Monetizing Data

A Practical Roadmap for Framing, Pricing & Selling Your B2B Digital Offers

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Business and Value Pricing Models in Practice

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After 20 years in B2B Global Sales for an Industrial company, as the Global Vice President of Value, I can say value pricing is not easy, but it is possible, and the rewards for the buyer and seller focusing on the right paradigm make both the buyer and seller more profitable. When looking at Value pricing an offering, you can look at

- "Correctly" pricing a product or service based on the value delivered versus the next best alternative.
- ***Full Performance or Outcome*** based pricing, based on the supplier taking lots of risk and reward when value is delivered. To do so an agreement on the methodology and numbers to use for calculating the risk / reward need to be considered.

Even though ***Full Performance Based Pricing*** is an ideal from both the buyer and supplier, it is not always feasible. It makes so much sense, theoretically you only pay for incremental value, and the seller earns more than he can by just selling a product. You pay for outcomes and results which you want not for products and activities that "might" deliver value. However, sometimes, the cost and complexity outweighs the rewards. Too many variables exist, the contract would be too confusing, the supplier needs other suppliers or the customer to do things for value to be created, and / or the risk that the supplier loses money and / or the buyer ends up paying a "reward" that is astronomical becomes roadblocks. Finally, I have found, companies are only willing to outsource to experts "non – core" processes or services, but are reluctant for numerous reason, and rightfully so to outsource the core of what they do.

What I have found is that a third or ***Hybrid Option*** seems to be the most palatable from the supplier and buyer perspective. In this scenario, some risk and reward is added to the agreement. With my experience working for a higher priced supplier, we could, for the right customer, guarantee in exchange for being the primary supplier at a price premium versus others, guarantee an annual COST Savings (not a Price savings). If we didn't hit a threshold of value (we agreed on how we would calculate value and the numbers we would use), if we exceeded the target we got a price increase up to a certain small percent and / or increased marketshare. To do so we needed to convince the customer that a 5% ANNUAL cost savings for the 5 Years was worth a lot more than a 5% price reduction over the life of the contract. Supporting the customer with facts that buying a different way is better for them, than buying lowest price, I spend around a third of my time creating and delivering that message. We neede to develop the process to determine where improvements could be made, prioritize these with the customer, then track what actually happened. Of note, we never had to do exhaustive studies ahead of time to determine if we could help the customers improve their operations, we just knew that if didn't or couldn't they shouldn't really be paying more. This resulted in 170 large agreements with Global or regionally significant companies that got a better result by enabling them to pay more but get more measurable real value. We won numerous supplier of the year awards as the process and engagement helped the procurement team deliver what their company wanted, true value and profitability improvements. In all my years we always exceeded our targets, and never had to write a penalty check. This substantially increased our net profits by approximately 40% for these customers, as instead of discounting we delivered value ($70 Million plus annual bottom line improvement) plus volume increases.

A thought to consider, the pricing model to use, is somewhat dependent on where the customer is in the buying process. If the customer is at the needs identification stage, this is a great time to frame what is the result they should be looking at buying (not the product) and how best to align a contracting / pricing model so that it best reflects what is wanted. Are the buying bearings, belts, and sprockets, or are they buying parts that make their operations run at the best cost per / ton of steel produced? Discussions here can and should be different versus if the customer has sent out an RFP or RFQ, by this time they have chosen internally the weighting and characteristics they will measure and choose based on. In the latter stage the Hybrid option is more feasible to discuss as it's not a huge "pivot" such as moving towards a full pay for performance. Here, you are still buying parts at a higher price, but you are getting a guarantee that the value created is worth more to you than the price increase.

To get the value of value pricing one needs to make sure that sales, marketing, and management contracting are aligned. As my CEO once said, "Todd how many creative different ways do the sales teams come up with to discount? ….. Long pause….. How many processes do we have to guarantee our customers value versus discounting? If you find your company has lots of processes to justify discounting then you need to invest in ways to contract based on value delivered.