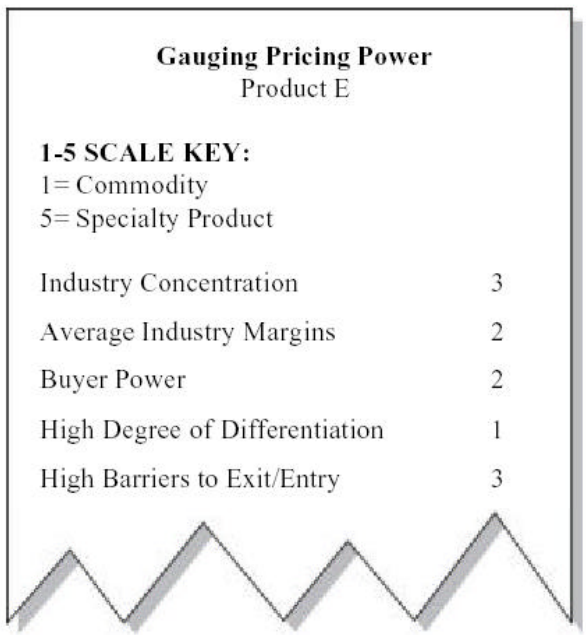
Section I.

While it may be simple to gauge some products as “specialty” or simple “commodity” based on a quick overview of these characteristics, many products fall in a grey zone where it’s not clear how much value a firm may garner from the product. To tackle this problem, Exxon Mobil Chemical used a model created by Pricing Solutions to quantify these and other features to see where to focus their pricing efforts.

Exxon Mobil Chemical ranked key attributes—such as industry concentration, buyer power, degree of differentiation, and seven other attributes—on a scale from one to five to see how much pricing flexibility the company had for various products . Once all the attributes were weighted, any product ranked closer to a one was considered more of a commodity, while products leaning toward five were more specialized. Exxon Mobil Chemical then implemented value-based pricing first on more highly specialized offerings and used simpler models for other products. (See Appendix II for a more detailed overview of Pricing Solutions’ model.) Using a simple template, a well-informed manager could complete the review of four to five products on one working morning. Based on this quick and simple assessment, the company began narrowing down products to focus on.



Section II.
To successfully sell to clients, the company should know its product or service will affect its clients and be able to communicate that to the client. In order to gauge the ultimate benefit to the client, various companies have found it useful to run through their customers’ income statement and see where—via their offering—their clients are affected. It’s important to know how the client makes money (or measures value) and how the firm’s solutions deliver value to those areas. In order to gauge the ultimate value to the client, a firm may look at the income statement and ask questions such as the following:

Will this offering:
· Help run a plant faster?
· Provide features to expand market share?
· Reduce product returns?
· For all of these, ask: how much?

Appendix I

ExxonMobil used a weighted ranking scale developed by Pricing Solutions to estimate how much pricing flexibility the company has for various products. Each attribute—industry concentration, category growth, etc.—was ranked one to five based on the following attributes below. For instance, if the category growth for a specific product was 5%, as shown for Specialty Brand B below, that category would be ranked a four.

Pricing Solutions Weighting Factors[34]

Weighing Factors

	1	2	3	4	5
Industry Concentration (HHI)[35]	< 1,000		2,500		4,000
Category Growth	-10%	-5%	Flat	5%	10%
Industry Capacity Utilization (Effective)	Loose		Balanced		Tight
Average Industry Margins	> 60%		40%		< 20%
Low VM Support Prices					
No Competitor had Cost Advantage >x%	> 10%		5%		none
Buyer Power	Subjective Judgment Based on three Factors Below				
Customer Concentration (HHI > 4,000)	4,000		2,500		< 1,000
What Percent of Final Product is our Material?	> 80%		45%		< 5%
Buyer Profitability	low				high
High Degree of Differentiation	> 75%		50%		< 25%
Product and Service	% perceived value is cost vs. other attributes				
Difficult for Customer to Switch Suppliers	"Drop In"		6 Mos		> 18 Mos
Availability & Ease of Switching	< 1 mo		6 Mos		No Alternative
Not in Kind					
High Barriers to Entry/Exit	Entry Easy Exit Hard				Entry Hard Exit Easy

Generic Brand A

Both

Specialty Brand B

Appendix I (Continued)

Once ExxonMobil selected a ranking (one to five, as shown on previous page) to describe each attribute of the product, each attribute was weighted and added together to come to a final number to provide a general idea of product's pricing flexibility. Any product ranked one is a commodity product, while anything ranked five is highly differentiated. On the first chart, category growth was rated a four for Product B. That ranking would be multiplied with the weighting scale to come to 0.6 for overall category growth. This category growth number would then be added to all the other attributes to come up with the final rating: 4.02. As the number is closer to five, the ranking revealed that Product B would warrant further dedicated pricing analysis.

Pricing Solutions Weighting Scale for Pricing[36]

Gauging Product Position for Pricing Strategy

PRICING solutions	Weighting	Generic Brand A	Specialty Brand B
Five Forces/Pricing Power	100%	2.16	4.02
Industry Concentration (HHI*)	15%	0.15	0.45
Category Growth	15%	0.30	0.60
Industry Capacity Utilization	15%	0.15	0.75
Average Industry Margins Low VM Support Prices	10%	0.30	0.50
No Competitor had Cost Advantage >x%	6%	0.18	0.30
Buyer Power Customer Concentration (HHI >4,000) What Percent of Final Product is our Material? Buyer Profitability	10%	0.17	0.43
High Degree of Differentiation Product and Service	8%	0.24	0.24
Difficult for Customer to Switch Suppliers	8%	0.40	0.24
Availability & Ease of Switching Not-in-kind	7%	0.21	0.21
High Barriers to Entry/Exit	6%	0.06	0.30

*HHI = S (% Market Share by Competitor * 100)^2

KEY:
1 = Pure Commodity
5 = Highly Specialized Product