

# Power Components Manufacturer: Pricing

Helped a leading global power components manufacturer introduce new pricing disciplines and processes necessary to maximize margin from smaller accounts while mitigating margin erosion in large strategic accounts

## Project Overview

## Deliverable Examples

### Client Context

- Power components manufacturer that, due to market conditions and strong competitive threats, had faced significant price pressure each year which they were increasingly unable to mitigate with cost reductions
- Growing exposure to largest, cost-focused Tier 1 customers continued to drive this pricing pressure
- Significant differences in realized margins across the smaller customer base highlighted further opportunity
- Brought in TRC to develop new pricing disciplines and processes to maximize margin from smaller accounts while mitigating margin erosion in the largest strategic accounts

### Approach

- Identified and mitigated critical sources of leakage across both standard and custom products
- Embedded pricing disciplines necessary to reduce unwarranted price variation in Standard products
- Designed and leveraged the 'courage meter' as a basis for enhancing price negotiation outcomes on Custom products with Tier 1, 2 and 3 customers
- Embedded a set of tools and processes necessary to enhance overall pricing disciplines going forward

### Outcome

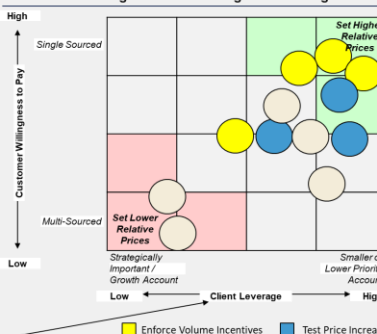
- From \$20M in annual price concessions historically to a forecast price 'gain' of \$5M in 2018 (+\$25M)
- Commercial team still leveraging tools and processes developed by TRC team

## Building the Courage Meter

Differentiating Leverage Across Customers (The 'Courage Meter')

Metric (Score)	Customer A	Customer B	Customer C
Total Customer Sales	\$74.5 (0)	\$64.6M (0)	\$2.9M (4.3)
Current Gross Margin (Adjusted)	14% (1.5)	22% (0.6)	39% (0)
% of Sales Single Sourced	15% (1.5)	42% (4.2)	100% (10)
% of Sales at Risk of Switch	27% (2.3)	12% (3.8)	0% (5)
Customer Pipeline (Pipeline as % of Sales)	17% (3.3)	21% (2.9)	0% (5)
% of Sales Contract Mfr.	0% (0)	0% (0)	0% (0)
Quality of Product	Slightly Adv. (4.0)	Slightly Adv. (4.0)	Slightly Adv. (4.0)
Supply Chain Effectiveness	Slightly Adv. (4.0)	Slightly Adv. (4.0)	Slightly Adv. (4.0)
Competitive Dynamics	Highly Competitive (1.0)	Slightly Competitive (4.0)	Moderately Competitive (3.0)
Total Score	18	23	35
	Low Leverage	Moderate Leverage	High Leverage

Low Performing Customers: Rough Cut 'Courage Meter'



## Tactics in Prep for Bid Process with Tier 1 Customer

	Historical Baseline Goal	Tactic 1: "Share Grab"	Tactic 2: "Nuclear Option"	Tactic 3: "50-50"
Price Change	Reduce prices 6.2% across board	Reduce average prices by 10%	Increase by 5% dual, 10% singles	Reduce average prices by 5%
Dual Sourced Items Revenue	Hold Shares \$26.9M	80% share \$41.7M	20% Share \$12.2M	Slight Increase \$28.4M
Single Sourced Items Revenue	Hold Share \$17.9M	Hold Share \$17.2M	Hold Share \$21.0M	Hold \$18.2M
Total Revenue	\$45M	\$58.9M	\$33.2M	\$46.6M
GP	\$9.3M	\$10.4M	\$10.6M	\$10.4M
GP%	21%	18%	32%	22%
Customer POV	Customer signals the objective of a 10% cost reduction across the board in 2017	Customer responds by saying Competitor is at 16% and they want 12% from us to stay 50-50 share	Customer realizes they are unable to achieve targeted cost reductions if Client increases prices	Final negotiated result
				\$1.1M improvement over Baseline

Note: Full case studies available upon request  
Names & Numbers Modified to Maintain Confidentiality