

Growing Margins: Pricing Strategies to Improve Revenue Growth and Profitability

BLUE RIDGE PARTNERS

Blue Ridge Partners is the most experienced, impactful and respected firm exclusively focused on helping companies improve the performance of their “revenue engine”.

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A common reaction to economic downturns by companies is to focus on squeezing out all unnecessary costs to stay competitive and protect margins. While focusing on costs is important, many companies overlook other ways to expand margins like better pricing strategies and enhanced focus on the most critical high value customers. While often hidden below the surface, finding these treasures can significantly grow margins and revenue.



Discovering the Buried Treasures

Executives often ask us how to detect whether or not there are hidden margins within their customer base. We use a short checklist to identify and quantify the magnitude of these opportunities:

- ▶ *Is there an effective pricing strategy in place today?*
- ▶ *Is the customer base properly segmented to allow differentiated pricing based on buying behaviors?*
- ▶ *Are customers that destroy margins effectively managed?*
- ▶ *Is the sales team allocating resources to the highest value customers?*
- ▶ *Does the sales team have the right process and structure in place to capture pricing opportunities?*
- ▶ *Are pricing controls in place to monitor pricing and provide appropriate oversight?*
- ▶ *Are the right metrics tracked aggressively to objectively determine performance in the market against competitors and resulting margins?*

Failure to clearly address these questions will lead to less than optimal pricing and key opportunities for margin expansion will be overlooked. In our recent work with several industrial companies, we found four particular opportunities to increase pricing and margins.



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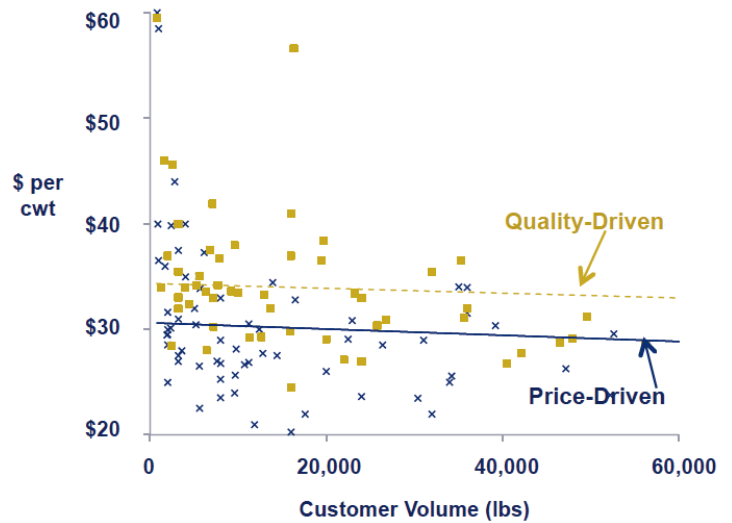


1. Understand Buyer Values to Drive Value-Based Pricing

The ability to add incremental value in exchange for value-based pricing is a key to revenue growth and margin expansion. While this requires a deep understanding of buyer values, the hard work required to develop this knowledge and implement differential pricing can be rewarding. We have found that an effective segmentation on buyer values can add up to 10 or more points of incremental margin.

For example, our Nine Voices of the Market™ research for an industrial products company found that buyers focusing on quality were willing to pay significantly more than buyers driven by price. Unfortunately, because the company lacked the in-depth understanding of buyer values and the ability to segment the customers, the majority of this premium had never been realized.

Differentiated Price Strategies

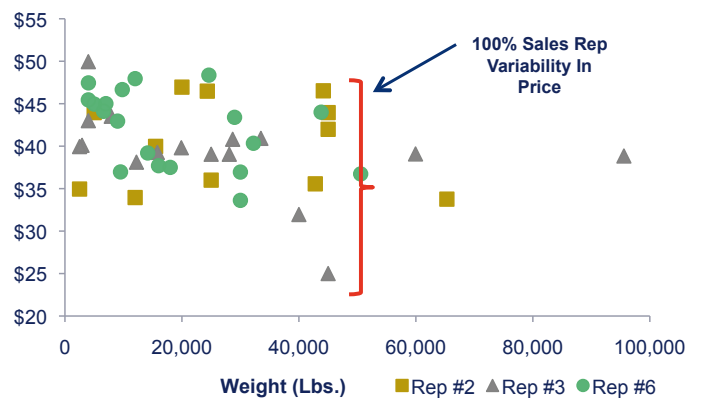


- ▶ Effective segmentation allows companies to extract premiums from less price sensitive segments while also competing in more competitive markets
- ▶ This targeted strategy simultaneously increases overall “win rates” while maximizing margins
- ▶ Segmentation can be based on buyer values, industry, size, geography and other characteristics potentially influencing buying behaviors

2. Optimize the Pricing Process

Clearly defined pricing processes are critical to ensure pricing strategies are executed effectively in market, particularly when sales reps manage pricing for existing and new customers. In recent work with an industrial client, we found the sales reps were not provided with adequate process, tools and controls to price effectively, resulting in significant price variability for nearly identical products and volumes. Variability stemmed from unplanned discounts, unintentional give-aways, unearned discounts, etc. Implementing the right pricing structure and processes along with supporting tools and controls can improve margins by 2 to 4 points of margin.

Margin Loss Due to Pricing Variability



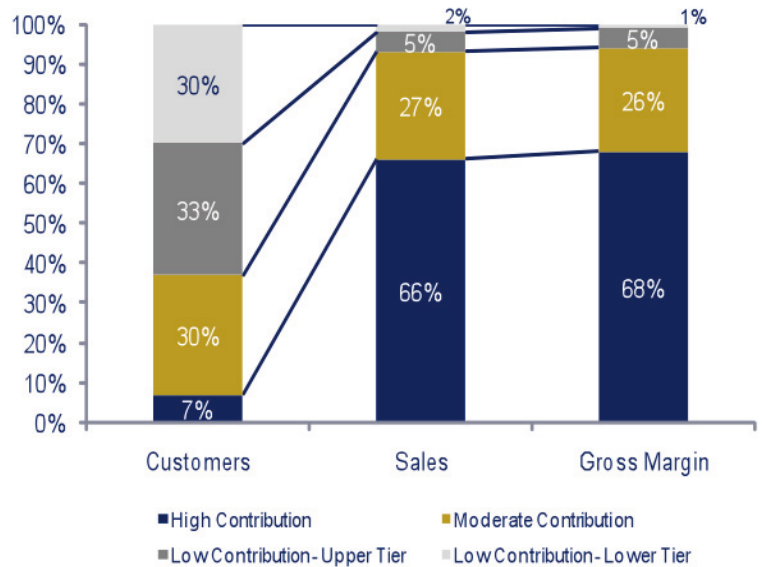
- ▶ Pricing across reps and even for customers of the same reps can be highly variable
- ▶ Variability can be narrowed and price points increased by methodically raising the lowest price points through:
 - Formal pricing processes with standard pricing guidelines and tools
 - Tighter pricing controls with appropriate structure for management oversight

3. Eliminate the Margin Destroyers

As companies struggle to hold onto customers and revenue during economic downturns, many in management relax their focus on margins. With increasing input costs margins across the customer portfolio quickly come back into focus. By evaluating the customer portfolio with a hard eye, scarce sales resources can be reallocated to the higher value customers – those with significant growth potential and the ability to provide attractive margins. At a recent client we found that 30% of the customers provided little in revenue and almost no margin. While these customers did not consume 30% of the sales team’s time, they certainly distracted from the central goals of serving and growing the most attractive high margin customers and prospecting for new customers.

- ▶ A concentration analysis frequently highlights how large segments of the customer base can contribute minimally to overall sales and margins
- ▶ While many of these accounts may be marginally profitable, they often consume disproportionate sales resources
- ▶ Evaluating true economic value, including total costs to serve, can help companies determine where they need to focus to optimize the customer portfolio and how they should think about reallocating sales resources

Getting Rid of the Margin Destroyers



4. Measure Pricing Performance and Optimize

In our work we frequently find that management lacks hard objective measures of their company’s pricing performance and relies instead on anecdotes and past experience from the sales team. To maximize pricing performance, companies need to develop pricing performance metrics that regularly measure the sales teams’ in-market results. While these metrics differ across companies, closely monitoring performance will allow companies to identify and capture the hidden margins they may be overlooking today.

We are experts in helping industrial companies drive revenue growth through pricing and other margin expansion opportunities. Contact us if you would like assistance in identifying and capturing these opportunities.