How to break out of the cost-plus pricing trap

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Cost-plus pricing still has a stronghold in a lot of B2B companies – and for good reason. It's clear, it's simple to explain and defend, and it's predictable. When tariffs or input costs change, prices change, guaranteeing your pre-determined margin. You can easily target a 25% margin and adjust when you want to increase or decrease that target.

It becomes problematic when buyers and customers use that as an excuse to call you a commodity. It's even worse when your pricing is pegged to an index. It not only dilutes the value you create through your products, but it also minimizes all the great things you do for your customer outside of the cost of goods. How do we account for that?

You change payment from net 30 to net 60. You give them more access to tech support or subject matter experts. You allow for last minute changes on the order. You find ways to make their lives easier and make them happy.

When you provide more for your customers, your cost to serve goes up. If your pricing model doesn't evolve with your value delivery, it can lead to extremely thin margins, make you unprofitable, and degrade your pricing power. We see teams get beat up all the time, told they're a commodity, and fold to discounts when buyers point back to market indices.

Commercial teams need to be able to measure and share their impact back to customers so you can build and protect your pricing power – especially going into the next renewal or agreement.

Here are five ways to understand and charge for it without blowing up your pricing model.

1

START WITH THE BASICS: QUANTIFY DIFFERENTIAL VALUE & UNDERSTAND QUALITY OF REVENUE

No matter what your pricing strategy is, these are basic building blocks of pricing power that everyone should have.

When companies tell us they are considered a commodity, I always ask: is your market share the same as everyone else's? If you were selling a true commodity, every market with four players would have an even 25-25-25-25% market share split. That never happens.

Why? Because there is something that sets you apart from competitors. Is your lead time faster? Do you have lower defect rates? Does your product last longer or work better in extreme conditions?

Every product or service has an impact on your customer's business and can be measured based on one of these three value drivers. Are you:

- Helping them increase their revenue?
- Reducing their costs?
- Mitigating some kind of risk?

Keep the math simple – a back of the napkin calculation is better than silence. But your sellers need to be able to say: "This is not the same product as Joe's. Here's how it performs better, and what that's worth to you."

> 88% of sellers fall short in this area, not because they don't care about value, but because there generally is not much training on how to quantify it.

It requires some thought for each account, but it gives you a leg to stand on when negotiating and defending your pricing. Once you're clear on differential value, the next step is understanding your quality of revenue. Every company has about 20% of customers that drive 80% of your profits. Not every revenue dollar is the same – some customers use more services than others, driving up cost to serve.

Use that information to understand your customer profitability across your accounts. It will allow you to isolate the top handful of customers who drive 80% of your profits. Those are your customers to test ways to co-create to improve value.

2

DIFFERENTIATE BEYOND THE PRODUCT

If your product is in an index-driven market, or a distributor passing through products, it could be difficult to compete on the price point. Compete on what wraps around the product. Even dominant players get boxed in as commodities when buyers are fixated on price per pound, ton, or hour. Services can become one of your best levers for differentiation, through things like:

- Flexibility in contract terms & conditions
- Agility with change of spec and order differentiation
- Prioritization of inventory allocation
- Custom reporting

A key to differentiating beyond the product is to have varying service levels so you can add value and take it away based on their pricing requests. Create levers and let buyers choose based on what's important to them. Can you offer 9-5 support versus 24/7? Dedicated support versus a pool of people? Engineering SME versus a generalist?

These services add value by increasing reliability and driving operational benefits as they work towards their own KPIs. When you price and position them as distinct parts of your offer, customers have options for things to remove when they want lower pricing. Varied levels of service also help to put the customer in the driver's seat to remove features (or helps you to call their bluff if they're playing poker with you).

3

REEVALUATE YOUR PRICE METRIC TO BE MORE OUTCOME SPECIFIC

Most cost-plus pricing is set up in units – per part, per hour, per SKU. But customers don't wake up needing 37 line items, they need a solution. Reframing how you package and sell can shift the conversation to outcomes they care about.

As an example, if you're selling to a hypergrowth company onboarding 30 new employees, don't quote them 80 line items on what they need. Quote them per head to provide software, hardware, IT support, and other onboarding needs as a bundle. It could be the same margin structure, but now you're selling value by reframing the unit of measurement and a completely different experience of your value. It helps to increase stickiness and incentivizes your customers to stay with you as they scale, because your pricing model moves with them.

This can also be tested through subscription or as-a-service models. Moving from one-time purchases to a monthly subscription gives flexibility and makes it easier for the customer to buy (think Adobe or Office 365's monthly payments). We've helped clients like Emerson move in this direction by bundling products and support into simple subscription packages. You're reducing upfront investment and positioning your company as a modern, responsive partner.

You don't have to go all-in. Start with one offer, one segment, or one experiment and let the results guide the next area to try.

4

PROTECT YOUR VALUABLE RESOURCES AND ASSETS IN A SCARCE MARKET

In volatile markets, availability is a premium feature. If you're the only one with the inventory (or, the right inventory), you control the game. I've seen companies with rare components, geographical access, or specialized labor forces command premium prices by understanding their scarcity position and leaning into it.

This is also where the top 20% of customers comes into the mix. When resources are tight, offer your best customers guaranteed access for a premium. This applies whether you're allocating limited equipment, labor, or delivery windows – you want customers to have the ability to move themselves up in priority by paying for allocation of resources where it really matters to them.

5

USE RULES TO PRICE WITH CONFIDENCE

When you're stuck in a cost-plus environment, it's normal to stay in one-size-fits-all pricing. But that assumes that every order costs the same to fulfill and delivers the same value. That's rarely true. A rules-based approach can help align pricing to the value being delivered, without relying on sales to make judgment calls every time.

Some customers consume high-touch services, push for speed, or complicate fulfillment – and not all of them pay for the added value they receive. A rules-based system can help you adapt pricing to what each customer is buying – not just the product, but the full service around it. Start small with a few key attributes that consistently impact cost, risk, or value creation, and build pricing rules around them.

A few examples to consider:

> **Order-level attributes:** Rush orders, expedited shipping, custom packaging, or small batch sizes could all increase your cost to serve – charge more

> **Customer behavior:** Consolidated shipments, ACH payments, or waived return rights can lower your operating costs – create incentives for those behaviors through lower pricing

> **Service levels:** 24/7 support or dedicated account reps should be priced in – don't assume these as baseline when the team is spending unconstrained hours with that customer

You don't need pricing software to get started – just a spreadsheet and a few clear rules based on what creates value and what drives up cost to serve. Over time, the logic gives your team a framework for how to price consistently and defend that price in negotiations. It also helps you course-correct unprofitable accounts. If a customer consumes every service you offer and still wants a discount, it may be time to change the offer – or let them go.

FINAL THOUGHT: START SMALL AND MOVE FAST

You don't need to change your pricing strategy or overhaul any processes overnight. But you do need to start bringing value into the conversation.

Communicate what you're doing for your customers in QBRs. Build a scorecard that shows how you've improved uptime, lowered cost, or helped them serve their customers better. Get recognition for what you're already delivering (and get ahead of 11th hour complaints before your next renewal negotiation).

Pick one of the levers above and focus on a high-potential product line or customer segment. Introduce a new bundle, add a premium service, or work to reframe an offer for an upcoming opportunity.

Small changes create pricing power when they're anchored in value. When done well, they bring in margin dollars that allow you to invest in better products, services, and teams – making you even more valuable to your customers. They help you to break away from competition while delivering value where your customers need it most.

If you never start, you're stuck in a cost-plus game, fighting over the same accounts and stealing share back and forth with competitors in the same box you were always in. And customers will never see what makes you different, because you never told them.

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