

Pricing Impact: A Decade of Documented ROI



by Stephan Liozu, Ph.D.

This article was originally published as chapter 5 in the book called “Pricing: The New CEO Imperative” edited by Stephan Liozu. Stephan M. Liozu, Ph.D. (sliozu@gmail.com), is the Founder of Value Inruption Advisors, a consulting boutique specialized in value-based pricing, industrial pricing, digital and subscription-based pricing. He is also an Adjunct Professor & Research Fellow at the Case Western Reserve University Weatherhead School of Management. He is a Certified Pricing Professional (CPP), a Prosci certified Change Manager, a certified Price-to-Win instructor, and a Strategyzer Business Model Innovation Coach. He has authored seven books: The Industrial Subscription Economy (2022), Pricing: The New CEO Imperative (2021), B2G Pricing (2020), Monetizing Data (2018), Value Mindset (2017), Dollarizing Differentiation Value (2016), The Pricing Journey (2015), and Pricing and Human Capital (2015). Stephan sits on the Advisory Board of the Professional Pricing Society. He is a Strategic Advisor at DecisionLink and Monetize360 and a Senior Advisor at BCG.

For most pricing professionals, the impact of pricing is real. They live and breathe pricing projects and programs and can see a direct impact on margin and sales. For top leaders, it is less clear. In fact, in 2019, I interviewed C-suite executives and CEOs of pricing services and software providers, and the feedback was consistent:

- C-suite executives do not fully understand the effort / benefit ratio of pricing initiatives.
- C-suite executives do not 100% trust the business cases presented by their pricing leaders. They want to see more scenario planning, risk analysis, and better integration of execution cost in the ROI calculations.
- C-suite executives complain that pricing business cases are not as comprehensive and crisp as those coming from other functions.

So clearly, as a profession, we must do a better job at justifying and making the case for pricing investments. In 2014, Andreas Hinterhuber co-edited a book called *The ROI of Pricing* to make a first contribution to the profession. We also published sev-

eral papers on the topic to help pricing leaders use some of the best techniques and methods available to calculate ROI (experiments, big data, Six Sigma, ROI simulators, etc.). That was a good start, but it is not enough.

Based on the series of interviews, I heard the message loud and clear. It is essential that, as a profession, we establish better practices and benchmarks to send clear messages to the C-suite as they rate and prioritize investment proposals from their leadership group. These messages do exist and each individual provider of consulting services, coaching, or software solutions promotes nuggets and anecdotes of success and impact separately. There are extraordinarily few efforts to generate industry benchmarks and average predictive EBIT impact for potential pricing initiatives.

To make it easy for C-suite executives, I collected the most relevant published pricing papers and extracted the nuggets of quantified impact, ROI, and benefits of various types of pricing programs. Some of these papers report impact statistics based on research while others report anecdotes of success from case studies and pilot projects. Having these nuggets can help CFOs and CEOs evaluate and

benchmark their own ROI analysis and generate more confidence in the numbers their teams present to them. So, let's get started!

McKinsey & Company – 2021 – Digital pricing transformations: The key to better margins

“Many companies launch pricing transformations as a way to create value quickly and sustainably. Indeed, pricing excellence in B2B settings – setting the right prices, and ensuring the right price is paid in each transaction – is driven by precision, attention to detail, and agility, all of which digital pricing transformations facilitate. Our experience shows that such transformations, when done well, can enhance pricing to generate **2 to 7 percentage points** of sustained margin improvement with initial benefits in as little as three to six months.”

Bain & Company – 2020 – It's in the Contract, or Is It? (May 21, 2020)

“Smart contract management thus provides significant benefits throughout the crisis. In addition, it keeps paying dividends once the economy recovers. In our experience, optimizing contract provides **100 bases points more of additional revenue and profit**. The benefits can start immediately, using manual efforts to

improve the enforcement of contracts that already exist.”

Blue Ridge Partners – 2020 – Pricing in Turbulent Times

“After taking the steps to deal with immediate challenges, companies need to prepare for the future. Many B2B and B2C firms still have a long way to go in establishing best practice (or good practice) pricing capabilities. In our experience, most companies can realize **EBITDA gains between 300 and 600 basis points** by focusing on improved pricing, so investments in this capability can have significant ROI over the long term.”

Blue Ridge Partners – 2020 – Feeling the Cash Burn? Why Fixing Bad Prices May Help

“The number of bad prices and the margin

percentage points higher than peers. The same survey shows that it takes a dedicated pricing team to reach a high level of pricing maturity.”

Oliver Wyman – 2020 – Surprising Opportunities in B2B Pricing

“A tremendous gap separates best-in-class and average players in pricing and commercial effectiveness, which means there is ample room for manufacturers to improve margins. While companies, in theory, know how to set correct prices, most struggle to implement the right governance systems and decision-support tools. The task is all the more difficult as the pace of decision-making is likely to increase going forward. Introducing advanced analytics and other tools to support real-time decision making can lead to **margin increases of between 5 and 10 percent.**”

demonstrated that dynamic pricing can generate significant bottom-line impact in industries that are not generally perceived as rapidly changing. It improved **margins by between 100 and 250 basis points** by shifting from a mostly manual, less disciplined pricing approach to an automated pricing solution based on machine learning.”

“A B2B distributor in the building material sector increased its **EBIT margin 100 basis points** by using this combined human-machine approach to implement its dynamic pricing program.”

“A large industrial distributor of maintenance, repair, and operations supplies needed only 12 months to shift its list price setting to a dynamic pricing engine, augmented by competitive price scraping. The move generated **\$40 million in near term profit improvement** and drove significant volume growth: an increase in the first year of 10% for the entire business and 20% in its most profitable segment.”

Bain & Company – 2020 – Global Private Equity Report 2020

“According to a Bain global survey of more than 1,700 B2B business leaders, 85% of management teams believe their pricing decisions need improvement, and only 15% have effective tools and dashboards to set and monitor prices. When it comes to encouraging pricing integrity, only 13% of companies said they have effective incentives at the front line. The upside from turning these percentages around is significant. Our experience shows that building new pricing capabilities and improving leadership around pricing can add **200 to 600 basis points to a company’s bottom line.**”



opportunity from correcting them can be surprisingly high. It’s common to uncover instances where customer prices are near or even below cost. We often find companies can generate a **1-2% increase in revenue** – going straight to the bottom line – within one quarter simply by fixing them.”

KPMG – 2020 – How to maintain sales and pricing discipline in a downturn

“In a 2019 KPMG survey of 425 companies across six major industries, we found that companies that rank high on pricing maturity have **EBITDA margins of 3 to 8**

BCG – 2020 – Debunking The Myths of B2B Dynamic Pricing

“The transformation at one major automotive manufacturer shows how a company can move from static pricing to a more profitable dynamic pricing approach. The company improved the **cost-efficiency of its incentive program 10%** by shifting it from one based simply on country and vehicle to a more sophisticated program based on criteria such as region, vehicle trim, and the type of incentive.”

“A petrochemical products wholesaler

McKinsey & Company – 2019 – Pricing: The next frontier of value creation in private equity

“In our experience, commercial improvements – such as those in a company’s pricing, customer and product mix, or sales volume growth – can create tremendous value for both the portfolio company and the PE owner. Specifically, when PE firms tackle pricing in their portfolio companies, we typically see **margin expansion of between 3 and 7 percent within one year.** Factoring in potential pricing improve-

ments can allow PE firms to be more confident in potential upsides and differentiate themselves in competitive deals. The direct and rapid margin expansion from pricing transformation creates more value for portfolio companies and investors alike during the holding period. And highlighting a track record of both successful pricing improvements and additional pricing opportunities can result in a higher exit valuation.”

McKinsey & Company – 2019 – Pricing: Distributors’ most powerful value-creation lever

“Distributors who embark on end-to-end pricing transformations can **expand earnings by up to 50 percent** with modest or negligible impact on volume. Looking across our database of 130 global and publicly traded distributors, we estimate that a 1 percent price increase would yield a **22 percent increase in EBITDA margins**, and a 25 percent uplift in stock price. Moreover, pricing has a disproportionate impact on a distributor’s enterprise value, with an increase of 20 percent for a 1 percent increase in price.”

Simon Kucher & Partners – 2019 – A Practical Guide to Pricing

“A 5% improvement in pricing without volume loss and average margins can **boost profits easily by 30% to 50%**. You may already have a cost-cutting strategy in place to boost profits. But no matter how heavily you invest in increasing volumes and cutting costs, this can only take you so far, and intensive efforts have often already exhausted all potential”.

Bain & Company – 2018 – Is Pricing Killing your Profits?

“Further, most companies can raise their game by adopting foundational pricing software tools. For example, based on the performance of historical deals, software solutions can provide frontline reps with real-time pricing feedback on the characteristics of a deal underway. Using dedicated pricing software, whether in-house or from a provider, is associated with **2.5 times stronger pricing outcomes**, our analysis finds. Yet despite its proven value, pricing software still has only 26% penetration across surveyed companies.”

Bain & Company – 2018 – The Formula for Better Pricing in Chemicals

“In an environment like this, protecting margins is necessary, but not sufficient. Instead, companies should be reaching higher and aiming for full potential pricing capabilities that actually expand margins. That won’t be easy for chemical producers. A lack of management focus on pricing, combined with misaligned incentives, has left chemical executives far behind their peers in other industries in terms of seizing opportunities to increase profitability through pricing. But the prize is worth pursuing: Our research finds that improving pricing capabilities typically **adds 200 to 400 basis points to the bottom line** – a significant impact in an industry where margins average 10% to 12%.”

Our research finds that improving pricing capabilities typically adds 200 to 400 basis points to the bottom line – a significant impact in an industry where margins average 10% to 12%.”

– Bain & Company

McKinsey & Company – 2018 – Advanced analytics in software pricing: Enabling sales to price with confidence

“Sales leaders can address these challenges head-on with new advanced-analytics techniques to gain quantitative deal-structure insights in a B2B setting. It changes the sales conversation fundamentally by moving the focus away from margins and discounts and instead putting it on objective deal scores. Embedding insights deep into the commercial process – including quote configuration, compensation, streamlined approval levels, and a new approach to sales performance management – can create **significant improvements in return on sales: 4 to 10 percent** and sometimes even better is typical in software, higher than in any other industry.”

McKinsey & Company – 2018 – Creating value at industrial companies through advanced pricing techniques

“The increase in raw-material costs could be an unexpected blessing for industrial companies. Faced with lower margins, they’re taking a hard look at pricing for the first time in many years and question-

ing whether their cost-plus approach is truly best for their business. Shifting from cost-plus pricing to value-based pricing may allow companies to **improve return on sales by an average of 5 to 10 percent**. And that means pricing could be the lever that delivers the greatest and most immediate impact in a market where companies face increased competition and soaring costs.”

Bain & Company – 2018 – Dynamic Pricing: Building an Advantage in B2B Sales

“An equipment manufacturer turned to an enterprise pricing software vendor, implementing a cloud-based, configurable

quoting solution, accessible to nontechnical sales talent. The program helped **increase operating income by more than 2.5% within the first year**, owing to more dynamic and accurate list prices, as well as improved negotiation recommendations. Nearly a thousand frontline sales reps quickly adopted the tool.”

“One real estate company had implemented a pricing model but failed to reassess it for several years. The pricing team recognized high volatility in the space and had implemented a dynamic model, but higher quality market and property data was changing the paradigm. When the team revisited its dynamic pricing model, it added more accurate supply and demand inputs, detailed floor plan variables, and building amenities, **resulting in a 3.5% revenue increase.**”

“A company selling fuel found that profitability dipped whenever raw material costs rose. Through a pricing diagnostic and prototype, the company measured potential margin uplift from addressing this issue. They found that price increases didn’t reduce sales volumes much, and the difference was offset by better margins. An im-

proved model was rolled out, contributing to a **10% profitability increase.**”

BCG – 2017 – Building a Strategic Pricing Organization

“Companies can construct strategic pricing organization amid internal differences, but they must focus on four fundamental building blocks: structure, decision rights and influence, skills and capabilities, and size. Companies that create a strategic pricing organization are bound to gain an edge over rivals. In fact, our studies show that **companies’ profits are 1% to 2% higher** when the pricing organization is regarded as a strategic partner than it is not.”

McKinsey & Company – 2015 – Understanding your options: Proven pricing strategies and how they work

“In our experience, effective pricing strategies and tactics can deliver a **2 to 7% increase in return on sales.**”

BCG Perspectives – 2015 – Four Steps to Becoming Fluent in the Language of Pricing

“Pricing fluent companies are significantly more successful than their peers when it comes to enforcing price increases, our research shows. As a result of such wins, they achieve **profits that are 3 to 8 percentage points higher** than those companies that do not speak the language of pricing fluently.”

Concluding Thoughts

To extract these pricing impact nuggets, I went through over 100 pricing reports published over the years since 2015. I have more of these reports, but they are older. I want to make sure that the executives reading these insights take these numbers seriously. These consulting companies do serious pricing work and have delivered billions of dollars in EBIT gains over thousands of pricing projects. I encourage you to contact these firms to see what the number might be for your organization. As

a pricing practitioner and consultant for the past ten years, I can also share my experience in delivering impact through value and pricing management programs. I confirm the presence of attractive short-term gains through quick wins in 90 days. I also have managed consulting projects which delivered between 2 and 5 % points of EBIT in just 12 months. Some of these projects have pay-back periods of several months. This is the power of pricing. Therefore, most private equity firms today invest heavily in pricing capabilities and systems. Frankly, there is no other function in any organization that can deliver that kind of impact in 12 months. I realize that, as a profession, we need to improve our skills in making stronger business cases and calculating the ROI of pricing investments. I also argue that the C-suite needs to seriously consider pricing as a true level of profit realization. The combination of both can help achieve profitable growth. Post COVID-19, the road to recovery includes robust pricing investments. ❖