

Customer Segmentation's Role in B2B Pricing Value Creation

A practical approach to address today's inflationary environment based on 27 years of primary data

Value Creation leaders deploy Actionable Customer Segmentation

It is no secret that pricing optimization – strategic adjustments in pricing to enhance margins without losing market share – is a critical part of all Private Equity firms’ toolkits.

Pricing has long stood out due to its direct impact on bottom line. Unlike cost-cutting measures, which can have limitations and long-term implications if unsuccessfully managed, pricing can improve margins without sacrificing customer loyalty.

However, even though sponsors like to tout their proven formula and repeatable value creation playbook, the reality is there is no one-size-fits-all approach to implementation. And the consequences of not getting it right in B2B can be painful.

Take tiered pricing. Complexity in the bill or confusion over the value provided at each tier can lead to churn of your best-fit customers or incorrect matching of offerings.

With access from our partners to over 27 years of customer primary research, we found that price is only a strong or moderate driver of Loyalty in 23% of cases. ¹ The implications of that finding extend far beyond recognizing that there are opportunities for EBITDA expansion.

It also insinuates that most businesses have not found out how to maximize the linkage between customer segmentation and their pricing strategy. And in today’s inflationary environment, this disconnect can be exacerbated for smaller “Main Street” businesses.

According to Grant Thornton, nearly three-quarters of middle market business owners do not act on inflation. ² *As operators, we get it.*

An integrated approach that first starts with direct feedback from the customer (VOC) can identify pricing opportunities at a micro-segment level, surface new leads, and help structure your tactical plan against today’s inflation.



The Commercial Excellence Value Creation “Toolkit”

Product & Portfolio Optimization

Pricing & Margin Recovery

Customer Segmentation

Sales Force Effectiveness

Channel & Distribution Optimization

Marketing & Sales Process Improvement

Market Expansion & Internationalization

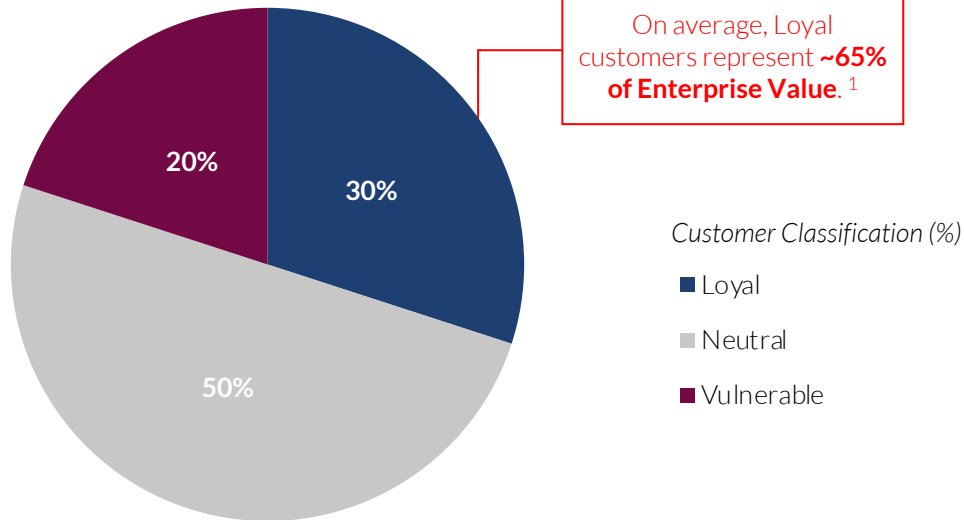
Product & Service Innovation (R&D)

From 2014 to 2017, Swedish private equity firm EQT and its portfolio company Bureau van Dijk (BvD), a global information services provider, delivered **annual revenue growth of 10% while maintaining EBITDA margin >50% by integrating pricing with customer segmentation.** ³

Figure A:

Loyal Customers typically represent ~65% of Enterprise Value yet are less than 20% of your base. Understanding the variation in financial outcomes within each classification can pinpoint margin expansion to address today's inflationary challenges.

Average Distribution of Customer Loyalty in B2B ¹



Example Report Analyzing KPI by Customer Classification (Pricing)

	Loyal (30% of Customers)	Neutral (50% of Customers)	Vulnerable (20% of Customers)
Share of Spend	64%	32%	19%
Cross-Sell	41%	32%	19%
Expected Retention	98%	91%	82%
Expected Growth in 12 Months	High	Mod/Low	Low/Negative
Referrals/Year	5.7	1.5	0.1
Price Sensitivity	0.6x	2.1x	3.6x

Identifying customers classified as Loyal that are **below the average in the cohort** helps prioritize where to optimize price.

Note(s): 1. Metanalysis of Loyalty Research Center Data, Conservative Estimates

Figure B:

This produces three primary “opportunity pools” which have different approaches to implementation.



Quantifiable EBITDA Impact

Based on conservative examples we have seen: A business can increase EBITDA upwards of 1-2% by taking price through the “Low Hanging Fruit” approach. ¹

Illustrative Example of EBITDA Impact based on Target Price Increase (Conservative)

Total Number of Customers	1,000
% of Loyal Customers	30%
Number of Loyal Customers	300
% of Loyal Customers with Low Price Sensitivity	30%
Number of Loyal Customers with Low Price Sensitivity	90
Total Revenue	\$100.00 M
Percentage of Revenue from Loyal Customers	65%
Revenue from Loyal Customers	\$65.00 M
Revenue per Loyal Customer	\$0.22 M
% Average Price Increase Target Segment (Loyal, Low Price Sensitivity)	10%
Average Price Increase for Target Segment (Loyal, Low Price Sensitivity)	\$0.02 M
Total Additional Revenue	\$1.95 M
Contribution Margin for Price	90%
EBITDA Increase	\$1.76M
EBITDA Increase (%)	1.76%

Note(s): 1. Metanalysis of Loyalty Research Center Data, Conservative Estimates

A practical approach to act on today



Conduct a Voice of Customer (Sample)

The oldest trick in the GTM book is a great starting point to both capture customer security and analyze which experiences are most impactful:

- Sample and interview a subset of customers
- Score Customer Loyalty (i.e., NPS + Relative Value to Alternative)
- Ask for evaluations of key experiences including price (i.e., Product Quality, Customer Service) to analyze relative impact



Leverage ML/AI To Extrapolate Scoring (All Customers)

All existing customer and operational data – including unstructured – is an untapped goldmine to infer VOC level insights across all customers:

- Model customer scoring utilizing CRM and operational data as explanatory input
- Our experience has shown that even just a small number of data points (i.e., Account Revenue, AR Past Due, Contract) can yield powerful insights with modern ML



Model and Identify the Variation

Within the Loyalty segment analyze the variation on financial measures or KPIs to help understand customer-level pricing opportunities:

- Integrate current pricing by account
- Form and classify customers into the opportunity pools
- Prioritize customer and segment by feasibility and greatest impact
- Analyze other variations within Loyalty group



Execute, Monitor, and Iterate

Work with sales teams and CPQ motions to implement recommended pricing trends, track ongoing variation in a centralized platform:

- Act on direct feedback customer opportunities (i.e., VOC respondents who identified an upsell or cross-sell interest)
- Collaborate with Sales to communicate and execute opportunity pools
- Monthly or quarterly refresh and platform to view ongoing variation

“We’re continuing to navigate challenges with cost-side inflation, and in some instances, are taking price. But we need to understand just how aggressive we can lean on increases to cover it.”

Leading Middle-Market Private Equity Firm (\$5B AUM)



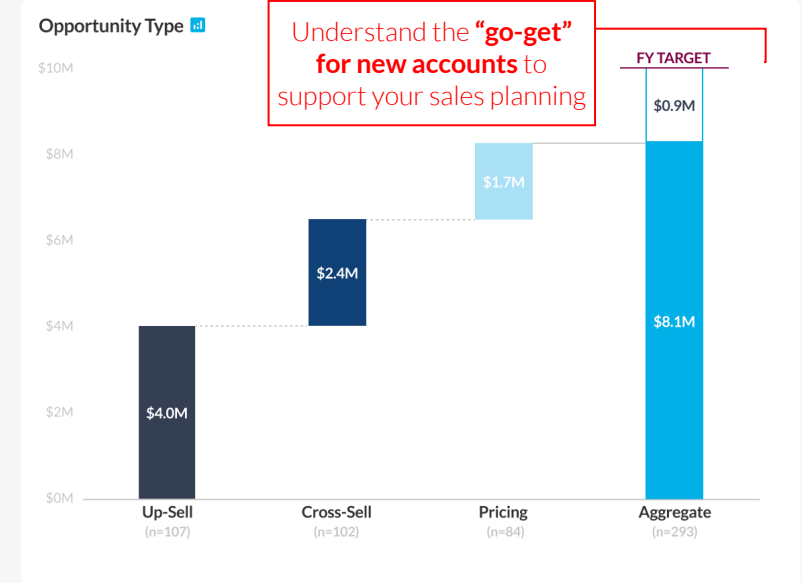
Growth Opportunities

Identify current growth opportunities by customer account including up-sell, cross-sell, and pricing while also understanding key experience drivers to inform outreach/offer approach. ?

Seeing it in Action

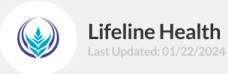
The GrowthOptics (“GO”) platform enables ongoing monitoring and visibility into these opportunities either standalone or embedded within your existing CRM.

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View the **variation in opportunities across your business segments** to help inform prioritization of value creation activities

Growth Opportunities												
UID	Company Name	Business Unit	Product Mix	Rev YTD	Growth Potential	Up-Sell	Cross-Sell	Pricing				
EFG321	Lifeline Health	Healthcare	Mold Remediation	\$3.2M	\$0.9M	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Water Damage	<input type="checkbox"/>				
CDE456	Prime Energy	Utilities	Water Damage	\$12.1M	\$0.8M	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
ZAB123	Velocity Vehicles	Automotive	Structural Repair	\$0.5M	\$0.8M	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
FGH789	Bright Future	Utilities	Fire Damage	\$6.1M	\$0.8M	<input type="checkbox"/>	<input checked="" type="checkbox"/> Mold Remediation	<input type="checkbox"/>				
GTR152	Advanced Drilling	Industrial	Fire Damage	\$0.2M	\$0.7M	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>				
KKR159	Tasteful Innovations	Food & Beverage	Structural Repair	\$1.1M	\$0.7M	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Water Damage	<input type="checkbox"/>				



Lifeline Health
Last Updated: 01/22/2024

High Growth

Summary

Lifeline Health is categorized as a High Growth opportunity based on recent performance improvement in on-site service and a recent hiring increase identified in third-party data. Cross-sell opportunities may exist with Fire Damage product portfolio, as well as a chance to restructure the existing pricing model.

Full Name	Email	Phone	Location
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Categorization	Business Unit	Product Mix	Date Expiration
High Growth	Healthcare	Mold Remediation	04/12/2028



AR Past Due (30)	Estimated Margin
\$-M	38.4%

Sales Rep	Size	Number of Products
Erik Castro	1,999	2

“Win-Back” margin
through new sales: \$1.7M
of opportunity

View pricing opportunities **at the account-level and better equip your sales reps** with one location for all data

Insights

Customer Opportunities	Details	Potential
Pricing	<input checked="" type="checkbox"/>	\$0.5M
Up-Sell	<input checked="" type="checkbox"/> Increase Monthly Volume	\$1.2M

Strength	Experience	Evaluation & Trend
Very Strong	On-Site Service	↑
Strong	Account Management	↑
Strong	Product	↑
Moderate	Billing & Invoicing	↑
Moderate	Problem Resolution	↑

Analysis leveraging VOC results can extrapolate **what drives Loyalty in a way that is actually useful** – not random data correlations in your CRM.



Execute...

GO supports customer-level account growth by not just providing an executive level view, but also equipping teams to do what they do best with actionable insights.

...Monitor & Iterate

The ongoing changes in source data (i.e., a surge in AR Past Due) can also shed light into time-sensitive opportunities.

Opportunity Type

Within Food & Beverage, \$1.0M was identified in cross-sell opportunities. This was concentrated in 5 accounts within the Pacific NW territory. Evidence suggests there may be a client information gap in Account Management in adjacent products for this location.

AI tools can help better identify variation that might **go unseen in traditional dashboards**.

About GrowthOptics

Build on decades of B2B operating experience paired with over 27 years of benchmarking data, GrowthOptics improves enterprise value creation decision-making through easy-to-use AI & ML based tools. Our process harnesses the power of primary customer feedback complemented by internal customer and operational data.



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