey found that sales is responsible for communicating price increases at 60 percent of companies, that number is suspect given that nearly 80 percent of companies feel they need a more formal and strategic approach to handling that message.

Ultimately, the 60 percent figure begs the question: Does sales “own” the conversation as a result of strategic, purposeful implementation, or is it more accidental—a result of the responsibility defaulting to sales because it hasn’t been given serious organizational attention? It’s worth wondering if sales’ ownership of this responsibility is actually the consequence of an ad hoc approach.

In addition to the “who owns this” discussion, there is the issue of what messaging approach itself is best. In other words, how do you best present your case for the price increase?

The next page covers the messaging approaches companies follow when engaging in price increase conversations.
What Approaches Are Companies Taking?

In the survey, we defined six different messaging approaches that companies might take for the price increase conversation. We then asked respondents to say which of them best describes the focus of their messaging approach when they try to justify a higher price.

Ultimately, no approach appears to dominate. The spread on the chart (bottom right) shows the different frameworks and how dispersed the usage is. This means there’s a lingering question around what works best, as it’s clear there are many companies trying different methods.

Perhaps of most interest is the finding—from our own subsequent academic research—that two of the least used approaches according to the survey are the most effective approaches when it comes to actually communicating price increases. That original research is covered in-depth in the pages to come.

Only seven percent of respondents to the survey said they anchored a higher price before providing a discount when introducing a price increase. In addition, only 18 percent of respondents currently justify a price increase by reinforcing the cause of status quo bias. Our research found that both these approaches are critical factors in terms of executing a price increase message with maximum precision and effectiveness.

Descriptions of the approaches we asked about in the survey—and later tested in research—are included below:

• Lower Other Costs to Offset Price Increase (5 percent) – We introduce new features and benefits, and show how increased performance and other improvements will lower other costs to help offset some of the price increase.

• Better Results and Returns to Justify Price Increase (23 percent) – We introduce new features and benefits, and explain how the new services and functionality will drive better business results to help justify the price increase.

• Anchor Higher Price Increase but Include Timed Discount (7 percent) – We introduce new features and benefits, which justify the price increase, but we offer a time-sensitive discount on that higher price increase to bring the price increase down a bit.

• Introduce Insight and Solve More Needs (22 percent) – We introduce new, unconsidered needs (a problem the customer didn’t even know she had) and show how we have upgraded the solution with new capabilities to solve those new needs and provide better performance, thereby justifying our price increase.

• Reinforce Status Quo Bias to Secure Price Increase (18 percent) – We remind them of all the results our partnership has generated; of the exhaustive effort they went through originally to review and select us among similar competition, and let them know the price increase remains competitive with the industry.

• Cite External Cost Factors As Reason for Price Increase (24 percent) – We reference external factors outside of our control (economy, operational costs, price increases from our suppliers, raw material cost increases, etc.) that cause us to raise our prices.

As you introduce and justify price increases to your customers, which of the following best describes the focus of your messaging strategy?

- **Cite External Factors** (24.32%)
- **Better Results and Return** (23.31%)
- **Anchor with Discount** (7.09%)
- **Introduce Insight** (22.30%)
- **Introduce Insight and Solve More Needs** (8.24%)
- **Lower Costs to Offset** (4.73%)
Uncharted Territory?

The fact that companies are all over the map in their approach proves no one knows for sure the best way to communicate price increases. It remains an under-studied and untested area—an example of uncharted territory in the customer conversation.

It stands to reason that the messaging approaches we crafted for the survey are not equally effective at articulating your price increase message in a way that results in more revenue, all while protecting relationships and customer loyalty. But, they clearly all have some basis in reality—as you see in the spread of responses. People are trying a little of everything to find the right formula.

That means many companies, perhaps even the majority of them, are following approaches that are not leading to the most favorable outcomes. Which of these frameworks is the best?

That’s what we set out to study. Just as with defeating the status quo (Why Change) and securing renewals (Why Stay) we figured there’s a messaging approach—or framework—that will put you in the best position to generate the outcomes you want when it comes to pricing increases, which we have playfully named Why Pay More.

Identifying that approach, and then mapping it to your organizational needs and key accounts, will be the next step for companies intent on setting themselves apart in this vital conversation.

A Framework for More Effective Price Increase Communications

At a time when only eight percent of companies are “very confident” in their price increase requests, and when nearly four out of five companies want more messaging rigor around their approach, it’s past the time to ask whether there’s an optimal way to deliver this dialogue—there’s a clear and present appetite for improvement.

That line of inquiry underpins a recent Corporate Visions academic research study, done in collaboration with Dr. Nick Lee, a social psychologist with expertise in messaging and persuasion from Warwick Business School in the U.K.

The study explores the messaging impact of many of the approaches highlighted on the previous page, with an eye to discovering which messaging approach is most effective at creating favorable outcomes. The research is detailed on the following pages.
The academic research on price communications was structured to answer the following questions: What is the most effective message for communicating a price increase? In other words, what is the best message for passing along price increases to expand revenue while minimizing risk?

The research comes on the heels of two Corporate Visions studies that revealed how to develop the most effective message for securing customer renewals. The initial study found that a provocative, insight-driven message—the sort that previous research proved was ideal for acquiring new customers—was ineffective in a renewal selling context. A follow-up study then confirmed an actual renewal messaging framework that’s best at convincing customers to renew. (A broader discussion is included in our previous State of the Conversation Report.)

In this Why Pay More study, conducted with Dr. Nick Lee, a professor at the Warwick Business School, the experiment tested six different messages in a hypothetical price increase selling situation.

For the purposes of the study, participants were told to imagine they were small business owners who were nearing the end of a two-year contract with a vendor they’d hired to promote their company’s health and wellness program to employees, a move designed to improve employee satisfaction and retention rates. It was now time to either renew with the existing vendor—at a 4 percent price increase—or consider switching to a new vendor.

The test conditions are summarized on the following page.
Testing the Why Pay More Message

Each Opened by Documenting Business Results to Date

**Introduce Unconsidered Need** – This message introduced new research that revealed a new opt-out approach to increase plan participation, whereby the company would “flip” its current opt-in approach and all employees would be automatically enrolled. It explained that this would require some new services which cost four percent more – but assured the customer that they would recover that within a year based on improved performance.

**Improved Capabilities with Anchor** – This message explained how the customer would be getting new capabilities as part of their renewal that will increase performance and progress on their top goals. It explained, however, that these new, advanced capabilities will add eight percent to the annual cost of the plan. But, the vendor agrees to reduce that by half because they are a good customer, resulting in a four percent increase.

**Improved Capabilities without Anchor** – This message was the same as the one to the immediate left, except there was no “anchoring” of a higher price point to begin with. It simply presented the new capabilities and performance as a justification for a four percent price increase.

**Improved Capabilities with Anchor and Time-Sensitive Discount** – Again, this introduced the improved capabilities in the same way, and explained how they will increase performance. And, it described how this will add eight percent to the annual cost. But it then offered a time-sensitive discount that said: If you renew before the end of the month, those additional costs will be reduced by 50 percent, for a net four percent increase.

**Cite External Cost Factors** – This message blamed the price increase on outside cost pressures, specifically regulations and responses that necessitate an eight percent cost increase. In a friendly gesture, this approach used an anchor, explaining that the vendor is willing to absorb half of that extra cost burden, but must pass along the remaining four percent increase in annual program cost.

**Reinforce Status Quo Bias** – This message justified the price increase by reinforcing status quo bias—reminding customers about the potential risks of making a change and about how much time and energy bringing in a new vendor could require. It also introduced the new and improved capabilities and expected positive impact on performance, along with a straight four percent price increase associated with the advanced solution and anticipated improvement in results.

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Same 4% Price Increase Rate In Every Case
The Results

The study had clear winners and losers. First the big loser: It turns out that using the challenging and provocative unconsidered needs-driven message finished last in every key category:

- Participants in the provocation-based message had less favorable attitudes about the message by **18.8 percent**
- They were **15.5** percent less likely to renew with their current vendor
- They were **16.3** percent more likely to switch to another vendor

Meanwhile, the winning message approach appears to embody two things: First, it will reinforce the status quo while introducing key, new capabilities. Second, it will also anchor high with the new price, before giving a discount to sign the renewal.

Reflecting on the study, Dr. Lee said that introducing the unconsidered need would likely provoke customers to think “more carefully about what they want and how to get it.” As a result, they become more likely to consider other alternatives.

“It is rare to see such strong and consistent results across so many different groups in this kind of experiment,” Lee said. “It’s also quite counterintuitive these days with all the hype around provocation-based selling, that the ‘unconsidered needs’ approach turns out to be such a poor idea, according to the data.”
The Winning Why Pay More Condition

The research confirms that—much like a compelling customer retention message—an effective price increase story will document proven business results to date; reinforce the causes of status quo bias; provide detail around new capabilities that promise to drive increased performance against original business needs and goals; and anchor an initial higher price increase, but offer a form of discount in exchange for continued loyalty.

To the right, we’ve included a compilation of the best-performing messages to serve as an example of the framework:

**Document results:** “You have made great progress on your goals over these last two years. You’ve seen health and wellness program participation grow from 20 percent to 50 percent. Your employee satisfaction scores are up, and you’ve said some employees have even taken the time to thank you for the changes you’ve made. In addition, your employee retention rates have started to improve, which you said was the ultimate goal of making these changes.”

**Reinforce status quo bias:** “When you signed up two years ago, you really did your homework and looked at a lot of options before getting your entire team to come to a consensus and choose our company. It was a long process that involved a lot of people, but you ultimately arrived at a big decision to bring this program on board.

“As you look at making a renewal decision, it’s important to realize that you are at a critical point in this journey and that it’s important to maintain momentum to achieve your ultimate participation and retention goals. Any change to the program at this point could create an unnecessary risk of losing the positive gains you’ve made.

“Not to mention that bringing in another vendor would require you to invest time in getting them up to speed and money on implementation costs and other changes that you won’t have to spend if you continue working with us.

“Over the last two years we’ve been developing new capabilities to drive more satisfied participants, as well as give you confidence that your program is keeping pace with anything else available in the market today. As you consider your renewal with us, we wanted to let you know about two new services we think can have a tremendous impact on your goals.”

**Introduce new capabilities:** “Over the last two years we’ve been developing new capabilities to drive more satisfied participants, as well as give you confidence that your program is keeping pace with anything else available in the market today. As you consider your renewal with us, we wanted to let you know about two new services we think can have a tremendous impact on your goals.

“The first is a new weekly report that shows non-participants in the program how much benefit that those who are participating are seeing in terms of their fitness and wellness, as well as how much they are saving, and benefiting in terms of healthcare, by being part of your plan versus the alternatives. This kind of communication on a monthly basis will provide a gentle nudge to help encourage them to get into the program for the great benefits.

“Secondly, we’ve also added a new smartphone app with online tools, including automatic result tracking, and integration with popular fitness trackers. In tests, these touches have been shown to help your employees get more benefits from health and wellness programs, and feel like they’re making progress on their goals. The result has been shown to be higher employee plan satisfaction.”

**Anchor price increase high, introduce loyalty discount:** “These new services and functionality will add approximately eight percent to the annual cost of your plan. However, if you renew before the end of the month, we will reduce the price increase by 50 percent, making it just a four percent overall increase to get this level of service.

“You’re making great progress. Stick with our program for another two years, and I know you’ll get to your 80 percent participation goal and further increase your employee retention rates.”
Conclusion

The research with Dr. Lee validates that communicating with prospects and customers across the buying lifecycle isn’t a one-size-fits-all proposition. Challenging a prospect, for instance, is compelling and effective when you’re trying to defeat the status quo and generate a new sale. But that same type of provocative message doesn’t hold up when you’re trying to renew customers and get them to pay more. Just because a messaging framework might work well in a certain buying situation doesn’t mean it’s universally applicable.

To that point, Corporate Visions now has used first-party research to create and deliver situational messaging frameworks for each of the key selling moments in the customer lifecycle. Those frameworks can be understood by the key question a prospect or client asks themselves depending on where they are in the buyer’s journey:

- **Why Change** – Why should I do anything different? Tell a story that defeats status quo bias and gets prospects to agree to change
- **Why You** – Why should I choose you over a similar offering? Tell a follow-on story that clearly differentiates you from the competing alternatives
- **Why Stay** – Why should I renew and not look elsewhere? Tell a story that reinforces their status quo bias and assures them the value of sticking with you
- **Why Pay More** – Why should I have to pay more to keep working with you? Continue to build a sense of value and progress for working together and a risk of making a change

You can learn more about these situational frameworks from the research briefs, eBooks, videos and other content in our [library].
About Corporate Visions

Corporate Visions is the leading provider of science-backed sales, marketing, and customer success training and consulting services. Global B2B companies work with Corporate Visions to articulate value and promote growth in three ways:

- **Make Value Situational** by distinguishing your commercial programs between customer acquisition, retention, and expansion.
- **Make Value Specific** by creating and delivering customer conversations that communicate concrete value, change behavior, and motivate buying decisions.
- **Make Value Systematic** by equipping your commercial engine to deliver consistent and persistent touches across the entire Customer Deciding Journey.

**CONTACT US TO LEARN MORE**

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