Wilson Perumal & Company's

Insights to Action

Success Stories from Leading Companies

# Pricing has the power to drive a significant uplift in your profits, but it can sometimes fail to achieve the results you expect

## A global leader in manufacturing equipment

This firm (EquipCo) was as well-known for its quality and had instituted numerous rounds of price increases over the last few years. **However, despite having a stable cost structure, they had not seen any uplift in their gross margin.**

Additionally, EquipCo's win-rates across their product lines had become more inconsistent over time—**they appeared to be winning a greater share of smaller customer orders, while winning fewer larger customer orders.**

EquipCo didn't understand what was driving the negative change in their win-rates, nor why their price increases seemed to be having no impact on their bottom line results.

## A more strategic approach to pricing

After a deep-dive analysis into their pricing process, the first thing EquipCo realized was that they needed a more strategic approach to price increases. In the past, EquipCo had instituted the same price increase across all of their product lines. This had worked well in the past, but now EquipCo served a wider variety of customer bases across more geographies than ever before.

A more thoughtful approach to pricing seemed like an obvious answer, but it didn't appear to address the underlying issue of why price increases were not impacting financial results.

## Inconsistent discounting process

Next, EquipCo reviewed their gross margin performance for the last five years and was dismayed to realize that the spread of gross margin was not only large, but varied significantly across product lines **(see Figure 1)**. **Further analysis appeared to reveal the root cause of the issue: although EquipCo had raised their list prices over the last few years, discounting by the sales force had risen to offset the effects of the price increases.**

Historically, the sales force had free reign with discounts to ensure they had the flexibility to win new business. Unfortunately, this meant that individual sales people could discount according to their own whims. This created a situation where one person could hold firm on price and lose out on an order, while another could discount heavily to win the deal, but destroy margin in the process.

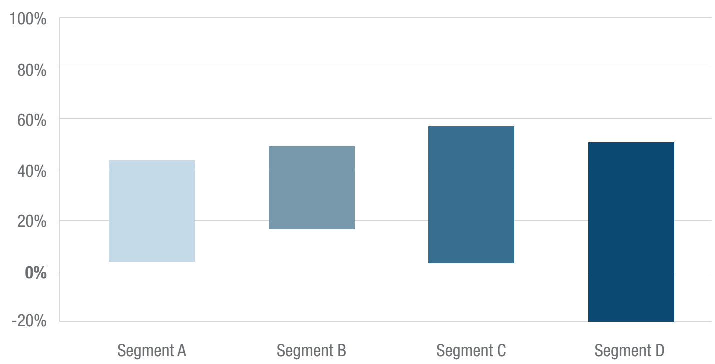


**Figure 1:** Spread of gross margin by customer order across various product lines

## The solution

EquipCo determined that they needed a new pricing process that first looked strategically across their portfolio to understand which market segments offered the most pricing potential, and then implemented price actions accordingly.

However, they realized that this would not be enough, **they also needed to ensure that the price actions were implemented in a consistent fashion across the portfolio.** To ensure that this occurred, they created new discounting guidelines that provided the sales force with the tools and guidance they needed to: (1) preserve flexibility, (2) drive better win-rates, and (3) improve margins.

### Results:

EquipCo's implementation of a more strategic approach to price increases, combined with their new discounting process yielded over a 10% improvement in EBITDA.

**Are your price increases failing to show the results you expect?**

**Should your pricing process be more strategic?**


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