The State of B2B Pricing Power

2024 INSIGHTS AND 2025 OPPORTUNITIES

HOLDEN ADVISORS

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Beyond price point: The new rules of pricing power

It's been an interesting year for our clients. Most verticals are still navigating a post-Covid era, where markets withstood several years of price increases throughout the supply chain. Companies made considerable changes in their price-setting and implemented new technologies in their practices while recovering from significant volatility. Markets are stabilizing—for now.

In the aftermath, commercial teams are underperforming in their ability to realize the new prices that were set. We're seeing tightening of processes, and buyers no longer accepting all increases in the same way. Customers can see costs are leveling off or decreasing, and suppliers who did not justify their increases properly (or communicate the value of an increase), are experiencing significant pushback.

This is the fundamental issue with pricing power today. As we evaluate the complete pricing function of companies, we're looking beyond just how they price their products and services. Are list prices aligned with value? How effective are their go-to-market teams? What portion of list prices are sales teams able to go get?

Without strong execution from commercial teams, even the best price model in the world will underperform.

Going forward, companies face increased risk to their business when implementing a price change. They largely cannot keep raising prices at the same rate as before. Sellers can't blame costs in the same way. Executives must find new approaches to grow revenue and increase profits while improving the value provided to customers.

Understanding pricing power: Modernizing the iconic Warren Buffet quote

Warren Buffet is often quoted as saying, "The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business."

But we realized this needs an update. Theoretically, there is a maximum to how much you can raise prices. Even for a company like Nvidia. If they start charging $100,000 per GPU, they will absolutely lose customers.

That maximum must be considered when evaluating a company's pricing power—and finding the threshold comes down to the differential value of the solution. How does the total value of your offerings match up against your competitors?

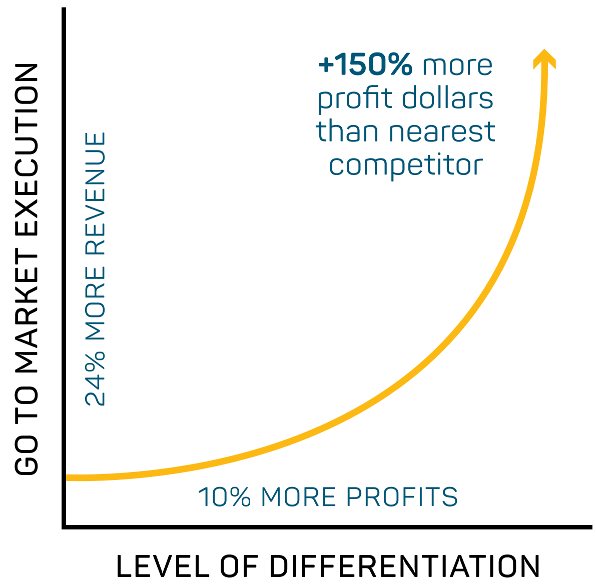
> "The single most important decision in evaluating a business is pricing power. If you've got the power to create more differential value over time, you will have the power to raise prices without losing business to a competitor."

To assess a company's pricing power, we're evaluating their ability to offer differentiated solutions (proxy: higher prices correspond with higher value) and execute in the market (proxy: higher market share indicates go-to-market capability).

Over the past year, we studied companies who focus on these two areas. Based on our findings, the companies that effectively built their differential value over time and matched that effort with go-to-market excellence achieve 150% more profit dollars than the nearest competitor (as a function of higher market share and margin/price realization).

We then started to assess our clients through this lens in order to improve their pricing power. We found two main outputs with client projects:

1. Clients who aligned price to value achieved a 10% or more increase in profitability.
2. Clients who didn't want to change their pricing focused on improving their go-to-market execution. They realized more than 24% in additional revenue through improvements in capabilities like better negotiation, value quantification, and value communication.



Framework for understanding and building pricing power

The upside became abundantly clear. But why aren't more companies excelling in this?

In both categories, we found prevalent challenges across our clients that detracted from their ability to build and protect pricing power. Below are findings for identifying those issues, how to address them to "go get" price through GTM, and what it means for 2025 and beyond.

When pricing power is deteriorating

Throughout the year, we found a few telltale signs of falling pricing power. While each new client project came with distinct challenges and conditions, these issues stood out above all others:

TOP FIVE SYMPTOMS OF FALLING PRICING POWER

1. Increasing churn and/or loss in volume
2. Irrational discounting and high price dispersion
3. Decreasing win rates
4. Inability to raise prices
5. Low perception of value

1

INCREASING CHURN AND/OR LOSS IN VOLUME. When a company implements too many successive price increases without giving customers something back, it triggers churn. We saw this happen coming out of Covid. After years of widely accepted increases, buyers are now more price sensitive. Value must be considered as prices increase.

In some cases, products and services are not aligned to the needs of the customer segment. With newer offerings, churn can be a function of teams who didn't develop their products in the right way or take products to market correctly, including choices for segments that are (actually!) price sensitive. Not just buyers who are bluffing to get a deal.

Misdiagnosing selling scenarios can lead to loss in volume, and sales teams need to learn to separate out true price buyers (or, call the bluff of those pretending) and ensure they're providing low-value and low-cost options to keep customers within your four walls.

2

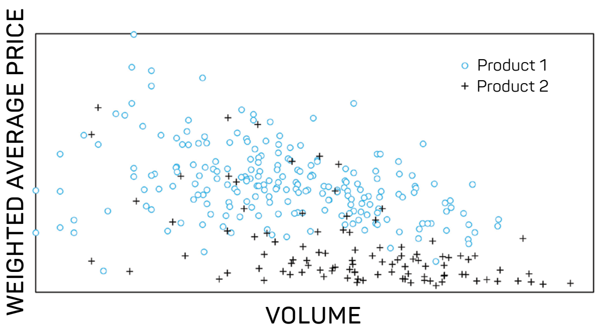
IRRATIONAL DISCOUNTING AND HIGH PRICE DISPERSION. "The price of steel is down—where's my price decrease?" This is a big risk of blanket price increases when costs are the main justification. When prices were raised without taking value into consideration:

- The whipsaw effect took place, with a rise in discounts following years of uncontested price increases
- Blanket discounting approaches were taken across multiple segments, leading to unnecessary profit loss
- Untrained sales teams engaged in more behavioral-driven discounting (unrelated to market feedback and conditions)

I feel like I'm leaving money on the table. I don't know how much. I don't know if I can go get it, even if I knew how much.

COMMON SENTIMENT AMONG THE C-LEVEL

Sellers are up against expert negotiators in procurement teams. Once the discounting habit begins, it can spiral and takes a concerted effort to reverse. Buyers want to pay $10/unit one year, then 8 the next, then 5, then 3. It never goes up. It only goes down. Untrained sellers may only look at historical prices and default to thinking, "that's the most this customer will pay."



Actual client price points across two offerings detailing high discounting / price dispersion rates

For companies with large sales teams, when faced with the same situation, one seller may give a 5% discount while another would give 15% (behavioral-driven discounting). But did they get something in return for that discount? Was it properly negotiated?

Sales teams usually don't have effective guidance for how and when to offer discounts or have value conversations. They need it—and need training in how best to have value conversations throughout the entire customer lifecycle. There becomes too much variability between individuals to not have checks and balances through a governance model.

3

DECREASING WIN RATES. As companies grow and evolve, their pricing can become unintentionally complex. In some cases, over the years, pricing processes evolve to mitigate risk and create more consistency. Teams design processes based on corner cases, which can cause more buying friction for your customers than is necessary.

Think about distribution: we see complexity in market development funds, rebates, claim backs, special pricing, end user pricing…these factors create additional scenarios for sales to manage. Teams become further removed from the end customer and companies feel they need to provide additional discounts to close the deal since it's so competitive.

"**40%** of our sales team's time is spent on pricing."
Sales Executive, $5B Electronics Company

The costs can begin to significantly outweigh the benefits of franken-systems like this as it slows the process to pitch and close a customer. The back and forth of finalizing pricing can take weeks and sellers end up losing the deal.

4

INABILITY TO RAISE PRICES. This is an area where macro conditions are now working against most companies. When customers experience three increases back-to-back, they tend to become (irrationally, in some cases) price sensitive. Add in consumer price fatigue, which can bleed into B2B buyer decisions, and pushback is overall amplified. Even if there's a tremendous amount of value and the price is appropriate, that fatigue is still impacting B2B purchase behavior.

Most sales teams have never had to navigate such a price-sensitive environment—especially when you consider the rate of change across product innovation and new market entrants. Sellers are often ill-equipped to understand their differential value, how that value is changing relative to competitors, and how to position that value properly based on the specific buyer type and selling scenario in front of them. When you don't have an intimate understanding of your value, too many sales conversations come down to price point.

5

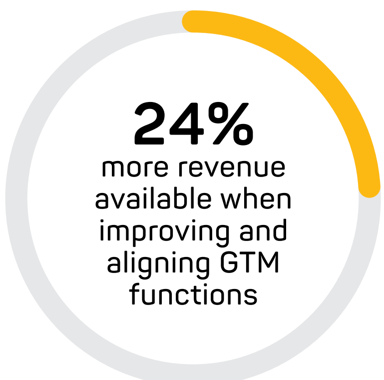
LOW PERCEPTION OF VALUE. Sellers are often told that they're selling the same thing that their competitors are. (Or worse, not just that they're selling a commodity, but that they are a commodity.) While this is mostly used as a haggling tactic, we see sellers start to believe the sentiment and lose their confidence when defending their value.

Breaking away from industry commoditization can be a real challenge. Even when you know the value of your offering is increasing, your differential value needs to be measured and communicated effectively. Ankle biters will always be entering the picture, competitors are always improving and releasing new features, and commercial teams fall short in quantifying the total value of their services (services that wrap around the offering itself can serve as differentiators against competitors. Think: supply chain reliability or 24/7 support).

> It's not that your offerings don't have value. It's that your value is perceived as the same as everyone else's.

The gap between price-setting and price-getting

While we can't control markets (and some of the above were heavily influenced by market conditions), there are always other levers within our power to change. Increasing list price will not always be an option. As we upskilled go-to-market teams, we found there was 24% more revenue available when improving and aligning go-to-market functions.



For most, the focus has been over indexed on price setting and not enough on how to go get that price while providing more value to customers. Ideally, changes in prices and improvements in price-getting are happening in tandem. When companies overextended themselves on price increases, go-to-market team behaviors needed to change significantly—and they usually did not.

As we studied this imbalance, we identified five areas that helped to close that gap in money left on the table. They were all under the category of implementation: levers that had nothing to do with a change in list price.

In the cases where you've hit a wall, how can you improve your go-to-market execution so that the team is able to realize the prices you've set more effectively?

TOP FIVE GO-TO-MARKET LEVERS TO INCREASE PRICING POWER

1. Value communication
2. Governance & sales empowerment
3. Price to value alignment
4. Segmentation
5. Simple price model & process

1

VALUE COMMUNICATION. While some teams were able to describe qualitative value, we found that 88% of sellers failed to calculate and communicate their offerings' quantitative value—which resulted in stalled close rates, lost deals, and overall lost opportunity for revenue.

They know their product offering saves time, but they don't know the financial impact that has on their customers. They know it grows revenue, but not by how much. How does your product make your customer money? Exactly how much money will it save them per year?

Specifically with price increases, companies used costs to justify the change instead of properly implementing and communicating an increase in value. Sellers must behave differently once a new price is set. You cannot expect buyers to just accept a new number—and without the ability to diagnose selling scenarios, teams will largely fall short on communicating value effectively to each buyer type, based on what they care about most. Price is not usually the top priority for buyers.

PRICE	BUYER
RELATIONSHIP	BUYER
VALUE	BUYER
POKER	PLAYER

Only 10-20% of B2B buyers are primarily driven by price.

Poker-playing behavior from other buyer types can make this number feel closer to 50%.

Companies are feeling pressure on expenses, so they are employing more tactics like good cop/bad cop, "should cost" modeling, and waiting for quarter or year-end to extract discounts from desperate sellers. Teams need tools, tactics, frameworks, and operating procedures to combat these tactics and protect their pricing power.

2

GOVERNANCE AND SALES EMPOWERMENT. Many companies do not have proper checks and balances for what sellers can and can't do when it comes to their pricing. They either have no ability to change price, or free reign to do anything with price.

We rarely see a middle ground, which includes systems for:

- Tracking price dispersion across reps
- Establishing consistent rationale behind price changes sellers are making
- Communicating with sellers on a consistent basis about their pricing decisions
- Leveraging deal outcomes by customer, product, and price for future decisions

For companies that do have governance models, they're rarely followed. We'll sometimes see sellers who close a ton of deals without making much money for the company (an indicator of undisciplined discounting). Without checks and balances, you allow reps to change prices to any levels, which creates dispersion, discounting issues, and churn.

Adding guardrails and tracking systems provides not only the protection that commercial leaders are looking for, but still leaves sellers with appropriate freedom to assess individual opportunities and make a value-aligned concession without slowing speed to revenue with multiple rounds of approvals.

3

PRICE TO VALUE ALIGNMENT. Teams often want to raise prices when they think about value-based pricing. But in some cases, offerings are simply misaligned (or overpriced) and causing friction with go-to-market teams. There is an opportunity to adjust prices, and adjust value, to keep customers within your four walls.

> When looking to change price point, you need to know: "Are we in a stronger or weaker position against alternatives?"

Price and value misalignment happens for several reasons, regularly tracking back to a change in market alternatives that put you in a better or worse position.

STRONGER	WEAKER
› The product improved	› The product got worse
› Regulation requires customers to buy now	› Dealing with customer or service complaints
› Competitor went out of business or had a public failure	› Competitors or new entrants taking market share

For some companies, solving this often involves creating tiers for high, mid, and low value offerings to better match the lenses the market sees them through. In other cases, features and benefits need to be improved or evolved. In the short term, a price change can help align to the new relative value. Longer term, you'll realize value and maintain your position by making changes to the product, strategy, or offering structure.

4

SEGMENTATION. When bringing a new product to market, commercial teams sometimes take their offer and try to fit in as many functions and features as they can to make it as valuable as possible for buyers. After setting a price point, they get stuck discounting to the lowest segment.

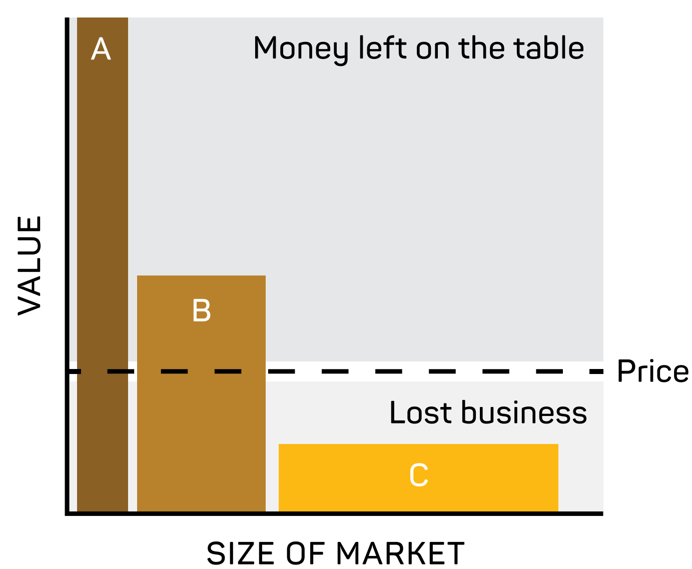


Figure shows need for segmentation; one product with one price can rarely satisfy different value levels of customers and their needs

You won't be successful selling a Ferrari into a Toyota home. People tend to blame the product, or the seller, when a product fails to sell. It's often neither of those, but a (basic) market telling you the (premium) product is not ready for that segment. If you want that segment, you may need to lower your price, fence off part of the offering, or stop serving that segment altogether.

Combining products or features into discrete packages will help grow sales by appealing to specific customer segments. It simplifies customer purchase decisions and improves the company's ability to manage and improve products. This is particularly useful when the delivered value of complete software and hardware solutions is high, but the value contribution of individual components is difficult to determine on a per-customer basis.

5

SIMPLE PRICE MODEL AND PROCESS. There's an old adage, "time kills all deals." In many cases, this still rings true. The goal is to make it easy for customers to buy. Sales teams can execute more easily and effectively through a faster price-setting process, and put processes in place that will lead to higher close rates. Not all teams should be using a series of variables in their pricing—once those variables get complicated, customers don't understand how your pricing is generated, and it creates friction.

For companies with complex and robust price lists, this is easier said than done. This is where software comes into play—and many can implement a rules—based engine, codifying a salesperson's logic to simplify the price setting process. In a world where the number of decision makers is increasing, sales teams need to have streamlined internal processes (pricing included) to keep deals progressing with customers.

Opportunities for B2B pricing power in 2025

As AI and technology solutions make price execution and sales operations more efficient, companies will need to improve the rest of their practices to ensure value is being delivered to customers in the ways they need it most. The foundations of value throughout the go-to-market motion must stay in the foreground.

Companies need to evolve their price setting and go-to-market excellence simultaneously. We can no longer afford to underestimate the intersection of pricing and sales and price-to-value alignment, and the improvements in profit and overall value that result from better go-to-market and negotiation capabilities.

Commercial alignment is a continuous game; you can't just "set it and forget it" with pricing and point the finger at sales for their behavior.

Value drivers are dynamic in nature, and your customers' reasons to buy are constantly changing.

Companies need a closed loop process between product, pricing, and sales teams to ensure ongoing value alignment with customers, and that they're on a clear path to improving their differential value over time.

The output of that process will lead to updates in price model, quantified value communications, and product or service gaps to close.

In that frame, personalization will have more gravitas than it does currently. Today, teams use market segments and personas because it's impossible to effectively market to hundreds of millions of people. Moving forward, AI will give us the ability to better understand customer needs, with more algorithms to personalize and understand value at levels we never thought we could before. Those nuances will be met with varying features and functionalities to meet customers exactly where they want and need value the most, leading to highly personalized marketing by individual. If you don't effectively track segments and dynamic value drivers today, how will you move into AI in the future?

The best way to build and protect your pricing power will always be to deeply understand your customers, what they value, and improve upon that differential value consistently. As those strategies become clear, companies that can set and get prices effectively will be at a significant advantage when navigating a continuing period of change through the next several years.

Moving forward, AI will give us the ability to better understand customer needs and value, with more algorithms to personalize at individual levels we never thought we could before.

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