

How To Improve

PRODUCT PRICING



Right now, leading firms in Australia are on the cusp of generating more revenue and margin from a new business and pricing model called the Equipment-as-a-Service model. By incorporating the EaaS model in a pricing system, firms such as Hilti, Michelin and Rolls-Royce have been able to generate profitable sales growth in more than one economic downturn.

In the 2008 GFC, for instance, Hilti experienced rapid sales growth of 26% and incremental EBIT growth of 12% when their peers were either closing down or smashing prices to stay in the game. In this article, we discuss: What Australian firms need to know about EaaS pricing to drive additional price premiums in an economic downturn like Hilti.

WHAT IS EQUIPMENT AS A SERVICE MODEL?

Equipment-as-a-Service (EaaS) is a service-driven business and pricing model; it is the act of leasing out machinery or equipment to customers and collecting payments in a regular periodic manner on a usage basis. Usually, using a subscription pricing model.

Equipment as a service (EaaS) popularly started in 1997 by Rolls-Royce. It enabled their airline customers to pay for their engines based on the number of flight hours as opposed to charging them the full cost of owning the engine i.e., upfront costs/ maintenance/replacement costs/liabilities, etc.

EaaS pricing has been a slow burner for a lot of Australian firms. However, in the past two years, EaaS pricing has been tested and applied more broadly to both B2B and B2C firms selling products and services to their customers and end consumers (read Hilti case study below for more details).

CASE STUDY: HILTI (POWER-TOOLS-AS-A-SERVICE)

Hilti (a German power tool manufacturer) offers tradies a tool fleet (i.e., access to their entire suite of tools) via a usage-based subscription model. Using this EaaS model for its tool pricing, Hilti was able to grow its sales by 26% in 2008 during a financial crisis. Its operating profit also increased by 12%.

For Hilti's customers, Hilti's Fleet Management service pricing offers them the perfect deal between owning all of the latest machine/equipment (which is very expensive for tradies) and not worrying about hidden or replacement costs.

Another key benefit of Hilti's Fleet Management service pricing offers to customers is reduced downtime. Customers have access to loan tools in case any tool fails, breaks or needs replacing. They also have consistent access to the latest Hilti products over an agreed time frame.

Hilti customers value Hilti's version of EaaS because it's a unique service in the industry. EaaS pricing gives them exactly what they want when they want it - i.e., value for money and price flexibility.

The economic benefit of the EaaS for tradies is more customers, more productivity and more profit. Tradies may end up paying a slightly higher price for some fleet hire tool options on an annualised basis using Hilti's Fleet Management subscription model. However, over time the economic value the fleet hire offers tradies is substantially more profitability per customer than owning the toolset outright: i.e., more overall productivity and fewer marginal costs, increased profitability.

KNOWING THE BEST PRICING MODEL

Equipment as a service, then, is a new pricing revenue model of making more revenue and margin at more profitable price points. Listed below are just some of the different EaaS pricing models firms use to drive profitability:

Outcome-based models - the payment is based on operational or financial accomplishment.

- **Operational outcomes** - best fit for solutions that perform distinct jobs such as industrial robotics or automation equipment.
- **Financial outcomes** - this works best when you can make a direct link between the equipment and measurable financial outcomes.

To carry out pricing successfully, firms want to know the value of their equipment to the customer and determine how to share risk.

Time and usage models - payment is based on factors that are easier to assess such as time and usage.

- **Time-based models** - the payment is based on an amount set per unit for a fixed time period.
- **Usage-based models** - payment is based on the intensity of usage such as for mining equipment where manufacturers allow project owners to pay per cubic meter drilled.

DISCUSSION

The Impact of EaaS to A Firm Like Yours The shift from a traditional, cost-plus product pricing model to value-based, equipment as a service pricing model has had a great impact on both firms and their customers in Australia - i.e., from pricing, sales, financials, product development, customer experience, merchandising, demand planning and even customer service.

Profitable sellers can now create interactive relationships with customers that let both firms and their customers know: the production process, ownership costs, economic benefits and value, projected revenue and chosen contract terms.

BENEFITS OF EAAS:

Advantages to OEMs:

- Equipment design upgrade
- Enhancing predictive maintenance
- Increase in profit

Advantages to Manufacturers:

- Less capital expenditure
- Higher data accuracy
- Minimal operating costs

IMPLICATION

Equipment as a service is the key channel in achieving margin increase over a shorter period of time, however, it is vital to know the right pricing model first.

CONCLUSION

If firms are keen to test out this EaaS pricing model for their business, they really want to understand the value of their equipment (product portfolio) to the customers; and know-how to share risk.

The best way to align an EaaS pricing model with the market and your customer base is a dedicated pricing team inside the business. EaaS pricing can be more difficult to carry out compared to SaaS programs or regular cost-plus pricing, so you really want depth and breadth of pricing expertise and a dedicated pricing department.

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.

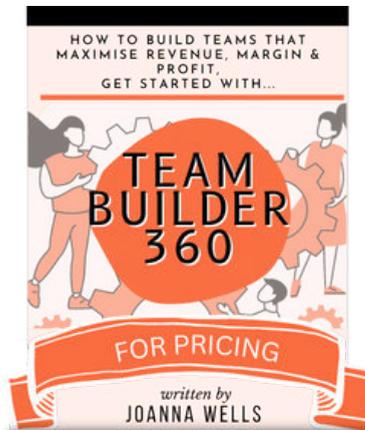
SERVING CLIENTS ACROSS THE GLOBE



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
University of Cambridge

“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?

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.



SELECT TAYLOR WELLS CLIENTS

Taylor Wells has had the pleasure of working with many top companies in a variety of industries.



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.

