When operating across multiple regions and customer segments, pricing best practices are essential to prevent profit erosion

A services company struggled to implement pricing best practices

Mechanical Services Company (MechCo), a regional HVAC repair services firm, had built a reputation for technical quality and customer service. Though they continued to grow via acquisition, organic growth had slowed considerably. As acquisitions became harder to find, MechCo looked to maximize profit from current operations.

Pricing was a particularly good opportunity to spark profitability with minimal operational impact. As it analyzed historical pricing performance, MechCo uncovered two pricing issues:

1. Pricing and discounting rules were inconsistent across similar business units
2. MechCo did not segment its customers—and therefore its pricing—well enough

Pricing standardization

As MechCo acquired businesses, it did not require them to adopt a standard set of list prices. MechCo believed that, given each market's nuances, it was best to localize pricing decisions. That said, many of the businesses it acquired served similar customer types and geographies and yet had significantly different list prices. In one metropolitan area, nine different labor rates existed across 13 operating units. Thus, MechCo was losing nearly $500k in revenue every year by allowing certain operating units to underprice list rates.

Also, discounting policies varied substantially across operating units. Though most offered some customer discounts, the magnitude of these discounts varied greatly (see Figure 1). As such, MechCo was losing upwards of $1MM in revenue every year by not holding heavy discounters accountable.

Customer segmentation

In addition, an opportunity to leverage varying degrees of customer price sensitivity became apparent. Other than by size of account and region, MechCo did not segment its customers. Market research showed that a customer's industry, for example, significantly influenced its willingness to pay for HVAC services. Customers in manufacturing displayed a high willingness to pay given the value they placed on timeliness of technician. In contrast, professional services customers did not have the same sense of urgency. Despite these differences, MechCo charged all customer types similar rates. Doing so cost MechCo ~$500k in revenue annually.

MechCo's next steps

Realizing its pricing policies were costing the business, MechCo first instituted more rigorous pricing and discounting policies. Operating units with below-average list rates were given tools to help increase to regional averages, and customers receiving significant discounts were put through a review process to justify. Second, MechCo began segmenting its customers more effectively. Four key segments were identified. Customers in the least price-sensitive segments received rate increases based on historical analysis, competitive intelligence, and internal interviews to validate the opportunity.

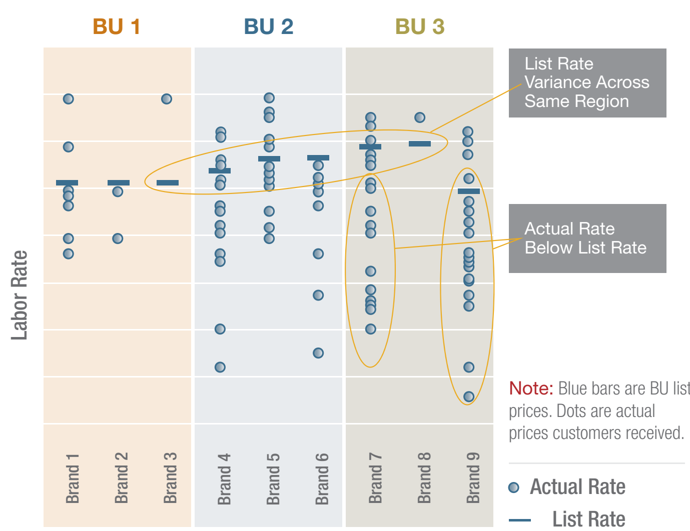

Figure 1: List and Actual Rates by Business Unit

Results:

MechCo identified opportunities to increase EBITDA by 58%!

40% of the total EBITDA benefit was attainable in year one of implementation via quick wins!

Is your organization struggling to optimize its pricing strategy?

To learn more, contact us at contact@wilsonperumal.com.

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