

Upgrading complex pricing model to deliver big dollars to the bottom-line

Many multi-unit B2B companies face a challenge of price complexity that often brings pricing misalignment across business divisions and inhibits sustainable price growth. Our client was a \$2B B2B Service company that spent 5 years implementing a very costly price optimization solution, nobody could understand yet alone explain how prices were being determined. The company has recently undertaken a pricing initiative to identify pricing opportunities across its three core business units around the globe.

Pricing Solutions conducted price optimization by moving to a fully transparent “glass box” pricing model that drove alignment and breakthrough results. The project identified 10x per year in ROI in just one division.

Over 10X in ROI

per year in just one division

The Challenge

The client had a “black box” approach to price setting that was impacting pricing execution internally. In addition, the existing pricing strategy failed to address the significant price variation in the business.

Senior leaders recognized the need to move toward a much more transparent “glass box” approach to pricing which included the following goals:

- Ability to gain full alignment from commercial teams on the new pricing approach to execute price changes and improve stick rates
- Ability to improve price performance by realigning outlier accounts
- Ability to cost effectively roll out and implement the new price optimization approach across other business units and regions.

Building a Solution That Fits

1. Develop a new price optimization pricing model

PSL’s team worked closely with the client to develop a much more transparent and intuitive way to set optimal price levels by focusing on the following:

- Leverage transaction data to establish a “baseline” price curve that establishes the relationship between price and volume.
- Segment customers according to differences in customer value and cost to serve.
- Develop a set of business rules to ensure that price recommendations are aligned with the goals of the business and minimize the risk of losing customers.

2. Model Testing

Pricing Guidance tool was developed to integrate with clients' current systems, and span the new price optimization model. We compared, validated and measured the accounting impact of using the new model to enable the team to iron out some data quality issues.

3. Implement “Glass Box” Model with Customers

Price increases are executed quarterly to all customers that are contractually eligible for a price adjustment. We implemented new price with a subset of underpriced customers representing \$100+ million in revenue.



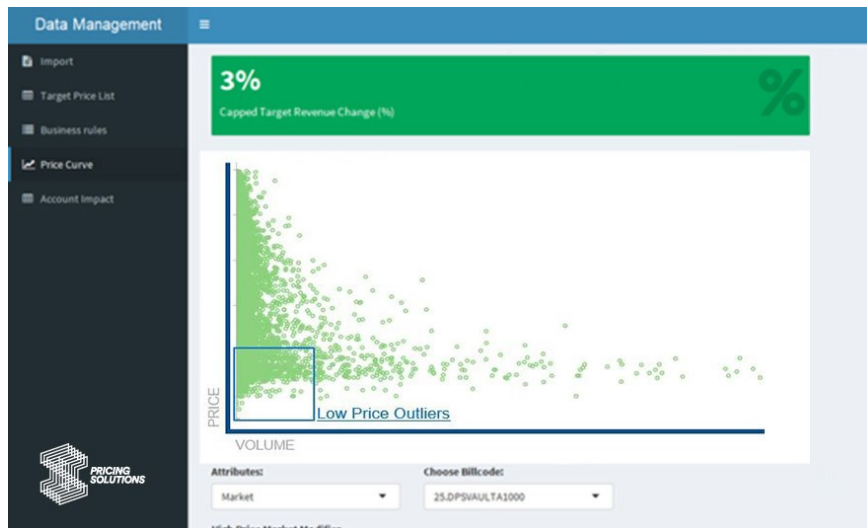
The Result?

- The new price model was implemented during client's Q3 Quarterly Price Increase Cycle.
- New prices were expected to generate over 10x per year in ROI in just one division.
- Our next recommendation was to fully replace the previous price optimization and continue to roll out the new model across 2 other business units, with an anticipated impact of over 3% per year in price improvement.

What's the Pricing Solutions Difference?

Pricing Solutions combines robust research and analytics capabilities to build pricing strategy tailored to client's goals and market needs. To provide a client with confidence in future price setting, our team creates a customized pricing tool that integrates metrics that are unique to a client.

To learn more about how our tools and "glass box" pricing models can help you improve incremental price and achieve high results, please contact us.



Above: A screenshot of the customized Pricing Guidance

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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