



## Negotiating price more effectively to improve margins globally

The fastest growing division of a Fortune 500 medical products company faced a global pricing challenge. Price setting on an international scale was often complicated by many factors including strict government regulations, large purchasing groups, new clinical trials & data, long-term contracts and complex RFP/tender processes. The organization also knew price negotiations varied across corporate offices in 50+ countries because no clear pricing tools, rules and processes were in place. Price negotiations depended heavily on the skill of individual sales reps.

The company felt it was leaving money on the table.

However, the organization knew pricing had the power to accelerate market development in underdeveloped regions and boost profitability in others. The medical device company partnered with Pricing Solutions to develop their pricing management capabilities and more effectively price according to customer value, protecting margins year-after-year.

# 4

Key Pricing Improvements

# 300%

Sustainable Business Growth

# 18

Country Pricing Project Rollout

### The Challenge

The medical products company was facing the following challenges:

- Pricing strategy was not institutionalized, or well established on a global scale
- It was difficult to make informed price/volume trade-off decisions. How should the division assess when dropping price for growth in margin was the correct trade-off?
- Pricing measurement and reporting guidelines were unclear for Sales, Country & Regional Managers and Headquarters
- Sales teams lacked resources to facilitate effective price negotiations

### Building a Solution That Fits

Segmentation is the 'backbone' of pricing strategy, so without clearly defined customer groups the medical products company was struggling with its strategy.

Pricing Solutions started with the data. Through analysis of transactional data from the past year, trends in customer demographics and buying behaviour were identified. These trends created key segments. When combined with further Breakeven and Price Dispersion Analyses, Pricing Solutions defined optimal price points per segment and country. Similarly, price floors were established for any given customer group.

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The medical products company now had a range of profitable price points that Pricing Solutions could leverage to custom-build a Target Price Framework (see Chart A).

The Target Price Framework was a systematic price negotiation tool. **It was a scalable solution; versions could be built for each country/region the client operated in.** Not only would it play an important role in the annual price setting process, but also the day-to-day negotiations of local Sales teams. Sales could better facilitate the value discussion with clients and when necessary, had guidelines to assess and seek approval for special pricing cases.

The true strength of the model was its design. It was flexible enough to account for geographic differences and complexities. Headquarters, Regions and Countries could play-out different price-volume trade-offs, evaluating if margin goals would be met. When necessary, pricing adjustments could be made without impacting the global strategy.

The Target Price Template was the first piece in the division's pricing transformation; a new governance structure was the second.



By embedding new pricing skills and knowledge in the corporate culture, the governance process would support long-term success and global consistency, especially in the case of granting price exceptions. Each piece – the pricing tool, process & guidelines for price setting, overarching pricing strategy and hierarchy – allowed **the medical products company to ensure their best customers got the best prices moving forward.**

### The Result?

After an initial test in one region, the Framework and Governance Structure has been rolled out across 18 countries. As a result the project is helping the client realize 4 key pricing improvements today:

**Sustainable Business Growth:** Leveraging pricing, the division plans to aggressively grow international business by 300% or +\$200M by the end of the forecasting period.

**Reduced Financial Risk:** The organization is no longer undercutting its margins.

Instances where customers receive prices that do not align with their segment can be easily flagged and investigated.

**Navigate Complexities of the Industry:** The industry is characterized by many complex factors that impact price. The client relies on the Target Price Framework to help navigate these factors and relieve pricing pressures on teams accountable for pricing.

**Fairness:** Now the organization has documented pricing guidelines. Only the best customers get the best prices. The company can better position itself against competitors and in price negotiations, also take into account the value customers bring to the organization.

### What's the Pricing Solutions Difference?

Our clients achieve success in the medical products category with new tools and strategies built according to market access and reimbursement strategies, and to optimize pricing. We are focused on global implementation, leveraging not only past project-work but best practices from across the international pricing field.

## Our Firm

Our mission is to dramatically improve clients' profitability and market share through improved pricing. Pricing Solutions' four core services include Pricing Strategy, Pricing Analytics, Pricing Research and Pricing Training. Known for our World Class Pricing™ methodology, we have grown to become one of the world's leading pricing consultancies with offices in North America, Europe, Asia Pacific and Latin America. Our global team of researchers, consultants and partners are recognized thought-leaders.

We deliver customized cross-functional solutions, helping our clients achieve a typical payback of 10:1 on their investment.

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\*Input Variable

Base Floor Price (\$)	UNITS DELIVERED									
	Product A			Product B			Product C			
	<1K	1-3K	>3K	<1K	1-3K	>3K	<1K	1-3K	>3K	
\$0.23										
*Base Floor Price represents Product A, >3K, #789										
Price Difference vs. Product A:										
Product B	+3%									
Product C	+6%									
Relationship to Base Floor Price (%):										
Segment 1	12%	7%	7%							
Segment 2	19%	6%	9%							
Relationship to Base Floor Price (%):										
Segment 1	18%	7%	4%							
Segment 2	8%	17%	5%							
FLOOR PRICES	Segment 1									
	ABC	\$0.25	\$0.22	\$0.23	\$0.25	\$0.22	\$0.23	\$0.25	\$0.22	\$0.23
	XYZ	\$0.23	\$0.21	\$0.21	\$0.23	\$0.21	\$0.21	\$0.23	\$0.21	\$0.21
	Segment 2									
	123	\$0.27	\$0.26	\$0.32	\$0.30	\$0.38	\$0.34			
	456	\$0.27	\$0.25	\$0.28	\$0.27	\$0.35	\$0.32			
789	\$0.25	\$0.23	\$0.27	\$0.26	\$0.29	\$0.27				

Below, Chart A: Pricing Solutions developed 18 customized Target Price Frameworks according to Country/Regional conditions