White Paper

Parts Price Optimization: Opportunities and Obstacles

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Optimizing Pricing

Macro-environmental shifts are changing the face of business for OEMs. As economic and market uncertainties increase, more customers are looking to repair machinery and industrial equipment versus replacing it, hampering new equipment revenues and business volumes.

At the same time, customer expectations of supplier speed and responsiveness when it comes to repairs are growing. These shifts are placing increasing pressure on spare parts businesses. With the need for new or additional revenue opportunities to foster better financial stability, manufacturers have to make sure they can get customers the right part at the right price at the right time. Optimizing pricing is a powerful strategy that ensures organizations can deliver on these essential operations.

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Uncovering New Opportunities

While OEMs have been seeing the growing need to identify new revenue opportunities for some time, the economic implications of the COVID-19 pandemic have accelerated and increased the urgency. With more uncertainty, manufacturers are having to respond with new approaches sooner than expected. In the past, cutting prices was an immediate response to economic downturns. However, previous price cutting overreactions saw manufacturers hitting a hard floor quickly and hampered options to grow their way out of recession. Today, manufacturers are looking at smarter strategies, knowing that they will have to invest in products, people and management advances to navigate through these challenging times. The good news is that a 1% increase in price has a much bigger effect on the bottom line, especially at a time of uncertainty and shrinking margins. For many OEMs, price optimization has powerful potential.

Optimization is a Sustainable Answer

As more customers opt to repair existing equipment as opposed to purchasing new, demand for certain parts and their resulting perceived value is going to increase. With a price optimization strategy in place, companies can maximize margins and overall profits by better aligning product or service pricing with their value. And when customers can get the products they need, when they need them, at a price that feels fair, there is increased confidence in a company's offerings and how they approach their business. Eliminating price outliers is essential to building trust.

While price optimization can improve customer perception and help companies differentiate themselves, it also has direct bottom-line benefits because of margin potential and the fast time to value that it offers. In fact, pricing is one of the most important top-line revenue levers available because of its powerful ability to directly increase financial performance. However, in many companies, pricing today is sub-optimized.

> **Pricing teams tend to be small and many companies rely on outdated methods like basic cost-plus strategies and Excel spreadsheets for ongoing management.**

As companies look to price optimization as a powerful opportunity during challenging times, it is important to remember that there is no one-size-fits-all strategy. Omni-channel selling makes managing pricing across everything from e-commerce to traditional dealers increasingly important, but also more challenging. When looking at pricing, most companies will need to combine different approaches and be highly strategic in applying and refining strategies to maximize results.

Understanding Pricing Terminology

Because there is no singular pricing strategy that works for all situations, it is important to understand the different pricing approaches used that are specific to spare parts and the service supply chain.

Channel Strategy Harmonization—an approach to maximizing profits across different sales channels involving creating price corridors, limiting variance, or implementing pricing that drives business to preferred channels or to incentivize collaboration.

Competitive curve—uses a variable mark-up curve to price relative to what competitors are currently doing.

Cost-plus—pricing based on what it costs to produce a particular part plus a pre-defined margin used; companies typically target 30% of revenue for this strategy.

Sandwich—a price point between a genuine good on the high end and low-cost alternatives.

Sellout Data—information from channel partners to uncover when specific parts sell out. Helps to measure elasticity.

Value-based—prices are based on customers' perceived value of the product. This approach is often used with captive parts to drive the highest possible margin.

Yield-based—typically used for end-of-life parts to maximize inventory on-hand and maximize profits.

Implementing More Effective Price Strategies

For manufacturers that realize they are leaving money on the table with simplistic pricing strategies, implementing a dedicated spare parts pricing solution has become a priority. Beyond managing parts pricing by Excel, Access or a legacy ERP system, a sophisticated, cloud-based pricing solution can effectively evaluate new approaches in a mature industry and provide the ability to perform "what if" analyses of different strategies to understand impact prior to implementation.

With a more systematic approach to pricing, companies can apply the attention and consideration that used to only be applied to top customers across the business for greater impact. With this kind of holistic approach, companies can more efficiently identify opportunities and expand implementation organization-wide, instead of only for certain customers.

Common Challenges and Roadblocks to Optimization

While implementing pricing optimization can be beneficial for manufacturers' bottom-lines, it isn't without its challenges. Oftentimes, one of the reasons companies keep unsophisticated approaches in place is they don't know where to start when it comes to re-imagining pricing strategy.

Parts Volumes Make Differentiation Daunting

One of the biggest challenges with parts pricing optimization is the sheer number of parts that have to be managed. Many organizations have hundreds of thousands of parts at different stages in the product lifecycle. Finding the optimal price for each one individually is impossible without a team of thousands of pricing analysts. For a small pricing team, the overwhelming task of segmenting and pricing these kinds of volumes has resulted in ongoing use of a singular, simplistic approach like cost-plus pricing.

A Tradition Of Simplistic Strategies

As parts volumes have grown, many companies have never moved past less sophisticated approaches like cost-plus pricing. Simplistic strategies tend to be based on generalized product categories and arbitrary markups that lack a solid foundation of competitive benchmarking. With this kind of tactic, customers often see inconsistencies in pricing that are not aligned with the value the product brings and their willingness to pay. Additionally, pricing can quickly become distorted by any cost issues such as tariffs or supplier changes. To move beyond a cost-plus approach, companies must understand their pricing segments and start collecting value-based and competitive data to serve as a foundation for more strategic solutions for the segments that can align with this model.

The Need for Deeper Data

For many companies, moving beyond simplistic pricing strategies is stalled out by a lack of data. Without competitive tracking in place or a systematic approach to gathering data, organizations often don't feel they have enough information to implement more strategic pricing. The truth is, competitive data gathering can be done with a small team, not much technology, and at a reasonable cost.

There is no single data point that is the end-all and be-all to base pricing on. Pricing optimization puts all of an organization's field intelligence to work across the organization. Insights from sales people are integrated into the process to provide a more complete picture of the market. And companies have an opportunity to deepen their connection with customers to learn from them and gather deeper perspective. By bringing together a range of data points, companies can gain a better sense of how competitive their parts are.

Data that can inform pricing

Different types of data can help inform better pricing strategies. Companies can use a variety of sources:

- Number of competitive outlets offering a product
- Whether products are manufactured, purchased to a unique design or resold
- Aggressiveness of sales efforts
- Mystery shopping (by phone, email, internet) to understand out-the-door net pricing vs. list-price
- Information from sales representatives
- Competitive price quotes gathered from customers
- Dealer channel
- Scraping prices in bulk from the internet or buying from third parties

Getting Segmentation Right

With large volumes of products to price, segmentation is an essential step in creating a more manageable system. Instead of individualized prices, segments offer a framework for applying pricing strategies based on groups of commonalities. As markets change or parts move along the lifecycle, segments must be dynamic to reflect shifting customer needs and perceptions. In this way, products can always be assigned to the appropriate segment so that prices align with what customers are willing to pay.

Sophisticated segmentation uses a combination of rules and multivariate data attributes to determine segments. Rather than simplistic groupings like product category, sales volume or region, segments should be based on a variety of market behavior characteristics. It is important to remember that no single piece of data should define a segment. Effective segmentation is based on three to seven key data points. Once segments have been defined, a specific pricing rule can be applied to each segment that reflects the expectations of customers and maximizes returns.

Tapping into Technology

Faced with limited resources and volumes of SKUs, most manufacturers are finding that technology is key to effective price optimization. In most organizations, product and pricing data exists across different systems. This results in time being spent on data mining and organizing that could be better applied to more strategic pricing activities. This time loss is also why many organizations have found it difficult to move beyond the Excel spreadsheet to more strategic pricing possibilities.

With technology solutions like Syncron Price™, day-to-day spare parts price management is automated, while pricing analysts provide oversight and the strategic thinking behind system rules. Technology gives teams the ability to manage multiple price lists to ensure global alignment and faster updates. Additionally, this kind of technology-driven approach enables faster response in uncertain times and the ability to continuously refine pricing and strategies to meet market evolution.

In addition to optimizing the bottom-line, implementing pricing technology also can have a positive impact on the organization more broadly. By taking advantage of the insights and expertise of team members, pricing technology creates a shared, hive-mind mentality that builds pride and commitment. And according to the Professional Pricing Society annual survey, people who use pricing technology feel more satisfied with their work and that they are doing a better job.[1]

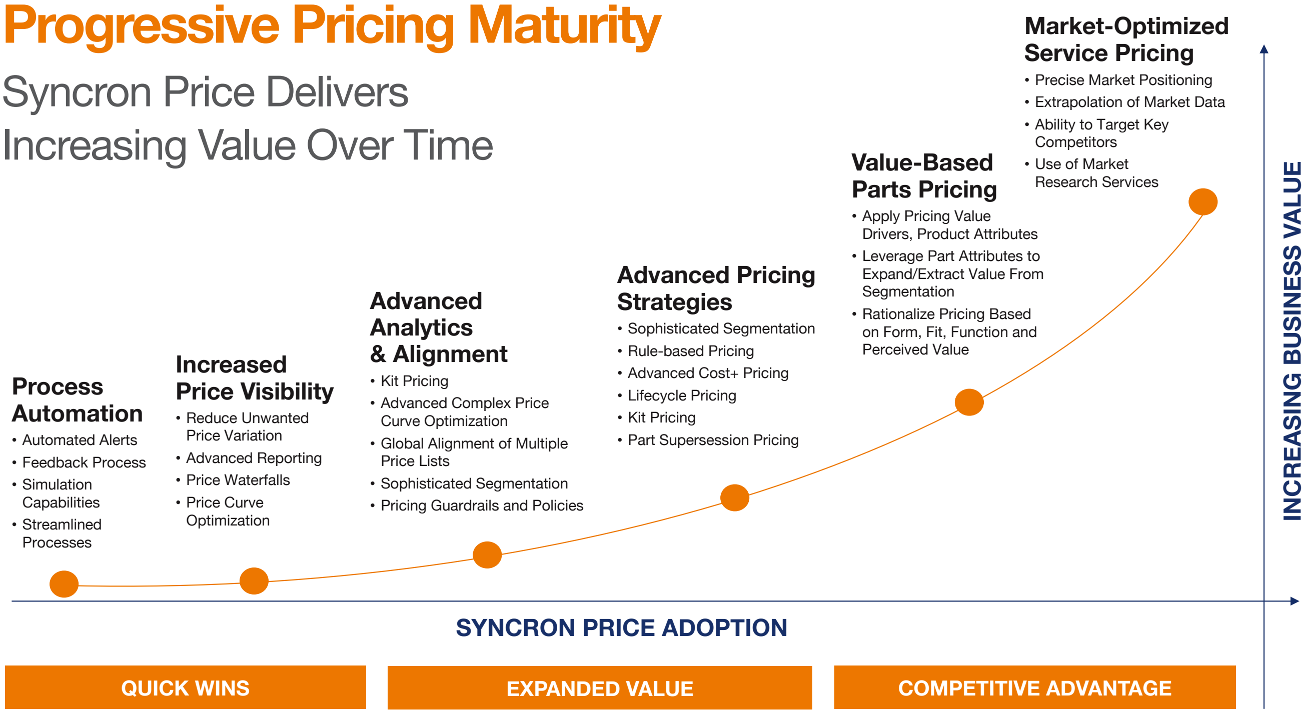
Ready for the Future: The Price Maturity Model

With the right technology, resources and processes in place, pricing can become an organizational strategic advantage. By moving beyond Excel and Access to more integrated technologies that let companies apply sophisticated pricing models, organizations can make pricing more goal-oriented and align approaches with near- and long-term business strategies.

As an organization focused on empowering the world's leading manufacturers to deliver exceptional after-sales service experiences while improving revenue and profits, Syncron is at the forefront of thinking about pricing. Syncron's pricing maturity model helps manufacturers explore price optimization as a continuum for improvement.

Progressive Pricing Maturity

Syncron Price Delivers
Increasing Value Over Time



This three-phase approach to pricing maturity allows companies to evolve and deepen price optimization as a core organizational advantage. In the first phase, companies establish the foundation with process automation and visibility using Syncron Price. The second phase helps companies expand value by aligning the right pricing strategies to the right part segments with increasing sophistication. And in the third and final phase, manufacturers leverage all of the tools to transform pricing into a competitive advantage using value- and market-based pricing approaches to advance a company's market position.

Beyond automating pricing tasks, Syncron Price gives companies the insights, perspectives and strategic space to be more creative when it comes to pricing. More than just efficiencies, Syncron Price gives analysts a dashboard of levers they can use to granularly control segmentation based on real-world data. The end result is a dynamic pricing strategy that is highly responsive to changes in business realities or customer buying patterns.

An Evolved Approach to Pricing

Optimized spare parts pricing offers manufacturers a powerful way to gain greater competitive advantage and essential additional revenues in today's uncertain market. By keeping strategy rooted in pricing best practices and tapping into technology solutions that build upon the most impactful organization insights, price optimization can yield both immediate and long-term benefits.

> **With a more intelligent approach to pricing, organizations have the advantage of anchoring parts pricing in more than just cost and margin.**

Through pricing optimization, value becomes an essential ingredient in the pricing conversation and the days of reactionary price cutting are gone.

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Empowering Exceptional After-sales Service.™

About Syncron

Syncron empowers the world's leading manufacturers to maximize product uptime and deliver exceptional after-sales service experiences, while driving significant revenue and profit improvements. From industry leading investments in research and development, to providing the fastest time-to-value, Syncron's award-winning, cloud-based service parts inventory, price and uptime management solutions are designed to continually exceed customer expectations. Top brands from around the world trust Syncron to transform their after-sales service operations into competitive differentiators.

For more information, visit Syncron.com

[1]Kevin Mitchell, President of PPS, on Syncron Webinar "Drive Value from Optimized Pricing in Uncertain Times," April 15, 2020.

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