DUCKER CARLISLE

Value-Based Pricing Methodology

Value-Based Pricing Strategy

Ducker Carlisle provides a range of services that deliver substantial returns on investment throughout all phases of our clients' business. Our Unique Value Proposition utilizes the synergies between different solutions to optimize the opportunity for value creation for our clients.

Ducker Carlisle's value-based pricing strategy focuses on providing long-term solutions for managing product prices based on market dynamics, customer willingness-to-pay, product value drivers, and internal objectives. This approach supports clients in developing new business opportunities while maintaining profitability.

- Define Strategy
- Deploy Software
- Develop Processes
- Sustain and Improve

Understand Customers' needs and competitor positioning

Research & Benchmarking

Competitive Positioning
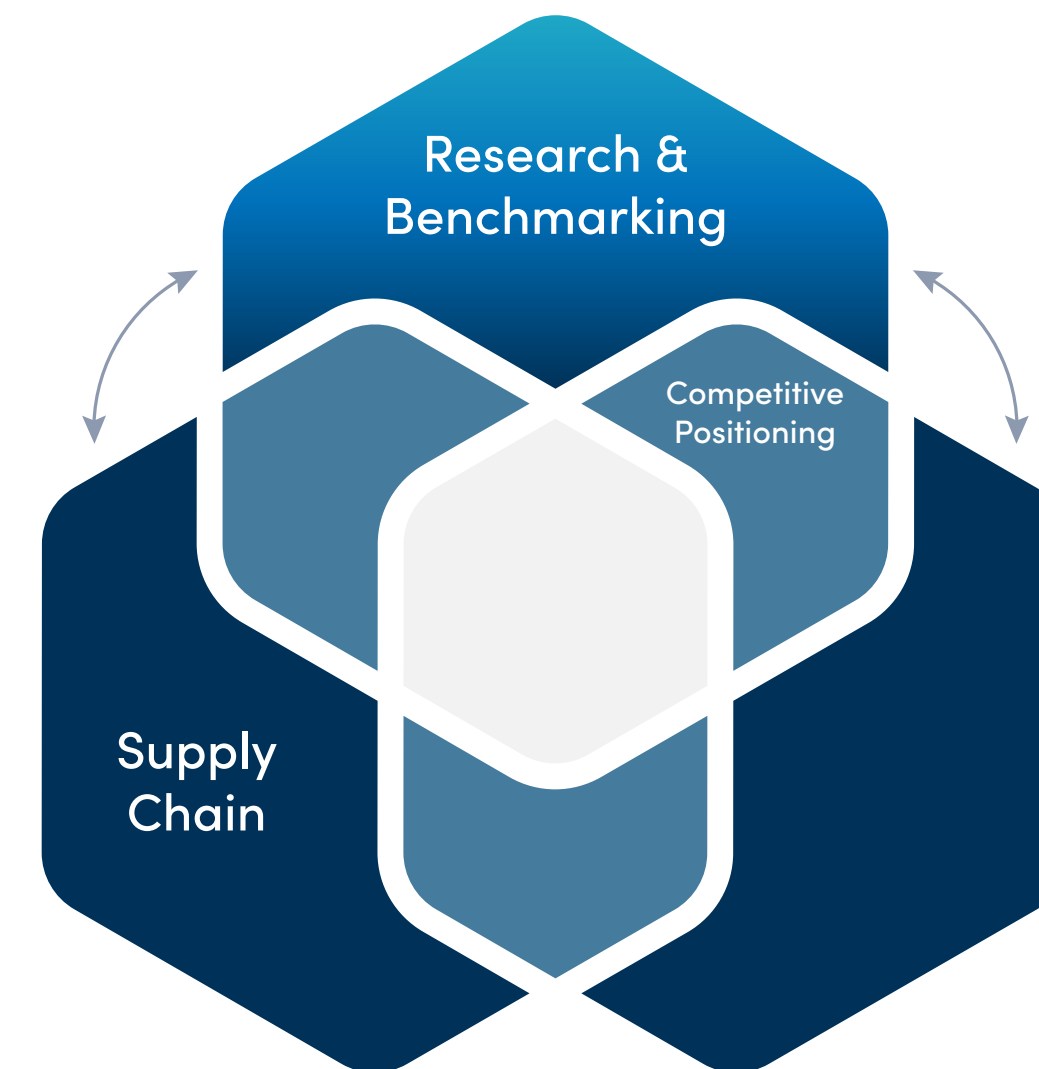
Deliver on customer promise and improve bottom-line

Supply Chain

Share and margin capture to increase top-line

Driving Transformational Change Across All Revenue Management Areas

Our pricing strategy initiatives enhance capabilities to achieve higher margins consistently, while safeguarding brand reputation and market position. We analyze, define, and implement strategies, as well as create new processes, tools, and organizational competencies to ensure a high return on investment with prompt outcomes.

1	**Current State Assessment & Roadmap**	• 2, 4, and 8-week versions • Quantify opportunities, identify focus areas • Transformation roadmap with business case
2	**Market Research**	• Customer needs and willingness to pay • Market size and share • Competitor analysis and price benchmarks
3	**Strategy & Process Transformation**	• Setting base or list prices • Channel strategy/ customer segmentation • Bid/Quote deal pricing • Promotion spend optimization • Sales force effectiveness
4	**Customer Incentive Programs**	• Channel incentives, VMI, and customer loyalty programs • Goals, performance metrics, incentives, penalties, and support
5	**Pricing Software Selection & Implementation**	• Vendor selection • Implementation: configuration, integration, and training for pricing and VMI (Vendor Managed Inventory)

Market-Based Pricing

Market-based pricing involves setting prices based on competitive positioning and price trends within the market. To implement this strategy effectively, businesses must be aware of their competitors, maintain up-to-date competitor price benchmarks, and determine whether they should position themselves as price leaders or followers.

Value-Based Pricing

Value-based pricing is a strategy that focuses on setting prices primarily according to the perceived value of a product or service by the customer. In this customer-centric approach, companies determine pricing based on the worth customers attribute to a product or service.
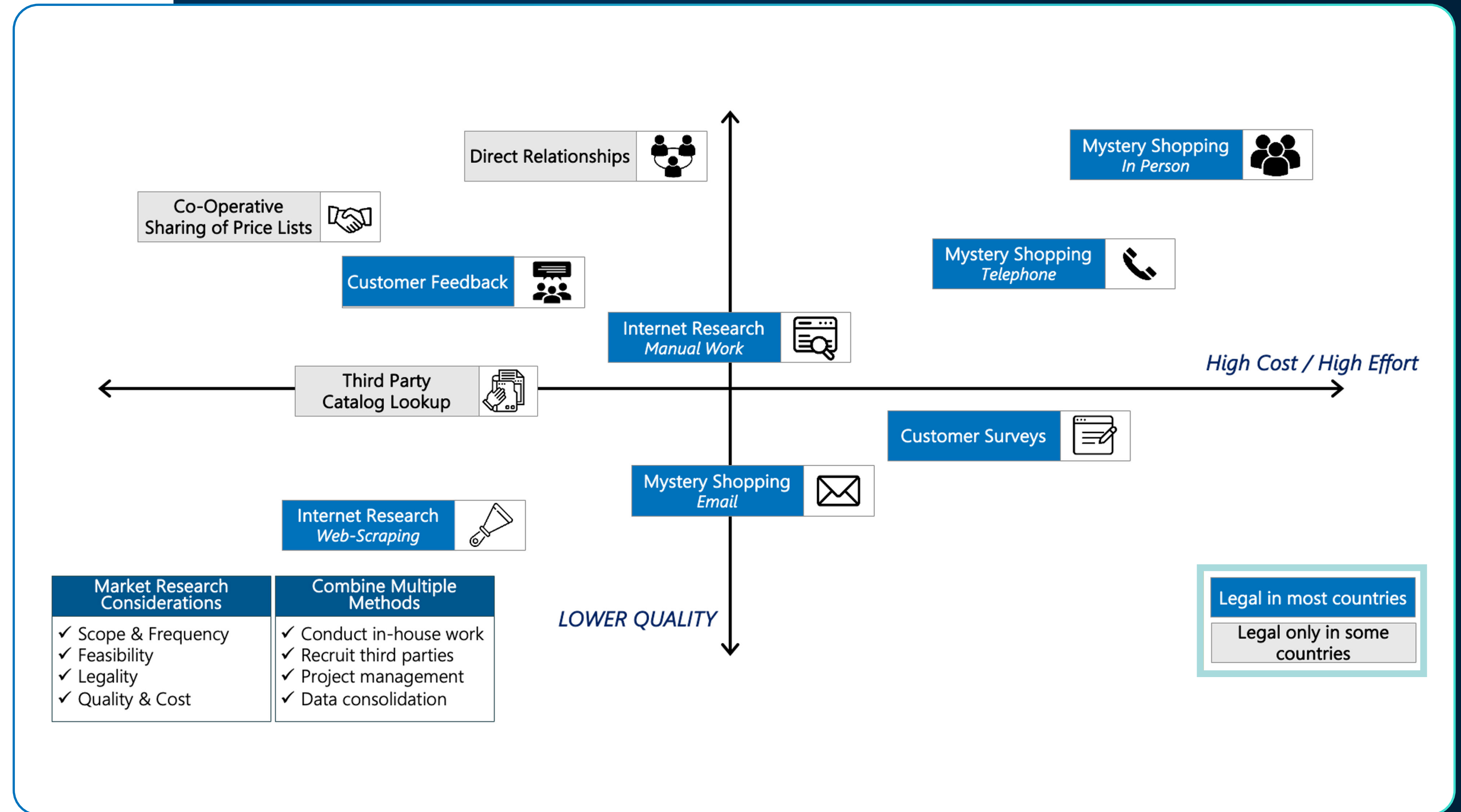
To implement value-based pricing successfully, businesses need to understand the key attributes that drive customer value, evaluate the relative importance of each attribute, and link these attributes to their products.

In this e-book, we will present a real-world case study, maintaining anonymity, to illustrate the journey our clients undertook and demonstrate the value they derived from this integrated pricing process.

Competitive Data

Obtaining competitive data is essential for product positioning, but it can be expensive, and cleaning and interpreting the results can be difficult.

Direct Relationships

Co-Operative Sharing of Price Lists

Customer Feedback

Internet Research *Manual Work*

Mystery Shopping *In Person*

Mystery Shopping *Telephone*

High Cost / High Effort

Third Party Catalog Lookup

Customer Surveys

Mystery Shopping *Email*

Internet Research *Web-Scraping*

LOWER QUALITY

Market Research Considerations	Combine Multiple Methods
✓ Scope & Frequency ✓ Feasibility ✓ Legality ✓ Quality & Cost	✓ Conduct in-house work ✓ Recruit third parties ✓ Project management ✓ Data consolidation

Legal in most countries

Legal only in some countries

The optimal approach to gathering competitive data varies depending on factors such as industry, customers, channels, and other contextual elements.

| DATA GATHERING METHOD	COST	QUALITY	BEST FIT	POTENTIAL CHALLENGES
Cooperative sharing of price lists	Low	High	B2B	• Must confirm compliance with local antitrust regulations prior to use • Requires willing partners to establish and regularly maintain
Internet research: web-scraping	Low	Low	B2B* / B2C	• Significant data cleansing effort to remove outliers / match results to own SKUs • Limited pricing data publicly available online for some business contexts
Third party catalog lookup	Low	Medium	B2B	• Must confirm compliance with local antitrust regulations prior to use • Requires willing partners to establish and regularly maintain
Customer feedback	Low	Medium	B2B* / B2C	• Requires customer adoption of feedback channels • Manual effort to filter out irrelevant feedback, and to apply relevant feedback
Direct relationships	Medium	High	B2B	• Must confirm compliance with local antitrust regulations prior to use • Requires willing partners to establish and regularly maintain
Internet research: manual work	Medium	Medium	B2B* / B2C	• Limited pricing data publicly available online for some business contexts
Mystery shopping: email	Medium	Low	B2B* / B2C	• Must identify targets and may face low response rate • Manual translation of email response into structured data
Customer surveys	High	Low	B2B* / B2C	• Surveys typically provide memory-dependent estimates vs. actual prices paid • Sample and incentive costs can be significant
Mystery shopping: telephone	High	High	B2B* / B2C	• Must identify targets and may face low success rate
Mystery shopping: in-person	High	High	B2B* / B2C	• High resource consumption per data point acquired

When gathering retail prices for B2B pricing applications, it is crucial to have a clear understanding of the margin structures within the channel.

For B2B organizations that can only obtain competitive data in a retail pricing context, additional research steps are typically required. One approach is to analyze relative retail pricing levels when the same distributors sell both your products and your competitors', allowing for insights into pricing variations to distributors.

If you are solely collecting your competitors' pricing data through a market channel, a solid grasp of the typical margin structures by product group within the channel is essential.

To tackle this issue, we utilize targeted distributor research and conduct thorough interviews to facilitate the translation of retail pricing into channel pricing.

MANUFACTURER	**COMPETITOR**

1 **3**

DISTRIBUTOR

2

CUSTOMER

COMPETITOR

2

DISTRIBUTOR

1

CUSTOMER
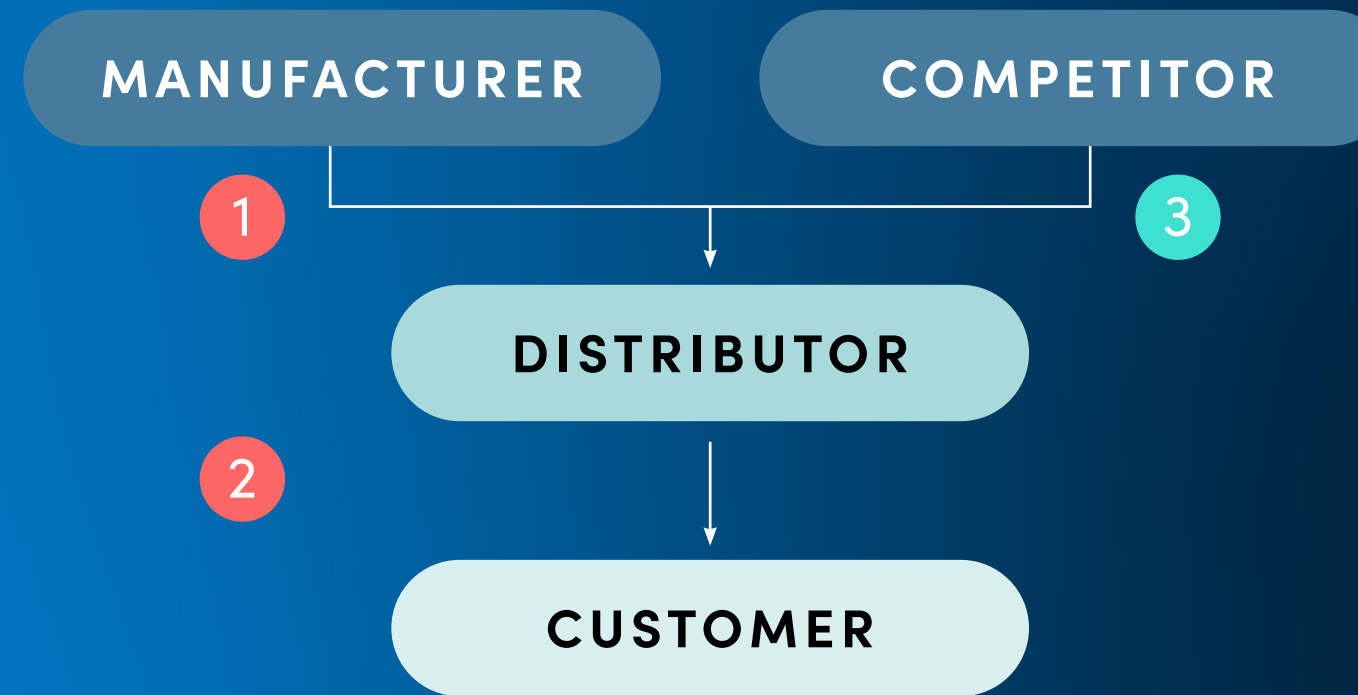
1 Own pricing to distributor is known.

2 Distributor retail pricing can be gathered for own product and competitor's product.

3 Leverage assumptions based on calculated distributor margins for own products to calculate competitor pricing to distributors.
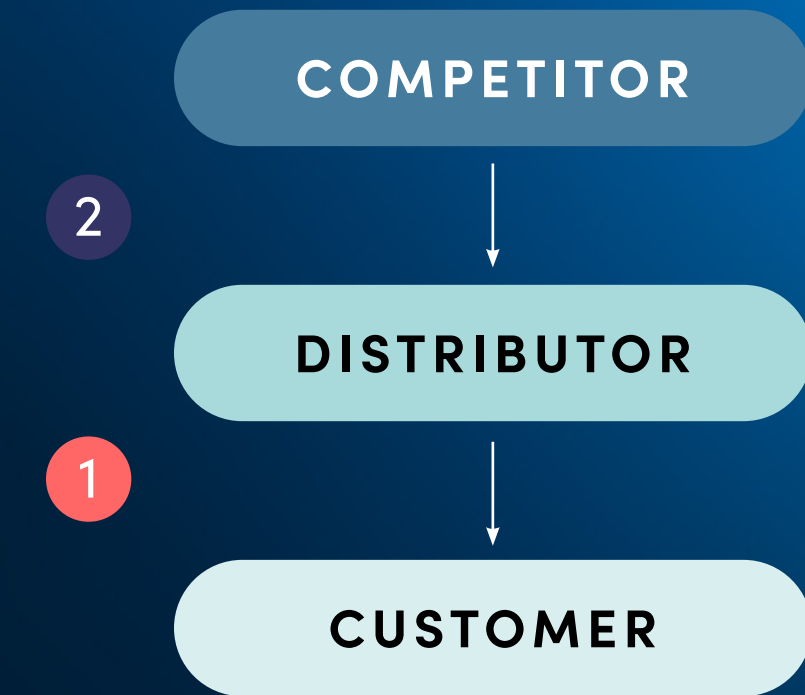
1 Distributor retail pricing can be acquired for competitor's product.

2 Additional research required to translate retail pricing into distributor pricing.

For organizations to successfully price products based on customer value, it is essential to rigorously evaluate their assumptions about customer and market dynamics.

Many organizations operate based on assumptions derived from experiences and beliefs regarding customer behavior. These assumptions encompass various aspects such as the desired market positioning, competitive environment, regional pricing variations, among others.

While these theories inform decision-making processes, they are often not formally documented, validated, or consistently implemented. It is necessary to validate and test these hypotheses to ascertain their accuracy. Verified theories can then serve as valuable inputs for designing an effective pricing strategy.
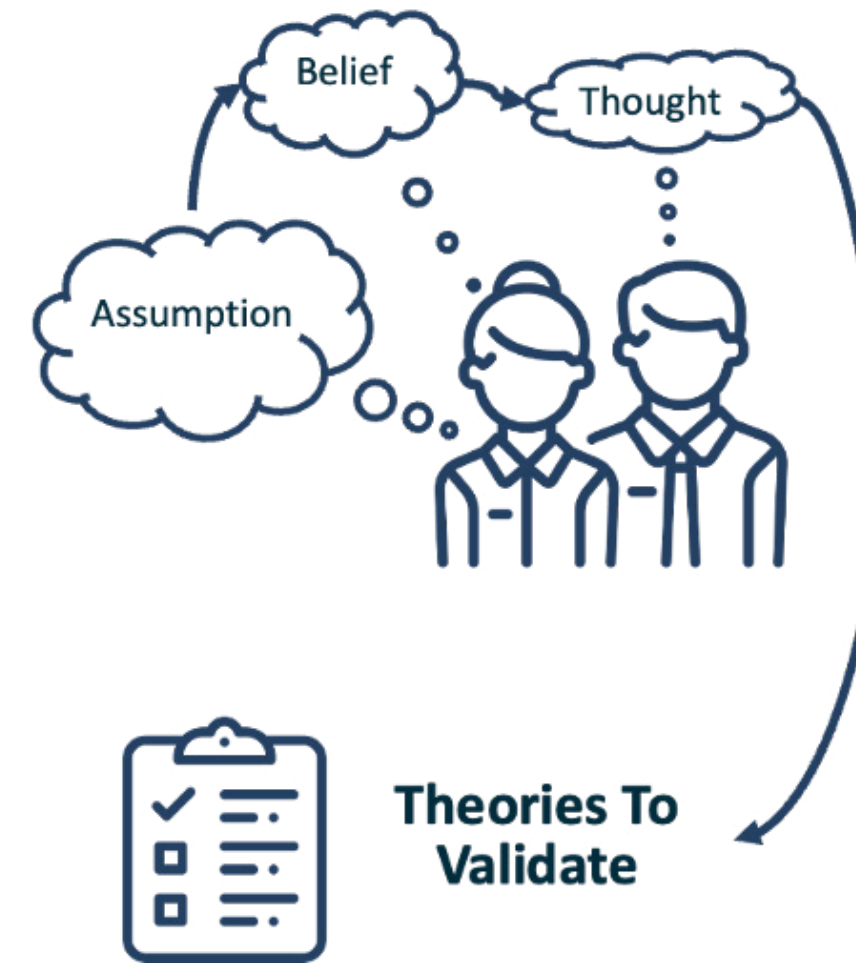
Theory Examples
- [X] supplier is the most competitive for us in the market
- We can command a 15%-20% premium over competitors
- _____ are the most competitive product categories where installers have the lowest level of loyalty

Utilizing market research is crucial to validate pricing theories and gain insights into the significance of consumer attributes.
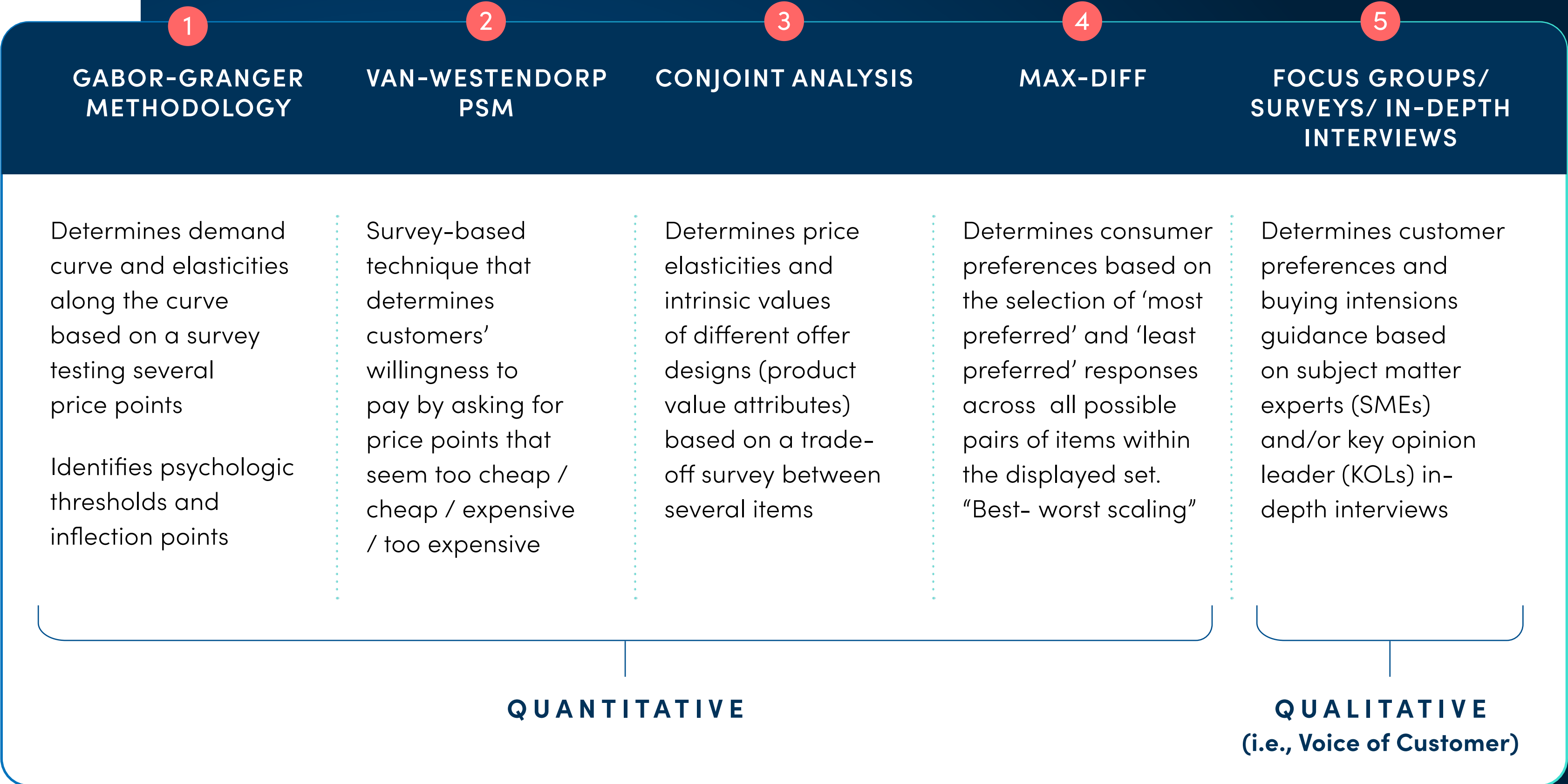
For value-based pricing, it is crucial to understand how customers perceive value. We use statistical survey techniques to determine what customers are willing to pay for various product capabilities. These techniques help establish coefficients in a value-based pricing equation and enable elasticity modeling to assess market share at different price points.

Effective results require a mix of science and art. Each method has advantages suited to specific pricing challenges, such as introducing new products or competing against established offerings.

It is important to keep surveys simple and identify the key decision-maker in the supply chain, whether it's the end consumer, an installer, or an advisor.

Common market research methods (non-exhaustive):

1 GABOR-GRANGER METHODOLOGY	2 VAN-WESTENDORP PSM	3 CONJOINT ANALYSIS	4 MAX-DIFF	5 FOCUS GROUPS/ SURVEYS/ IN-DEPTH INTERVIEWS
Determines demand curve and elasticities along the curve based on a survey testing several price points

Identifies psychologic thresholds and inflection points | Survey-based technique that determines customers' willingness to pay by asking for price points that seem too cheap / cheap / expensive / too expensive | Determines price elasticities and intrinsic values of different offer designs (product value attributes) based on a trade-off survey between several items | Determines consumer preferences based on the selection of 'most preferred' and 'least preferred' responses across all possible pairs of items within the displayed set. "Best- worst scaling" | Determines customer preferences and buying intensions guidance based on subject matter experts (SMEs) and/or key opinion leader (KOLs) in-depth interviews |

QUANTITATIVE

QUALITATIVE (i.e., Voice of Customer)

If your organization lacks a preexisting database of product attributes by SKU, it may be necessary to gather this information from several sources.

If your organization is not currently capturing or storing customer value-driving attributes, effort will be required to gather this information from a range of sources in order to initiate this process.

Potential data sources may differ depending on the industry, but commonly include:

- Suppliers

- Manual measurement/ examination procedures

- Product scanning technology

- Photographs and technical drawings

- Product catalogs

Product Data Considerations

- Are you using a PIM system to manage/store product attributes?

- Capturing product attributes during the NPD process?

- What attributes are being captured? Is there alignment with customer value attributes?

POWER TOOL BUSINESS

Business Overview — Manufacture industrial and home power tools for wood, metal, and material handling.

Starting Situation — Cost-plus pricing, limited market data for high movers, decent product attribute data. Raised price dramatically across the board post-pandemic and faced significant pressure to cut prices.

Transformation Results — Moved to value- and market-based pricing. Mix of price increases and decreases netting 2 points of additional margin while improving market price position. Improved marketing and product development focusing on customer value.

The company encountered a series of obstacles that needed to be tackled during the transformation:

- Conflicting brands and channels

- Expansion through acquisitions resulted in multiple brands with overlapping product capabilities

- Sales to both professionals and do-it-yourself customers through a mix of large retailers and industrial power tool distributors

- Limited understanding of buyer value

- Utilized customer interviews and conjoint surveys to quantify attribute value within each product category

- Absence of market price benchmarks

- Existing public data was untapped and not systematically organized

- Developed web scrapers for major distribution websites to gather list prices and product attributes for comparison and cross-referencing

- Validated any direct attribute matches with product managers

- Conducted structured interviews to identify competitor channel discounting strategies

We utilized a robust method of internal and external research to design effective conjoint surveys

Activity	Exploratory Review	Attribute Finalization	Attribute Level Finalization	Survey Launch
Purpose	Document internal value attributes and validate through in-person store visits and expert network phone calls	Review research output with product managers and finalize the 6 to 8 attributes per category	Determine levels and ranges of values to include within the finalized attribute list per category	Alert panels with incentives and survey links to execute conjoint surveys
Approach	Conducted in-store and phone interviews to explore and validate attributes We then compare external vs internal views points	Consolidated all attributes and created a recommended prioritization based on exploratory research.	Identified a series of realistic "levels" to test price sensitivity around each attribute. Client survey testing and approval before launch	Launched conjoint survey, monitored traction and adjusted target lists to get desired respondent population.

The conjoint results define a theoretical formula for pricing products based on their value

The output of the conjoint includes coefficients of willingness to pay for each attribute that can be used to build a pricing formula

We anchored the formula on a high volume SKU and plotted versus all current product prices

Product Group 1 Value-based Curve
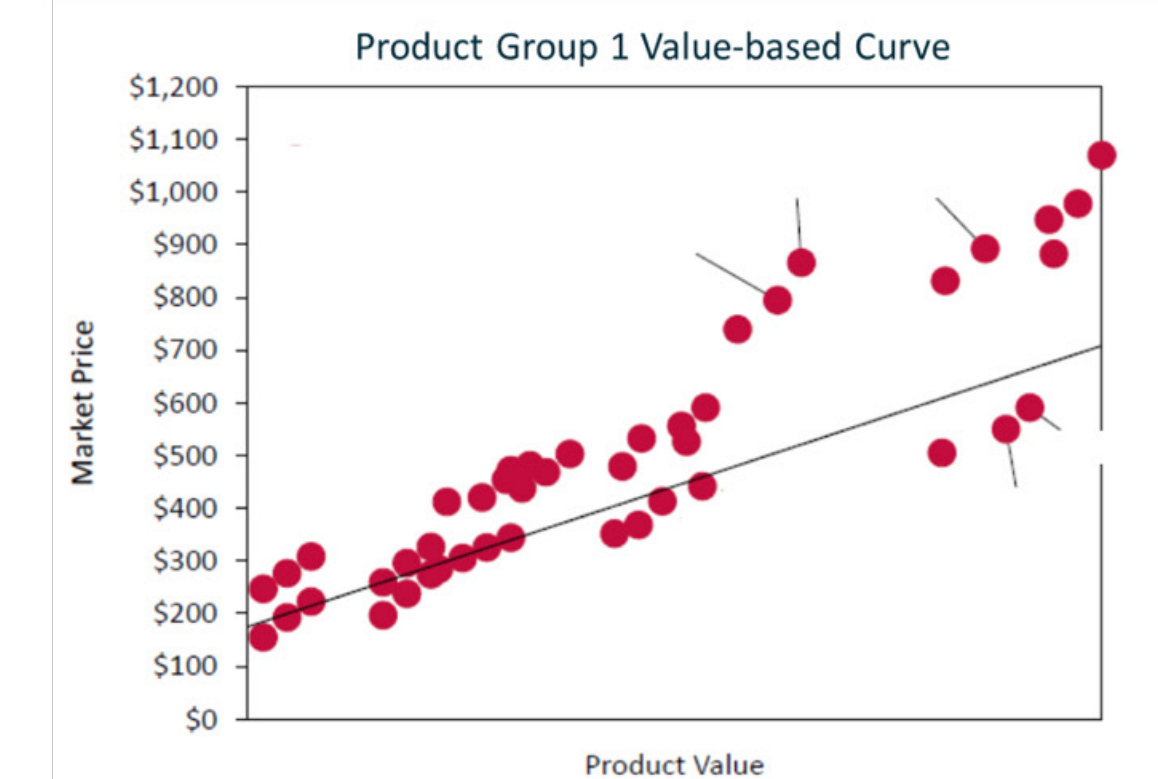
During the project we collected competitive data at two different time frames to understand current price, price movement, and reactions to client changes

Activity	Website Analysis	Website Finalization	Scraping & Merging	PowerBI Data Storage
Purpose	Document key websites and analyze based on ability to meet objectives of depth and breadth	Finalized list of websites and developed scoping parameters (competitors, categories)	Built bots for scraping, collected data, validated quality, cleansed outliers, and merged into a single database	Integrated scrape, interchanges, and analytics into a refreshable business intelligence environment for continued use
Approach	22 websites were provided across the three reporting segments We analyzed websites through a principled framework	Detailed review of each site with product category and competitor coverage recommending target sites	Scraped 5 sites, collecting 1216 competitive data matches across 349 SKUs including all attributes advertised on site. 2 Successive scrapes provided in November and February to pick up end of year price adjustments and any reactions to client December price adjustments Every data point tagged with timing, source, and competitor.	PowerBI database feeds pricing rules and enables extensive reporting to evaluate market price adjustments associated with each scrape

We layered in competitor price points and adjusted curves based on existing competition

We plotted each competitive data point based on current price versus value driven by product attributes

We then adjusted the theoretical value curve to align to competition and brand positioning – In this case, we moved it upward anchoring it on a different SKU
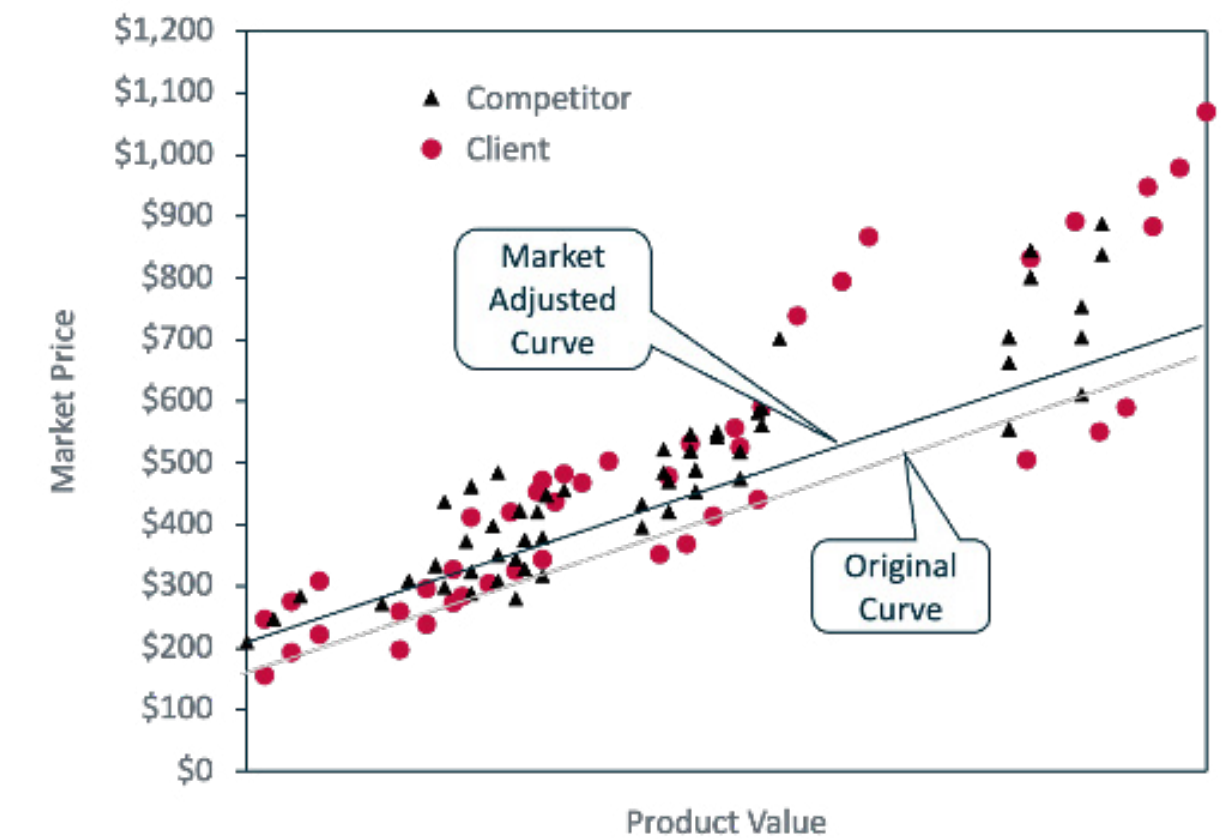
Baseline Conjoint (illustrative)
Attribute 1
Attribute 2
Attribute 3
Attribute 4
Attribute 5

Market Adjustments (illustrative)
Attribute 1
Attribute 2
Attribute 3
Attribute 4
Attribute 5

Hoist Value and Market-based Curve

▲ Competitor
● Client

Market Adjusted Curve

Original Curve

Market Price
$1,200
$1,100
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0

Product Value

Ultimately, we leveraged the curves and precise data to propose price modifications:

- Items directly matching competitors are priced in alignment with strategic positioning

- Items lacking direct matches are priced according to the market-adjusted value curve

- Price increases are promptly enforced within incremental limits to avoid drastic adjustments

- Price reductions are executed using a segmented approach:

  – For low revenue items with minimal decrease, adjustments are made promptly

  – For low revenue items with significant decrease, reductions are accompanied by marketing awareness and announcements

  – For high revenue items with substantial decrease, sensitivity is assessed through targeted promotions, with results being measured

Recommended Price Decreases
Unique SKUs by amount of decrease and LTM revenue
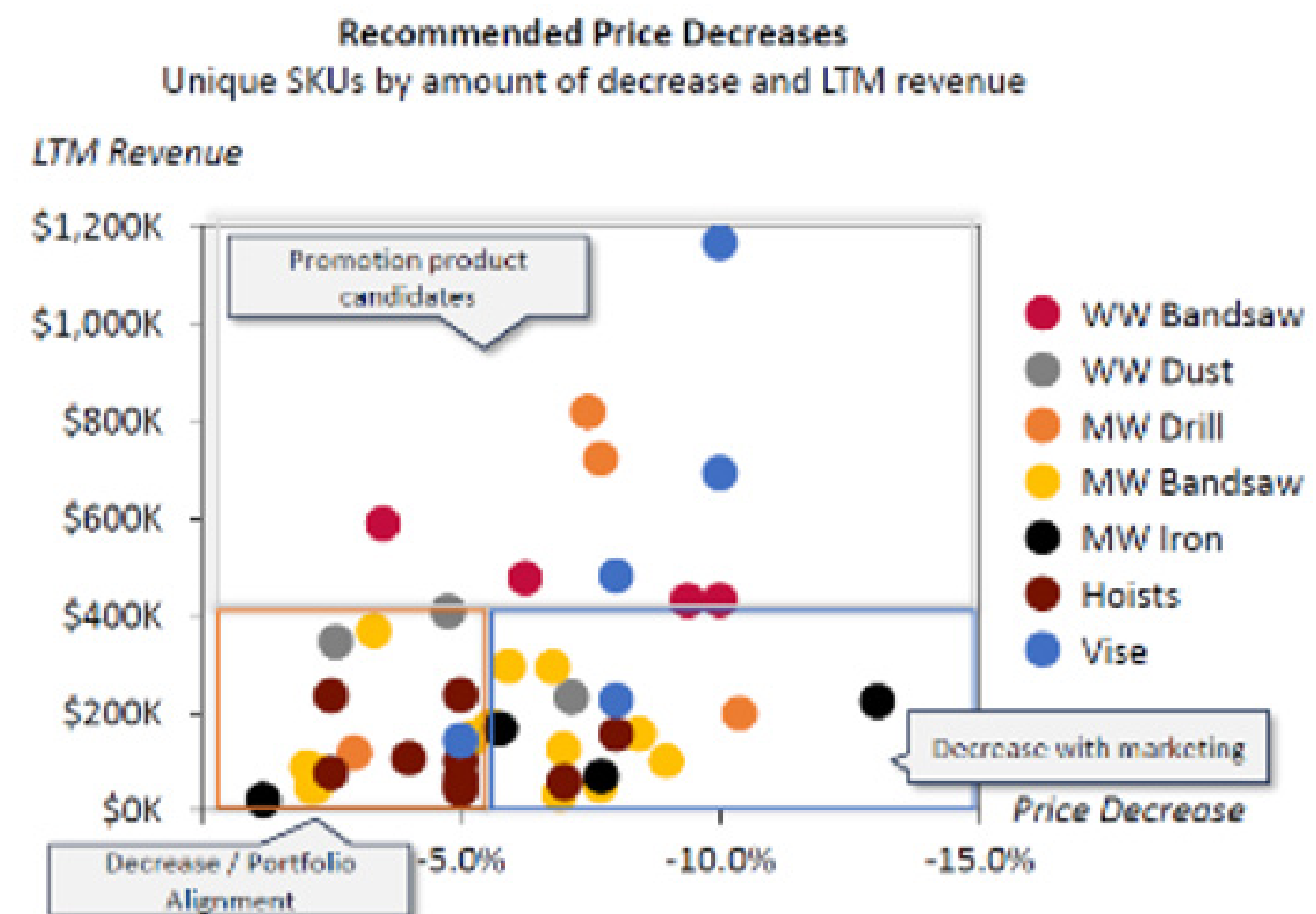
Several valuable insights emerged from this process, including:

Development of Product Marketing Material:

- Conjoint analysis results emphasized multiple high-value differentiators that were underutilized in marketing materials, such as extended product warranties and durability.

- Websites and point-of-sale marketing materials were all revised to showcase these high-value differentiators.

- Results were shared with dealers, accompanied by sales training to enhance product promotion.

Enhanced Brand Positioning Among Internal Brands:

- By mapping out all brands and unique traits, it became evident where products overlapped or had gaps. This facilitated the proper pricing of brands in relation to each other.

Product Rationalization and Development:

- Overlapping brands and low-volume, low-value SKUs were earmarked for consolidation in line with corporate channel and product strategies.

- Identified gaps in competitive market coverage for high-value offerings were pinpointed for product development, and future price projections based on value curves were incorporated into business cases for product development.

Please note: if attribute values are not well understood, the value pricing methodology can be simplified.

- In this scenario, cost is utilized as a stand-in for value attributes.

- Best fit curves are generated using current prices as a reference.

- These curves are then modified to ensure the appropriate market positioning.

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