

# Value and Pricing Strategy in the B4B Era

B2B tech and near tech companies are in transition to a new, services centric, way of doing business. This transition is disrupting traditional revenue streams and fundamentally changing the balance of power between suppliers and buyers. At the heart of this transformation is strategic pricing. There is a fundamental shift occurring in how customers define value, how suppliers deliver value, and the pricing models customers use to pay suppliers for value. Companies will have to become much more sophisticated and nuanced to optimize legacy revenue streams and transition into the more services centric, B4B era. Value and Pricing Partners offers assessment, consulting, training and research services to assure profitable growth through the transition.

“*There is a coming storm that has the potential to devastate the margins of organizations that are centered by technology products.*”

- Thomas Lah, Executive Director, Technology Services Industry Association (TSIA)



# Value and Pricing Strategy in the B4B Era

B2B tech and near tech companies are facing tough realities<sup>1</sup>. Product commoditization is accelerating and margins are declining. Services are filling the gap, but demand for traditional revenue generators like implementation, maintenance and break-fix is falling. The shift to as-a-service pricing may stabilize revenues, but revenue recognition is delayed and margins often narrow. Managed services are a bright spot, offering a glimpse into how future value added services may fill the gap, but they require a step change in capabilities and costs can be high.

## A New Way of Doing Business

Tech thought leaders see this as an industry in transition to a new, service centric, way of doing business. "The product B2B model was designed to sell things to customers, whereas the new B4B model will be about delivering outcomes for customers ... a fundamental change in the thinking of both suppliers and customers." The transition to B4B includes new services centric operating models with several core elements:

"The product B2B model was designed to sell things to customers, whereas the new B4B model will be about delivering outcomes for customers ... a fundamental change in the thinking of both suppliers and customers<sup>2</sup>."

1. Transition from an R&D + Sales driven business model to a Marketing + Development platform that focuses obsessively on the customer and their desired outcomes
2. Leverage the organization's industry and customer knowledge to identify value creation opportunities.
3. Package products and services as more unified offerings, targeted to customer groups and designed to deliver real value that unfolds over time.
4. Service takes a leading role not only in customer value delivery, but in expand selling to grow customer revenues over time.
5. Connectedness between the customer and supplier organizations permits optimization in a real sense, and becomes a key differentiating attribute in unlocking the true value of business technology.

<sup>[1]</sup> TSIA Technology & Services 50 Webcast, August 18, 2015. Both revenues and margins are down for the top tech companies, (Q2 2015, -7% and -1%, respectively).

<sup>[2]</sup> **B4B** – How Technology and Big Data are Reinventing the Customer-Supplier Relationship, J.B. Wood, Todd Hewlin, and Thomas Lah

To succeed in implementing this new business model, tech and near tech companies will need to

1. Develop new capabilities in offering design, delivery and marketing that permit them to conceptualize offerings that create real value, and articulate those value propositions for customers
2. Optimize financial performance of their legacy business to preserve shareholder value and permit investment in new capabilities
3. Transition from satisfaction surveys and loyalty indicators as tools for capturing voice of the customer to a "Success Science" system that includes a library of value drivers of customer success, knowledge of customer business processes, and links between utilization and KPIs that demonstrate results
4. Enable software and service powered flexibility to meet individual customer demands while simultaneously increasing scalability to lower operating costs for both supplier and customer
5. Persuade customers that sharing information about their operations and expanding the role of suppliers within their organizations are the paths to higher profitability.

## Why Strategic Pricing?

At the heart of this transformation is strategic pricing. There is a fundamental shift occurring in how customers define value, how suppliers deliver value, and the pricing models customers use to pay suppliers for value. Historically, tech companies have relied on fairly simple, tactical approaches to pricing where the supplier often held significant power.

Historically, tech companies have relied on fairly simple approaches to pricing where the supplier often held significant power.

1. **Assumed Value Pricing:** Price the product for full value at the time of the initial sale, whether or not value is, in fact, delivered.
2. **A la Carte Offerings:** Count each product and service independently, and price based on the sum.
3. **Discretionary Discounting:** Adjust offering prices for value by relying heavily on discretionary discounting.
4. **Percentage Of:** Charge customers for services as a percent of the product price.
5. **Cost Plus:** Determine the cost to deliver services and place a target margin on top of that cost.

These approaches are fine in a marketplace where costs of entry and switching costs are high, where essential services are, well, essential, and a sale locks in a customer for 20 years. These simple approaches to pricing, however, will not serve tech and near tech companies well into the future. The costs of ineffective pricing<sup>3</sup> are too high, and include lost sales, lost profits, high costs of sales and operations, and missed opportunities. Or, as one senior software executive put it: "The motivating question is how not to die in the SaaS world, while the marketplace and the street are demanding the transition."

Companies will have to become much more sophisticated and nuanced to optimize legacy revenue streams and transition into the more services centric, B4B era. They will need to develop a more strategic pricing approach, rethinking how customers define value, how they deliver value, and the pricing models and mechanisms they use to capture value.

**Companies will have to become much more sophisticated and nuanced to optimize legacy revenue streams and transition into the more services centric, B4B era.**

## Our Approach

At Value and Pricing Partners, we help businesses drive more profitable growth for themselves, their partners and their customers. Using our exclusive "9 Block Approach" we provide high impact interventions and essential resources for companies to develop and sustain their strategic pricing capabilities , one block at a time.

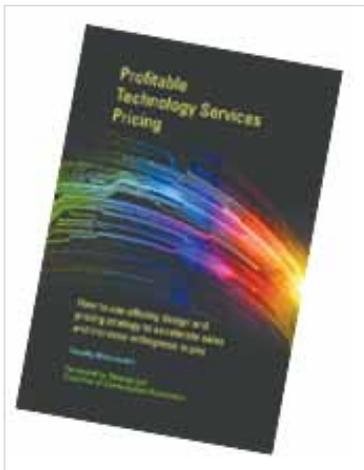
## VPP's "9 Block Approach"



<sup>[3]</sup> In our experience, as much as 10% of revenues are lost with ineffective price management. And the cost is felt directly on the bottom line.

Companies may not have the people, the skills, the tools, the experience and the confidence to implement strategic pricing initiatives. They may not know how to engage customers to obtain required information. They may not appreciate the business wide cultural change needed across marketing, finance, operations and sales. Even if they do, their people may simply lack the bandwidth to execute, or they may want an external perspective to add credence to their efforts.

Value and Pricing Partners can help with best-in-class assessment, consulting, training and research services to supplement your capabilities. With experience across dozens of tech and near tech companies, in products and services, we have built an integrated system with proven processes, tools and results.



Value and Pricing Partners is a recognized thought leader in technology services pricing. Our book, **Profitable Technology Services Pricing**, has won endorsements from 20 industry and academic leaders, and provides a roadmap for thinking through the pricing challenges faced by tech and near tech companies.

#### Our clients include:



For more information, visit our website  
[www.valueandpricing.com](http://www.valueandpricing.com) or contact

Andreas Gast, Chief Customer Officer

[Andreas.Gast@valueandpricing.com](mailto:Andreas.Gast@valueandpricing.com)

503-200-8800

