HOULIHAN LOKEY

**WHITE PAPER**

STRATEGIC CONSULTING

# Unlocking Value Through Pricing

June 2016

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## OVERVIEW

Driving sustainable improvement in B2B pricing has long been a challenge for executives. The reasons for this difficulty are many: The lack of analytical approaches to understand price drivers and opportunities for price increases; the lack of processes to manage and track price changes; and misaligned sales incentives that fail to promote positive price performance. While some B2B organizations have tight controls on major deviations from list prices, sales processes in many B2B organizations involve negotiated price reductions based on specific products, deal size, individual customers, and other attributes. Furthermore, sales representatives, especially in organizations where deal negotiations are common, generally have significant influence in setting final prices, and sales commission structures often motivate sales reps to close deals at prices significantly lower than the profit maximizing price.

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Whether deals are negotiated off list prices or not, most B2B organizations can significantly improve their pricing effectiveness through analytically designed and diligently implemented surgical pricing programs. Unfortunately, many organizations under-invest in building pricing capabilities, leaving a tremendous amount of value on the table.

Fortunately, the experience of leading companies across industries who have demonstrated strong pricing performance confirms that pricing programs can build value without stalling top-line demand. Further, the surgical nature of such pricing programs avoids a broad brush/one-size-fits-all approach, enabling quick implementation often in parallel with most other management or business priorities. Such pricing programs typically yield 100–500 basis points improvement in operating margins on addressed revenues.

Based on our experience, companies with one or more of the following lead pricing indicators commonly have opportunities to optimize their pricing performance.

**Leading Pricing Opportunity Indicators**

- Business complexity
  - Large deal / bid volume
  - Large number of customers
  - Large number of sales reps
  - Large number of SKUs / products
  - Large geographic footprint
- Large percent of negotiated deals
- Misaligned sales incentives
  - Quotas tied to revenue or unit volume
  - Sales compensation not tied to price performance
- Inefficient discounting process
  - Ad-hoc special pricing approval decision rules
  - Sub-optimized rep discount authority limits
  - Win/loss data not used to optimize discounting
- Lack of IT/data-related tools
  - Lack of pricing data cube / infrastructure
  - Lack of market-back IT pricing tools to manage pricing

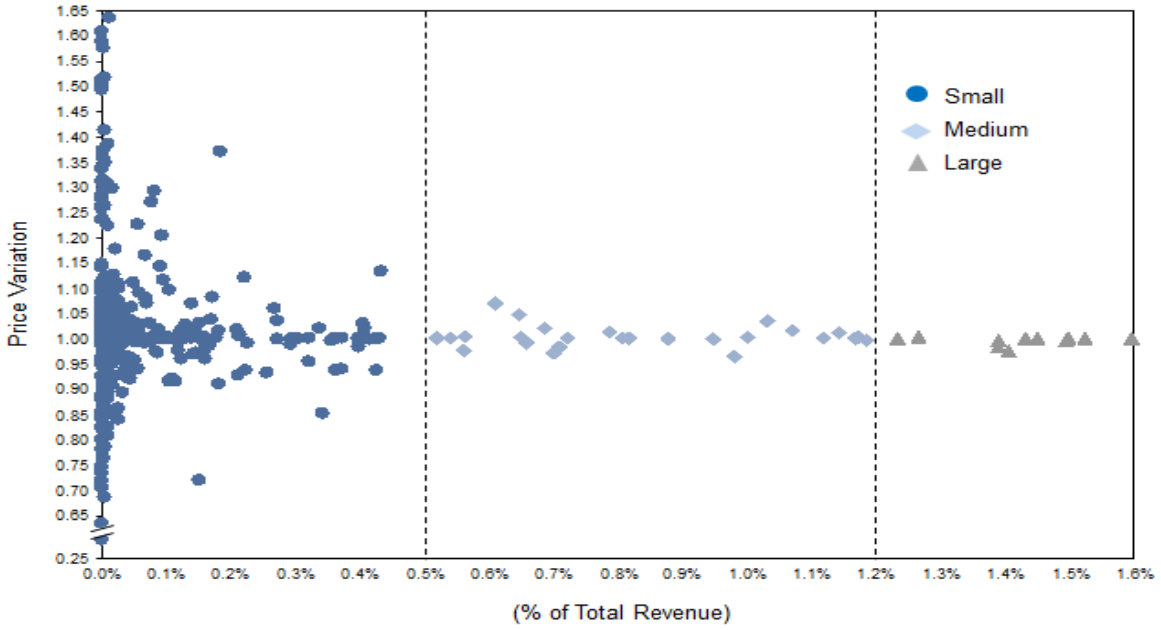
## CASE STUDY

A leading $500 million industrial building products manufacturer was looking to improve its operating margins through price optimization, while building a more disciplined pricing approach and level of sophistication within its organization. The company had over 12,000 SKUs and 80-plus sales reps serving multiple clients across the U.S and Canada. Most sales transactions went through multiple negotiation cycles, and the company's seasoned sales reps were spread out across large sales regions. Management suspected price leakage at various levels within the transaction cycle.

Analysis of price performance at the sales rep, customer, and product levels identified wide variations in discounting behavior across customer segments (Exhibit 1).

While there was greater consistency in discounts for larger customers, significant variation existed in discounting behavior for small customers. Similar variation in discounting behavior was evident for small orders, independent of customer size. The company updated its pricing policies to reflect minimum margins based on order size and customer size, and defined price performance metrics to drive order-level pricing discipline.

**Exhibit 1: Price Variation (Discount) by Customer Size**




*Source: Disguised industrial manufacturing client example*

## RESULT

The implementation of disciplined pricing practices based on order size, as well as list price optimization for three core product lines, enabled the company to realize 520 basis points improvement in operating margin on addressed revenue within the first year. In addition to establishing discounting guidelines and discipline across the sales organization, sales training, incentive structure redesign, and establishment of performance metrics and processes ensured sustainability of price performance over the long run.

## HOULIHAN LOKEY STRATEGIC CONSULTING SERVICES

Houlihan Lokey provides a complete suite of strategic consulting services to organizations including strategy, growth, and operational improvement. We have served over 100 B2B organizations across industries, geographies, and sales channels to help companies unlock value through Price Optimization, with an operating margin improvement of 100–500 basis points on addressed revenue.

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### ABOUT HOULIHAN LOKEY

Houlihan Lokey (NYSE: HLI) is a global investment bank with expertise in mergers and acquisitions, capital markets, valuation, financial restructuring, and strategic consulting. The firm serves corporations, institutions, and governments worldwide with offices in the United States, Europe, and the Asia-Pacific region. Independent advice and intellectual rigor are hallmarks of our commitment to client success across our advisory services. Houlihan Lokey is ranked as the No. 1 M&A advisor for all U.S. transactions, the No. 1 global M&A fairness opinion advisor over the past 15 years, and the No. 1 global restructuring advisor, according to Thomson Reuters. For more information, please visit www.HL.com.