MANUFACTURING INSIGHT

B2B PRICING WITHOUT FEAR

INSIGHT2PROFIT
THE B2B PRICE & PROFIT EXPERTS

A study published by McGladrey predicted good news for industrial businesses. According to the research, nine out of 10 executives at small- to mid-sized manufacturing companies expected to see solid growth throughout the year.

Did you? If so, where did that growth come from? If not, where did you expect it to come from and how did it fail?

Thirty-nine percent of the 900 professionals surveyed felt lowering costs through operational efficiencies would be the best way to grow their profit margins. And while that may be the growth strategy C-suite executives gravitate toward most often, it's not necessarily the most effective one.

It's no secret that not all growth is created equal.

While a growth strategy like driving costs out might bring short-term spikes in margin improvement, it also may come with undue risks, like disruption to day-to-day operations, decreased product quality or widespread layoffs. You need to consider both the safety and sustainability of your preferred growth strategy. **That's why, when considering the most appropriate strategy to increase profitability, more and more industrial companies turn to pricing improvements.**

We asked leading executives to share their most pressing questions and fears about implementing pricing initiatives, and answered them using our years of experience leading pricing transformation projects at industrial companies. **Here's what they wanted to know:** ⟶

1 Where Should I Focus My Attention First?

One of the quickest methods for increasing profitability is to turn your attention to the pricing decisions you already make every day. As a manufacturing company, you're likely offering a variety of discounts to different customers, waving freight costs and making choices about return policies. Those pricing decisions are all examples of **low-hanging fruit** that, once tackled, can help you achieve significant profit gains.

To start, work on uncovering problem areas and identifying opportunities to improve aspects of your pricing structure. There are a wide variety of options, but traditional areas where quick gains are possible include improvements to pricing policies, processes, governance and systems. Small adjustments produce a big impact, **delivering results directly to your bottom line.**

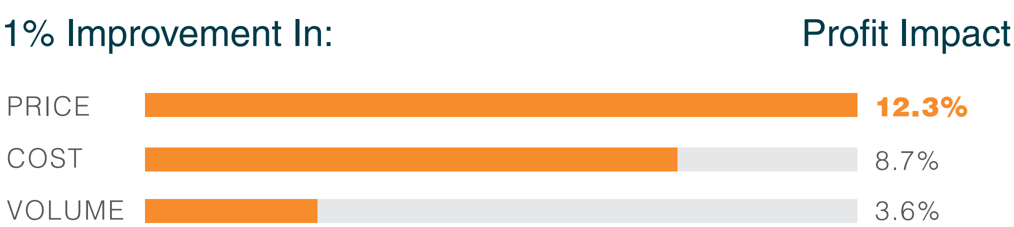
2 How Do I Rapidly Increase Profit With Minimal Disruption?

Improvements to pricing are among the few changes a company can make that won't interfere with its leadership, workforce or objectives, and they can be implemented with great speed for rapid impact. **And when you implement pricing changes correctly, you don't have to worry about losing sales volume or endangering customer loyalty.**

CONSIDER THIS: A 1 percent reduction in cost impacts a company's bottom line by an estimated 8.7 percent but can cause significant disruption to structural integrity.

By contrast, a 1 percent improvement in pricing can boost the bottom line by more than 12 percent (3 percent more than cost reduction) and **holds little to no risk of operational disruption.**

PRICING IS YOUR MOST POWERFUL PROFIT LEVER

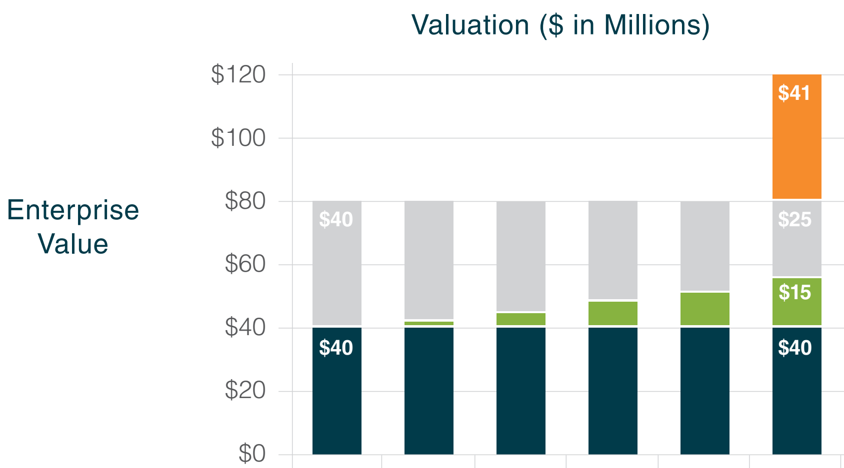


3 How Do I Create Sustainable Growth and Equity Value?

Pricing improvements continue to be one of the most powerful ways to grow EBITDA and add value to your company year-over-year in a sustainable way.

CONSIDER THIS: A $100 million business with 10 percent EBITDA at time of acquisition can achieve a **50 percent EBITDA** growth with a **1 percent price adjustment each year for five years.** The additional revenue delivers over **$15 million cumulative EBITDA increase** for debt reduction or other uses, and over $40 million of additional equity value creation.

MINOR IMPROVEMENTS IN PRICE ALONG WITH PROPER CONTROLS CREATE EQUITY VALUE



	T0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Equity Value Creation						$41
Bank Debt	$40	$39	$37	$34	$30	$25
Deleverage Through Price		$1	$3	$6	$10	$15
Original Equity	$40	$40	$40	$40	$40	$40

IMPACT SUMMARY

EBITDA Margin Improvement:
$10M (10%) - $15.1M (14.5%)

Equity Value:
$40.8M ($5.1M x 8)

Incremental Debt Reduction:
$15.1M

Total Enterprise Value Creation:
$55.9M

ASSUMPTIONS:

- Based on a $100M Company
- 10% EBITDA at Acquisition
- A 1% incremental price improvement each year
- No additional sales growth or margin improvement efforts

4 How Does My Company's Pricing Compare to the Market?

Market pricing data can be expensive to identify and isn't always available. **That's why mining historical data is a powerful way to develop insights into market and behavior trends.**

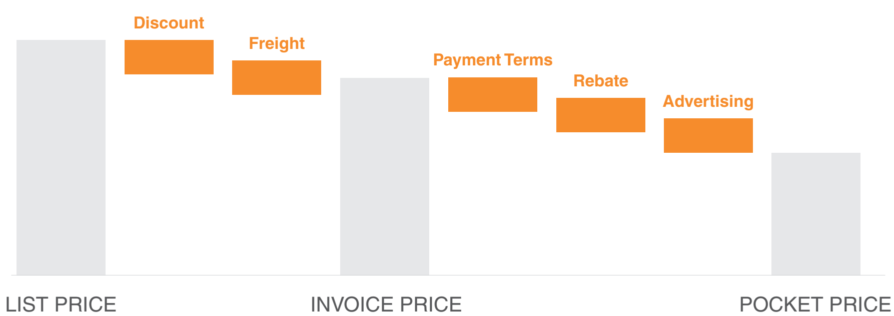
CONSIDER THIS: A pricing firm with deep expertise in industrial verticals can use **data mining software** to examine a company's **historical pricing** at the line-item level. This practice offers leadership visibility into what's driving price sensitivity and where opportunities exist to segment products to identify customers' willingness to pay true market price, leading to improved margins.

5 Is My Company Leaving Money on the Table?

While pricing guidelines offer sales teams valuable information, most companies have a difficult time realizing the optimal price they set out to capture. Try looking at historical pricing trends for evidence of **price leaks**. For example, how much price variation exists between similar customers? How often are prices updated? Are customers receiving volume discounts for small-quantity orders? Even minor inconsistencies can add up to a substantial loss in profits.

Your organization can work with a pricing consultant to understand you true "pocket" prices, then address those inconsistencies through ongoing training, policies and controls, making sure your organization understands the value of each product and the rationale behind its pricing.

SYSTEMATICALLY IDENTIFY AND QUANTIFY SIGNIFICANT PRICE AND MARGIN WATERFALL ELEMENTS



COMMON PRICE LEAK AREAS

- Pricing
- Freight
- Discounting
- Collections
- Samples
- Returns
- Data Systems

6 Does My Company Have the Right Pricing Foundation?

Most companies lack built-in structural accountability for price enforcement. For example, price targets may be set by management, while sales adjusts them and finance measures the results. Often, no one in a management role owns a company's pricing strategy. **Effective price management isn't a one-time project; it's an ongoing commitment that requires process, technology and clear ownership—such as a dedicated pricing manager or leadership team member— to drive and sustain pricing excellence.**

Summary

Throughout all the answers above, there's a single common thread: Pricing.

1. **Pricing boosts bottom-line margins.**
2. **Price improvements are rapid to implement and have minimal operational disruption.**
3. **Pricing is one of the most powerful ways to create equity value.**
4. **Historical pricing data mining reveals low risk margin improvement opportunities.**
5. **Understanding "pocket" prices exposes price leaks.**
6. **Pricing foundation includes process, technology, & clear ownership to drive sustainable results.**

Price improvements are one of the few changes B2B companies can make that cause little-to-no disruption while creating sustainable profit improvements. And pricing is the one thing company leaders cannot afford to ignore. With the right pricing strategy, implementation and monitoring plans in place, companies can see immediate changes to the bottom-line that exceed the success of other profitability initiatives—all without the fear of losing their place in the market..
If you're ready for more profit, pricing is the single most important place to look.

INSIGHT2PROFIT

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INSIGHT2PROFIT is a fast growing company specializing in pricing and profit excellence and customized data-driven solutions for B2B manufacturers and distributors. Since opening its doors, clients such as Timken, Crosby, CertainTeed and Capsugel have benefited from its unique blend of expertise, technology, and sales effectiveness to achieve sustainable profit growth. Dedicated to upholding the highest standard, the company guarantees results.

INSIGHT2PROFIT is located in Cleveland and Chicago.

For more information about how INSIGHT2PROFIT can answer your questions about pricing, visit: www.insight2profit.com

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