

Transforming Pricing with Value-Based Segmentation

In Chemicals, Specialty Chemicals and Materials Industry, the pricing process can easily become chaotic and complex due to the fluctuating prices of raw materials, a large number of SKUs and diversified clientele lists.

Our client was a global chemical manufacturer with annual revenue of approximately \$1B and operations in North America, Europe, and Asia. The company serviced a highly diversified customer base and numerous industries including marine, aerospace, adhesives, paints, and energy through both its internal and distributor channels that added pricing complexity. They lacked a global pricing strategy and framework that would enable their sales and commercial teams to price customer-product combinations.

Pricing Solutions leveraged its extensive strategic and analytics expertise to build a value-based pricing program that resulted in **a 1.3% increase in annual revenue.**

16

Weeks for Project Completion

1.3%

Increase in Annual Revenue

The Challenge

Historically, the client used a cost-plus approach to pricing with each product having a target margin. However, they believed this method was outdated and carried several risks including sub-optimal sales revenue, misunderstanding their own value proposition, and little flexibility in terms of responding to changes in the competitive landscape.

As a result, the company needed to build **a value-based pricing approach** that could be applied globally.

Building a Solution That Fits

The Pricing Solutions team built a three-step strategy to help the client understand their value proposition and improve pricing process for numerous customer-product combinations:

1. Identify Price Leakage

- Segmented the business by region and channel (i.e. North America > Distributors) to capture the regional differences and major customer type.

- Conducted an 80/20 analysis to rank customers and identify past instances of excessive discounting.
- 2. **Developed Customer and Product Micro-Segmentation**
 - Utilized the transactional data in combination with the sales/commercial expertise to identify attributes used to segment customers and products based on their value and pricing power.
 - Developed custom dashboards to visualize the value segments and discount rates.
 - Conducted customer and partner research to confirm the value drivers
- 3. **Implemented Practitioner and Sales Training**
 - Delivered in-person training to pricing program managers and sales personnel in each region to ensure global alignment on the value-based framework.

Results

During the final pricing workshops with the client, Pricing Solutions ensured alignment with the recommendations. Each region was provided with product list prices and price-bands for each customer-product combination that were based on the micro-segmentation. Establishing a common list price for products in the regions posed some challenges as there was high variability in the selling prices historically. Lack of a clear list price is common for B2B industries, but this can be resolved by combining insights from transactional data, internal teams, and the competitive landscape.

The sixteen-week project aimed to provide the client with a value-based pricing program that could be used globally to **improve profitability**. The project goal was achieved, as the overall impact of the price

recommendations **was a 1.3% increase in annual revenue**.

What's the Pricing Solutions Difference?

Building a pricing program on a global scale can be challenging, as there can be highly diversified customers and applications as well internal differences to consider. For B2B industries, cost-plus approaches are often seen as the one size fits all solution to these challenges, however, in most cases this approach is sub-optimal and makes the company leave money on the table.

By leveraging transactional data and customer research, Pricing Solutions helps B2B companies build a pricing strategy that is based on key value drivers. Our value-based approach to pricing ensures our B2B clients maximize sales revenue at the transactional level as well as improve long-term profitability.

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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Above: 80/20 analysis helped to rank customers from lowest to highest pricing power