HOW TO DRIVE B2B PRICING STRATEGY

To Capture An Additional 2 to 10 per cent Margin Within 3 to 6 Months

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This global recession is one of the worse B2B industrial businesses have experienced in the last 50 years. A downturn riddled with rising inflation; major labour shortages; ongoing supply and demand issues; volatile stock markets, and fluctuating input costs; wars and geopolitical tensions threatening energy supplies.

How a business implements a price rise – i.e., their ability to pass through cost increases and protect and/or capture additional margin using price - is now a leading indicator for Private Equity and shareholders alike on a B2B business' overall worth, value and survival.

The problem is though, most price increases implemented by B2B industrial businesses fall short of expected margin targets and are consequently unprofitable. Often this is because businesses implement price increases that are too small, and often applied to the wrong products and at the wrong time.

Capturing pricing upside is also challenging for teams operating within silo-ed B2B organisations as many still do not have dedicated pricing teams or formal processes to orchestrate and evaluate price rise decisions.

With so many profit-squeezing challenges to deal with at one time; and no commercial systems to ensure teams capture the full $ value of a price rise; in this article, we will discuss different ways teams can protect and/even drive margins using price increases before the year end.

We argue that a series of unsuccessful / unprofitable price rise management indicates a lack of investment in a businesses internal commercial capabilities.

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We strongly believe that in order for teams to set profitable price increases across a large product portfolio for industrial goods, businesses must first establish a new pricing function and invest in building and embedding commercial capability across the business. Especially in the areas of value-based pricing strategies, structures, processes and methodology.

THE BIGGEST PRICE RISE MISTAKE YOU CAN MAKE RIGHT NOW

The no 1 mistake businesses make with price rises is miscalculating how much the increase should be. Usually, the price increases made are too small and too infrequent to offset inflation or cover costs.

For example, we see many sales and commercial teams implementing 1 or 2 price increases within a very narrow bandwidth – typically ranging from 2 to 15 per cent increases across their product portfolio. Sometimes variable increases are applied in one or 2 categories within this bandwidth.

However, both types of price rises are largely unprofitable. This is because increase percentages are typically set on inaccurate cost estimates that do not factor in daily changes to freight, energy/ operational and raw material costs. What's more, small price increases are not generating enough revenue to cover costs; and businesses are absorbing costs that they should be passing on to customers.

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NEW DRIVING FORCES TO CONSIDER WHEN MAKING A PRICE RISE

B2B businesses are operating within unprecedented economic times: Central banks around the world are operating to targeted inflation rates. Currently, this means the power of the dollar is falling; and what businesses used to get for their money is decreasing. What's more, as interest rates go up and demand levels change, customers' and suppliers' spending will get tighter across the supply and value chain. Bigger, bolder and faster price rise actions are now required to combat these changing monetary pressures.

Our modelling shows, for example, that the required price increase bandwidth to offset inflation can range from 8 per cent to 45 per cent plus depending on the value of product categories, individual SKUS and the price maturity of the business.

As you can see, the new price rise bandwidths are much higher than the typical 2-3 per cent increases B2B Industrial businesses typically make during their annual price review meetings. However, as economic drivers continue to destabilise the monetary system, price rise bandwidths must be re-calculated regularly to avoid implementing prices rises that are: too big or too small; too late; too infrequent; or poorly communicated.

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THE IMMEDIATE RISK TO PROFITABILITY

When a price rise does not capture the $ value expected, this has an immediate impact on profitability.

This is because gross margin for most B2B industrial businesses are slim and contracting; typically an average of 20 per cent margin. What's more, cost-of-goods sold typically absorb over 40 + percent of gross margin while inflation accounts for another 20 percent - give or take. Which means that for a price increase to break even, a business would need to implement a minimum increase of 10 percent; at a pass-through rate of 100%, just to keep gross margins stable.

However, if a B2B Industrial business wanted to drive modest 1-2 per cent margin gain from a price rise, a business would have to implement a minimum increase of 12 percent; and with no push back from customers.

Not only is it extremely rare to get a pass-through rate above 70% in a business with a limited commercial capability; it is also reckless to even consider a fixed percentage increase across all products as every single product has a different cost profile and price sensitivity.

Our consulting and modelling to date shows, for example, that B2B industrial businesses must optimise variable price increases across selected customers, channels and products in order to safely increase average prices.

Alternatively, if leaders do not want to increase prices, they must make strategic changes to their price structure – namely, tiered discounts, tiered and bundled rebates, T&Cs on minimum volume thresholds, and delivery / freight and cost to serve as surcharges or as new price inputs in the price waterfall.

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ADDITIONAL IMPACTS

Often price increases are discussed based on their impact on profitability. As indeed, we have done so up until this point. However, the topic of price increases goes so much deeper than spreadsheets and modelling. Poor price rise management indicates a lack of investment in a business' internal commercial capabilities.

The problem with not investing in vital internal capabilities - like a dedicated pricing team or pricing skills development - is a series of failed implementations and a lack of learning from past mistakes or successes.

It is quite common to see, for example, procurement teams setting spot prices to hedge against risk while commercial teams implement a fixed price increase across all products (and this can be hundreds to thousands of products at a time) based on a simplistic mark-up. Often, neither team is aware of what the other team is doing, but the result means even more exposure to inflation risk.

Our research shows that when teams struggle to collaborate or continually end up working at cross purposes (as in the above example), pricing is often discretionary and decentralised, and the business does not have a dedicated pricing team to oversee the price realisation process.

In fact, our pricing diagnostic research shows that siloed pricing organisations are very widespread. With c.40% of B2B Leaders in Australia treating pricing as a tactical lever; and over 70% of businesses implementing price rises without a pricing manager function.

To execute a successful price rise, then, both pricing and commercial teams need to build commercial capability in fundamental pricing principles, price setting, value based pricing, price value metrics, price management teams and price execution and tracking.

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THE SLOW ROAD TO RECOVERY:

Price rises often fail in businesses that are siloed because teams just end up doing their own thing. When this happens important elements of a price rise process go missing or are rushed.

- Sales teams continue to set prices based on gross margin targets rather than customer value; giving away any procurement savings in one fell swoop.
- Customer pricing is left to expire in the system – often not updated for years with hundreds of thousand redundant customer pricing records.
- Price overrides increase as teams freely change prices daily in the system.
- Freight and energy costs are not covered by either customer prices or surcharges.
- Price setting is based on cost even though sourcing, cost of goods sold and input costs change daily.
- Purchasing is rushed
- Customers are not charged for changing order
- Operational inefficiencies increase due to time pressure
- Invoicing errors increase due to transfer pricing and systems issues
- Overruns in manufacturing hours increase and are not covered by commercial terms
- Warranty costs and operational costs increase and absorbed by the business (downtime / project scope creep)
- Orders are not tracked and invoices are often not even issued to customers
- Contracts lack clarity on deal mechanics (rebates), key performance metrics (DIFOT), or deliverables

When teams operate in siloed businesses, they quickly become weighed down by broken systems and cultural norms. And without even realising it; they continue to rely on outdated pricing approaches—disconnected from input costs or customers' willingness to pay—and fall further behind the competition as their margins shrink and the business loses market value.

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HOW TO ACCELERATE STRATEGY / MOVE PAST PROBLEMS:

In spite of all the problems listed above, all B2B Industrial companies (even the ones experiencing all of the symptoms above) still have a chance to drive commercial strategy across the business.

Take action now to build capability at scale by focusing on these 7 commercial capabilities:

- Diagnosing margin leakage & value capture opportunities
- Analysing Data
- Developing a strategic price structure
- Updating discounts and rebates
- Testing Price Points, Methods & Approaches
- Tracking Tests & Trials
- Embedding improvements into BAU

In our experience, capabilities 3 & 4 above should cover the following areas: pricing foundations, setting prices (all methods), price realisation and dashboard visualisations, price management and maintenance, go-to-market execution, customer value discovery, value based selling.

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THE SOLUTION - AN OPTIMISATION COMMERCIAL SYSTEM

To drive and capture the $ value of a price rise, then, leaders and teams must first acquire new knowledge and learn new skills and approaches. For this to happen effectively, however, there needs to be a complete shift in mindsets in a real-world context; and both leaders and managers are positively reinforcing new knowledge, learning, practices and habits to drive continuous improvement across the wider business.

Our research shows that an optimised commercial system of diagnostics, learning and development, coaching, workflows, customised plans, roadmaps and tracking is three times more effective (faster and better) at driving commercial strategy and capturing the $ value of price rise improvements than either consultancy led models or training.

A commercial optimisation system starts with the basics and then builds up from there.

Starting with, basic like:

- Should we put up prices?
- Are competitors signalling price increases at the moment?
- Have our suppliers and/or customers increased their prices?

From here:

1. Teams move towards the strategic commercial destination
2. Roadmap & plans are built to get them there
3. Team interdependencies are mapped out
4. All tasks and projects have project owners
5. Everyone knows how they feed into the pricing project and the team
6. Teams know how to make more informed pricing decisions

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Within days, teams are hitting goals and reaching new frontiers; moving together to solve problems they previously couldn't; and reaching new and critical milestones to generate more $ value for the business and their customers:

- They know what the market is doing right now.
- They understand the short and long term cost and price trends.
- They have built economic models to factor monetary trends.
- They know when to increase prices in small increments and when to increase prices in one big go.
- They have automatically factored in CPI, PPI Indexes into their pricing.
- They have built a price structure based on target customer value drivers
- The have several data price models and information sources to help them predict customer price sensitivities and know by SKU when prices are not covering costs or offsetting inflation
- They have set up automatic reminders, workflows with key owners to update customer pricing and commercial terms.

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THE PROCESS:

As you can see from the capabilities requirements checklist above, a price rise is more than just tinkering around with numbers in a spreadsheet. It's about teams coming together; continuously learning and pooling knowledge and skills; and working within an optimised commercial system to channel resources to achieve outcomes faster.

- Set up integrated workflows and plans that deliver shared outcomes
- Project plan timings to ensure price rise communication go out on time
- Build and refine models to optimise price rise
- Agree price rise strategy
- Update pricing in the system
- Refine discounts and agreements to avoid leakage
- Communicate price rise to customers
- Track pass through rates and feedback
- Optimise pricing structures
- Embed proven processes and improvements

With a commercial system like this, nothing goes missing; and within weeks, price rises are capturing the full value expected by the business. We also find that companies will get the best results using a blend of delivery methods during the set up and implementation phases of a major commercial project or transformation. In fact, our research shows that teams are three times faster and more effective at driving commercial strategy when strategy development and implementation occurs alongside targeted workshops, digital learning, expert coaching, and performance support.

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CASE STUDY:

It is imperative, therefore, that all B2B Industrial businesses optimise price to maintain the financial security of the business and make bolder and safer price rise decisions.

For example, if you examine your peers in similar industries, you'll see that leading businesses are investing in dedicated pricing teams and building commercial capability to ensure their current price rise decisions are optimised to combat inflation and rising costs.

Boral, as a prime example, has instigated a whole sequence of price increases this year across the group's product portfolio of cement, concrete, gravel, asphalt, and sand. Although the amount was not disclosed, they have said that these increases are the biggest they have made in the last 5 years. What's more, these increases are on top of prior out-of -cycle price rises.

Boral, like many B2B Industrial businesses, have no choice but to make bolder, more frequent and more substantial price rise decisions. In 2021-2022, Boral's profits were down by 32 per cent partly due to the lashing rain in Australia; but also higher fuel and energy costs; supply issues; and lower demand levels as buyers pulled out of the housing market.

In fact, Boral openly admits that these recent price increases are some of the largest increases by geography and product line that they've put through in the market. Fortunately, they have a pricing team to help them make better price rise decisions; and a commercial support system to instigate better price rise decisions across the business.

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BOTTOM LINE

We are facing very usual and troublesome economic times which demand strategic price management and price rise strategies.

Strategically increasing average selling price is crucial to beating inflation. A tactical approach to either price rise management or strategic price structure changes is fraught with risk and undermines any prior profit expectations you believed you'd get from leveraging price.

Many consultants and business leaders argue that teams struggle to implement price increases because of the complexity of the task at hand or implementation. However, from our experience working with teams implementing price increases, the real problem is the absence of a system to build and embed capability across the organisation – in every department – from sales right through to HR.

All teams including pricing and revenue management teams must build mastery of foundational pricing knowledge in fundamental pricing principles, price setting, value based pricing, price value metrics, price management and price execution and tracking.

Organisations that build and embed commercial capabilities across the business, are more than three times more likely to succeed in driving sustainable and profitable growth during a downturn.

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TAYLOR WELLS IS A GLOBAL PRICING & ORGANISATIONAL ADVISORY FIRM

Since 2014, our single focus and mission is to help our clients deliver increased profitability today and ongoing through our end to end approach to pricing transformation initiatives.

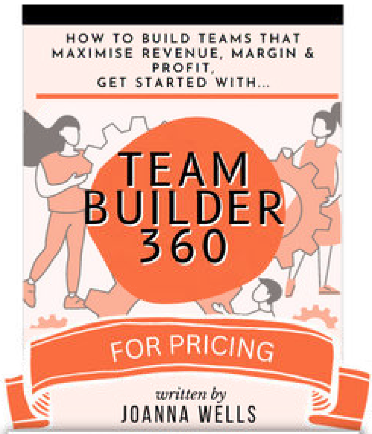
We work with leaders and pricing teams to develop pricing strategies, tests and trials to drive profitability. We work with sales directors to isolate the activities that lead to revenue growth and then build the tools, structures and processes to get there faster. We work with HR and marketing leaders to design organisational structures, roles and responsibilities to accelerate business outcomes and embed sustainable EBIT growth. We work with HR to hire the right pricing managers and advise them on how to build, reward, develop and motivate their pricing teams and commercial function. And, we help pricing professionals navigate and advance their careers.

SERVING CLIENTS ACROSS THE GLOBE

THE ROI

THE REAL FINANCIAL BENEFITS

The key differentiator of our offer is that we enable our clients to internalise the pricing expertise so that they can build a sustainable pricing system that generates at least 3% - 10% additional margin each year.



JOANNA WELLS

Director

BA / MA Arts, Msc Science
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"My passion is building world class pricing organisations using the latest pricing strategy, people and operations. My mission is to maximise and combine the power of strategic pricing, teams and culture to help leaders and teams drive profitable revenue growth."

FOUNDER

MANAGING DIRECTOR

Joanna Wells is the founder and managing director of Taylor Wells Advisory, a pricing and organisational advisory firm that supports Fortune 500, private Equity and ASX Listed companies in pricing & organisational strategy, commercial capability building and talent strategy and recruitment since 2014.

A Cambridge University qualified psychologist with over 12 years' experience in latest pricing and organisational consulting across B2B and B2C markets in Australia, the USA, the UK and Ireland; 25 years experience in industrial psychology & hiring; Joanna's sole focus and specialisation is helping business leaders build world class pricing organisations.

Joanna has worked on > 23 major pricing transformations, studied > 100 firms' pricing strategy and culture, evaluated 7,000 global pricing skills and capability assessments, and interviewed over 4,000 executives and managers around the world to answer complex pricing and commercial problems:

- How can we accelerate the ROI in pricing in < 12 months?
- How can we move the business from cost plus to value based without disrupting teams, customers and operations?
- How can we build high performance pricing organisations?
- What's the best way to integrate a new pricing team and/or system in the business?
- Why do over 70% of price change / improvement initiatives fail?

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EVIDENCE

OUR RESEARCH

Our findings show that with the right strategy, set up and pricing team in place, incremental earnings gains can begin to occur in less than 12 weeks. After 3 months, the team can capture at least 1.0 to 3.25 per cent more margin using better price management processes. After 6-12 months, businesses are very often generating between 3 to 10 per cent additional margin each year as they identify more complex and previously unrealised opportunities, efficiencies and risks.

OUR CAPABILITIES

Our unique strategy advisory de-risks pricing strategy development. Our optimised commercial system ensures your teams drive an efficient and effective transformation process. Our scalable design structures and processes; and research and experience that spans over 25 years and over 23 major pricing transformations around the world, ensure your teams learn and embed the right skills, at the right time to drive the right outcomes - no matter how tough the challenge or how challenging the business culture.

	PRICING & ORGANISATIONAL STRATEGY	Our focus is to enable leaders and pricing teams to develop and implement best-in-class pricing strategy. Unlike traditional consultancy, we strongly believe that the pricing transformation is powered through your teams from start to finish, not consultants. Our advisory, expertise and optimised systems support and guide teams to reach outcomes faster. Our expertise lies in enabling and supporting teams to be the best they can be using best-class pricing strategies, structures and practices.
	COMMERCIAL CAPABILITY BUILDING	Unlike traditional consultants, we specialise in unlocking the value of your teams & culture to drive & capture commercial strategy faster. Our optimised commercial system covers the basic pricing skills. Just like a fitness programme. Then, it builds up from there as teams master new skills, kick key milestones, reach personal and team goals, and achieve shared outcomes.
	PRICING TEAM ASSESSMENT & EVALUATION	We are world leaders at identifying and evaluating the pricing talent you need compared to the talent you have to prepare teams for a pricing transformation. Our founder, Joanna Wells, started her undergraduate research in devising multi trait assessments & evaluations to identify high performance leaders and specialist financial teams at the University Of Cambridge, Great Britain, 22 years ago. She further developed her research as a post graduate at Manchester Business School; and continues to invest in research and development at Taylor Wells Advisory. We have now collected millions of data points and valuable insights on high performance pricing strategies, teams, business culture and pricing transformations. Our objectivity and unique research and data is crucial to strategic decision making at the executive and board level. Our clients rely on us to mitigate risk and safely forge a clear path forward.
	PRICING RECRUITMENT	Our consultants are all highly qualified executives with backgrounds in pricing, economics, finance, psychology at the post graduate level. Our consultants also hold professional industry certificates in accountancy and industrial psychology and testing and all practice best-in-class value based pricing. We know exactly what great pricing talent looks like, and have worked with world leading pricing functions and executives around the world to find the right pricing professionals for their pricing and revenue management roles and transformational projects.
	SCALABILITY	We have created a scalable and optimised commercial system called Value Culture to enable leaders to build and embed commercial strategy development and price-setting capability across all teams in a business.

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SELECT TAYLOR WELLS PRESS ARTICLES & NEWSPAPER FEATURES

Taylor Wells has had the pleasure of working with many top newspapers, magazines to educate on business, teams, psychology and pricing related topics.

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