



**IRIS PRICING
SOLUTIONS**

Crafting a Value-Based Pricing Strategy for Success

Pricing Transformation – Case Study

Industrial & Manufacturing



Crafting a **Value-Based Pricing Strategy** for Success

Background

Our client is a North American-based manufacturer with annual revenue exceeding \$100MM. Their expertise lies in crafting cooling solutions tailored for a wide range of vehicles, extending from trucks of all sizes and motor coaches to buses, alongside equipment used in construction, agriculture, and mining. Additionally, they provide cooling solutions designed for generators and industrial compressors.

The Challenge

Our client presented different pricing strategies to various types of suppliers. However, having more than 100 price lists created confusion, inconsistency, and missed revenue growth opportunities.

Our client is currently serving diverse markets with a cost-based approach. They contacted **Iris Pricing Solutions** to move from a cost-based to a **value-based pricing strategy**.

Approach

The Iris Pricing Solutions team developed a strategy to transition efficiently **from a cost-based to a value-based pricing strategy**. They adopted various tools and created micro-segmentation frameworks to better serve each customer segment. The team also addressed inflation to identify immediate pricing opportunities that would benefit the company in the short term through an Analytical Deep Dive.

This project was divided into three phases. The **first phase** aimed to understand the current scenario, identify opportunities and company strengths, uncover short-term revenue increase opportunities (Quick Wins), and classify our client according to the five levels of **World Class Pricing**. The **second phase** involved developing a micro-segmentation framework, creating a pricing strategy and target price approach, and developing pricing recommendations for each customer and product. The **third phase** was the value-selling training.

How to move from a Cost-based to a Value-based Pricing Structure

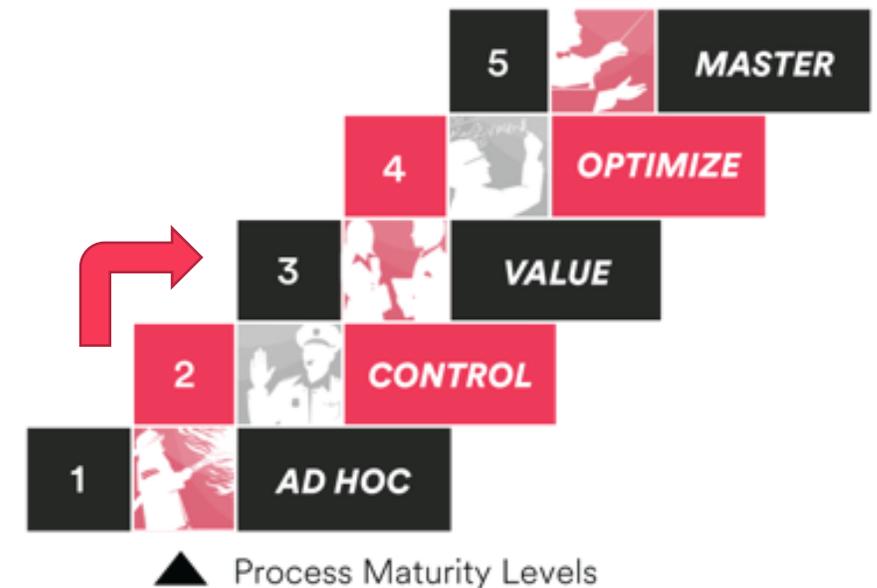
To kick off the project, it was essential first to gain a comprehensive understanding of the organization's current state, pricing strategy, and business goals. The Iris Pricing Solutions team began by conducting a series of interviews with internal stakeholders. This approach enabled them to gather crucial insights and identify **potential opportunities for improvement**.

The team then conducted an **Analytical Deep Dive**. This comprehensive methodology allows them to identify **immediate pricing opportunities** by determining pricing power, uncovering areas with excessive discounting, and thoroughly assessing the existing fee structure. Additionally, it helps find opportunities for **price increases** without risking a decline in demand, and identifying where to reduce price leakage.

They also evaluated the client using the **5 Levels of World Class Pricing**, positioning the company **below Level 2**. To achieve the organization's pricing objectives and transition to value-based pricing, our client needed to implement several control-based measures. These included improving the data quality, particularly on the cost side due to its significant impact on pricing decisions, and establishing an ongoing price monitoring process. This process would ensure that KPI targets are met, price leakages are tracked, and any breaches or underperforming areas are quickly identified.

To move towards a value-based pricing strategy is crucial to understand what customers think about the products, the brand, and the competitors. The team conducted 12 customer interviews to uncover our client's strengths and opportunities.

World Class Pricing

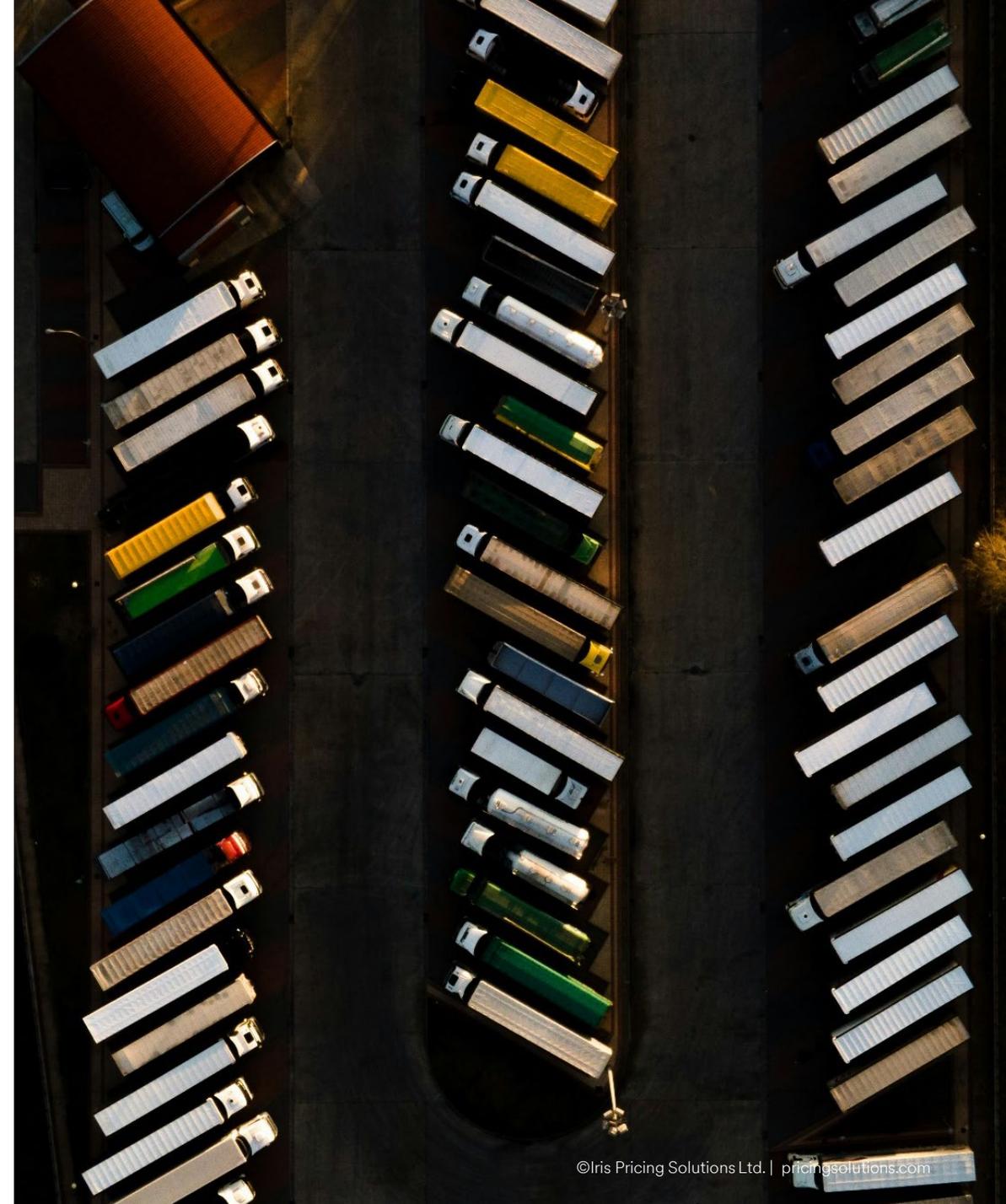


How to move from a Cost-based to a **Value-based Pricing Structure**

The second phase of this project involved developing a **customer and product value segmentation**. This approach ensures that similar customers pay similar prices for similar products, with non-strategic customers paying the highest margins on premium products and strategic customers paying the lowest margins on commodities.

To develop the **micro-segmentation framework**, the team needed to identify, assess, and weigh various attributes such as account size, average order size, and industry, among others. Following this, the team developed a comprehensive scoring model and defined the pricing segments tailored to the specific characteristics identified. Once that was completed, a **Pricing Tool** was built, aimed at precisely defining the pricing opportunity.

The **Pricing Tool** was designed to show the best price based on the customer, the product being purchased, and previously identified attributes. The tool will provide the recommended margins according to three different levels: floor, target, and expert.



Sales Training

The sales team played a critical role in executing the new pricing strategy. To prepare them for this responsibility, the team conducted a comprehensive training session. They educated the sales team on the principles of World Class Pricing and the company's position within that framework. They explained the importance of Value-Based Pricing and the steps to transition towards this strategy. Additionally, Iris Pricing Solutions provided guidance on identifying and segmenting new customers and using the new pricing tool, empowering sales representatives to leverage data-driven insights during customer interactions and prepare for pricing discussions.

During the training, the team emphasized the importance of becoming a challenger salesperson by using a deep understanding of customers' business to challenge their thinking and take control of the sales conversation. They also covered how to handle objections based on fairness, value, and negotiations effectively.





What the Research Rebuilding Found

The Iris Pricing Solutions team discovered that **our client offers a very strong value proposition**, largely due to its high product performance, product reliability, extensive product knowledge, and well-established customer support. They also found that our client's customer base is **sensitive to price changes**, with price/value perception varying based on customer size. Despite these strengths, there were opportunities for improvement and better alignment of prices with the value offered to specific customer segments.

Through this multifaceted approach, the team not only identified immediate pricing opportunities but also equipped the client's sales team with the tools and knowledge needed to drive value-centric pricing conversations and effectively implement the new strategy.

ANNUAL PROFIT GAIN

\$2-4 MM

BOTTOM LINE IMPROVEMENT

10-22%



What's the Pricing Solutions Difference?

Iris Pricing Solutions has over 20+ years of experience understanding the power of pricing and developing tailored pricing structures for manufacturers and B2B industries. Our team uses focused and customized analytics methods to understand your data and uncover opportunities for improvement, bringing significant profitability impacts to your organization.

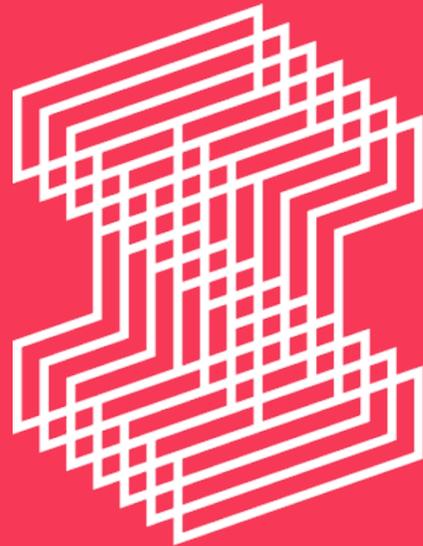
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