

Pricing Headroom Workshop

The first step in improving pricing effectiveness

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The Pricing Headroom Workshop

The Pricing Headroom Workshop is the fastest way to improve the profitability, market capitalization and value of a business

The (typically) 48-hour workshop delivers very swift increases in margins by quickly initiating changes in pricing habits of customer-facing frontline and formalizing new, dynamic processes

Introduction

- Pricing Headroom Workshop is based on a solid, logical, reasonable and simple methodology based on “price on what the market can bear and on value”
- This methodology has many helped sales organizations, in diverse industries and in many continents, to see that there was ample competitive headroom for their products/services
- During the Great Recession, this prevented an avalanche of price reductions that could have destroyed the profitability of my clients’ businesses and their associated industries

My Focus for Over 30 Years: Swift Growth of Quality Revenues

- Vice-President, Marketing, Landmark Graphics (a Halliburton subsidiary today)
- Manager, North American Operations, Baker CAC, Baker Hughes
- First Marketing/Business Development Manager, Sperry-Sun (a Halliburton subsidiary today)
- **Oil & Gas** – Baker Hughes, Baroid Corporation, Daniel Industries, Dresser Industries, Dresser Oil Tools, Integrated Exploration Systems (Germany), Landmark Graphics, NL Industries, Numar, OFS Portal, Photon, PGS- Tigress, Praxis, Preng & Associates, Sperry-Sun, Object Reservoir (US Venture Partners), Volumetrix
- **Engineering/Manufacturing** — Aggreko, AirXChangers, Astralloy, CompX, Continental Carbon, Excell Minerals, Express Integrated Technologies, Fabsco, Fort Lock, Gundle/SLT Environmental, Harsco Corporation, Harsco Industrial, Harsco Infrastructure, Harsco Metals & Minerals, Harsco Track Technologies, Hendrickson Trailer, IKG Industries, MultiServ, National Cabinet Lock, Nutter Engineering, OnePoint, Patent Construction Systems, Patterson-Kelley, Reed Minerals, SGB, SteelPhalt, Waterloo Furniture Components
- **Technology** — AMD, Sun Microsystems, Metasolv, NobleTek, Avalon Imaging, Scicom, Silicus, Laversab, Facet, Zresearch
- **Other** — Kanaly Trust, Fort Bend Independent School District, American Sleep

Why improve pricing effectiveness?

- There's not much room left for improving profitability with operational cost controls
- ***Fastest, most effective way to increase profits***
 - 1% increase in price=8% increase in operating profit at an average S&P 1500 company
 - 50% better than a 1% drop in variable costs
 - 300% better than a 1% increase in volume

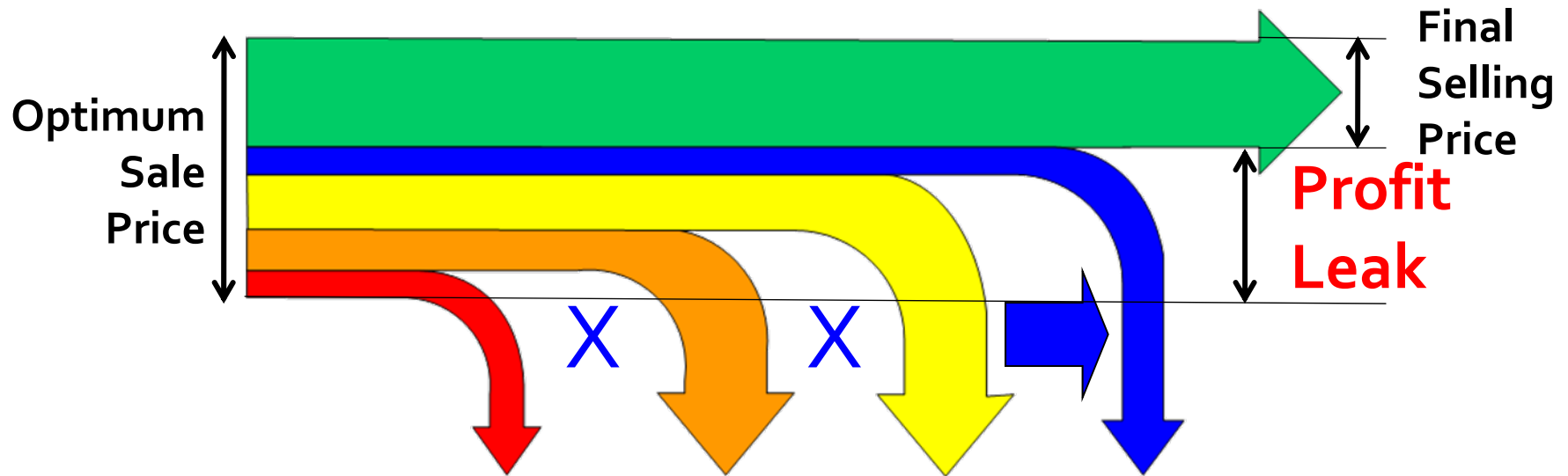
Pricing dilemmas at businesses

- Customers define a price and vendors enter negotiations without having a reasonable, rational alternative price except a cost-based one
 - When we have only one market-based price, salespeople/sellers are drawn to that price
- Determining a price based on value and what the market can bear requires excellence across many interacting domains
 - Technology, Customer/Consumer Behavior, Competition, Economics, Negotiation, Finance

Pricing dilemmas at businesses

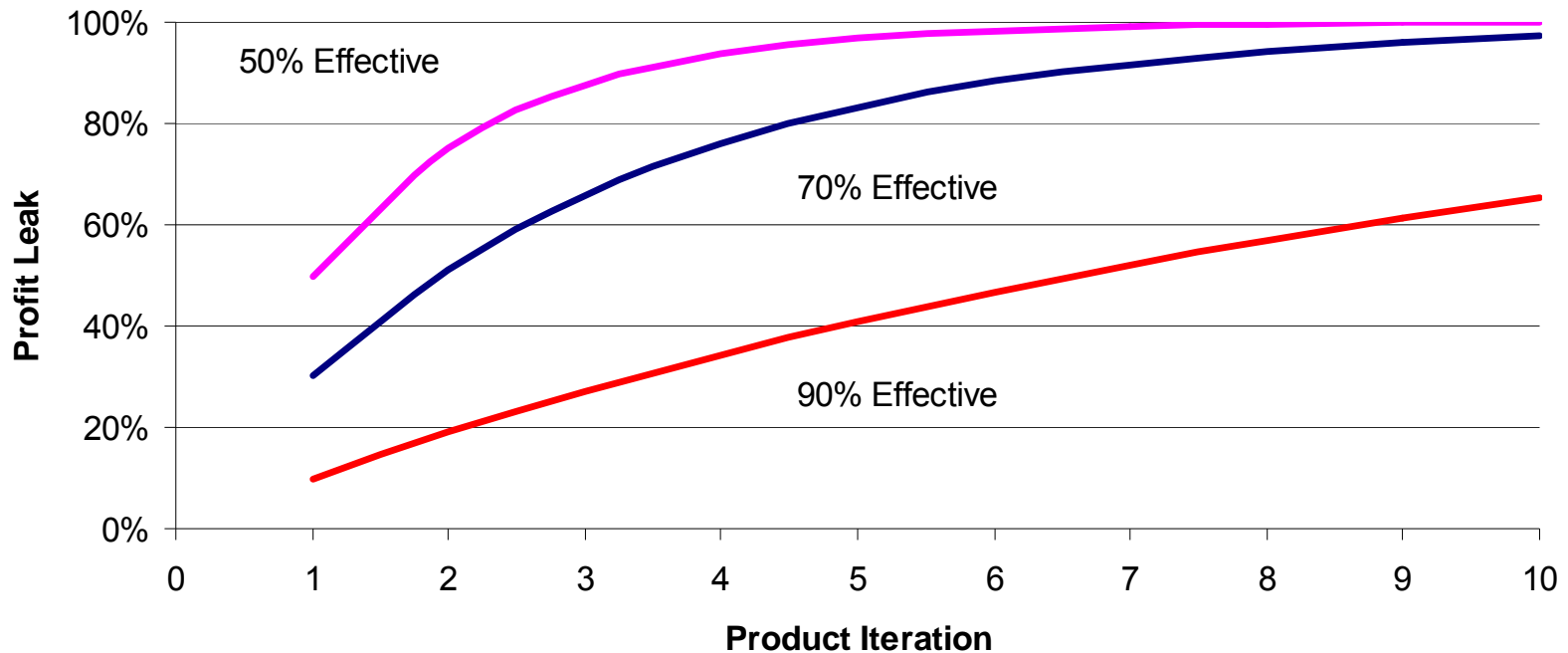
- Participants may possess at least one of these blind spots:
 - Limited comprehension of product's/service's monetary value to customers
 - Limited understanding of competitive positions
 - Limited understanding of competitive responses
 - Limited knowledge of economics
 - Innumeracy (numerical illiteracy)
 - Inadequate training and support in negotiation

Consequence of pricing dilemmas: Profit Leaks



Cumulative effect of Profit Leaks

Profit Leaks & Pricing Effectiveness



- 50%, 70%, 90% pricing effectiveness
- 10 product iterations

Solution to pricing dilemmas

- Use our 48-Hour ***Pricing Headroom Workshop*** that includes our proven processes and people from your key interacting domains
 - Identify key players for pricing decisions
 - Create interactive collaboration between domains to overcome individual weaknesses
 - Execute on a few representative situations
 - Create and modify templates for future use
 - Include ***Pricing Headroom Process*** in normal business processes, including CRM systems

A Pricing Headroom Workshop can deliver great results

- Rapid turnaround and growth in revenues and profits
 - Improve margins
 - Improve sales success rates by providing negotiation ammunition to the sales organization
 - Improve returns on R&D investments by providing direction to and setting priorities for product development
 - Sharpen market intelligence focus
 - Ensure continued long-term success in the market

Case Study: Oilfield Equipment

- Situation
 - A client's distributor wanted a 35% discount on a \$50,000 air-cooling equipment for gas compression industry
 - Competition was selling a similar product at \$30,000
- Solution
 - Brought teams from distributor and manufacturer together
 - Guided them through the Pricing Excellence Process to determine Ideal Competitive Selling Price
- Result/Value
 - "Pricing Headroom" was \$10,000 or 20% more than current selling price
 - Distributor tries to get closer to \$60,000
 - Significant impact on Net Margin and EBITDA

Case Study: Construction Services

- Situation
 - Competitive price was €900,000
 - General belief that we commanded a 20% premium or a price of about €1,100,000 in the market
- Solution
 - Brought internal team together
 - Management, sales, service delivery
 - Pricing Headroom Workshop
- Result/Value
 - “Pricing Headroom” was €500,000 or 45% more than initial assumption of €1,100,000
 - Helped client in negotiating and winning the contract
 - Significant impact on Net Margin and EBITDA

Additional Case Studies

Country	Competitive Price (Local Currency)	Headroom (Local Currency)	Headroom %
Belgium	30,000	13,433	45%
Czech Republic	700,000	218,500	31%
Czech Republic	700,000	301,000	43%
France	50,000	88,554	177%
Germany	900,000	740,000	82%
Netherlands	90,000	70,297	78%
Poland	50,000	10,000	20%
Poland	520,000	354,400	68%
Slovenia	35,000	14,464	41%
UK	50,000	81,302	163%
UK	22,500	21,102	94%

Pricing Headroom Workshop: Used Globally, Across Industries

INDUSTRIES

- Oilfield Equipment
- Oilfield Services
- Iron & Steel
- Construction Services
- Power Plant Services
- Petrochemicals
- Software
- IT Services

COUNTRIES

- USA
- Germany
- UK
- Canada
- France
- The Netherlands
- Belgium
- Czech Republic
- Poland

The Pricing Headroom Workshop

- Define Value
- Determine Ideal Competitive Selling Price (ICSP)
 - Underlying ICSP Equation
 - Product/Service Positioning
 - Recognize (at least) 5 Types of Benefits
 - Monetize Incremental Benefits
 - Plug values into the ICSP equation
- Determine Headroom

Confucius & The Pricing Headroom Workshop

I hear and I forget.
I see and I remember.
I do and I understand.

Confucius

The 3 Step Pricing Headroom Workshop

1. My *Pricing Headroom* presentation
 - Sensitize participants about the impact of small gains in pricing delivering multiplier effects on profits
 - Describe the overall methodology
 - Share examples and case studies
 - ***I see and I remember***
2. All participants and I work on a common example
 - Choose an example relevant to the entire audience
 - Create a spreadsheet to sum monetary value of incremental benefits and switching cost
 - ***I see/do and I remember/understand***
3. Participants work in groups on their own examples
 - They present their solutions to all
 - ***I do and I understand***

Last word

- Major challenge
 - Business habits are hard to change
- Solution
 - Select an inside team whose members become internal change agents
 - Work with a coach
 - Look from the outside in
 - Experience with other companies and other industries; what worked, what didn't? Why?
 - Use a proven process & methodology
- Give me 48 hours with your team and experience the difference for yourself

For Pricing Headroom Workshops

Please call/email Pradeep Anand

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