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# How do companies reach value based pricing in B2B?



# Mythbusting

## Introduction

In most businesses, the 3 key metrics that decision-makers need to work out every year are **1. Price, 2. Volume and 3. Mix**. Among these 3, Pricing is one of the most discussed topics in the business world, because it is something companies can control (relatively), compared to volume and mix that are more demand driven.

Before we discuss how companies can get to value based pricing, **let's bust some myths around this topic.**

## Mythbusting

### Myth 1. Value based pricing is the only correct way to pricing

While value based pricing is a great strategy on paper, the challenge is that most companies don't have the data and insights to determine the "value" to customers for their products. In our experience, very few companies have the data to have a legitimate attempt on value based pricing.

### Myth 2. Cost based pricing should not be used at all

Only if you already have a working value based pricing in place. While we agree companies can extract more value with value based pricing, we still believe there are different levels of sophistication within cost based pricing, and it is still beneficial to increase your maturity level in pricing even if they are currently cost based.

# Pricing Maturity Levels

Based on our experience of implementing price strategies ourselves and consulting clients on pricing topics, we believe there are 5 levels of pricing maturity in our view:

## Level 1: Foundation

- In the phase of figuring out what is what with your pricing
- Likely still struggling with data availability and quality

## Level 2: Scenario Planning

- Good data is now in place
- Starting to look into what different pricing could mean in terms of incremental profits

## Level 3: Transactional Pricing

- Having a view of how your input costs might change, hence how your prices need to change
- Starting to have price governance in place to enforce margin rules

## Level 4: Machine Learning-based Value Pricing

- The first level of value based pricing
- Leveraging machine learning to determine the value of your products

## Level 5: Deal Level Pricing

- The second level of value based pricing
- Leveraging machine learning to determine how to price each deal individual, based on customer characteristics

## Recommendations

The last 2 pricing levels might seem daunting to most, but our recommendation is to take your pricing journey step by step - **identify what is missing in the next immediate level and make progress over time.**