MEMBERSHIP INFORMATION

C12 NORTH TEXAS

Priorities are what we do.

Everything else is just talk.

Are C12 Forums for You?

Answers Leading to a Decision

This booklet answers the fundamental questions about possible C12 Forums membership. As you will learn, C12 Forums are special groups of CEOs and Business Owners with much in common yet representing many different companies and industries. We are all about "***Building Great Businesses for a Greater Purpose***."

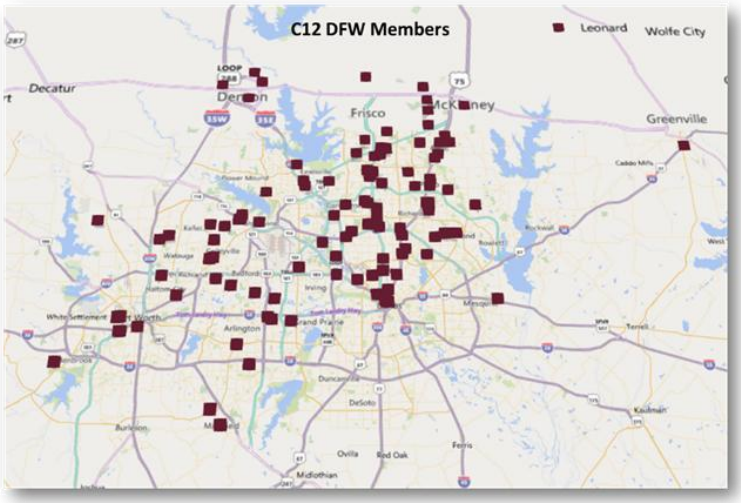
However, C12 is not for everyone.

This document contains the questions that will help you determine if C12 is for you. We aim to be completely transparent about what is required from you and equally clear about what you can expect from C12. (You can also review our website at www.joinc12northtexas.com for a rich selection of member testimonials and videos.)

Great Businesses. Greater Purpose.

C12 | North Texas

Who is in C12?



DIVERSE PEERS FROM ACROSS NORTH TEXAS

C12 | North Texas

Which of these is true?

About your role

- ☐ I oversee running the business. Sometimes I feel lonely in this role.
- ☐ I need a regular time and place to think about and work on my business rather than in it.

About your expertise

- ☐ I must make decisions in areas where I have not been trained or mentored and would benefit from timely advice.
- ☐ I need more knowledge and skills but have trouble finding practical training for my position.
- ☐ I enjoy helping others to benefit from my experiences.

About your support

- ☐ I value feedback and suggestions in a safe environment from people who know what I am going through.
- ☐ I need a venue to fully present my business to experts who will give high-quality feedback.
- ☐ I want to improve in many areas of my life and would benefit if someone who cared for me held me accountable.

About your faith

- ☐ I wonder what it means to be a Christian leader in business and want some tangible examples of doing it.
- ☐ I believe my business might have a greater purpose than just making money.
- ☐ I want someone to pray with me and for me.

HELP IS AVAILABLE TO GROW YOUR BUSINESS AND FAITH

C12 | North Texas

What are the qualifications?

We Are Christians

Our members come from many churches and denominations. We focus on the unifying principles that the Bible is authoritative and valuable for our daily lives, that God cares about what each member does (including their work), and that He has "greater purposes" for our organizations.

We Run Established Companies

Generally, we serve companies that have passed the start-up phase. These companies usually have revenues of at least $1M annually (i.e., can afford to invest in something like C12) and have five or more employees (i.e., the owner can be absent for the C12 meeting day).

We Value Mature Contributors

We also look for men and women who can add to the discussions. No one comes to C12 solely to absorb lessons from others. Everyone must also be prepared to share their knowledge and experiences to help others.

C12 HISTORY

C12 was formed in 1992 in Florida by Buck Jacobs. Buck was convinced that Christian CEOs and Business Owners needed a safe place to talk about challenging issues with peers from a Biblical perspective. He developed a model that requires high commitment and delivers high value. C12 is now in 30+ states and 3 countries with over 3000 members.

We Are an Invitation Only Group

We are interested in trustworthy members. We expect members to make and keep their commitments to the group and each other. Casual or disinterested leaders will feel out of place in C12. Thus, each group is "invitation only." **Invitations come after someone visits a group.**

We Seek Growth

C12 is about growing a company to have a growing influence for God over those that it serves (e.g., employees, customers, and suppliers). If you are satisfied where you are, C12 is probably not for you. Only learners need to apply.

We Enjoy Each Other

Business and life can be serious. Nevertheless, we sincerely enjoy one another at C12. Other members become your friends. The collection of C12 members locally and nationally becomes your community. We do fun things together.

GROWTH ORIENTED. OPEN TO LEARNING. WITH A STEWARDSHIP

C12 | North Texas

Who is C12?

Mission
We equip Christian CEOs and Owners to build great businesses for a greater purpose.

Vision
To change the world by advancing the gospel in the marketplace.

Doctrine
Jesus Christ is Lord, the whole Bible is wholly true, God has an eternal plan for each believer's life, and that plan includes their business.

Promise
To be an example of all we promote and to be accountable to our members.

Core Values

RESULTS MATTER
God measures results, and so should we!

GRATITUDE
We embrace our calling in light of God's grace with thanksgiving.

PRESSING ON
We embrace with a zeal for God's best in all things, never settling, coasting, or quitting.

CAMARADERIE
We joyfully serve as a cadre, embracing God's call to unity in Christ.

HUMILITY
We desire God's best and are always open to learning and correction

BEMA MINDSET
We operate as stewards with eternal accountability in everything.

CHRISTIAN LEADERS LIVING ONE LIFE FOLLOWING CHRIST

C12 | North Texas

What are the benefits?

Leadership Development

- Fully facilitated and interactive peer group meetings with education, support, accountability, and prayer each month.
- Once a year, you do a complete business review with the group.
- Each month, there are problem-solving sessions within your peer business forum.
- Dedicated one-on-one coaching time with a full-time C12 chair each month.

Organizational Development

- Online searchable access to the complete database of C12 material.
- Rights to unrestricted use of C12 material within the company for training/reference.
- Discounted access to C12 workshops (e.g., Strategic Planning, A Greater Purpose).

Peer Community

- Directory access to 3000+ C12 members around the world
- Christian leadership conference sponsored by C12 every two years.

Services and Offers

- Complimentary membership in RightNow Media to access an extensive database of Christian videos for training and instruction.
- Discounted subscription to OnStrategy (web-based tool for strategic plan development and implementation)
- Discounted subscription to ProfitCents (web-based financial benchmarking tool)
- Discounted pricing for Peacemaker products (Biblically based conflict resolution material)

INVEST TO GROW YOURSELF AND YOUR COMPANY

C12 | North Texas

What is your ROI?

C12 ROI Calculation - Does it payback?			ROI =	653%	
Key Rates	training hourly rate	$ 225			
	owner hourly rate	$ 200			
	consulting hourly rate	$ 200			
			Monthly	Yearly	Notes
Board of Advisors (compensating)	members	10	$14,000	$168,000	Costs in time of other business owners at same rate as member
Board of Advisors (forming)		$50,000	$ 4,167	$ 50,000	Cost to recruit business owners
Business Training	training hours	2	$ 450	$ 5,400	Training at each C12 meeting
Key Idea	value per idea	$10,000	$ 833	$ 10,000	Average value of a "big" idea confirmed or mistake avoided
	ideas/year	1			
Training Material	per use	$ 1,000	$ 333	$ 4,000	Use of C12 archive to train company leaders and employees
	times used/ year	4			
Business Coach/Consultant	consulting hours	1.5	$ 300	$ 3,600	One-on-one meetings between C12 chair and member
Business Review With Board		$ 2,000	$ 167	$ 2,000	Once a year core presentation at C12 meeting
		FIRST YEAR RETURN		$243,000	
		YEAR 2-N RETURN		$193,000	
			Monthly	Yearly	Notes
Member Time			$ 1,700	$ 20,400	Assumes one full day plus 1.5 hours for one-on-one meeting
Registration			$ 1,200	$ 1,200	One time fee in first year of membership
Monthly Dues	<$10M	$ 1,300	$ 1,300	$ 15,600	Rate based on company revenue
	>$10m	$ 1,500			
		ANNUAL INVESTMENT*		$ 37,200	
			ROI =	653%	First Year Return on Investment
			ROI =	519%	Year Return 2-N on Investment

BUSINESS ROI + ETERNAL ROI

HOW DO YOU CALCULATE THIS VALUE?

- Of a living a balanced life for your family, faith and work
- Of pleasing God as a faithful steward of His business
- Of leading and encouraging change that affects eternity
- Of growing a business that is used for a "*greater purpose*"

HIGH ROI. ETERNAL IMPACT FOR PEOPLE YOU LEAD.

C12 | North Texas

Where do we meet?

Forum Name	Chair	Day of Month	Location
C12: Addison	Joe Galindo	Third Thursday	Gleneagles Country Club
C12: Allen	Tom Hawes	Third Wednesday	C12 North Texas Meeting Center
C12: Bent Tree	Joe Galindo	Third Wednesday	Bent Tree Country Club
C12: Carrollton	Joe Galindo	Second Friday	Babe's Corporate Headquarters
C12: Collin	Shawn Yates	Third Friday	C12 North Texas Meeting Center
C12: Frisco	Mike Gullatt	Fourth Wednesday	C12 North Texas Meeting Center
C12: IKE	James Hwang	Third Friday	Lucid Private Offices
C12: Maridoe (Thursday)	Tom O'Dwyer	Third Thursday	Maridoe Golf Club
C12: Maridoe (Wednesday)	Tom O'Dwyer	Third Wednesday	Maridoe Golf Club
C12: Richardson	Tom Hawes	Third Thursday	C12 North Texas Meeting Center
C12: Sam Rayburn	James Hwang	Third Tuesday	Lucid Private Offices
C12: Stonebriar	Mike Gullatt	Third Tuesday	C12 North Texas Meeting Center
C12: Teleios	Randy Griffin	Third Thursday	Lucid Private Offices
C12: Village Creek	Mike Gullatt	Second Tuesday	C12 North Texas Meeting Center
C12: Waco (Tuesday)	Shawn Yates	Third Tuesday	Deerfield Estates
C12: Waco (Thursday)	Shawn Yates	Fourth Thursday	Deerfield Estates
Key Players: Allen	Joe Newton	Second Thursday	C12 North Texas Meeting Center
Key Players: Canyon Creek	Randy Griffin	Second Monday	C12 North Texas Meeting Center
Key Players: Lookout	Mike Gullatt	Second Wednesday	C12 North Texas Meeting Center
Key Players: Northwood Country Club	Tom O'Dwyer	Second Thursday	Maridoe Golf Club
Key Players: Plano	Shawn Yates	Fourth Tuesday	C12 North Texas Meeting Center
Key Players: Richardson	Mike Gullatt	Third Monday	C12 North Texas Meeting Center
Key Players: Waco	Shawn Yates	Second Friday	25N Coworking Waco
Key Players: Zavala	James Hwang	Third Thursday	Lucid Private Offices

C12 | North Texas

What material is covered?

	2025	BUSINESS Business Excellence	MINSTRY Ministry Implementation
ORGANIZATIONAL DEVELOPMENT	JAN.	The Tri-Value Model: An Integrated Measure for Success in Business	
	FEB.	Situational Leadership: Managing the Strengths of Our Team	Discerning God's Will
	MAR.	Overcoming the Five Dysfunctions of a Team	
	APR.	Predictive Hiring: Enhancing Effectiveness in Talent Acquisition	Pressing On: Perseverance for the Overwhelmed
REVENUE & FINANCE	MAY	Unlocking Marketing Potential (Part 1): DSI and Ideal Customer Profile	The How-To's of Developing a Care Team
	JUN.	Unlocking Marketing Potential (Part 2): Messaging and Customer Journey Mapping	Operating with a BaaM Vision in a Post-Christian World
	JUL.	Cultivating Customer Loyalty	The How-To's of Creating a Care Fund
	AUG.	Cost Leadership: Managing Resources and Protecting Margins	Radically Christian CEO
PLANNING & OPERATIONS	SEP.	Aligning Strategic Planning with Divine Purpose	
	OCT.	From Resistance to Resilience: Effective Change Management	Answering God's Call to Discipleship
	NOV.	Navigating Crisis Communication	Turning Conflict Into Opportunity: A Biblical Approach
	DEC.	Presenting Next Year's Plan	

INSPIRATIONAL AND PRACTICAL, EXECUTIVE MBA LEVEL MATERIAL

C12 | North Texas

What is a meeting like?

At the Table

We gather around a boardroom table to review material and see our friends.

Connecting and Re-Connecting

We spend a few minutes catching up. After all, a lot can happen in a month, and friends need to know.

Setting Our Hearts

We have a short devotion to set the groundwork for the day. It reminds us of the power and applicability of the Bible.

Improving Our Business

We dive into a classic business topic designed for a CEO. The discussion is practical, challenging, and includes the steps to work on back at the company.

C12 North Texas

MCKINNEY BUSINESS FORUM

Agenda | August 2021

9:00-9:10	Opening Prayer & Announcements
9:10-10:15	Monthly Snapshot Review / Introductions / Prayer Requests
10:15-10:25	**Devotion - INSISTING ON GOOD WORKS**
10:25-10:35	Break
10:35-11:20	**Business - CUSTOMER ADVOCACY MARKETING**
11:20-12:05	**Ministry - AUTHENTIC MARKETING AS MINISTRY**
12:05-12:50	Lunch
12:50-2:20	**Core Business Presentation (CBP) & Discussion**
2:20-2:35	Break
2:35-3:30	**Open Forum:** Issues, Counsel, and Advice
3:30-4:00	New To-do List Commitments and Take-Aways
4:00	Close in Prayer

Developing our Ministry

We discuss what it means to run God's business and the practical importance of the leader's role.

Lunch is for Relationships

The food is always great, but the time together is best. This is the time to deepen connections, ask questions, and relax.

The Core Presentation

One member presents their business and gets in-depth feedback from the group. It is very powerful to hear from CEOs who know what it means to run a business.

Advice and Counsel

We have open table time to present and solve the pressing problems of business, faith, or life.

Mutual Accountability

It is the time for transparency as members report on their promises to change or improve—encouragement mixed with truth-telling.

Prayer for One Another

Sharing of our struggles, concerns, and praises.

SAFE. CHALLENGING. REFRESHING. EDUCATIONAL.

C12 | North Texas

What about my leaders?

Key Players Need Development

Your senior leaders need development as much as you do since you count on them to move the company forward. They need to be learning and talking to their peers. That is why we have developed "**Key Player Forums**" at C12. These groups have their meeting day. They cover the same material that their owner covers in their C12 meeting. The only difference is that Key Players do not have a monthly one-on-one meeting with the C12 Chair.

It is an Honor and Privilege to Participate

Don't underestimate the value of investing in your leaders. They typically perceive your investment as an affirmation of their importance to you. They are eager to grow and contribute more.

Increase Your Alignment

After the monthly meetings, the owner and the Key Players have covered the same material. There are takeaways and next steps for them to decide together what to implement. We often see much greater agreement around strategy and tactics when both participate. Having a like-minded leader who has digested the same material takes a burden off the CEO.

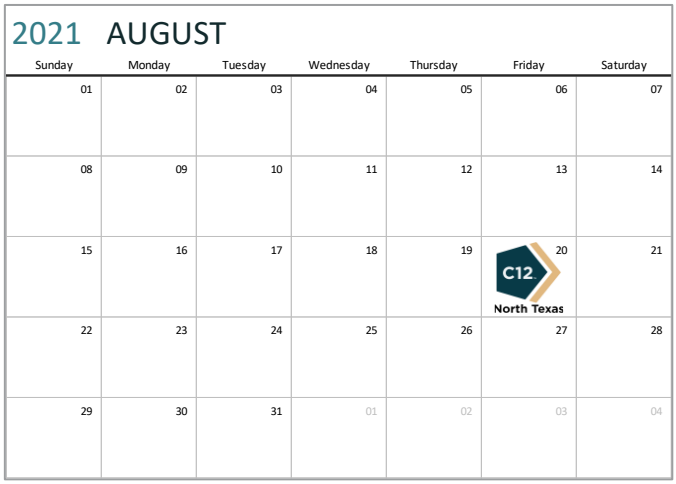
ALIGN YOUR LEADERS. GROW WITH THEM.

What is my investment?

Time

We take charge of our calendars to spend one day a month working "on" rather than "in" our businesses. Members commit to meeting each month together. In a year, we expect attendance at 10 of 12 meetings.

Members can attend other forums in the area when unexpected events prevent them from attending their meetings. This is a great way to expand your circle of Christian peers.



Money

As business owners, we invest where there is a good return. C12 provides superior returns in many dimensions. Our fees recognize those returns while generally aligning with comparable executive roundtable organizations.

Our fee schedule is based on the previous year's annual revenue. Dues are paid monthly. A one-time registration fee of $1200 ($650 for a Key Player) is also required. When two or more owners from a company are involved, discounts are available.

Annual Revenue	C12 Monthly Fee	Key Player Monthly Fee
Less than $10M	$1300	$650
More than $10M	$1500	$650

Teachable Spirit

A member must bring a teachable spirit to C12. Since we all have things to learn, the willingness to share issues and struggles within our safe environment is essential to the forum's success and for receiving the most significant value as a member. We are not meeting to impress each other or to show how much we already know. Instead, we are meeting to grow as men and women running companies as good stewards. Along the way, we discover and enhance how we please God.

REWARDS FOLLOW INVESTMENTS

C12 | North Texas

How do I test drive C12?

1

Explore the Online Material

- Review the C12 website at www.joinc12northtexas.com.
- See examples of C12 material (back of this booklet).

2

Speak to Current Members

Contact a C12 Chair (www.joinc12northtexas.com) for an introduction to an existing member.

3

Visit a Meeting

- Select a meeting that you would like to attend.
- Contact a C12 Chair (www.joinc12northtexas.com) for an invitation to a meeting.
- Reserve the day for the visit.
- We will send you all the logistical details.

NO COST TO VISIT. MEMBERSHIPS ARE INVITATION ONLY.

What happens in a visit?

The Official Invitation

You will receive an official invitation via email to visit a specific board meeting. The invitation will contain all the necessary logistical information, including the location, meeting time/date, and attire.

The Day of the Meeting

Arrive on time for the meeting. All the material you need for the day is provided when you arrive. We start promptly at 9 am.

Distraction Warning

We take breaks throughout the day but avoid taking phone calls, responding to emails, and texting during meetings. (Use lunch and breaks to catch up with the office if you have an emergency.) Otherwise, our day together is meant to be a time for you to draw back from the daily grind and reflect with your peers. Protect this time so that you can focus.

Act Like a Member

We do not have spectators at our meetings. We invite those prepared to participate. We will not embarrass you but want to get to know you. Your contributions, questions, and comments make that possible. Similarly, you will understand the forum members by what they say and do during the meeting.

Commit to a Follow-up

It will take some time to digest what you have seen and heard. That is why we schedule a follow-up meeting with each guest within three business days of the meeting. We will use this time to reflect on your experience and mutually decide on your next step. If the group invites you to join, we expect you to consider doing so. The online application with a check covering the registration fee and the first month's dues is all needed to get going.

A DAY OF DISCOVERY. AN OPPORTUNITY FOR HELP.

Confidentiality Agreement

To our honored guest:

We are pleased to have you join us today at our C12 Group meeting. We believe that the only way to grow as individual CEOs, Christ-followers, and as a dynamic, committed group is to be authentic, vulnerable, and genuine with ourselves and one another. Therefore, an integral part of our meeting will include discussing personal, private, and confidential information about our work and home lives. To maintain the quality of our meetings and continue a strong foundation of trust, respect, and integrity, we ask you to please agree to and sign this Pledge of Confidentiality. Thank you for your commitment. Also, please know that whatever you share with our forum, we will be treated with respect and confidentiality. Any known intentional breach of this covenant will result in expulsion or termination of candidacy for those who do so.

Pledge of Confidentiality

"I, _____, (your name printed), agree with and commit to this C12 Pledge of Confidentiality for this day, _____, and for any future times of attending any C12 Group meeting. I understand that this agreement means I will not communicate anything that has been shared by anyone in this room in either spoken or written form with anyone outside of this room (including prayer meetings or prayer time/ dialogue with spouses). I make this commitment before my peers and my Lord."

A copy of this form is provided for your agreement and signature when you visit a meeting.

CANDID DISCUSSIONS. HIGH TRUST.

Example Material

The following pages give an example of one month's material we covered in the forum meeting.

Each year, we survey members to understand the most critical issues they are facing. Taking those survey results, a curriculum team coordinated by the C12 Headquarters staff involving C12 Chairs and curriculum experts plans the topic schedule for the following year. C12 has many existing materials updated with current examples, best practices, relevant resources, and member stories to illustrate each month's material.

WORLD CLASS MATERIAL EVERY MONTH

This page is intentionally blank.

Business: Repricing on Purpose
Responding to an Inflationary Environment

Costs of labor, raw materials, commodities, and logistics are rising globally, creating a highly inflationary environment. While some cost increases may be transitory, others are likely permanent and structural.[1] Such dramatic and dynamic economic changes can represent uncharted territory for many of us, including our brand managers or pricing teams.

*The Consumer Price Index rose **7.5%** through January 2022, faster than at any time in the prior 40 years.*[2]

These conditions erode profitability and are particularly dangerous for companies that tend to cling to legacy pricing based on legacy value. Determining the *right* pricing strategy for margin in a particular business model remains the most effective way to reach maximum profitability.[3] When navigating such a time as this, pricing management is more controllable than sales or marketing volume.

Maintaining current pricing and accepting smaller margins could weaken the business in the long run—especially if higher underlying costs become permanent. Yet simply raising pricing with a broad-brush stroke could have the negative effect of damaging relationships and depressing sales.

Being good stewards of God's businesses and His resources within our new reality makes it essential for us to:

re-examine the value of our offerings	align our pricing strategy with our current value and a long-term vision	understand our customers' post-pandemic needs and values	consider strategic responses to inflation	make effective, responsible, and profitable repricing decisions

What is your company's pricing philosophy?

How often does your company adjust its pricing?

How have inflation and wage growth in the last year affected your profit margins?

[1] "Structural Inflation," CEOpedia, accessed April 13, 2022, https://ceopedia.org/index.php/Structural_inflation#:~:text=Structural%20inflation%20is%20inflation%20that,others%2C%20this%20demand%20will%20fall.
[2] "Consumer Price Index Summary," US Bureau of Labor Statistics, January 12, 2022, https://www.bls.gov/news.release/cpi.nr0.htm.
[3] Michael V. Marn and Robert L. Rosiello, "Managing Price, Gaining Profit," *Harvard Business Review*, September–October (1992), https://hbr.org/1992/09/managing-price-gaining-profit.

© June 2022, Business, C12, all rights reserved.

Pricing According to the Value We Provide

Many companies set prices in one of two ways: based on cost and a target margin, or based on competitive pricing and living with the resulting margin. Companies, particularly smaller ones, often ignore pricing considerations because competitive perceptions lead them to believe they do not have the power to set pricing.[4] All of these assumptions can and should be challenged.

Wanting a price increase and justifying one are two different things. If we cannot justify the increase to ourselves first, we cannot justify it to our clients. Pricing should be based on the value we provide to customers and the value they provide to us. If this value is not demonstrated over time, the willingness to accept a price increase diminishes.

> ***"We should ask of an enterprise, not 'will it pay?' but 'is it good?'; of a man, not 'what does he make?' but 'what is his work worth?'; of goods, not 'can we induce people to buy them?' but 'are they useful things well made?'"***
>
> —Dorothy Sayers, *"*Why Work?"[5]

Justified value-based pricing helps us manage the demand for our products and services, deliver greater excellence, provide a flourishing work environment, and advance our mission sustainably. This is why pricing "power"—or the ability to lead/set pricing in a category[6]—is a key to high value (valuations). This approach requires that we provide high value, know that value, communicate it well and consistently to our customers, and confirm that our customers agree with the value exchange. Only then do we have the basis to correct (i.e., raise) pricing to reflect the fair value of our goods and services.

See **Appendix A** for strategies for evolving to value-based pricing (page 14).

Pricing Analysis

A common limiting belief is "If I raise prices, I'll lose customers." A useful exercise for overcoming this mental obstacle is to perform a pricing analysis with our gut, informed by the dynamics of variable costs and margins.

[4] Kevin Chan, Jay Jubas, Berenika Kordes, and Melissa Sueling, "Understanding Your Options: Proven Pricing Strategies and How They Work," McKinsey & Company, March 1, 2015, https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/understanding-your-options-proven-pricing-strategies-and-how-they-work.
[5] Dorothy Sayers, *Letters to a Diminished Church: Passionate Arguments for the Relevance of Christian Doctrine*, (Nashville: W Publishing Group, 2004).
[6] Michael E. Porter, "How Competitive Forces Shape Strategy," *Harvard Business Review*, March–April (1979) [re-featured in HBR's 2022 *100: The Most Influential and Innovative Articles from Harvard Business Review's First Century*], https://hbr.org/1979/03/how-competitive-forces-shape-strategy.

© June 2022, Business, C12, all rights reserved.

Understanding the "break-even" of additional sales required to make up for a discounted price—or the number of sales or customers we are willing to lose while still coming out ahead should we increase prices—helps ensure worthwhile trade-offs.[7] Small price increases can be a shortcut to increased profits versus stressing our teams to increase volume or sales. Considering the implications of taking pricing up or down gives us some guardrails within which to make informed pricing decisions.

The table below demonstrates the percentage drop in sales that we can sustain while maintaining the same gross profit after a price increase. This can help us evaluate our capacity for some loss while right-sizing our pricing.

Price Elasticity Linear Demand Curve[8]

	Gross Margin (fixed or non-variable cost)				
Price Increase	**%**	10	15	20	25
	2	16.7%	11.8%	9.1%	7.4%
	3	23.1%	16.7%	13.0%	10.7%
	4	28.6%	21.1%	16.7%	13.8%
	5	33.3%	25.0%	20.0%	16.7%

For example, if our gross margin is 10% and we raise our price by just 2%, 16.7% is the percentage of sales we could afford to lose and still break even. Or another way to say it is that we will still be ahead as long as our sales do not fall more than 16.7%.

The question becomes, do we think we will lose 16.7% of our sales because of this price change? Even if we lost 8%, we would still come out ahead. Another option includes informing customers, "Every year I'm going to make a 4% price increase, rather than a big increase five years down the road." We could have lower volume and yet higher profitability.

Share about a time a price increase allowed you to serve fewer customers while increasing profitability and improving the customer experience.

See **Appendix B** for the full pricing elasticity linear demand curve (page 15).

[7] Art Saxby and Pete Hayes, *The Growth Gears: Using A Market-Based Framework To Drive Business Success* (Charleston, SC: Advantage, 2016).
[8] This table is based upon the price elasticity theory. See "Price Elasticity 2.0: From Theory to The Real World" (https://www.toptal.com/finance/pricing-consultants/price-elasticity-of-demand) and "Principles of Microeconomics: 4.2 Elasticity and Revenue." (https://pressbooks.bccampus.ca/uvicecon103/chapter/4-4-elasticity-and-revenue/).

© June 2022, Business, C12, all rights reserved.

Pricing According to the Potential Value Customers Provide

Should we treat all customers the same? Core values of excellent service and a mission to reach the world might lead to a resounding "Yes, of course we should!" But when it comes to pricing, the answer might be "Not necessarily." In addition to pricing according to the value we provide customers, we can consider the potential value of customer relationships and drive targeted price increases that leverage differences in product, channels, and customers.

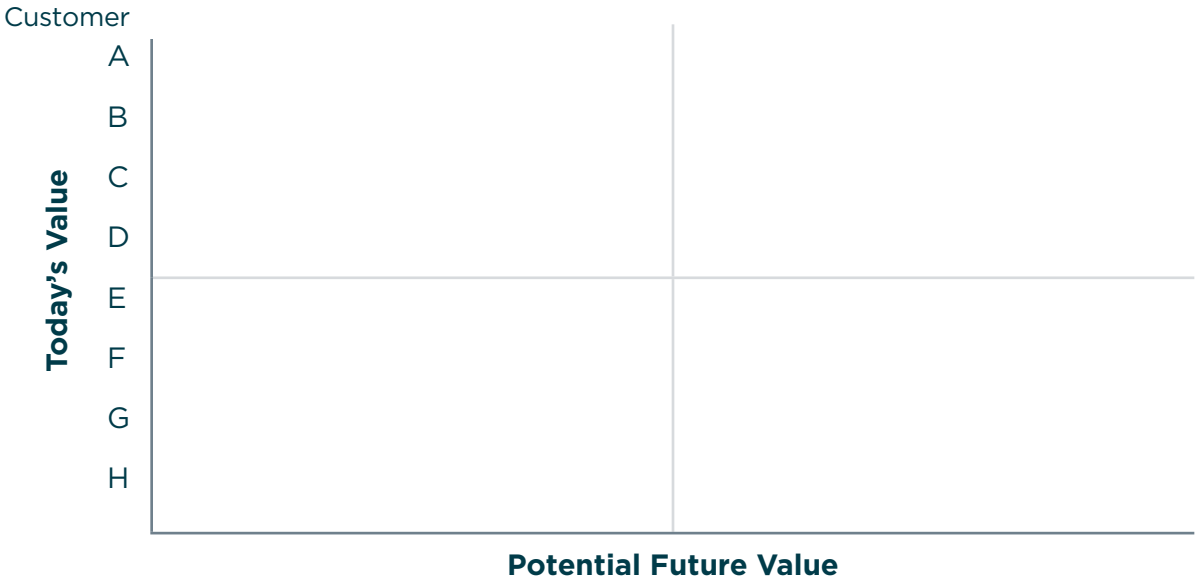
Working with thousands of midsized companies, the fractional CMO firm Chief Outsiders has seen how offering different pricing for different customers is a profitable strategy. Pete Hayes illustrates a valuable exercise in developing a long-range pricing plan for profitable revenue generation. He segments customers across four quadrants, weighing the cost to serve them against their market potential.

Customer Segmentation

C12 member: Pete Hayes, CEO

Company: Chief Outsiders
Industry: Fractional CMO Firm
Headquartered: Houston, TX

Employees: 120
Year Established: 2009
Years in C12: 10



See **Appendix C** for more on a customer segmentation exercise (page 16).

© June 2022, Business, C12, all rights reserved.

Five Additional Pricing Management Strategies for Navigating Inflation:[9]

1. Offer other valuable features with price increases (e.g., volume guarantees, product bundles, service levels).
2. Develop and enforce contract terms with price increase contingencies.
3. Consider changing the length of your pricing terms.
4. Build in variable pricing to manage increases in raw materials or fulfillment ("supply-aware dynamic pricing" or SADP[10]).
5. Re-assess brand and market positioning.[11] Rethink commercial positioning and re-examine brand, marketing, and packaging strategies, including the potential use of nonuniform and, in some cases, non-price mechanisms.

See **Appendix D** for additional repricing best practices (page 17).

Ask your sales team to perform a customer segmentation exercise and consider pricing adjustments. Before making any adjustments, review the lists of best practices in Appendix D on page 11.

Pricing According to What Customers Value

The pandemic, global unrest, and related macroeconomic environment since 2020 have deeply impacted how people live and what they value. Are you constraining your profitability by basing your prices on your costs rather than on what your customers value?

Pricing decisions based on what customers value is about not just the service or product you provide but also the model you offer.

Different customers value different offerings:

predictable pricing

a la carte menu (selection) (not best for someone who offers excellent turnkey)

lowest possible cost

straightforward/ simple turnkey

[9] Alex Abdelnour, Eric Bykowsky, Jesse Nading, Emily Reasor, and Ankit Sood, "Five Ways to ADAPT Pricing to Inflation," McKinsey & Company, February 25, 2022, https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/five-ways-to-adapt-pricing-to-inflation; Nathan Hamilton, David Burns, Kent Harrison, and Thomas Luedi, "How B2B Firms Can Price with Confidence as Inflation Rises," *Harvard Business Review* (July 7, 2021), https://hbr.org/2021/07/how-b2b-firms-can-price-with-confidence-as-inflation-rises; Ed Johnson and Drew Gaputis, "Effective Pricing Strategies During Inflation for Consumer Companies," Deloitte, accessed March 14, 2022, https://www2.deloitte.com/us/en/pages/consulting/articles/consumer-pricing-strategies-during-inflation.html.

[10] Sudipto Banerjee, Himanshu Mishra, and Z. Maria Wang, "Pricing in an Era of Turbulent Supply Chains and Rising Costs," KPMG, 2022, accessed April 6, 2022, https://advisory.kpmg.us/articles/2022/supply-chains-rising-costs.html.

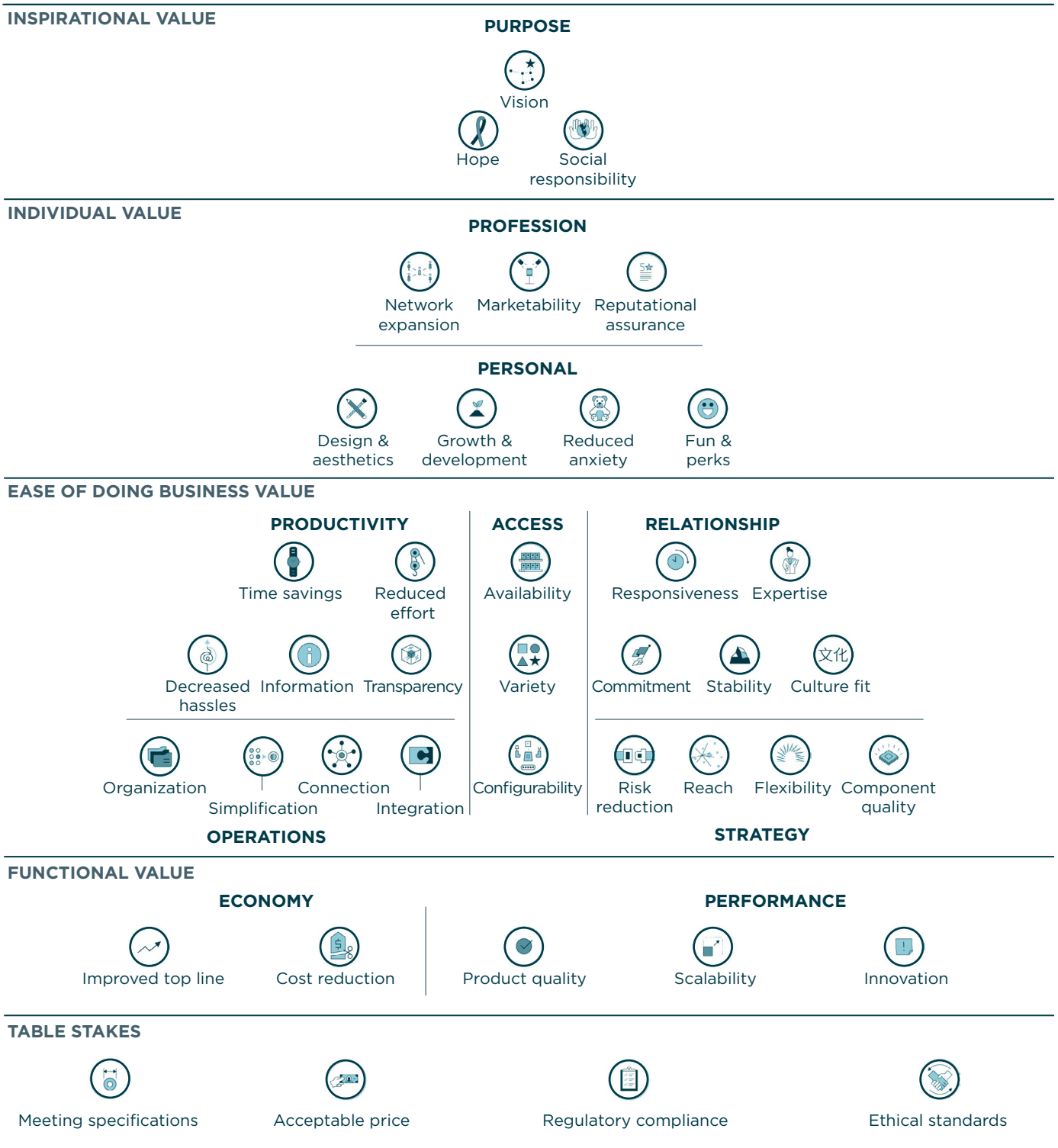
[11] See the C12 business segment "Assessing Market Position" (September 2019).

© June 2022, Business, C12, all rights reserved.

Harvard Business School's B2B model of the Elements of Value Pyramid organizes 40 distinct kinds of value (motivations for buying and using products and services) that B2B offerings provide customers. The most objective value is at the base of the five-level pyramid. Value subjectiveness increases as you go up the diagram.[12]

Elements of Value Pyramid

The following diagram shows value possibilities. Typically, you can justify a higher price if you provide more value at each level and communicate it well to customers. Use the diagram to consider how your customers' values and priorities have changed and how your pricing may need to change accordingly.



[12] Eric Almquist, Jamie Cleghorn, and Lori Sherer, "The B2B Elements of Value: How to measure—and deliver—what business customers want," *Harvard Business Review*, March–April 2018 issue, https://hbr.org/2018/03/the-b2b-elements-of-value. For a related framework for consumer markets, see Eric Almquist, John Senior, and Nicolas Bloch, "The Elements of Value," *Harvard Business Review*, September 2016, 46–53.

© June 2022, Business, C12, all rights reserved.

1. When you last priced your products/services, what were the primary drivers you based pricing upon? (circle/highlight those in one color)

2. What are you basing your pricing on now? (circle/highlight those in a second color)

3. How have market changes in the last two years reprioritized your customers' values? What is most important to them now? (circle/highlight those in a third color)

How has 2020–2022 triggered changes in the value pyramid for your customers?

Does your pricing strategy reflect the shift in value?

Review the Elements of Value pyramid together and determine if your current pricing strategy reflects your current value.

Communicating Value and Adjustments

Effective communication plans must *precede* price adjustments. As previously established, we can improve how customers receive price increases if we justify the value of our offerings and exercise dynamic, consumer-centric thinking in how we relay adjustments.

Best practices for communicating price increases:

- Arm the sales team with robust data and analytics on the *why* behind any change.
- Design and customize communication based on product-specific attributes and price points.
- Anchor the conversation in the context of value amid the current macroeconomic environment.
- Provide insights, scenarios, and potential impacts (including benefits) for consumer economics.

© June 2022, Business, C12, all rights reserved.

Pricing Principle Applied and Profitable

C12 member: Vince Kudla, CEO

Company: H2Insight, Inc.

Industry: Customer experience management and outbound calling services

Headquartered: Tampa, FL

Employees: 85

Years in Business: 25

Years in C12: 18

In 2018, H2Insight was going to be delivering multiple large-scale calling programs for their biggest client. They found their call metrics to be consistent and prepared to submit their proposal as usual. But the vice president who oversaw that client relationship at the time realized in his Key Player Forum that the value they delivered to the client was no longer represented by their historical pricing. Particularly in contrast to underperforming competitors, an increase would be appropriate based on a handful of meaningful competitive advantages: value, reputation for quality and reliability, ease of business, and immediate issue resolution. Though nervous to "upset the apple cart" with such a high-volume client, the trust they had earned ultimately gave them the confidence to increase pricing by 13%.

They communicated the change by linking it to their desire and commitment to maintaining the level of quality their customers were accustomed to receiving, and customers responded positively. The change resulted in a six-figure increase in profitability that year and several thereafter and provided the company with the necessary margin to invest in continuous improvement.

Biblical Pursuit of Profitability

It may seem logical to set prices according to customer expectations and industry practices. Capitalism defines this as what the market will bear or whatever a customer is willing to pay for goods or services based on their needs and desires. But it is naïve to believe the market will moderate this tension consistently and justly.

For Christian capitalists[13] interested in serving others while building a growing and loyal customer base, God's Word is clear that we are to use honest weights, measures, and scales in dealing with customers.[14] New Testament scholar Wayne Grudemsuggests that "profit is [...] an indication that I have made something useful for others."[15] Such profit should reflect the value of our time, skill, and risk.

[13] Scott Myers, "A Redemptive Purpose for Profit in Business," Institute for Faith, Work, and Economics, October 18, 2019, https://tifwe.org/a-redemptive-purpose-for-profit-in-business/.
[14] Prov. 11:1, 16:8, 16:11, and 20:23.
[15] Wayne Grudem, "Is It Wrong to Earn a Profit?" The Gospel Coalition, October 9, 2014, https://www.thegospelcoalition.org/article/is-it-wrong-to-earn-a-profit/. His biblical argument is based on Genesis 1:28, Matthew 25:14–30, and Luke 19:11–26.

© June 2022, Business, C12, all rights reserved.

In our attempt to love God and pursue profit,[16] we should consider:

Conscience – Given the assessment of our added value, is what we are charging fair for us *and* our customers?

Honesty – Are there any factors we are conveniently ignoring?

Industry – Have we justified our actions to support an industry-accepted practice?

Customer circumstances – Are there any customer factors that should affect what we charge?

Where does your team need to add price positioning, market strategy, or biblical values within the company's pricing philosophy during these turbulent economic times?

My most critical to-do is:

demonstrated by:

because:

[16] Theology of Work Project, "Love of God vs. the Pursuit of Profit," in *Theology of Work Bible Commentary* (Hendricks Publishers, 2016). Accessed June 2018, https://www.theologyofwork.org/book/just-decisions/part-two-7-dilemmas-christians-face-at-work/chapter-6-love-of-god-vs.-the-pursuit-of-profit.

© June 2022, Business, C12, all rights reserved.

Evolving to Value-Based Pricing

A

Use the following information to leverage the value your company offers customers and to grow revenue.

Moving from Cost-Plus to Value-Based Pricing[1]		
Basic cost-plus pricing	Better market-driven pricing	Pricing to value

• Improve quality of costing data.
• Use incremental costing in pricing decisions.
• Target percent margin instead of percent markup.
• Use price to control utilization of bottlenecked resources.
	• Base prices on:
	  • Qualitative indicators of value.
	  • Competitor price levels.
	• Adjust cost multipliers based on perceived value.
	• Use out-of-pocket to define low end of price range.
		• Understand offering cost and revenue impacts for the customer.
		• Capitalize on differentiation relative to the competition.
		• Own fair market share.

Price-Setting Process[2]		
Preliminary segment pricing	Optimization	Implementation
• Set baseline prices based on value assessment and strategic objectives.	• Refine preliminary prices with an iterative process balancing trade-offs between price, cost, and market responses.	• Set final prices and ensure acceptance among customers and the organization through an effective change management approach
Key questions to answer:		
• How much of the differential value should we capture for each segment? • How should we anticipate and consider competitor responses to potential prices? • How should we adjust segment prices to account for different price sensitivities among segments?	• What trade-offs should we make between long-term strategic objectives and short-term market responses to price changes? • What types of analytical techniques are best suited for our product and market conditions? • How can we estimate customer responses to potential price changes?	• How do we align our sales team with the new prices and empower them to execute effectively? • What is the best approach for communicating price changes to our customers? • What is the best approach for raising prices on undervalued products?

Questions to consider before establishing price:

1. At what price would our product be so expensive a customer would not consider buying it?
2. At what price would our product be so inexpensive the customer would question its value?
3. What price would be the most acceptable price to pay?
4. How will we segment the market and offer different value propositions to each segment?

[1] Reed K. Holden and Mark R. Burton, *Pricing With Confidence: 10 Ways to Stop Leaving Money on the Table* (Hoboken, NJ: John WIley & Sons, 2008).
[2] Thomas T. Nagle, John E. Hogan, Joseph Zale, *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably* (New York: Routledge, 2016).

© June 2022, Business, C12, all rights reserved.

Pricing Elasticity Linear Demand Curve B

A common limiting belief is "If I raise prices, I'll lose customers." A useful exercise for overcoming this mental obstacle is to perform a pricing analysis with our gut, informed by the dynamics of variable costs and margins.

Understanding the "break-even" of additional sales required to make up for a discounted price—or the number of sales or customers we are willing to lose while still coming out ahead should we increase prices—helps ensure worthwhile trade-offs.[1] Small price increases can be a shortcut to increased profits versus stressing our teams to increase volume or sales. Considering the implications of taking pricing up or down gives us some guardrails within which to make informed pricing decisions.

The table below demonstrates the percentage drop in sales that we can sustain while maintaining the same gross profit after a price increase. This can help us evaluate our capacity for some loss while right-sizing our pricing.

	Gross Margin											
Price Increase	%	10	15	20	25	30	35	40	45	50	55	60
	2	16.7	11.8	9.1	7.4	6.3	5.4	4.8	4.3	3.8	3.5	3.2
	3	23.1	16.7	13.0	10.7	9.1	7.9	7.0	6.3	5.7	5.2	4.8
	4	28.6	21.1	16.7	13.8	11.8	10.3	9.1	8.2	7.4	6.8	6.3
	5	33.3	25.0	20.0	16.7	14.3	12.5	11.1	10.0	9.1	8.3	7.7
	8	44.4	34.8	28.6	24.2	21.1	18.6	16.7	15.1	13.8	12.7	11.8
	10	50.0	40.0	33.3	28.6	25.0	22.2	20.0	18.2	16.7	15.4	14.3
	15	60.0	50.0	42.9	37.5	33.3	30.0	27.3	25.0	23.1	21.4	20.0
	20	66.7	57.1	50.0	44.4	40.0	36.4	33.3	30.8	28.6	26.7	25.0
	25	71.4	62.5	55.6	50.0	45.5	41.7	38.5	35.7	33.3	31.3	29.4
	30	75.0	66.7	60.0	54.5	50.0	46.2	42.9	40.0	37.5	35.3	33.3

For example, if our gross margin is 10% and we raise our price by just 2%, 16.7% is the percentage of sales we could afford to lose and still break even. Or another way to say it is that we will still be ahead as long as our sales do not fall more than 16.7%.

The question becomes, do we think we will lose 16.7% of our sales because of this price change? Even if we lost 8%, we would still come out ahead. Another option includes informing customers, "Every year I'm going to make a 4% price increase, rather than a big increase five years down the road." We could have lower volume and yet higher profitability.

What is your current gross margin?	
What percent price increase do you need/desire in order to achieve the overall target profitability?	
What percent customer reduction would your business tolerate to still be net positive on revenue?	

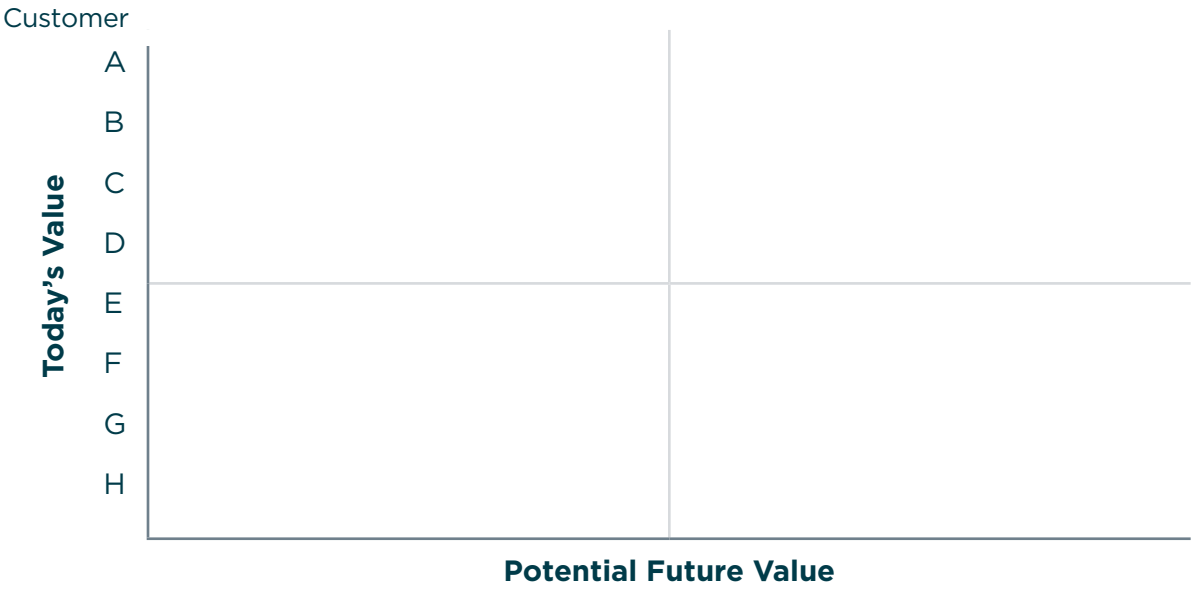
[1] Art Saxby and Pete Hayes, *The Growth Gears: Using A Market-Based Framework To Drive Business Success* (Charleston, SC: Advantage, 2016).

© June 2022, Business, C12, all rights reserved.

Customer Segmentation Exercise

C

A valuable exercise in determining how to align resources and adjust pricing according to the highest-value customers is **customer segmentation**. This exercise allows you to segment customers across four quadrants, weighing the cost to serve them and the market potential.



Customer Segmentation Steps:

1. Using revenue reports, stack rank all your customers from the most profitable ("Customer A") to least profitable ("Customer Z"). What percentage of the business does each represent? Sometimes, profitability by the customer is hard to get, so consider using sales per customer instead. You might think of share of wallet, or which divisions you're working with them.
2. Create a diagram with today's value—the value that customers are bringing to your business today (e.g., revenue)—as the vertical axis and the potential value in the future as the horizontal.
3. Work with the management or sales team to estimate the future potential of each customer to provide additional sales and profits. How might the business you are doing with customers today change in the future? How might you influence that to change in the future?
4. Place each customer on the diagram, with the highest potential customers in the top right quadrant, until you've completed a scatter diagram.
5. Use the results to have specific views for each of your customers and make decisions based upon their potential high value in the future versus low value in the future and even low value today.
6. You might consider the group in the top right your "platinum opportunities." You can give them the resources that will allow them to increase their business with you like dedicated sales and support people.
7. By contrast, with the group in the lower-left quadrant that brings less value to the business, you might need to get more margin and can consider increasing their prices.
8. Bottom-right customers have great potential in the future even though they contribute less today. You might have long-term pricing or contract strategies or a discount program to get them more "bought in" for the future.
9. If you have limited supplies or labor, focus on the best intersection of cost to serve and growth potential.

© June 2022, Business, C12, all rights reserved.

Pricing Management Best Practices D

The following list includes best practices for mitigating common pricing management mistakes.

1. Employee rewards
    a. offer sales bonuses based on revenue, not gross profit
2. Product line management
    a. track price attainment by product line and set improvement goals
    b. offer both full-service and "bare-bones" offerings within each line to address differing buyer types
3. Customer perception of competitive position
    a. know your target customers' view of your value proposition compared to those of principal competitors
4. Prevailing methodology
    a. use percent margin as opposed to cost-plus pricing or percent markup
5. Pricing attitude
    a. view customers as relationships to manage, not simply transactions
    b. avoid deferring to prevailing industry standards
    c. address target customer needs creatively
6. Customer management process
    a. profile prospective customers to better address their needs
    b. allow salespeople to use variations with different customers
7. Promotions, discounts, and incentives
    a. use constraint with "special deals" and financing
8. Daily accountability
    a. track and authorize price discounts and reasons by transaction, product line, and salesperson
9. Improved price realization
    a. target increased standard pricing attainment (i.e., percent of orders) by improving your value proposition to target customers
10. Business development flexibility and intelligence
    a. leverage opportunities to open new strategic accounts
    b. authorize pricing exceptions in a controlled way while retaining accountability with sales staff. This involves clarity on "contribution margin" pricing (i.e., covering all direct/out-of-pocket costs).
11. Continuous improvement
    a. grow the most profitable lines
    b. reprice and re-engineer lines that underperform
    c. improve customer feedback on your value proposition
    d. provide valuable "signature" features (e.g., stellar project management, web-based status reporting and customer feedback, user-hardened features and attributes, customer testimonials, lowest cradle-to-grave costs, etc.)
12. Clear engagement policies
    a. tighten up and clarify payment terms and conditions, including financial consequences for late payment, especially for project engagements (e.g., mitigating scope creep without priced change orders, relinquishing ownership only once fully paid)

Within your company, how can you make pricing and healthy price attainment a clear process that involves tracking and closed-loop reinforcement (i.e., training, root-cause problem-solving, personal accountability in terms of performance rating and compensation, etc.)?

© June 2022, Business, C12, all rights reserved.