

Marketing & Sales Practice

Pricing in a pandemic: Navigating the COVID-19 crisis

Demand is volatile right now, creating a variety of pricing challenges. Companies that focus on long-term value rather than short-term gain are best positioned to meet them.

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Nearly every public- and private-sector leader now facing the prospect of human tragedy shares one top priority: the health and safety of employees, customers, vendors, and their families. Once they have put the necessary measures in place to protect people's lives, leaders must help protect livelihoods as the COVID-19 pandemic turns the global economy upside down.

The crisis is also exerting sudden and unprecedented pressures—sometimes up, but more often down—on demand and pricing. In many sectors, from air travel to durable goods, sharp drops in demand, excess capacity, and heightened price sensitivity are converging to drive down prices and destroy value. Many customers are asking for discounts and contract renegotiations, while some competitors are making aggressive pricing decisions. In other sectors, from shipping and groceries to medical supplies, demand has risen to levels no one could have anticipated in early 2020, putting upward pressure on prices.

In both scenarios, companies need to sustain value to both survive the crisis and protect their employees' livelihoods. Companies must also be flexible and creative to support customers in this tough time and work with them to weather the crisis together.

While it's difficult to take a long-term view in the fog of a crisis that seems to change every day, we expect that the companies that emerge in the strongest positions will be those now taking a "through-cycle" view of their relationships with customers and the communities where they do business as part of an integrated approach with marketing and sales. In the midst of the worst health crisis in more than a century, they will be at their best, addressing customers' pain points with flexible payment terms, unbundling, and one-time promotions. In short, they will drive long-term value creation rather than seek short-term advantage.

In this brief memo, we suggest some "dos and don'ts" to help leaders navigate unmapped

territory during the pandemic. The situation varies widely across industries and geographies, so we offer an overview of pricing considerations here, not specific advice for any one company. (For all our latest perspectives on COVID-19, please see our briefing note and full briefing materials at [McKinsey.com](https://www.mckinsey.com).)

Managing unprecedented variability in demand

Each company faces a unique array of challenges today; no single approach or solution will suit them all. But it can be helpful to consider pricing challenges in the following three main market scenarios:

1. Companies experiencing a sharp and unprecedented drop in demand

Sectors directly affected by social distancing and government isolation guidelines, such as airlines, hotels, and food service, are acutely impacted today. As they struggle with decreased demand, they also have excess capacity and heightened price sensitivity. Many of these companies are getting requests for steep discounts and new terms as their competitors scramble to attract the few remaining customers, at times with prices well below cost. But for many companies in this kind of marketplace, we believe that pricing is now beside the point. After health and safety measures are in place, they should focus on maintaining cash reserves and preserving key assets and talent to survive the crisis and fight another day. Serving a few bargain-hunting customers at a loss is rarely a route to long-term success.

2. Companies experiencing an explosive increase in demand

Some companies are now rushing to expand capacity, including those that provide critical products and services, such as medical supplies, shipping, and cleaning, and those whose products are highly sought after by people confined to their homes, from toilet paper and canned food to audio headsets, video conferencing, and home entertainment. While this may seem like a rare opportunity to generate outsized profits,

perceptions of price gouging could have serious reputational and even legal consequences. We urge suppliers not to raise prices sharply on essential goods or services or ignore contracts in order to take advantage of an emergency. In fact, many states in the US are investigating hundreds of price-gouging complaints from consumers in the days that followed state-of-emergency declarations. That said, operational concerns may be even more important than pricing strategy, including stabilizing the supply chain, keeping products on the shelves, addressing customers' urgent needs, and maintaining quality.

3. Companies with muted or lumpy demand

Some sectors, such as home improvement, landscaping, and consumer electronics, are not directly affected by COVID-19 but feel the impact of a general slowdown or moderate uptick as people's lives change at work and at home. Many of these companies have opportunities to take near-term pricing actions that preserve and build value—but they should avoid certain pitfalls.

Despite this “day and night” variability across sectors, we believe companies of all kinds should focus on a set of actions—and things to avoid—as they contemplate pricing actions.

Five things to get right during the pandemic

1. Make sure that every pricing action is legal, ethical, and community minded

A humanitarian crisis is not the moment to sharply raise prices on essential goods or services or to ignore contracts. Certain types of collaboration with competitors and other marketplace responses may also be governed by antitrust or unfair-trade-practice laws. The backlash could be severe, including reputational problems and legal action in many jurisdictions. Any significant price increase should genuinely reflect increased costs. Senior leaders should consult with legal counsel before making any agreement with a competitor, no matter how well intentioned.

2. Take a through-cycle view of customer relationships

Keep a long-term perspective. Reinforce trust by tracking key customers' evolving needs and standing by and defending them during their toughest times. Help the sales team tailor offerings and contracts to new situations and strengthen value-proposition communication. Several technology companies with overseas manufacturing, for example, surveyed customers and learned that “supply-chain assurance” had become a top buying factor. Sales teams used this insight to communicate the latest supply-chain status, alleviating customer concerns, and to provide some customers with supply guarantees after consulting the newly established pricing war room. Providing incentives for loyalty can also strengthen relationships while decreasing incentives to switch to a competitor.

3. Strengthen value-focused messaging

Depending on the industry and customer segment, customer price sensitivity may change markedly. The most effective suppliers will show empathy and be able to explain how much value they provide compared to the next-best alternatives. The sales force may need updated training in negotiation, value selling, and pricing. If demand is slack and in-person sales calls are not feasible, this may be a good time to reinvest in skill building. Many companies are finding that focused sales training, such as in handling objections and communicating value propositions, can be delivered effectively on a video-conferencing platform.

4. Create ‘flex’ in pricing

The outperformers in today's environment will address customers' short-term pain points without needlessly destroying long-term value. For many companies, this will mean providing temporary pricing or volume relief. Rather than lock in long-term, highly discounted arrangements that might impact the business in the recovery, they will explore ways to unbundle offerings, offer one-time

promotions, flexible payment terms, credit for future purchases, or other techniques that align the offer or pricing architecture to near-term needs while providing flexibility for the future. A number of enterprise software companies, for example, have taken a page out of the consumer playbook and created three-month promotional offers of virtually unlimited use of their products for a minimal start-up fee. This helped the companies each gain market share, preserve the long-term price points of their value propositions, and assist customers in a critical time of need, thus solving a business problem and addressing customer cash-flow concerns.

5. Establish a commercial ‘value council’

A cross-functional team or war room can take a long-term view to avoid panic reactions and develop clear guidelines and objectives for the commercial team. The council can steward large and strategic deals and oversee execution, speeding deal review for impacted segments and maintaining discipline. They may look at what is being given away for free, for example, and at contract terms that are not being enforced. If the sales force decides not to enforce terms or charge for an added service such as just-in-time shipping, they should get “credit” for the forbearance (and ideally something in return) from the customer. In addition, by regularly interacting with sales teams across the business, this cross-functional team can gather up-to-the-minute details about changes in the marketplace—critical information in the fog of the crisis.

What to avoid

Taking advantage of customers

Near-term shortages may make it feasible to raise prices sharply, but this is unlikely to serve the company well over the long run. For example, the Washington State attorney general recently ordered five Washington businesses to stop selling protective masks, hand sanitizer, and similar items at vastly inflated prices through Amazon.com, or face lawsuits and fines of up to \$2,000 per violation.

Assuming that every demand problem can be solved with pricing

In times of crisis, buyers may hold off on purchases because they feel uncertain or their needs have shifted in meaningful ways. For example, offering concert tickets for free right now will not fill big-city arenas. In many sectors, deep price cuts may not raise volume—and can unintentionally destroy value rather than build it.

Relying on old price-sensitivity research

In a dynamic and evolving market, market price tests become obsolete after just a few weeks or months. To understand changing price points, companies should run new pricing-sensitivity research and market price tests immediately, particularly for higher-volume products and offerings.

Slashing list prices without considering other options

The manner in which price reductions are made can make a big difference in a company’s ability to sustain and build value over time. Rather than slash list prices, for example, companies may want to consider temporary promotions, non-monetary discounts, or discounts that help build volume.

Attacking competitors’ key accounts without preparing for a sharp response

Before making any strong competitive moves, leaders should understand their company’s position in the marketplace, anticipate competitors’ likely reactions, and plan how to respond. Price cuts may be easy to replicate, and they can change buyers’ long-term perceptions of brand value.

Next steps

The COVID-19 crisis and the accompanying global economic downturn have spurred a continuum of demand responses across and even *within* companies. Despite the alarm and uncertainty, we believe organizations of all kinds can continue to rely on some best practices and guideposts.

For example, they should seek opportunities that preserve and sustain value, making each major decision in the coming months with an eye on the longer-term implications for the company

and its employees, customers, communities, and suppliers. They can look for win-win scenarios to support customers and employees at a difficult time, remaining flexible and focused on preserving lifelong relationships.

In this terrible and confusing moment, each of us has new opportunities to show courage,

compassion, and wisdom. And while no one knows how long this crisis will last, leaders can begin preparing now for the recovery, including using downtime to build capabilities and improve pricing processes. An unwavering focus on value can help organizations avoid extensive cost-cutting exercises that, in the long run, could do more harm than good.

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