



Pricing In Inflationary Periods

February 23rd, 2022

Presented By: Avy Punwasee, Partner

RML Introduction


Who We Are

- **Boutique** firm specializing in Revenue Management
- **Partners** have 20+ years experience in the discipline
- **No Career Consultants** every team member has industry experience
- **Headquartered** in Toronto but execute globally
- **20+** current team members
- **Full Time Consultants, Statisticians and Data Scientists** give us the size to concurrently execute multiple large-scale projects

Sample Partners (B2C & B2B)




Current Environment

 Yahoo Finance

February 10, 2022

Inflation reaches 40-year high: January CPI posts 7.5% annual gain

 Wall Street Journal


February 2, 2022

Eurozone Inflation Rises to Fresh Record, Against Expectations

 Wall Street Journal

February 1, 2022

Coffee Prices Climb, Pushed Up by Bad Weather and Supply-Chain Woes

 CNBC

February 10, 2022

Here's how inflation is hitting everything you buy for your home

How should your company react?

Price! Price! Price!



① Refine Value Quantification Versus Market

Value-Based Pricing

Customer Segmentation

Lack of Granularity - Cost Based Pricing

Benefits

- ✓ Easy to understand and quick to calculate price
- ✓ Simplest pricing strategy to ensure costs are covered
- ✓ It takes few resources
- ✓ Can justify price increases if costs rise
- ✓ Can be applied for all offerings

Drawbacks

- ✗ Cost-savings are passed on to customers
- ✗ Ignores the inherent value of an offering
- ✗ Difficult to track due to volatility in input costs
- ✗ Not focused on the customer
- ✗ Creates a risk for under and over-pricing

Optimal Pricing

Current State: Increasing Commodity Costs

Product	% of Portfolio	Commodity Impact
A	40%	+5%
B	20%	+3%
C	20%	+6%
D	10%	+1%
E	10%	+7%

-\$3.6M Total Margin Impact

Strategy 1: +5% Price Blended Increase

Product	Price $\Delta\%$	Volume $\Delta\%$
A	+5%	-4%
B	+5%	-20%
C	+5%	-5%
D	+5%	-10%
E	+5%	-3%

-\$3.2M Total Margin Impact

Strategy 2: Price Increase Based On Cost Increase

Product	Price $\Delta\%$	Volume $\Delta\%$
A	+5%	-4%
B	+3%	-12%
C	+6%	-6%
D	+1%	-2%
E	+7%	-4%

-\$1.5M Total Margin Impact

Strategy 3: Pricing Based On Elasticity & Value

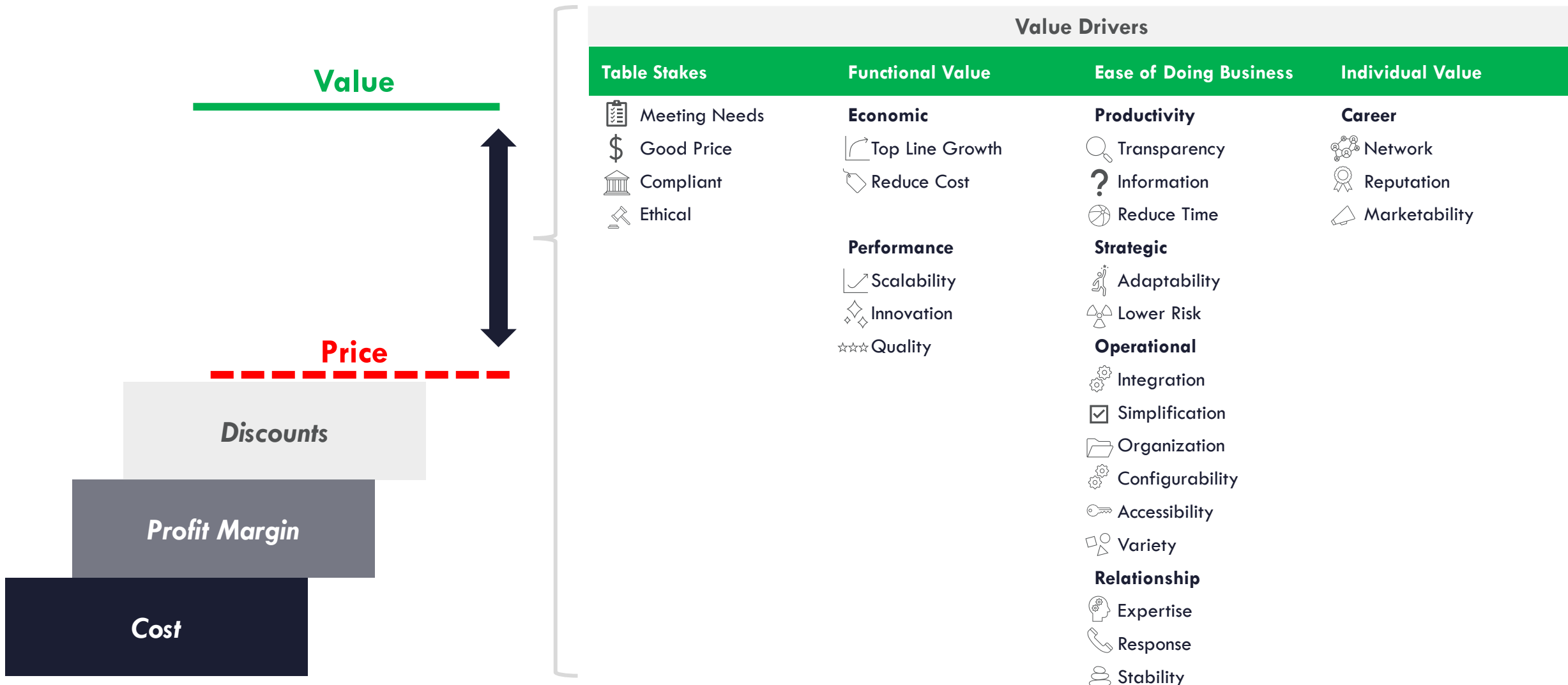
Product	Elasticity	Price $\Delta\%$	Volume $\Delta\%$
A	-0.7	+6%	-4%
B	-4.0	+1%	-4%
C	-1.0	+3%	-3%
D	-2.0	0%	0%
E	-0.5	+7%	-4%

+\$0.7M Total Margin Impact

Cost-Based Pricing Is Not The Optimal Solution – Value-Based Pricing is!

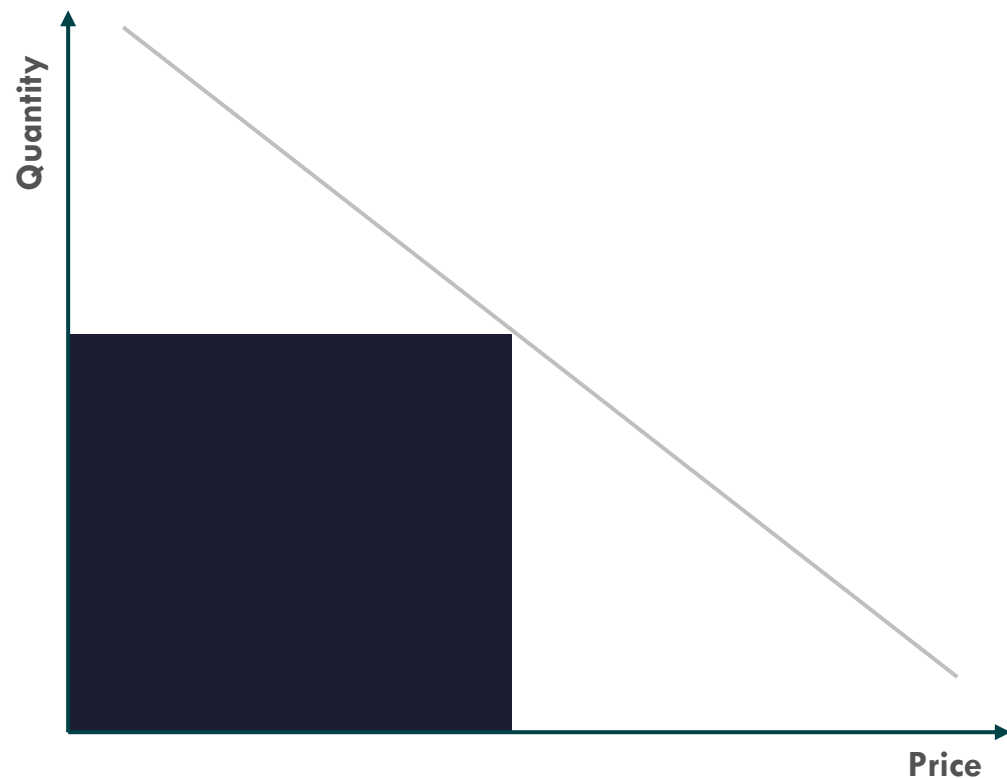
Setting Price

Value Is Not Granularly Determined When Setting A Price, Leaving Money On The Table

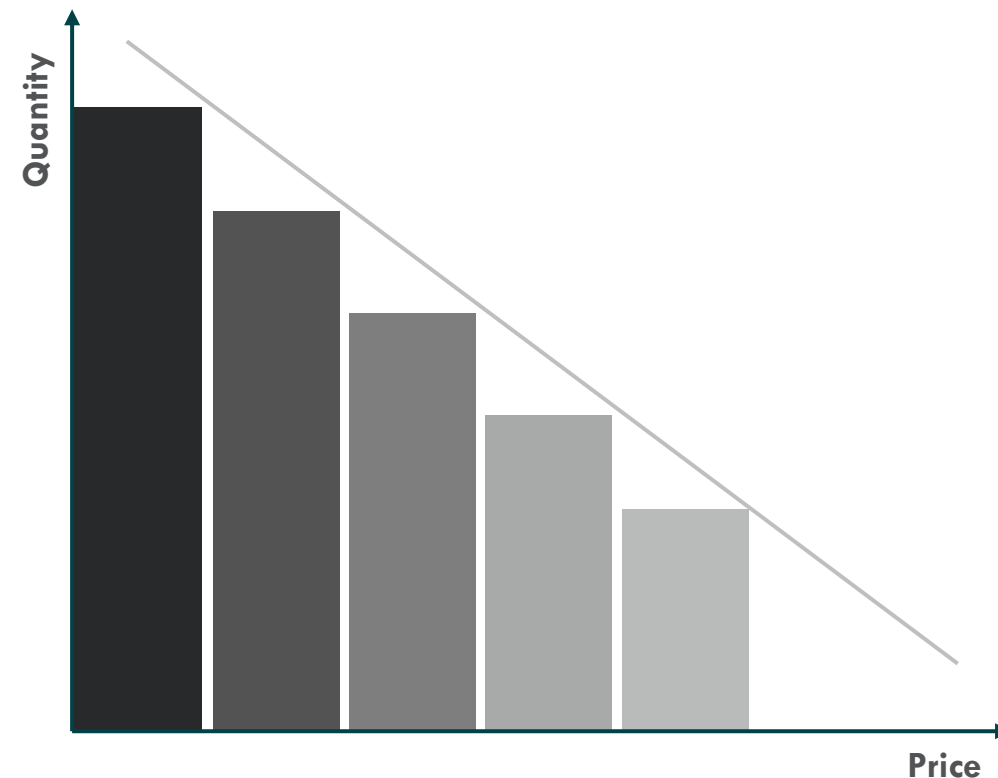


Non-Optimized Revenue

One Offer



Segmented Offers

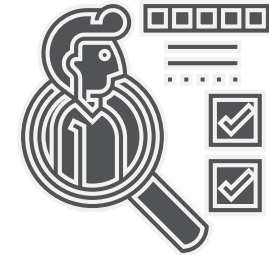


How do we capture the "White Space"?

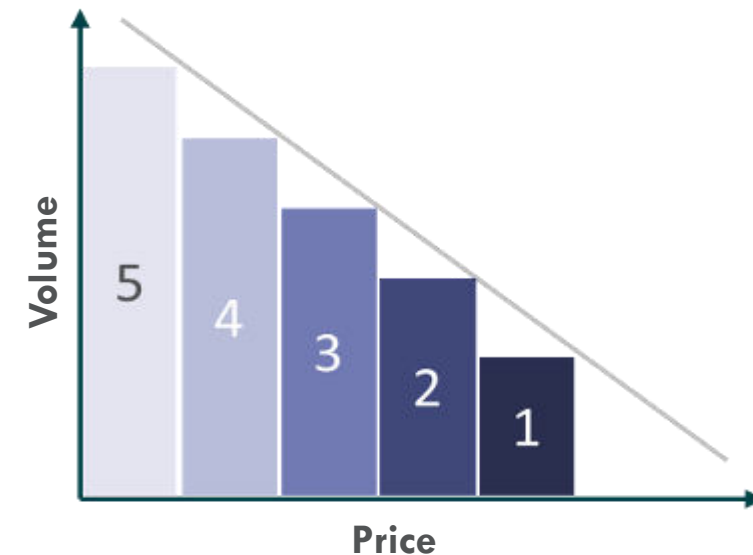
Right Customer, Right Offer, Right Price

- Dividing customers / offers into groups based on similar needs:
 - Firmographic (Age, Industry, Size, Start-ups, etc.)
 - Geographic (Country, Urban, Rural, etc.)

- Psychographic (Values, Attitudes, Motivations, Social media sentiment etc.)**
- Behavioural (Spending habits, Order patterns, Pricing pushbacks, Discount inquiries etc.)**



Segment / Size	Behavioral and Psychographic Needs		Target Offer
	Price	Quality	
	Low	High	
A : 20%	High	High	Offer 1
B : 20%	Medium	Medium	Offer 2
C : 20%	Low	Low	Offer 3
D : 20%	Low	High	Offer 4
E : 20%	High	Low	Offer 5



② Protect Your Price Integrity

Impact of Concessions

Concessions Trade-Off

Knee Jerk Reaction: Concessions

Common Customer Asks

- “I want flexible or delayed payment options!”
- “Can we reduce the cost?”
- “I want more discounts or free addons!”
- “Your prices are much cheaper online”
- “Your competitors are much cheaper”
- “Let’s revisit this another time”

The Result of Concessions

- An expectation of future relief
- Potential to never raise price again
- Lowers the value of your offering & business
- Introduces customer / channel conflict
- Forces you to compete on price
- A delayed (or lost) sale

63% of salespeople are not comfortable negotiating with customers and avoid the discussions by granting concessions.

Concessions Trade-Off



Customer

Your prices went up 10%. Can we get a discount for being a loyal customer?

Of course! But only if you extend your contract by 4 years!



Company



Customer

Ok, but I will need some free addons.

That's fine. We will give you free addons in exchange for concession of your 3% payment terms.



Company

Other Ways To Extend Relationships & Upsell

- Agree to extended terms in the contract
- Agree to expanded scope
- Agree to expanded licenses
- Agree to increased data visibility
- Agree to be a priority partner

While customers benefits by getting concessions in the short-term, they are on the hook in long-term.

Change strategy to allow for upsell.

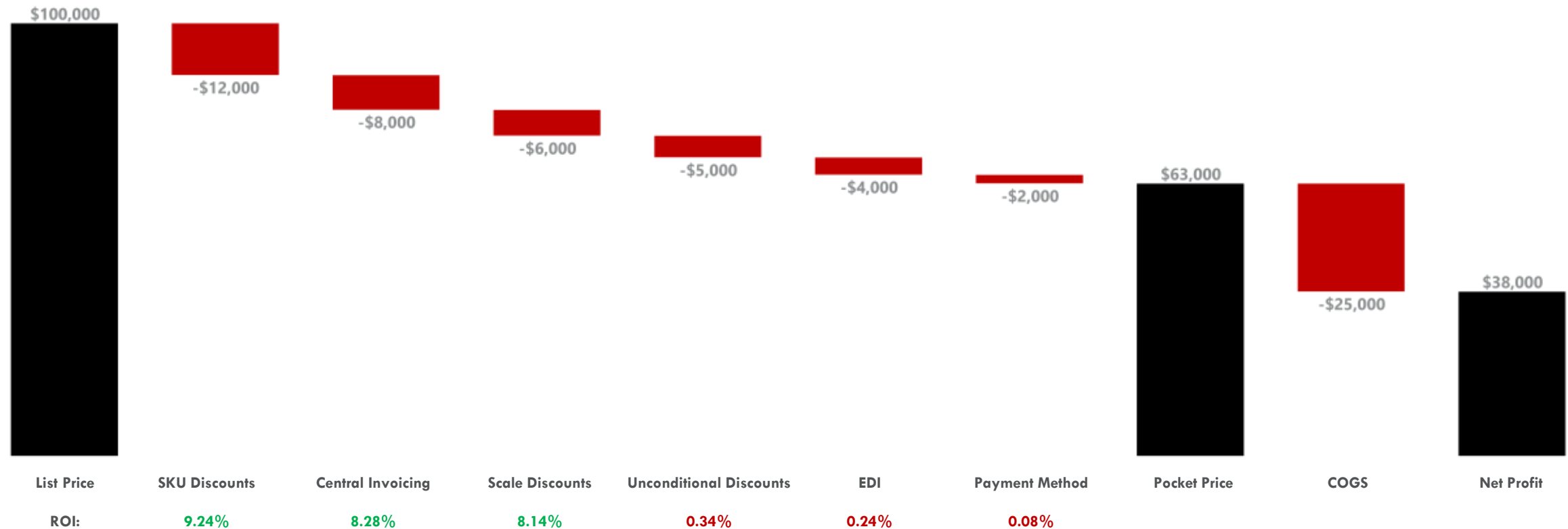
③ Address Price Leakages

Identify Price Leakages

Patch Price Leakages

Leverage Price Waterfalls To Identify Price Leaks

A **Price Waterfall** analysis is a visual breakdown of the revenue and margin a company makes from each of its transactions. Each spend represents a conscious decision the organization is making.



Investment vs Leakage

Questions To Identify and Patch Price Leaks

Questions To Ask

- Which discounts and allowances are suboptimal and need to be revised or replaced?
- Which discounts do customers care about most and can influence their buying decisions?
- What is the financial impact of changing deductions?
- What mix of products and services should I sell to customers to augment margin?
- How have actual prices evolved due to changes in deductions?

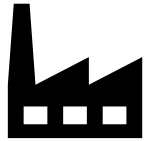
Leverage these activities to grow the bottom line.

④ Enable Sales Team Execution

Sales Team Discounts Offset Price Increase

Leverage Playbooks To Navigate Discounts

Sales Team Discounts Offset Price Increase



You Raise Price

Are there any rebates you can give us to offset this increase?



Customer

If you do this, we are going to walk away!



Customer



Customer

Why are you raising prices when your competitor is not?



Customer

Can we get any free add-ons if we buy from you?

Salespeople are often overwhelmed with customer objections and give discounts to hit sales targets and please customers.

Leverage Playbooks To Help Sales Teams Navigate Discounts



Key Components of a Discount Playbook

1. **Quantify Value:** Enhance your team's ability to communicate the value of your offerings by providing them with talking points around offer positioning.
2. **Manage Trade-offs:** Develop a strategy to help your sales team negotiate with customers, allowing for concessions only if they agree to your asks.
3. **Control Cost To Serve:** Restructure organizational processes to lower the cost to serve customers, providing a sell story to help communicate the message.

Support With The Right Infrastructure: Establish the right reporting / system / review process / approval authorities / budgeting / to ensure tracking and adherence.



BOUSSIAS

Revenue Management Labs Ltd.

2 Sousa Mendes St.
Toronto, ON M6P 0A8

555 Madison Ave, Suite 500
New York, NY 10022

Avy Punwasee, Partner
apunwasee@revenue.ml.com

Remember The 4 Steps to Price Effectively!

- 1 Refine Value Quantification Versus Market
- 2 Protect Price Integrity
- 3 Address Price Leakages
- 4 Enable Front Line Sales Execution