

# Leveraging Advanced Pricing Strategies: A Strategic Enabler for Value Creation and Commercial Success

Discussion guide for PE-Backed Leadership Summit

October 1, 2024



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## Topics for discussion

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### **Learnings from the recent past:**

Commercial agility to achieve pricing success

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### **Pricing as a capability, not a tactic or project:**

Making it a C-level priority and building the right people, process, tools

03

### **Strategic vs. tactical price setting:**

“Pricing power” vs. “throughput power” is driven by company objectives and segmentation

04

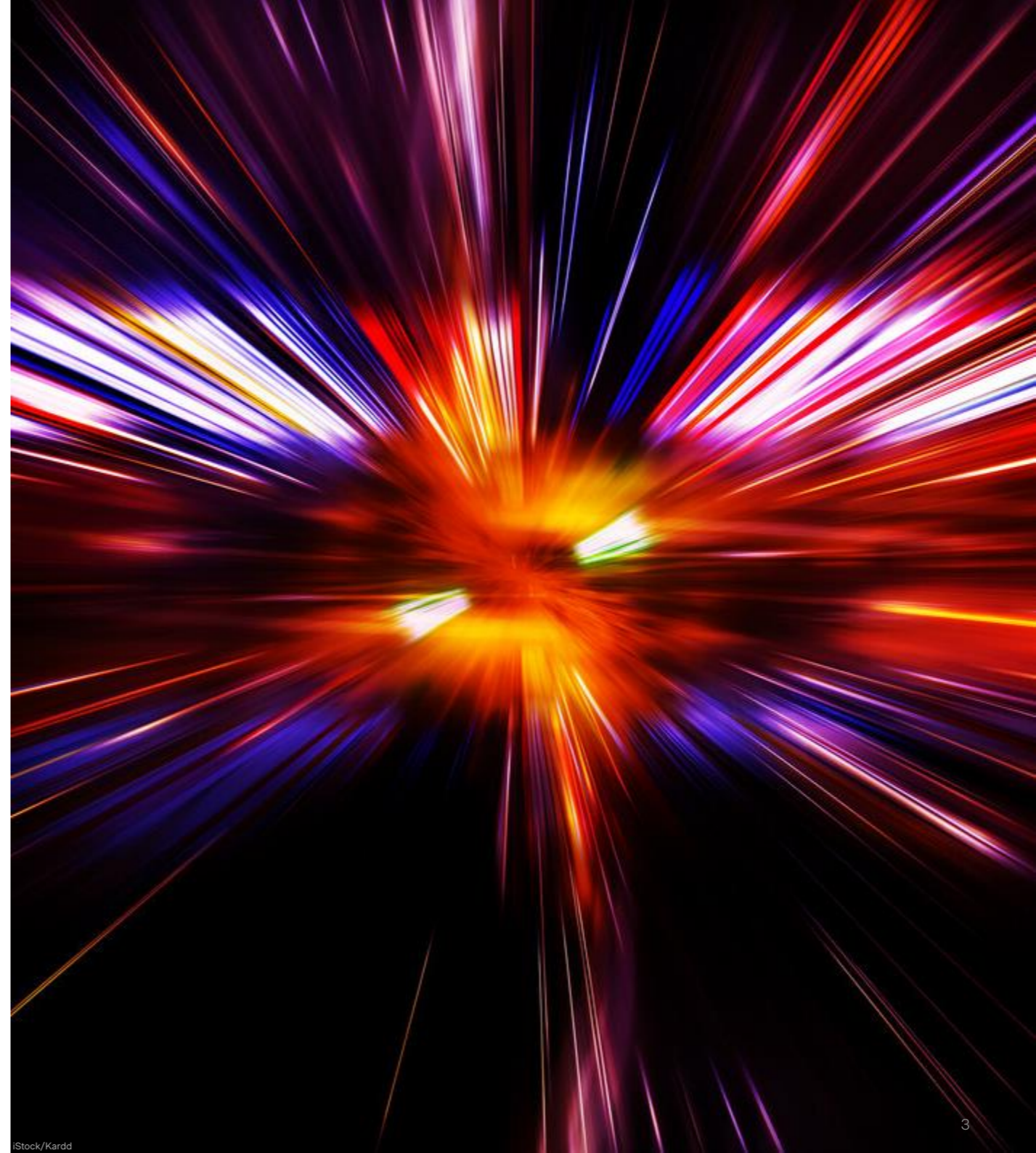
### **AI / Advanced algorithms for pricing:**

Not a silver bullet but successful in repetitive tasks

05

### **Pricing and broader value creation:**

Pricing success is sales enablement success



# Learnings from the recent past:

## Commercial agility to achieve pricing success

<b>Framing:</b>	<ul style="list-style-type: none"><li>▪ <b>We have never experienced a time like the last few years with regards to pricing and commercial excellence</b><ul style="list-style-type: none"><li>▪ COVID</li><li>▪ Supply chain shocks</li><li>▪ Interest rates</li></ul></li><li>▪ <b>To survive then, you had to adjust and adjust fast</b></li><li>▪ <b>Commercial agility muscle will be needed moving forward</b></li></ul>
<b>Key points:</b>	<p><b>What is commercial agility?</b></p> <ul style="list-style-type: none"><li>• <b>Agile design</b> – adapting offering to reflect changes in customer needs (i.e. can product be delivered in different format)</li><li>• <b>Agile sales</b> – remote selling (training and tech), online channel (investment, barriers to adoption), sales performance</li><li>• <b>Agile cost management</b> – grasping evolving demand, mastering COGS surge and decline, avoiding automation trap</li><li>• <b>Agile pricing</b> – pricing decentralization and automation within reason</li><li>• <b>Economic resilience</b> – profit orientation + resilient revenue model</li><li>• <b>And most importantly, Leadership that adapts and empowers</b></li></ul>
<b>Discussion questions:</b>	<ol style="list-style-type: none"><li>1. <b>What does commercial agility mean to you?</b></li><li>2. <b>What are your successful and unsuccessful war stories on managing inflation with your company and what is the commonality between failures and successes/best practices?</b></li></ol>

# Pricing as a capability, not a tactic or project:

Making it a C-level priority and building the right people, process, tools

<b>Framing:</b>	<ul style="list-style-type: none"><li>▪ <b>Too many priorities today - “pick your top 3”</b></li><li>▪ <b>Companies with C-level engagement in pricing perform 30% better on EBITDA</b></li></ul>
<b>Key points:</b>	<ul style="list-style-type: none"><li>▪ <b>Pricing is a discrete function and needs to be treated that way; rule of thumb is 1 pricing professional for every \$100M in sales</b></li><li>▪ <b>Don’t assume technology is a silver bullet</b></li><li>▪ <b>Need to ensure messaging, ownership, and measurement are accounted for in your capability building</b><ul style="list-style-type: none"><li>▪ Messaging – go beyond financial benefits, how is it better for customer, what happens if we don’t do this</li><li>▪ Ownership – autonomy and task identity are critical, red team with CEO, cross-functions and challengers</li><li>▪ Measurement – preventative understanding of gaps, reinforce positive behavior, celebrate successes</li></ul></li></ul>
<b>Discussion questions:</b>	<ol style="list-style-type: none"><li>1. <b>How does your org currently manage pricing? How are you involved?</b></li><li>2. <b>What are your greatest challenges in building a pricing capability?</b></li></ol>

## Strategic vs. tactical price setting:

“Pricing power” vs. “throughput power” is driven by company objectives and segmentation

<b>Framing:</b>	<p>The distinction between strategic and tactical price setting centers on <b>how pricing decisions are made based on broader company goals versus short-term, more granular actions.</b></p> <ul style="list-style-type: none"><li>• Companies that leverage <b>brand strength, unique value propositions, and market differentiation</b> can command higher prices without significantly affecting demand and have <b>pricing power.</b></li><li>• On the other hand, tactical pricing is more about making adjustments to optimize short-term metrics like sales volumes, deal sizes, conversion rates etc. influenced by market conditions like demand fluctuations and competitive</li></ul>
<b>Key points:</b>	<p>Both approaches are essential, but the right balance is driven by a company’s <b>objectives and customer segmentation.</b></p> <ul style="list-style-type: none"><li>• <b>Segmentation Matters:</b> Strategic pricing often works better in high-value, less price-sensitive customer segments, while tactical throughput strategies are more relevant in <b>price-sensitive or mass-market segments.</b></li><li>• <b>Company Objectives:</b> Pricing decisions should be aligned with broader objectives. A company focusing on rapid <b>market share growth</b> may prioritize throughput power to accelerate adoption, whereas a company aiming for <b>profitability</b> may leverage pricing power.</li></ul>
<b>Discussion questions:</b>	<ol style="list-style-type: none"><li>1. How does your company balance strategic pricing power with tactical throughput objectives, especially in different customer segments?</li><li>2. Can you share examples of when you’ve successfully adjusted pricing tactically in response to short-term objectives without compromising long-term value creation?</li><li>3. In what ways do you see pricing power being influenced by your company’s market positioning, and how often do you adjust it based on competitive actions?</li></ol>

# AI / Advanced algorithms for pricing:

Not a silver bullet but successful in repetitive tasks

<b>Framing:</b>	<ul style="list-style-type: none"><li>▪ <b>I'm thinking a lot about AI - what's real and what's hype. People I know have been reasonably happy with the machine learning aspects that do manual data uploads faster and replicate basic analysis that an analyst was doing</b></li><li>▪ <b>I'm excited to see how things like neural networks can be used for my dynamic offer segmentation and pricing guidance but I don't think most are there yet</b></li></ul>
<b>Key points:</b>	<ul style="list-style-type: none"><li>▪ <b>AI is a tool/not a strategy.</b> You can outsource a lot of things in life, but not strategy! A few use cases that are all things a human analyst could theoretically do, but a lot slower:<ul style="list-style-type: none"><li>▪ Segmentation: advanced methods can do this a lot faster</li><li>▪ Dynamics forecasting (old methods are very linear and the model doesn't change, new methods such as XGBoost are used in forecasting to identify new trends and dynamics, which regression does not do)</li><li>▪ Price scrapping: again, a highly manual task than can be set up</li></ul></li><li>▪ <b>AI is a final mile problem.</b> It's not perfect, has been shown to be successful in repetitive tasks and requires an immense amount of data, computing power, and learning, which a lot of companies are not willing yet to invest in</li></ul>
<b>Discussion questions:</b>	<ol style="list-style-type: none"><li>1. <b>What use cases have you employed AI in your commercial model?</b></li><li>2. <b>What are the next use cases planned? What has to be done prior to realizing these opportunities?</b></li></ol>

# Pricing and broader value creation:

Pricing success is sales enablement success

<b>Framing:</b>	<ul style="list-style-type: none"><li>▪ <b>Pricing and sales are two sides of the same coin</b></li><li>▪ <b>Sales effectiveness is the #1 value creation lever your sponsors are thinking about via 2024 SK PE value creation survey</b></li></ul>
<b>Key points:</b>	<p><b>Sales enablement is broad:</b></p> <ul style="list-style-type: none"><li>• <b>Sales training</b> – not just product training but value selling training, objection handling training and mock negotiation prep</li><li>• <b>Compensation</b> – should align with strategy objectives, should be win-win, should be adjusted regularly, use gamification</li><li>• <b>Tools</b> – CRM, ROI calculators, balance of power assessments, etc.</li></ul>
<b>Discussion questions:</b>	<ol style="list-style-type: none"><li>1. <b>Does anyone feel like they have a best-in-class sales enablement function? Please describe.</b></li><li>2. <b>What are the biggest challenges in driving pricing performance through sales enablement?</b></li><li>3. <b>Where do you think you'd invest first given sales enablement is so broad?</b></li></ol>



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## **Parting thoughts**

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- Pricing must be a capability
- “Pricing power” over “throughout power”
- Sales enablement is pricing success
- Start with but don’t rely on AI
- Being an active and agile leader drives EBITDA