Profitability improvement of a global B2B specialty chemicals client

Profitability improvement of a global B2B specialty chemicals client, covering ***key pricing and policy levers to achieve a 3.5% ROS growth****. We started with a diagnostic where we identified and explored seven areas of opportunity, the most important being* ***tail pricing and price variability****. We took a* ***highly analytical approach*** *and focused on developing a* ***heuristic model to size the impact and drive commercial decisions*** *resulting in moving away from the traditional cost-plus pricing. Subsequently we* ***enabled the sales team*** *to bring the price increases to the market and* ***lead successful negotiations****.*

PE owned chemical client used a heuristics based pricing optimization to move away from a cost plus pricing model to unlock ~3.5% RoS

Client context

- USD ~300m B2B industrial client with multiple regions and a **very complicated, inefficient pricing structure**
  - >10,000 products across 3 BU and >3,000 customers around the globe (Americas, EMEA and APAC) were part of the effort
  - Different prices for different customers through discounts
  - Each sub-region has its own pricing scheme (e.g., run-up pricing, list pricing)
- **Pricing approach** has relied on market knowledge, sales people experience and customers willingness to pay
  - Each region used its own pricing approach with no alignment among the business units
  - Very low analytical power within the organization with limited openness to an analytical approach

Client name: X
Team set-up: X
Fees Structure: X

Approach

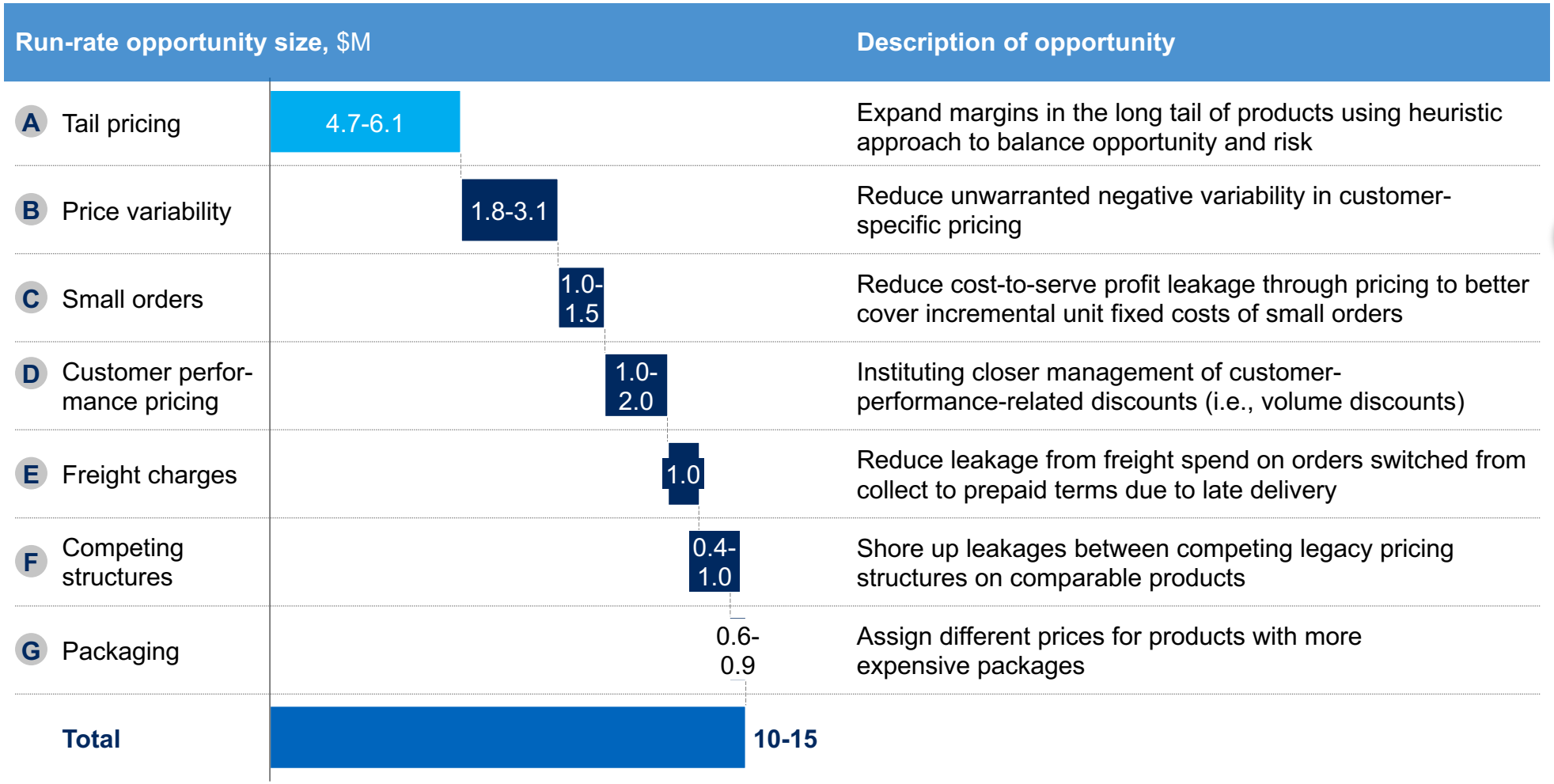
- We used a holistic approach from day 1 – including **a very diverse team** (see team page)
- The 6 months engagement started with a 8 weeks outside-in diagnostics and continued with 4 months of design and implementation in all 3 different regions
- We used a highly analytical approach for:
  - **Tail pricing (20-40% of the rev):**
    - Segmented these products using specific heuristics based partly on data and partly on clients decisions
    - Each tail product was segmented based on specific heuristics and attributed a prince increase
  - **Price variability**
    - Combined market conditions, model outputs and client feedback to decide on specific pricing actions to reduce variability amongst customers
- We were able to find additional impact by finding pricing leakages (e.g., freight)
- All these pricing decisions were backed up by sales reps negotiation training and development of messaging methodology

What was unique: X

Impact

- **$9.2M of additional margins which amounted to ~3.5% ROS**
- New analytical pricing approach fully adopted by all sub-regions
  - ~40 different customized models for each pricing methodology
  - Changed mindset and behaviors with all CEO-1 and CEO-2 clients
- New and aligned policies across all regions (e.g., a surcharge on small orders)
- Aligned surgical (by product) price increase methodology across all regions with all customers
- >2,700 products with a new price across ~900 distinct customers
- **Commitment of all pricing teams to capture the value in the next 12-18 months**
  - All price increases have either been communicated to customers or will be in the next few weeks
- A new digital tracking approach which included introduction of dashboards, pricing cadence and a war room

Value identified for the client focused on nine areas

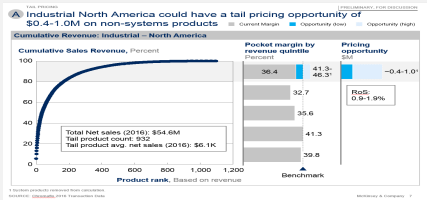
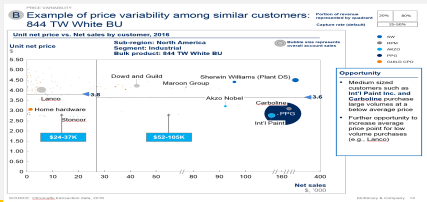
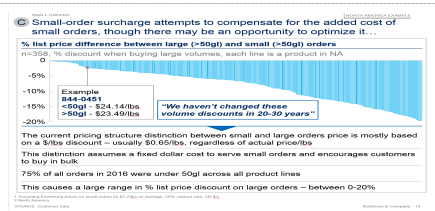
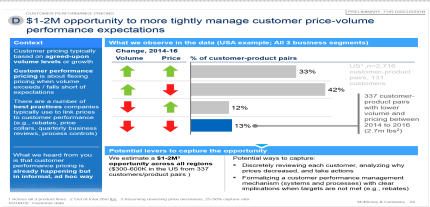


- All levers were addressable across all regions
- Tail and price variability were the levers that had the most impact in all the regions

1 Based on initial interview on Thermosets only. Estimate may evolve as more scope is included.

Combination of insights diagnostic algorithms/tools identified value quickly (1/2)

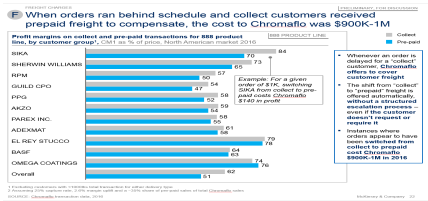
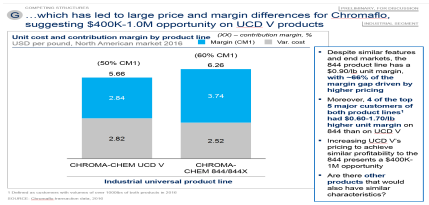
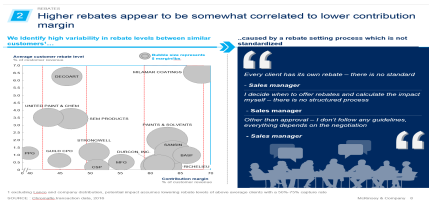
Details to follow

	Opportunity		Description	Key assumptions	Size of lever, $M
Levers	A Tail pricing		Increasing prices of low volume products with below benchmark margins	Increasing tail products margins to benchmark and an additional 0-5% on top	4.7-6.1[1]
	B Price variability		Reducing price variability among customers who buy the same products, while accounting for geography and volume	Increasing below average prices to the average price level of each product-customer segment Assuming price increase to apply on 25-50% of customers	1.8-3.1
	C Small orders		Eliminating instances when lower volume is priced lower than higher volume and increasing surcharges	Eliminating 75-100% of all instances when lower volume orders are priced lower than higher volume orders	1-1.5
	D Customer perfor-mance		Tying pricing with customer performance e.g., increasing pricing for customers who reduce volumes	Reversing 25-50% of all price reductions for customers who reduced volume	1-2

1 An additional $2Mn opportunity from expanding the tail to 40% of the revenues

SOURCE: Team analyses

Combination of insights diagnostic algorithms/tools identified value quickly (2/2)

	Opportunity		Description	Key assumptions	Size of lever, $M
Levers	E Freight Charges		Closing the contribution margin gap between collect and pre-paid shipments on the same customer-product level	Closing the contribution margin gap between collect and pre-paid on 25% of the shipments	1
	F Competing structures		Reducing contribution margin gaps between products with similar attributes and value proposition	Closing 40-100% of the contribution margin gap between 844 and UCDV products	0.4-1
	H Packaging		Identifying the difference in costs of specific packages and charging a surcharge for the high value packages	50% of packaging price increases can be achieved	0.6-0.9

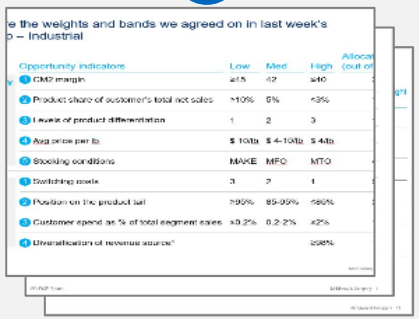
1 An additional $2Mn opportunity from expanding the tail to 40% of the revenues

SOURCE: Team analyses

A The 5 steps we used to build a heuristics based tail model

Shaped the indicators together with pricing teams

1



Each product segment decides on **their own indicators and weights**

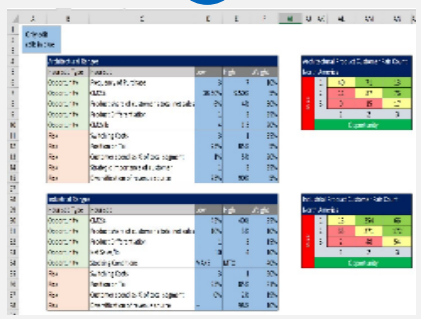
Built tail pricing model

2

Use the agreed indicators to build a tail pricing model **tailored to each product segment**

Recalibrated weights and indicators

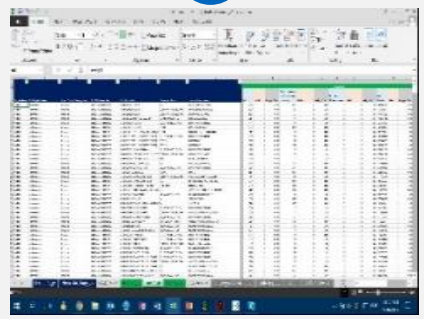
3



Based on the outcome of the model, the teams **re-calibrate the indicators and weights** to represent the actual opportunity

Found exclusions and other issues

4



Review **the actual customer-product pairs** to single out product lines and customers that should not be included

Decided on actual pricing increases and capture rate

5

Industrial	Price Increase %
Low	5%
Medium	21%
High	32%

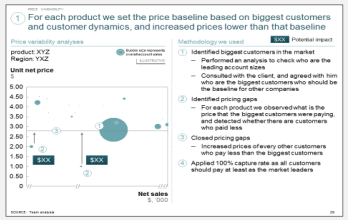
Total Impact
$ 513,673

Based on reviewing the customer-product pairs, **each group decides on a price increase and capture rate** for each opportunity-risk bucket

A highly iterative process which included numerous daily mini-workshops with the client in order to develop a truly accurate model along with increasing clients' confidence in the model

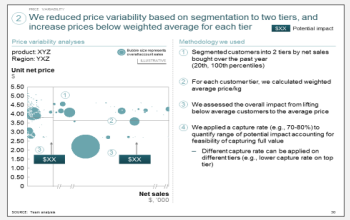
B The 6 steps we used to build a variability pricing/margin model

1 Harmonized prices to largest customers



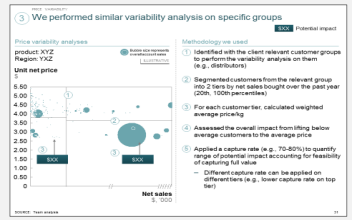
Set the price baseline for each product based on biggest customers and market dynamics

2 Compared between different customers



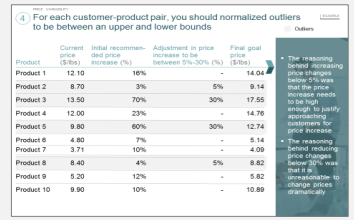
Compared each product's price among all customers who are buying the same product and identified variability

3 Compared between customers from the same group



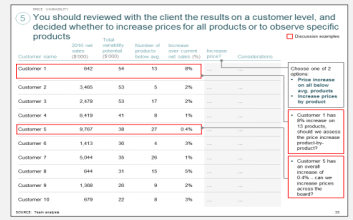
Performed additional price comparison between customers from the same group

4 Normalized outliers



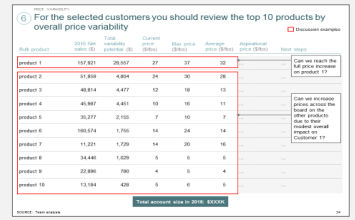
Normalized high and low outliers and extract them when needed

5 Analyzed impact on a customer level



Discussed whether to approve the impact on a customer level or to observe it on a product level

6 Analyzed impact on a product-customer level



Discussed each product of the remaining customers with the client and align on what is the actual opportunity

A highly iterative process which included numerous daily mini-workshops with the client in order to develop a truly accurate model along with increasing clients' confidence in the model

A very diverse, multi-regional, cross capabilities team was involved throughout the entire engagement[1]

Main contacts

DCS who owned the PE relationship

David Schoeman
Senior Partner

B2B pricing expert who has done similar efforts in the pasts

Mason Chapple
Pricing Expert

MI coach staffed from Day 1 who made transition into implementation seamless

Mihai Teognoste
Senior Implementation coach

Partner with deep industry knowledge

Daniel Aminetzah
Partner

MSV/Periscope analyst embedded full time in the team

Henry Ni
Pricing analyst

And a team of generalists who helped bring it all together

Guy Benjamin
Engagement Manager

M&S practice experienced ED with vast pricing experience

Shivanand Sinha
Associate Partner

Remote data support from Costa Rica who helped build the models

Diana Bogantes
Jr. data analyst

Yonatan Horowitz
Business analyst

Mark Lotman
Business Analyst

1 See additional PD on KNOW