

Pricing Strategy Is More Than a Numbers Game

Kevin McCabe

February 21, 2024

NADCA Executive Conference



What clients are hearing in 2024

**Focus on Indexes
– crawl back
covid-period
related price
increases**

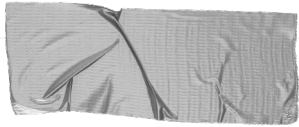
Current Negotiation, OEM

**EV auto capital
investments are
poor....renewed
focus on
materials cost**

Retired, OEM Procurement Specialist

**Lightweight
demand is leading
to innovation and
changing the
value proposition.**

Abey Abraham, Industry Expert



Tip

If the customer is negotiating with you, **you're the preferred supplier!** Their End-Game: **Get The Preferred Vendor to Drop Their Price** (or Not Increase It)

Cost+ pricing drives your offer to commodity and Sales believes it!

- **Cannot solve for product's unit cost to attain unit price: volume effect**
- **Exposes you to "should cost" negotiations**
- **Marginalizes value delivered for some customers**

Pricing Strategy Has Not Kept Pace

Evolution in Customer Value and Competition Positioning

01

Underused leverage

All customers want the most value at the lowest price

02

Misunderstood in negotiation

Procurement has proven you will lower your price

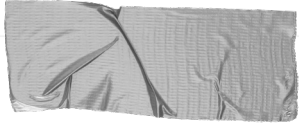
03

Need your own pricing playbook

Its not rocket science. There are profit margin and free cash flow opportunities

Sales are negotiating on an unlevel playing field

- **Powerful and sophisticated buyers**
 - **Aggressive negotiation playbooks**
 - **Customers know more about price than you**
- **Deflated confidence in price & value**
 - **Consistent customer complaints**
 - **Pressure to close deals**



Tip

Every Customer **WANTS** the most value at the lowest price!
Many are playing at being a **PRICE BUYER!**

**That does not mean that
the buying decision is
based on the lowest price**

- **Help them buy the right solution**
- **Plan & negotiate with value/
price trade-offs**

Always want the lowest price. Will switch suppliers frequently.

Price Buyer



Tip

Poor pricing negotiation **trains Value buyers to become Price Buyers.** We are all guilty of this. **Learn their GAME!**

What they Want

Products and services always at the lowest price

The minimum product requirements is most important criteria

Price the next most important criteria

Tier 1 Supplier **cost-to-serve:**
\$17 million in Negative Margin due to non-standard ordering
behavior by individual plant's within OEM
buying center.



Price Buyer Tip

Create **transparency** for your deal team into **Cost-to-Serve** dynamics to capture profit improvement opportunities.

Sophisticated Buyer. Views vendor as a business relationship

Value Buyer



Tip

When there are **important tradeoffs** between value and price Procurement cannot make the decision on their own. That decision will be guided by the **end users/business owners.**

What they Want

Solution that meets business objectives

Control of the evaluation process

Longstanding relationships with value-added suppliers

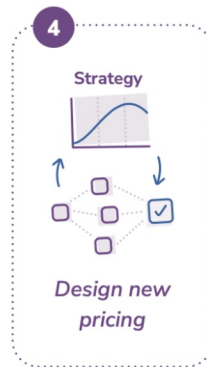
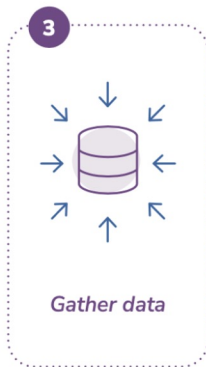
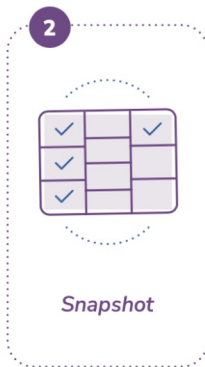
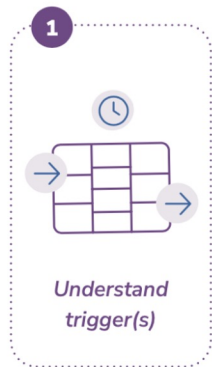
ROI based on long and short-term

Value Buyer Tip

Vary the Value and the Price

Using a Mix of Value Exchanges increases # of Trade-off levers

SIX STEPS TO ADJUST PRICING



<https://appliedframeworks.com/solution-profitability-management>

Sophisticated Buyer. Views vendor as a business relationship

Partner Buyer



Tip

The most important metric is **security of supply and then quality**. Price is not always the main concern, even to Procurement. **Win/Win**.

What they Want

If you have a **relationship**:

Complete solution & Switching Costs

Competitive (not lowest) price to limit negotiations

Value delivered in “partnership” & “fair” price

Tier 1 Vendor: Buyer agreed to 50/50 split of material cost increases in 2022

- Demonstrate long history of quality service and experience
- Offer willingness to build long-term partnership
- Assist with value-added services which could reduce OEM costs in long run
- Continue to over-serve best customer and plant



Partner Buyer Tip

- Look to vendor to help maximize long-term business value
- View vendor as a “strategic partnership” and dependable
- Commit to co-prosperity and trust

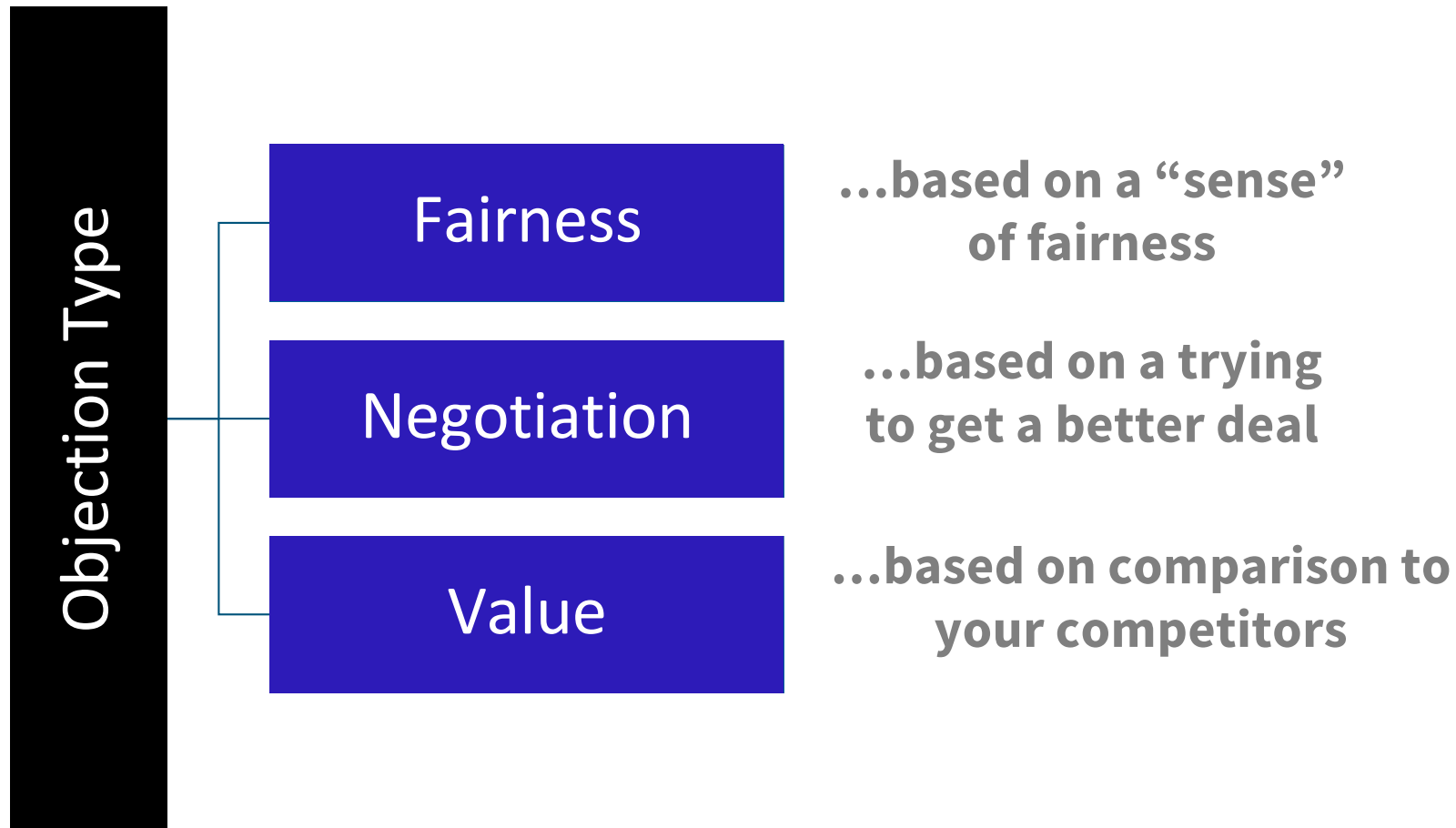
Auto Industry Objections during Covid.... Price Increase Due to Costs Inflation



Tactics

- Accepted price increase....
- Ignored letters, meeting requests....Until stop shipment triggered reaction
- Accepted price increase....placed on No New Business list
- Threaten to open RFP and add expand pre-approved vendor list

Objections Handling: 3 Types of Pushback



Fairness Objections

Buyer's Goal

- Makes the salesperson feel like uncomfortable and have no negotiating power
- Fairness is relative to
 - ✓ your previous relationship with that customer
 - ✓ an internet price
 - ✓ an external benchmark

Your Response

Reiterating all the high-value products and services especially:

- pre- and post-sales services

- the breadth of support

- service quality and consistency

- response time

Security of supply and delivery consistency over time

If discounts are available, make sure they are made aware

Negotiation Objections

BUYER'S GOAL

Get more value at a lower price:

- Angry statements or “threats” (Hardball)
- Assert product is a commodity (Commoditization)
- Report what the cost or price should be (Should cost)
- Inform you of 3+ quotes (Multiple vendor)

YOUR RESPONSE

Understand Your Customer's process

Explore their customers goals before negotiation

Clarify your value difference for that customer

Qualify their evaluation process

Map the buying center

Delay when the customer sets deadlines

Never discuss price until the end

Value Objections

BUYER'S GOAL

- Want financial value from their suppliers
- Security and consistency of supply
- Looking to solve real problems
- Need to follow their standard evaluation process
- Deeper concerns:
 - Fear of a failed implementation
 - Fear of internal visibility & scrutiny
 - Fear of changing suppliers
 - Fear of trying an untested technology

YOUR RESPONSE

Emphasize the value of your offer and why the price is justified

Vary products and services, not just price

Try to add value to maintain prices

GET the customer to make trade-offs to GIVE a lower price

Reassure them by making the switch of suppliers as easy as possible

Reinforce security of supply and delivery consistency over time

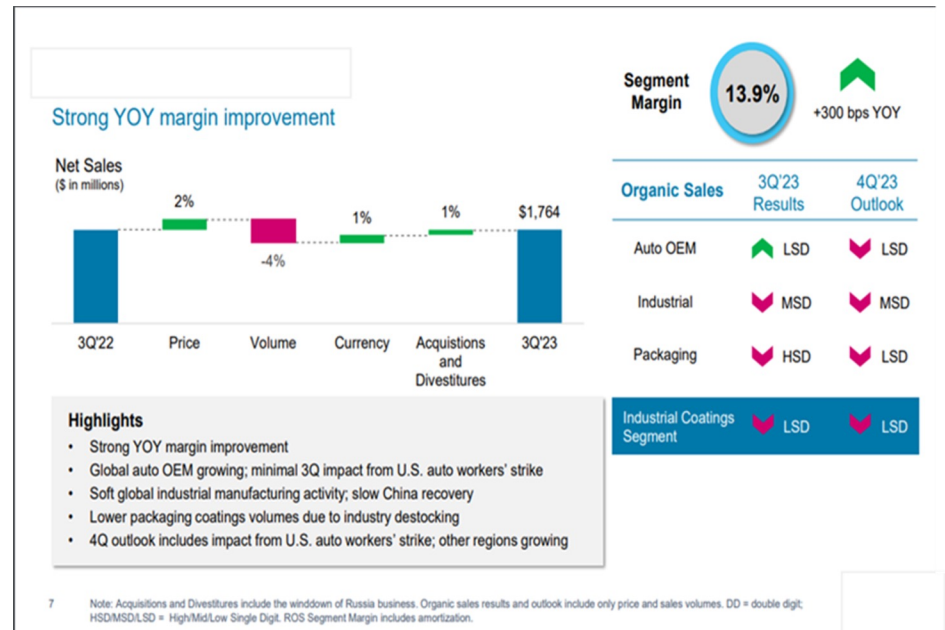
Create certainty around the deliverables with performance examples

Case Example: Tier 1 Auto Supplier – Negotiation Playbook

Playbook

Asks "GETS"				
Responses	Objection Type	Discrete	Enforceable	Cost to Serve
Ask for Last Look opportunity	Negotiation	Yes	No	Neutral
Ask to complete a TCO Assessment	Value	Yes	No	Neutral
Do not make available high-value programs	Negotiation	Yes	Yes	Lowers
Exclude high value services	Value	Yes	Yes	Lowers
Increase Order Leadtime (ex rolling 6 mths)	Negotiation	Yes	Yes	Lowers
Fee for Expedited Orders/Overnight deliveries	Value	Yes	Yes	Lowers
Fee for Change Orders (inside 2 weeks)	Value	Yes	Yes	Lowers

Segment Margin Performance Identified 6% Improvement from 2021-2023



Case Example: Tier 1 Auto Supplier – Quotation Model

Pricing Attributes

Customer Attribute		Product Attribute							
		Product 8020 / Pricing Power (Product)							
		80P				20P			
Customer 8020	Pricing Power (Customer)	Low	Moderate	High	Very High	Low	Moderate	High	Very High
80C	Low	56%	62%	72%	74%	60%	64%	78%	80%
	Moderate	58%	64%	74%	76%	64%	68%	82%	84%
	High	60%	66%	76%	78%	68%	72%	86%	88%
	Very High	62%	68%	78%	80%	72%	76%	90%	92%
20C	Low	60%	66%	76%	80%	65%	70%	75%	80%
	Moderate	62%	68%	78%	82%	70%	75%	80%	85%
	High	64%	70%	80%	84%	75%	80%	85%	90%
	Very High	66%	72%	82%	86%	80%	85%	90%	95%

Scorecard

Score	Power of 1%
8.6 to 10	Highest pricing power
6.6 to 8.5	Higher pricing power
4.6 to 6.5	Moderate pricing power
2.6 to 4.5	Lower pricing power
0 to 2.5	Lowest pricing power

Remember it's a game

If Procurement can make you feel defensive you will almost always lower your price

Give To Buyer

"Should Cost"

- Indexes with tolerances + bid to stay in game (not lowest)

Design Support (Pre)

- Get last look on competitive bid

Rush Order

- Add sourcing, Material costs + production disruption, shipping, etc.

Threaten Escalation

- Welcome "invitation" to meet with executives

Get In Return

FINAL TIP...

Selling Scenario

Purchasing scenario and your response in the face of pricing should be shaped by:

A. Existing supplier

Being the incumbent changes the game

B. Outside vendor

Potential customer has a preferred supplier

