



Driven by Insights
Delivered from Experience

Pricing Strategy Framework

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Introduction

A pricing strategy is crucial to a company's growth, but a good one also signals to potential customers how you view your own product and what audience you want to attract. A well-thought-out strategy should take into consideration segmentation, positioning, price structure, price levels, and price execution, being built carefully upon the consideration of competitor actions, market conditions, margins, and costs. Your teams need to understand everything from how to communicate value to buyers, to establishing a robust renewal system that captures additional market share.

This pricing strategy framework provides explanations and benefits for the various components of a pricing strategy, suggested deliverables, and thought starters that will help your pricing teams identify potential knowledge gaps in their current approach.

Pricing Strategy Framework



What is a pricing strategy?

A pricing strategy is a methodology that is used to determine the value of a product or service to win more revenue from a set of target customers.



What does a pricing strategy do?

A pricing strategy considers the ability to pay and propensity to buy (PtB) of segments, i.e., markets, accounts, and buyers. A pricing strategy methodology takes into consideration market conditions, competitor actions, and margins and costs.



What does it mean to use a pricing strategy?

The use of a pricing strategy enables your company's go-to-market engine to have a disciplined approach to correctly pricing their product or service to beat the competition.

Segmentation



Markets

Brief Description

Focus on the markets where you can develop and exercise pricing power.

Benefit

Identifying markets where you will have a competitive advantage will fuel the growth of your business. Not all markets are equally attractive from a pricing perspective. Mature, low-growth markets where products have little opportunity for differentiation don't allow much room to create and capture value. Companies grow faster when they can enter growth markets and set prices to capture the value that their differentiated solutions provide.

Deliverables

- Market segment definitions
- Market attractiveness criteria
- Market adjacency identification
- Market share
- Total available market (TAM)
- Market problem analysis (frequency, pain, willingness to fix)
- Product win strategy

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You know the market size, growth rate, and served market share.
2. Your growth rate is above that of the market.
3. You have identified the identities and number of competitors you have for each segment.
4. You have identified the type of each competitor (i.e., direct, indirect, and replacement).
5. You have identified the predominant type of competition in each market segment (i.e., price, value, or relationship).
6. You have identified the growth rate of each competitor.
7. A portion of your growth comes from increased average selling price (ASP).
8. Your growth goals require either a share gain from competitors or a share of market growth.
9. You have identified which market type you compete in (i.e., negotiated vs. take it or leave it).
10. You frequently conduct market problem analysis to identify the actual problems your customers are trying to currently solve.

On a scale from 1-5, how important is market segmentation to your business?



Accounts

Brief Description

Focus on prioritizing accounts that recognize and embrace your unique value proposition, demonstrating their willingness to invest.

Benefit

Quantifying each account's willingness to buy will increase your sales and marketing ROI. This can be accomplished by strategically aligning your top resources with your most promising accounts. It's important to note that a universal pricing approach may not be suitable for all accounts. By segmenting your customers and setting prices accordingly, you can maximize revenue and profits, ensuring that you capture the full value from each customer segment.

Deliverables

- Ideal customer profile (ICP)
- Customer acquisition cost (CAC) by product
- Customer lifetime value (CLTV) by product
- Account potential
- Account scoring
- Propensity-to-buy (PtB) formula by product
- Willingness to pay by customer segment
- Account share of wallet analysis

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have defined your ICP.
2. You have quantified the level of discounting each competitor is selling at vs. their list price.
3. You have quantified the level of price erosion by customer.
4. You have quantified the share of wallet and potential spend for each account.
5. You have quantified the willingness to pay for each customer segment by product.
6. You have quantified the CAC of each account.
7. You have quantified the CLTV of each account.
8. You have quantified the value provided to each customer by product.
9. You have quantified the PtB for each prospect/customer.
10. Your high potential accounts understand your full product portfolio and value propositions.

On a scale from 1-5, how important is accounts segmentation to your business?



Buyers

Brief Description

Understand the pricing implications of how buyers buy.

Benefit

Intimately knowing your buyers' needs and how they buy will allow you to capture more value from the market. Your ability to sell your solution at an optimal price is highly dependent on how well your solution resonates with buyers. Buyers have preferences for what they buy, the way they buy it, and the way they pay. You must understand the wants and needs of your buyers so that you can best package and price your solutions.

Deliverables

- Buyer personas
- Buying process maps
- Buyer preferences
- Buyer value chain analysis
- Critical success factors

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have identified the primary buyer for each product.
2. You have identified the buying decision team (BDT) and purchasing process for each market segment.
3. You have mapped the buyer's journey for each market segment.
4. You have identified the factors your buyers consider before purchasing a product.
5. You have quantified the relative importance of each of these buying factors.
6. You have quantified the perceived performance of your product for each buying factor.
7. Your value propositions have been validated by your customers.
8. You are tracking win/loss metrics, including capturing why a competitor was chosen vs. your company.
9. You have researched what pricing model each buyer is used to.
10. You have researched what your buyers view as the fairest way to set prices.

On a scale from 1-5, how important is buyer segmentation to your business?

Positioning

Business Objectives

Brief Description

Match the business objectives of your growth strategy to your pricing strategy.

Benefit

By aligning pricing and growth strategies, you can effectively achieve your growth objectives. It's important to recognize that seemingly complementary goals can be contradictory when it comes to pricing. To succeed, it's crucial to understand the relationships, make trade-offs, and prioritize the business value that your pricing strategy will facilitate in both the short and long terms.

Deliverables

- Identification of pricing-supported business objectives
- Identification of pricing-supported business strategies
- Prioritized business objectives and strategies

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have documented your company's strategies (e.g., product, service, or price leadership).
2. You have documented your company's business objectives by segment.
3. You have identified and documented strategies to penetrate new markets.
4. You have identified and documented strategies to increase customer spend (e.g., price increase, cross-sell, up-sell).
5. You have identified and documented strategies to transition products to different segments (e.g., premium, mid-market, low-cost).
6. You have documented pricing strategies.
7. You have assessed your pricing strategies against your business strategies and identified gaps.
8. Your pricing and business strategies are aligned.
9. Your pricing strategies align with future business trends.
10. Your pricing strategies are as sophisticated as your business strategies.

On a scale from 1-5, how important are business objectives to your business?



Competitive Positioning

Brief Description

Understand and influence buyer perception.

Benefit

By understanding and influencing buyer perception you can increase the buyers' willingness to pay and capture more market value. The concept of "reality" holds little weight in the realm of pricing; it is buyer perception that reigns supreme. How buyers perceive your performance in comparison to competitors will determine your ability to secure victories and command premium prices. Your capacity to shape these perceptions directly impacts your revenue growth potential.

Deliverables

- Identification of competitors
- Price positioning statement
- List of attributes for purchase decisions
- Competitive differentiation maps
- Identification of competitive advantages, competitive disadvantages, overinvestment areas, and potential disadvantages
- Positive differentiation value scoring
- Product and marketing repositioning actions

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have identified which competitors are direct, indirect, or a replacement of your solution.
2. You have identified buyer evaluation attributes and priority for each type of competitor (e.g., direct, indirect, replacement).
3. You have quantified your performance vs. competitors for each competitor and segment.
4. You have classified each attribute as compared to the closest competitor (e.g., competitive advantages, competitive disadvantages, potential disadvantages, and overinvestments).
5. You have a plan for addressing each competitive advantage, competitive disadvantage, potential disadvantage, and overinvestment.
6. You have quantified your positive or negative differentiation (i.e., you are 20% better or worse than an example competitor).
7. You have quantified the decision criteria and perceived value each competitor is expected to deliver.
8. You can quantify how much value you expect to deliver to a new customer.
9. You have quantified the benefit of each marketing initiative on perceived value.
10. You have effectively prioritized all initiatives based on their significant impact on the decision criteria that buyers consider most important.

On a scale from 1-5, how important is competitive positioning to your business?

Price Structure



Revenue Model

Brief Description

Align your pricing model with the value your customers expect to gain from your products.

Benefit

Choosing revenue models that align with buyer preferences will increase your ability to win. More than any other part of pricing, your revenue model is the way you communicate to your customers exactly what they are purchasing. And what they are purchasing should align to the way that they receive value from your product. Use an outward-in approach to define value from your customer's point of view, as opposed to an inward-out cost approach. Choosing a revenue model that is in alignment with customer value will expedite sales to a significant degree. Developing an innovative revenue model will make you the industry disruptor.

Deliverables

- Revenue model analysis
- Competitor revenue models
- Revenue model options
- Revenue model evaluation criteria
- Revenue model scoring

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have defined which revenue model you and your competitors use. For example, it could be one of the following: perpetual ownership, software with an upfront fee plus maintenance, rental, software as a service, variable, pay as you go, two-part tariff with a fixed fee plus variable component, auction, freemium, fixed ROI with paying a portion of the value delivered.
2. You have quantified how frequently your customers consume your product.
3. You are aware and have documented the revenue model of each competitor in each market.
4. Your customers are tolerable of unexpected costs.
5. Recurring revenue streams are critical to your business.
6. You have determined what type of budget your clients use to pay for your product (e.g., capital expenditure, operating expenses)
7. You are aware of how buyers prefer to pay (e.g., lump sum, reoccurring, per transaction).
8. Your buyers are willing to pay an adjustable fee depending on the value they receive over time.
9. Your revenue model aligns with your business objectives.
10. Your revenue model is disruptive in the market.

On a scale from 1-5, how important is having a revenue model to your business?



Versioning

Brief Description

Design product versions that will increase average selling price and what your customers buy.

Benefit

Constructing pricing versions allows for upselling and more profitability. Choices are an integral part of effective pricing strategies, and they help the customer understand the link between price vs. value and facilitate their decision-making. However, poorly constructed product versions can be as much a hindrance as a help, considering that the good, better, best systems are often designed in the absence of a concrete rationale. If you version on the wrong dimensions, set the wrong levels, or otherwise provide the wrong options, customers won't follow your expectation and purchase what you were expecting. This will force your average price level to drop.

Deliverables

- Competitor versioning approaches
- Versioning system options
- Evaluation criteria
- Versioning system scoring
- Conjoint analysis
- Version design

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have quantified the number of product versions you have per customer segment.
2. The number of choices is aligned to the sophistication and preferences of the buyer.
3. The price of each version is different for each customer segment.
4. You have substantiated which features to include in each version with the market.
5. Your versioning structure demonstrates a clear relationship between price and value.
6. Your versioning structure is easy to explain to your customers.
7. Your versioning structure is perceived to be fair by your customers.
8. There is a clear value story around each version (e.g., specific versions are for customers with specific needs).
9. There is a low-priced, entry-level version and one or more strategic or decoy versions to drive customers to a higher price.
10. There is a clear upsell path from low- to high-end versions.

On a scale from 1-5, how important is versioning to your business?



Renewals

Brief Description

Capture more value from your existing base of customers over time.

Benefit

You can't always meet your growth goals through new accounts. Creating a renewal strategy enables you to capture more market value. Growing your base business can be essential to making your number, particularly as your business matures. But what is the right way to grow your accounts? Should you position a series of upgrades? Add annual price increases? Both options are viable, but the true answer lies in your product pipeline and the characteristics of your customer base. Ignoring this aspect is not an option, especially in a market affected by any degree of inflation, as maintaining prices without adjustments is tantamount to a reduction in real terms.

Deliverables

- Account strategy assessment
- Account revenue growth strategy
- Account pricing playbook
- List pricing definitions
- Price increase policies and guidance
- Communication plan and selling tools

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have a strategy for growing account revenues over time which includes pricing.
2. You have increased your list prices in the last three years.
3. You have raised your renewal prices for current customers in the last three years.
4. You have established an overall customer price increase justification strategy that takes into account cost increases, inflation, match industry, and the reevaluation of customers' willingness to pay.
5. You have a price determination strategy that is account specific, vs. being spread evenly across all accounts.
6. You track attrition rates following each price increase.
7. You have calculated price elasticity for each product.
8. You communicate the price increase to your customers several months in advance of the transaction.
9. You have a road map for future product improvements and related margin enhancements.
10. You know how much customers are willing to pay for product and feature upgrades.

On a scale from 1-5, how important is having renewals to your business?

Price Levels

Price Level Optimization

Brief Description

Determine the viable price range and optimized price for customers based on their WTP.

Benefit

Value-based pricing is the single largest factor in increasing your profitability as a business. In B2B markets, there is no universal price for all customers. Customer WTP encompasses a range of viable price points. Understanding that range through Van Westendorp, Gabor-Granger, and similar techniques is critical to optimizing price levels and preventing value from slipping through the cracks. Studies of historical win rates, market projections, and financial modeling allows an executive to make small changes that make material impacts to the top and bottom lines at almost zero cost.

Deliverables

- Price-level assessment
- Van Westendorp Pricing Model
- Price optimization analysis
- Revenue risk modeling
- Price list construction
- Pricing setting manual

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have a strategy for price setting (e.g., cost-plus, risk-based, or value-based).
2. You know the amount or range at which customers and prospects consider your product: to be a good deal; expensive yet still valuable; too expensive to even consider; and so cheap that they'd question the quality.
3. You have a clear understanding of the relationship between pricing and win rates, recognizing how they fluctuate as pricing transitions from being too cheap to too expensive.
4. You know the revenue-maximizing price point (i.e., the single price point at which revenue would be maximized).
5. You know the profit-maximizing price point (i.e., the single price point at which profit would be maximized).
6. You know the penetration-maximizing price point (i.e., the single price point at which penetration would be maximized).
7. Your prices currently reflect and/or overcome the key psychological thresholds (i.e., the prices above which a significant proportion of the population will no longer buy).

On a scale from 1-5, how important is price level optimization to your business?



Structured Discounting

Brief Description

Discount strategically to increase sales volume and average deal size.

Benefit

Discounting without a rationale or knowledge of the impact is not good. Discounting consciously for a purpose linked to your corporate strategy is good. Such discounts should be considered as part of your pricing strategy and allow the fine tuning needed to optimize profits. Deciding in which situations you are willing to give a concession, and more importantly, what you expect in return for that discount is the first step to larger deals and higher win rates. Discounting without this knowledge can be hazardous to the business.

Deliverables

- Discounting Assessment
- Discounting Methodologies
- Price Banding and Modification
- Discounting Playbook and Selling Tools

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You know your average discount rate.
2. You have quantified current discounting by buyer type and market segment.
3. Discounts are not always expected by your customers.
4. You have quantified the reasons and frequency customers ask for discounts.
5. You have assessed each discount reason for impact on win rates.
6. You have incorporated all pricing reasons into your pricing and discount strategies.
7. You have quantified discount bands by market segment.
8. You are constantly assessing the market for threats that would increase the need for discounting.
9. You have approval mechanisms in place to escalate discount approvals.
10. Your discounting strategy is incorporated into sales playbooks and related tools.

On a scale from 1-5, how important is structured discounting to your business?

Price Execution

Value Messaging

Brief Description

Maximize wallet share and drive up the customer's willingness to pay by market segment with compelling messaging.

Benefit

Communicating value to buyers is critical to capturing market value. You may know you are better than your competitors. Your competitors may even know it. But if your customers don't, they won't pay more for your product. To get the price premium that your differentiation commands, you need to reinforce that positioning through value messaging in all your communication touch points with the buyer.

Deliverables

- Value Messaging Assessment
- Buyer Personas
- Competitive Differentiation Maps
- Positive Differential Value Scoring
- Value Stories
- Value Thought Starters(Respond to these statements with a Yes or No)

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. Your organization knows the important points of differentiation vs. the competition.
2. You have produced messaging to reinforce your competitive advantages.
3. You have produced messaging to play down your competitive disadvantages.
4. You have produced messaging to raise the importance of your overinvestments.
5. You have injected this collateral into your marketing materials and talk tracks for your sales force.
6. You quantify the value that your product or solution delivers for a given customer.
7. Your sales reps are able to do a value calculation for their prospects during the sales process.
8. You enable your sales force to perform a value calculation through a "value calculator" tool.
9. Your value messaging is customized by market segment and buyer.
10. You actively update your value messaging at least annually.

On a scale from 1-5, how important is value messaging to your business?



Negotiation Guidelines

Brief Description

Arm your sales force with techniques to win deals that maximize price. Integrate these techniques into your coaching plan and your Opportunity and Account Management Processes.

Benefit

Some buyers truly are “price buyers.” They are only interested in getting the lowest price possible for a product. Other buyers are “value buyers.” They will pay more for the differentiated value you provide. The trouble is some “value buyers” will try to convince your reps that they are “price buyers” to get a lower price. Classifying your buyers and knowing when and how much discretionary discount to allow can make the difference between revenue stagnation and accelerated growth.

Deliverables

- Negotiation Assessment
- Buyer Personas
- Segment Battle Cards
- Negotiation Playbook
- Negotiation Training
- Integration into your Account Management Process
- Integration into your Opportunity Management Process

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have broken down what portion of your buyers by category (price buyers, value buyers, relationship buyers, negotiators).
2. You have identified unique characteristics of each buyer type (price buyers, value buyers, relationship buyers, negotiators).
3. Your negotiation playbook is utilized frequently by sales and marketing.
4. Your sellers utilize customized positioning for each buyer type and market segment.
5. Your sellers understand the company’s cost structure, and at what point a deal becomes unprofitable.
6. Your sellers are given guidance, training and coaching on how to identify individual buyers by category.
7. Your sellers have strong awareness of each buyer type and how to best sell to each.
8. You know the discount rates and profitability for each buyer type.
9. You have a strategy to identify and focus on value buyers.
10. You have integrated your Negotiation guidelines into your Account Management and Opportunity Management Processes.

On a scale from 1-5, how important are negotiation guidelines to your business?



Price Incentives

Brief Description

Improve adherence to your pricing strategy by aligning it to the sales team's Compensation Design & Quota Setting.

Benefit

Sales people, for the most part, do what you incentivize them on. Unfortunately, that means that if they are incentivized on revenue only, this often leaves to heavy discounting, lower average selling price, and much lower profitability. Organizations that adopt a value-based culture focus on price integrity. Price integrity means giving sales reps a personal stake in price realization. Doing so in a way that is both motivating and robust is both an art and a science.

Deliverables

- Price Incentive Assessment
- Price Incentives Strategy
- Price Incentive Quotas
- Communication Plan
- Financial Modeling
- Integration into your Compensation Design & Quota Setting

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. Your compensation plan is designed to support your pricing strategy.
2. Your sellers are keenly aware of the impact of discounting on profitability.
3. Your compensation plans discourage discounting and promote value selling.
4. Your sellers understand their compensation plans and the relation to company profits.
5. There is a low percent of deals sold at the seller maximum discount rate.
6. Your A Players have a lower discount rate than your B Players.
7. Your B Players have a lower discount rate than your C Players.
8. You have calculated your win rate at list price and each tier of discounting.
9. Sales commission plans reduce if they give greater discounts to customers.
10. You produce financial modeling for profitability every time you update your Compensation Design and set Quotas.

On a scale from 1-5, how important are price incentives to your business?



Price KPIs

Brief Description

Track the right metrics to ensure your pricing strategy is successful.

Benefit

Having invested the time in setting up pricing strategy, you need to ensure that it is working. Price strategies touch all parts of the organization. The impact, positive or negative, can be hidden. You must launch your new pricing strategy with clarity on the KPIs that will show points of success and failure. How you will calculate, baseline these metrics, and who will provide the underlying data must be defined. Only then can you track performance and know when corrective measures are required.

Deliverables

- KPI Assessment
- KPI Identification
- KPI Calculation
- KPI Tracking
- KPI Dashboards
- KPI Operating Manual

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. You have defined KPIs for pricing.
2. You calculate pricing performance metrics on a continued basis (ASP, discount rates, margin, quote prices, win rates, retention rates, etc.).
3. These metrics are calculated at least quarterly.
4. You further segment these metrics by one or more of the following: industry, company size, deal size, region, manager, and seller.
5. There is a single individual or department responsible for collating these metrics.
6. There is a consolidated formal dashboard or report compiled to display all your pricing metrics.
7. Your KPIs are shared among executives and the CEO.
8. These metrics are utilized to inform changes to sales compensation.
9. These metrics are utilized regularly to update your pricing strategy.
10. Corrective actions are put in place to react to negatively trending metrics.

On a scale from 1-5, how important are price KPIs to your business?



Tools, Systems, and Software

Brief Description

Choose appropriate price software to help execute your pricing strategy.

Benefit

You have invested time in setting up your pricing strategy and process, now you need to ensure you have the infrastructure to support it. Pricing software can be a great benefit but will fail without a level of organizational readiness. Investing too early can hinder your pricing processes and be very costly. Also, software is not a substitute for a pricing strategy and will do little to fix broken processes. Think process first then software second. It is critical that before making an investment in software there has been sufficient analytical rigor to quantify the cost, benefit, and expected future state.

Deliverables

- Pricing Tools, Systems and Software Assessment
- Pricing Optimization Software Analysis
- Price Management Software Analysis
- Quoting Software Analysis
- Price Calculators
- Value Calculators

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. Your company invested in software or digital tools for pricing.
2. You have defined objectives for your pricing technology.
3. The software has been successful in meeting those objectives.
4. Your pricing software is integrated into your processes.
5. Your employees trust the outputs of the pricing software.
6. You first optimized your pricing strategy and processes, then invested in software.
7. Your pricing software makes sellers more efficient.
8. Your software provided all needed pricing KPIs.
9. You are getting a positive ROI on your pricing software.
10. Your pricing software enables marketing to be more efficient.

On a scale from 1-5, how important are tools, systems, and software to your business?



Governance and Org Design

Brief Description

Design an internal pricing organization to produce and execute upon future pricing strategies.

Benefit

Many companies don't have a pricing organization. Some do not yet need one. However, those who do need a robust pricing organization often arbitrarily assign pricing control to product, marketing, strategy, finance or sales. Or even worse, they split pricing control across several functions. Where pricing is placed and the resources it has will significantly impact its focus and activities. To build and execute upon pricing strategies effectively, you need to carefully consider where pricing naturally fits into the organization. This includes responsibilities, operating model, talent, skills, capabilities and processes needed to be successful.

Deliverables

- Pricing Organization Assessment
- Optimal Structure Design
- Roles and Responsibilities (RACI)
- Talent Strategy
- Governance Operating Playbook

Thought Starters

Respond to the following statements with a yes or no and use your responses to guide your pricing strategy transformation.

1. The CEO actively promotes a message of pricing to value.
2. The CEO is responsible for setting the overall pricing philosophy in your organization.
3. Senior executive positions involved in the pricing process.
4. There is a pricing escalation process in place based on data.
5. A broad cross-functional team is involved in pricing decision making (vs. pricing group alone).
6. The head of pricing reports to a high executive position (CXO or SVP).
7. Your pricing team is staffed enough to spend considerable time working strategically.
8. Your pricing team is empowered to drive data driven decisions.
9. Roles and responsibilities between pricing and other groups is clearly defined.
10. You have a defined talent strategy for your pricing organization.

On a scale from 1-5, how important is governance and org design to your business?