THERE'S MORE TO LIFE THAN CUTTING COSTS

Pricing Excellence for Industrial B2B Companies in the Age of AI

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EXECUTIVE SUMMARY

Industrial B2B companies are under earnings pressure, and improved pricing may be the most powerful lever available to improve results. Because price flows straight to the bottom line, a 1% improvement in effective price can lift operating profit by 5–17% depending on margin structure — with the leverage most dramatic for thin-margin distributors. A rigorous pricing program can improve effective price by 2–4%, translating into a 15–30% improvement in operating profit over 18–24 months. It is very painful to cut enough costs to achieve the same result.

Pricing excellence operates on four levels: (1) a proactive Market Strategy, adapting to macro forces that affect all competitors; (2) increasing perceived Customer Value, understanding what each segment actually values and pricing accordingly; (3) disciplined Transaction Pricing, ensuring that value is not quietly given away through unnecessary discounts; and (4) a robust Pricing Infrastructure — the management operating system that sustains gains at the first three levels over time.

AI does not change the economics of pricing. It changes our ability to execute the pricing discipline that the economics have always demanded — faster, more completely, and at lower cost than was previously achievable. The companies that will lead on pricing in the next decade are those that combine AI's analytical power with the organizational discipline to act on what it reveals.

Introduction

> *A sales representative closes a deal at a 22% discount. He doesn’t know that three comparable accounts are paying 14% less than list. His manager approves the exception because she’s approved forty like it this quarter and stopping now feels arbitrary. The CFO finds out in November that effective margin has drifted three points since January — not because of any single decision, but because of ten thousand small ones that nobody was watching. The account that the commercial team has celebrated as a flagship relationship for five years turns out, when someone finally runs the cost-to-serve analysis, to be marginally profitable at best. None of this is malicious. All of it is normal. And all of it is fixable.*

"Price is what you pay; value is what you get." —Warren Buffett

Industrial B2B companies have had a turbulent few years. Input cost volatility, supply chain disruption, accelerating commoditization, and PE ownership timelines compressing value creation into ever-shorter hold periods have made this the curse of “interesting times.” Most recently, earnings have come under significant pressure as economic growth slowed and the long post-pandemic industrial boom moderated. And many organizations have, understandably, begun cutting costs.

But there are other ways to solve the earnings problem.

Pricing can be the most powerful lever in improving earnings. A 1% improvement in price has more impact on the bottom line than a 1% improvement almost anywhere else — more than an equivalent reduction in fixed costs, variable costs, or a comparable increase in volume. There is a clear playbook for achieving these gains, but the way to retain them long-term is to build pricing discipline into your culture. Great pricing organizations not only have the tools and systems in place to measure and optimize price — they have a culture committed to collecting, analyzing, and discussing real data with integrity.

That playbook has not changed. What has changed is our ability to execute it.

Pricing is fundamentally a problem of allocating scarce goods among buyers with different willingness to pay. That economic reality is as old as markets themselves. What is new is our ability to see it clearly — in real time, at scale, across thousands of transactions and dozens of market variables simultaneously. AI is to pricing what electricity was to manufacturing: not a new discipline, but a force multiplier that makes the underlying discipline dramatically more powerful in the hands of those who have already mastered it.

The implication cuts both ways. Companies that have done the foundational pricing work will use AI to see things they couldn’t see before and act faster than competitors. Companies that haven’t done that work will use AI to generate bad analysis more efficiently. The framework matters. The judgment matters. The organizational culture that sustains pricing discipline over time matters most of all.

The urgency is not abstract. Industrial companies with clean transaction data and AI-augmented pricing infrastructure are already operating at a different speed than those still assembling their pricing picture manually, quarterly, from fragmented sources. The gap between those two operating models compounds quietly — one better decision at a time, one held price at a time, one market signal caught early at a time — until it becomes visible in win rates, in margin trends, and eventually in exit valuations. This is not a problem to address in the next planning cycle. For most industrial B2B companies, the foundational work — clean data, clear governance, disciplined transaction management — should have started already. The good news is that the framework is proven, the tools are available, and the first meaningful results arrive faster than most leadership teams expect.

This paper lays out that framework — four levels of pricing excellence, each now augmented by AI — and offers a practical guide for industrial B2B companies ready to capture the value they have already earned.

The Financial Case: Pricing Leverage Across Industrial Margin Structures

The arithmetic of pricing leverage varies by sector — but the conclusion is consistent: pricing is the most powerful margin lever available, and its advantage over cost reduction grows as margins compress.

Company Type	Revenue	Op. Margin	Op. Profit	Impact of 1% Price Improvement	Equivalent Cost Reduction
Industrial Distributor (thin margins)	$200M	6%	$12M	+$2M (+16.7% op. profit)	~40 fully-loaded headcount positions
Industrial Services (medium margins)	$150M	13%	$19.5M	+$1.5M (+7.7% op. profit)	~15–20 headcount or equivalent OpEx
Specialty Manufacturer (stronger margins)	$100M	22%	$22M	+$1M (+4.5% op. profit)	$1M COGS reduction via procurement or yield

The leverage effect is most dramatic precisely where margins are thinnest. For an industrial distributor running 6% operating margins, a 1% improvement in effective price — achieved through reduced discount leakage, better pocket price realization, and more disciplined transaction governance — improves operating profit by nearly 17%. Achieving the same improvement through cost reduction requires eliminating roughly 40 fully-loaded headcount positions. The pricing path is not just more powerful. In most cases it is more achievable, more sustainable, and less damaging to the organization’s capacity to grow.

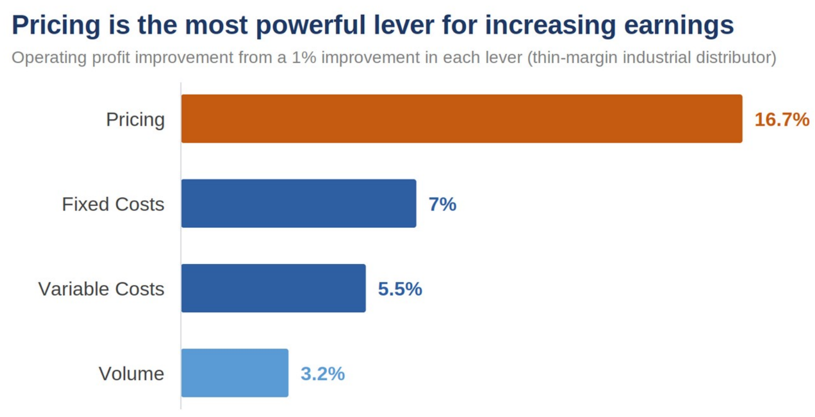

Exhibit 1. A 1% improvement in price outperforms a 1% improvement in any other lever — most dramatically for thin-margin businesses.

A rigorous pricing improvement program — one that addresses all four levels of the framework described in this paper and sustains the gains through robust pricing infrastructure — typically generates 2–4 points of RoS improvement over 18–24 months. It is very painful to cut costs enough to achieve the same result.

These numbers translate into outcomes that matter beyond the income statement. For a PE-backed industrial company, a 15–30% improvement in operating profit over 18–24 months is not an incremental win — it is the difference between an exit that validates the investment thesis and one that requires the story to be reframed. For a privately held business, it is the difference between a management team that has been defending its cost structure for three years and one that finally has a growth story to tell. For the commercial team living inside the problem, it is the difference between a sales force that competes on price because it has no other language and one that holds price because it understands — and can articulate — why it is worth more. The economics are compelling. The organizational transformation that captures them is the harder and more durable achievement.

AI Augments Pricing Excellence — It Doesn’t Replace It

> ***At each level of the pricing framework, AI accelerates the analytical work. The judgment, facilitation, and organizational change remain human.***

Pricing Level	The Core Economic Problem	What AI Accelerates	Where Human Judgment Remains Essential
Level 1: Market Strategy	Macro and competitive forces set the price ceiling for all participants. The challenge is seeing shifts before competitors do and positioning ahead of them.	Continuous monitoring of competitor signals, input cost indices, regulatory filings, and demand indicators. Pattern recognition across historical cycles that would take analysts weeks to assemble.	Interpreting what the data means for your competitive position. Deciding whether to lead, follow, or hold. Understanding which signals are real and which are noise.
Level 2: Customer Value	Customers have different willingness to pay based on how they perceive your value relative to alternatives. The challenge is measuring perception, not assumption.	Accelerating willingness-to-pay research at scale. Identifying segment clusters from transaction data. Modeling value equivalence across a larger attribute set than traditional research allows.	Deciding which segments to prioritize. Designing value proposition changes that shift customer perception. Facilitating cross-functional conversations about what value to lead with.
Level 3: Transaction Pricing	Every transaction is a micro-allocation decision. Value leaks through thousands of daily discount decisions made by people whose incentives favor closing deals over protecting margin.	Real-time flagging of discount outliers. Automated pocket price waterfall visibility. Identifying anomalies in the discount-to-volume relationship. Predictive modeling of which accounts are discount-conditioned vs. genuinely price-sensitive.	Designing the discount governance structure. Having difficult conversations with sales leadership about unprofitable accounts. Changing compensation design to reward pocket price realization.
Level 4: Pricing Infrastructure	Pricing excellence requires a management operating system — the right data, in the right hands, generating the right conversations, consistently. Without infrastructure, Levels 1–3 decay.	Generating the management reporting layer automatically — dashboards, variance alerts, competitive intelligence digests — that previously required dedicated analyst headcount. Making pricing performance visible without manual assembly.	Designing the governance: who is in the room, what decisions get made at what level, how pricing philosophy gets set and sustained. Building the culture where pricing is treated as a profit center.

> *The pattern across all four levels is consistent: AI compresses the time and cost of assembling the analytical foundation. It does not replace the strategic judgment, cross-functional facilitation, or organizational change management that determine whether pricing improvements actually stick.*

Level 1 — Market Strategy

> ***Market prices are largely determined by forces that affect all competitors equally. The advantage goes to those who see them coming first.***

> *Most industrial companies that claim to have a pricing strategy have a price list. These are not the same thing. A price list is a record of what you have decided to charge. A pricing strategy is a discipline for deciding what you should charge — and the gap between the two is where most of the lost margin lives.*

In industrial B2B markets, the overall price level for a given product or service category is set by macroeconomic and structural forces that no single competitor controls. These include:

- Input cost changes — raw materials, energy, labor, and logistics costs that move through the value chain and ultimately affect what the market will bear
- Supply changes — capacity additions or reductions, new entrants, consolidation, or disruption (a plant closure, a port strike, a new technology that changes production economics)
- Demand changes — end-market cycles, customer industry health, substitution threats, and shifts in customer buying behavior
- Regulatory changes — environmental compliance costs, trade policy, tariffs, and sector-specific regulation that affect cost structures asymmetrically across competitors

Managing these factors requires systematic monitoring of pricing trends across your industry, your suppliers, and your customers. Michael Porter's five forces remains a useful organizing lens. The goal is not just to understand where prices are today, but to anticipate where they are going — and to move ahead of your competitors rather than react after them.

This lever is particularly powerful in industries with significant input cost exposure: chemicals, steel, oil and gas, pulp and paper, industrial piping, waste management. In these sectors, a company that can read input cost trends three to six months ahead of the market and build those signals into its pricing posture can capture meaningful margin that slower competitors will give back.

Where AI Changes the Game at Level 1

Previously, market strategy pricing required dedicated analyst resources to monitor competitor price lists, track commodity indices, read regulatory filings, and synthesize the picture into something an executive team could act on. That synthesis happened quarterly at best — and was often stale by the time it reached the room.

AI compresses that cycle dramatically. In industrial B2B, the most relevant signals are largely observable: published input cost indices, regulatory filings and rulings, capacity announcements, trade press, earnings call language from public competitors, and distributor purchasing behavior. AI tools can monitor these signals continuously and surface actionable intelligence in near real time. Pattern recognition across historical price cycles — the kind of analysis that would have taken a team of analysts several weeks to assemble — can be generated in hours.

What AI cannot do is decide what the data means for your competitive position. Whether to lead, follow, or hold on price in a given market moment requires understanding your cost position relative to competitors, your customer relationships, your capacity utilization, and the likely behavior of the two or three competitors who actually set the market tone. It requires judgment about which signals are real and which are noise. That remains a human problem — and getting it wrong is expensive.

Key Questions for Market Strategy

- *Do you have an evidence-based view of overall pricing trends in your market for the short, medium, and long term? How accurate have those forecasts been historically?*
- *Is that view shared consistently across your organization so that pricing behavior in the field is aligned with the forecast?*
- *Do you have a mechanism to assess specific market events — capacity changes, new competitors, input cost spikes, regulatory shifts — and their likely impact on your price position?*
- *Are you monitoring market signals systematically, or reacting to competitive moves after the fact?*
- *Have AI tools been deployed to compress the cycle time on market and competitive intelligence — or is your team still assembling that picture manually?*

Level 2 — Customer Value

> ***Satisfied customers are willing to pay as long as the perceived value is greater than the price. The key word is "perceived."***

What matters is not the actual value of a product or service, but the customer's perception of that value. This distinction is especially consequential in industrial B2B markets, where buyers are sophisticated procurement professionals whose job is to minimize what they pay — and who will systematically undervalue your offering if you let them frame the conversation.

Smart industrial companies understand this and invest in understanding, building, and communicating the sources of value that justify their price position. The companies that struggle are those that default to competing on price because they haven't done the work to articulate why they are worth more.

One useful way to think about this is the Value Equivalence Line (VEL) — the market's collective judgment about how much perceived benefit is worth in price. Competitors whose price sits above the line, relative to the value customers perceive, lose share over time. Those whose price sits below it gain share, or leave margin uncaptured. The strategic goal is not simply to be cheaper, but to move favorably along the line — increasing perceived value faster than price, or raising price to match value customers already recognize but have not been asked to pay for.

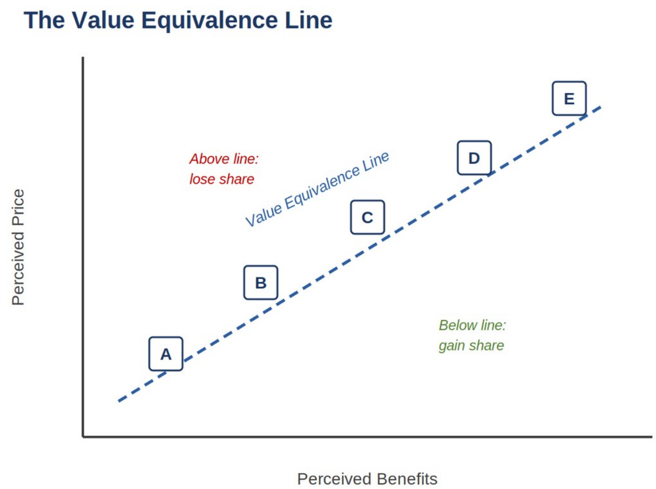

Exhibit 2. The Value Equivalence Line: propositions above the line lose share; those below gain it.

In industrial B2B markets, the value a customer derives from a supplier typically falls into three categories:

- **Functional benefits** — the core performance of the product or service itself: dimensional consistency, chemical purity, waste stream compliance rates, on-time delivery, equipment uptime. These are the table stakes that get you considered.
- **Process benefits** — the ease and efficiency of doing business with you: order accuracy, invoicing clarity, responsiveness of technical support, flexibility on lead times, integration with the customer's procurement systems. Often undervalued by suppliers and overvalued by customers.
- **Relationship benefits** — the confidence and risk reduction that comes from a trusted supplier relationship: your track record, your financial stability, your willingness to solve problems when things go wrong, your people. In industrial markets where supply disruption is costly, relationship

benefits can command a significant premium that procurement scorecards systematically fail to capture.

These three benefit types can be mapped against customer importance ratings using an Importance/Performance Matrix — a tool for identifying where you are over-investing in benefits customers don’t value, and under-communicating benefits they care about most.

Exhibit: Importance and Performance — Two Industrial B2B Segments

Illustrative scores: customer-rated importance (1–10) and perceived supplier performance (1–10).

Benefit Attribute	Importance	Perceived Perf.	Gap / Signal	Action
SEGMENT 1: Large Manufacturer				
Delivery reliability / on-time rate	9	6	⚠️ High priority	Invest
Supply security / backup capacity	8	5	⚠️ High priority	Invest
Technical support responsiveness	8	7	Moderate gap	Monitor
Price competitiveness	7	6	Moderate gap	Monitor
Product specification consistency	7	8	Positive	Communicate
Invoicing accuracy	4	8	Over-invested	Reallocate
Sustainability credentials	3	7	Over-invested	Reallocate
SEGMENT 2: Mid-Market Distributor				
Price transparency / no surprise fees	9	4	⚠️ High priority	Invest
Invoicing accuracy and clarity	8	5	⚠️ High priority	Invest
Order flexibility / lead time responsiveness	8	6	Moderate gap	Monitor
Sales rep responsiveness	7	7	On target	Maintain
Product range breadth	6	8	Positive	Communicate
Sustainability credentials	3	6	Over-invested	Reallocate
Technical support depth	2	7	Over-invested	Reallocate

> *In both segments, the most important gaps are not performance failures — they are communication and transparency failures. The pricing and value messaging problem is often more urgent than the operations problem, and solving it requires no capital investment — just better framing of value already being delivered.*

Bundling deserves particular attention in industrial B2B. The instinct is to unbundle — to offer a base product at a competitive price and charge separately for services, technical support, and logistics. In many cases, the opposite approach captures more value. Customers who would resist a price increase on the core product will accept a bundled offering that packages the services they were already consuming informally — and the bundled price, properly constructed, is higher than the sum of the parts would have been negotiated separately.

Where AI Changes the Game at Level 2

Understanding customer value has historically required expensive, time-consuming primary research — conjoint studies, customer interviews, win/loss analysis — that many industrial companies simply didn't invest in, relying instead on sales force intuition about what customers cared about.

AI changes the economics of that research significantly. Conjoint analysis at scale is now faster and cheaper. More importantly, AI can identify segment clusters from existing transaction data, CRM records, and service interaction logs that reveal differentiated willingness to pay without requiring new primary research. Patterns that would take an analyst team months to surface — which customer segments consistently accept price increases, which reliably push back, which are churning quietly on value grounds rather than price grounds — can be identified and acted on in weeks.

What AI cannot do is design the value proposition changes that shift customer perception. Deciding to lead with supply security rather than price competitiveness in a given segment, restructuring a bundle to include services the customer didn't know they wanted, training a sales force to articulate relationship value to a procurement team that is incentivized to ignore it — these are human decisions requiring strategic judgment, market intuition, and organizational change management.

Key Questions for Customer Value

- *Are you guessing at what customers value, or are you actually doing the research to find out — by segment?*
- *Have you identified where you sit on the Value Equivalence Line in your market?*
- *Do you know how price-sensitive each of your key segments actually is — based on data, not sales force intuition?*
- *Are you communicating all three categories of value — functional, process, and relationship — or defaulting to product specs and price?*
- *Have you explored bundling as a value capture mechanism, or are you leaving that conversation to procurement?*
- *Are you using AI tools to identify willingness-to-pay differentiation across your customer base?*

Level 3 — Transaction Pricing

> ***Transaction pricing is a game of inches, and the wrong discounts can cost you big. In industrial B2B, those inches add up to millions.***

Microeconomics tells us that every customer has a different price elasticity. Some buyers are genuinely price-sensitive and will shop alternatives if the gap is wide enough. Others are not — they value reliability, relationships, and switching cost avoidance more than the last point of margin — but will take a discount enthusiastically if one is offered. The fundamental challenge of transaction pricing is giving discounts only to customers who actually require them to close, and only in the depth actually required. Everything beyond that is a gift.

In industrial B2B, this challenge is acute. Transactions are complex, involving multiple line items, freight terms, payment terms, rebates, volume bonuses, and off-invoice adjustments that accumulate invisibly between list price and the price that actually lands in your pocket. Sales representatives are incentivized to close deals. Procurement professionals are incentivized to extract concessions. And the organizational systems that should be tracking the gap between list and pocket price are often absent, fragmented, or not reviewed by anyone with the authority to act on them.

The result is predictable: value leaks. Not dramatically, in ways that trigger alarms, but steadily, transaction by transaction, in ways that only become visible in aggregate — and by then the customer has been trained to expect the discount as a baseline.

The Pocket Price Waterfall

The most powerful diagnostic tool in transaction pricing is the Pocket Price Waterfall — a visualization of every discount, allowance, rebate, and adjustment applied between list price and the price that actually reaches your pocket. In a representative industrial transaction, a waterfall might include:

- Order size discount
- Competitive discount
- Payment terms discount
- Annual volume bonus
- Off-invoice rebate
- Freight allowance
- Co-op or market development funds
- Stocking allowance
- Performance penalties
- Emergency delivery surcharge waivers

Each of these line items has a legitimate purpose in the right circumstances. The question is whether each one, in each transaction, was actually required to close the business — or whether it was applied out of habit, sales force convenience, or simple lack of visibility.

In a representative industrial transaction, the cumulative effect of these adjustments can easily reduce a $100 list price to a $72 pocket price — a 28% erosion that no single line item would have triggered scrutiny for. That erosion, multiplied across thousands of transactions and hundreds of accounts, is the difference between a business that is capturing the value it has earned and one that is quietly subsidizing its customers' margins at the expense of its own.

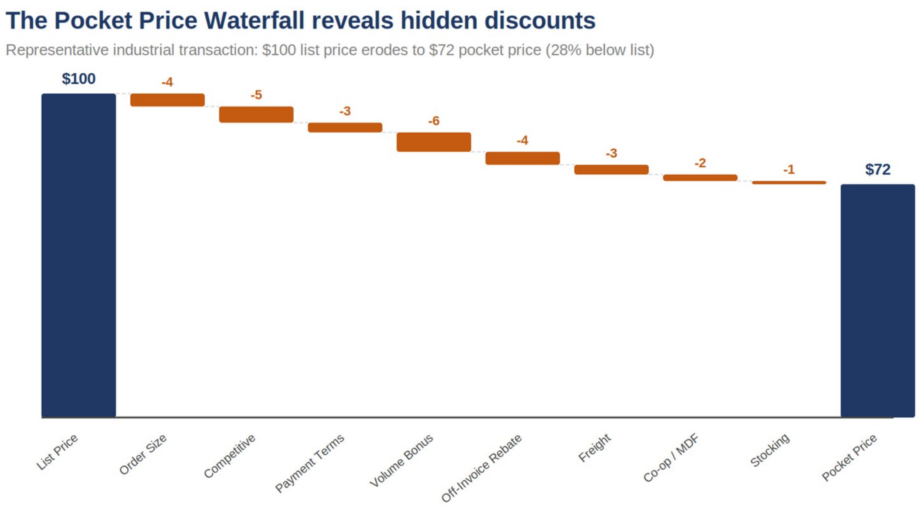

Exhibit 3. The Pocket Price Waterfall: a $100 list price erodes to $72 pocket price through accumulated discounts.

Two further diagnostics make the pattern visible. Plotting pocket prices across all transactions for a comparable product reveals the price band — the actual distribution of prices being realized. Plotting discount depth against account volume reveals whether the customers receiving the deepest discounts are the ones whose volume justifies them, or whether the relationship is essentially random.

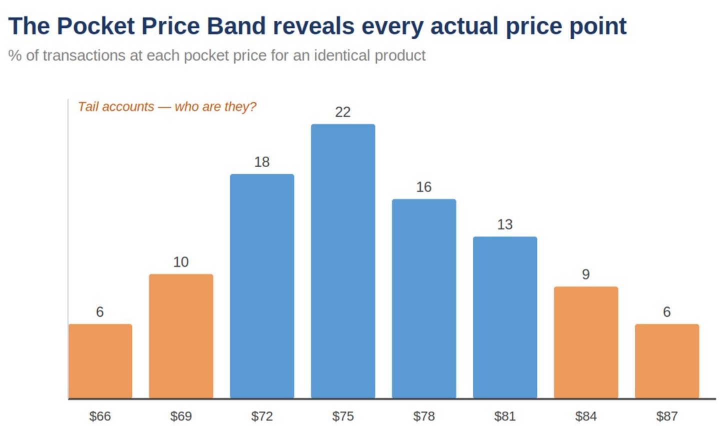

Exhibit 4. The Pocket Price Band: a wide band is not inherently bad — unless it is random. Who sits in the tails?

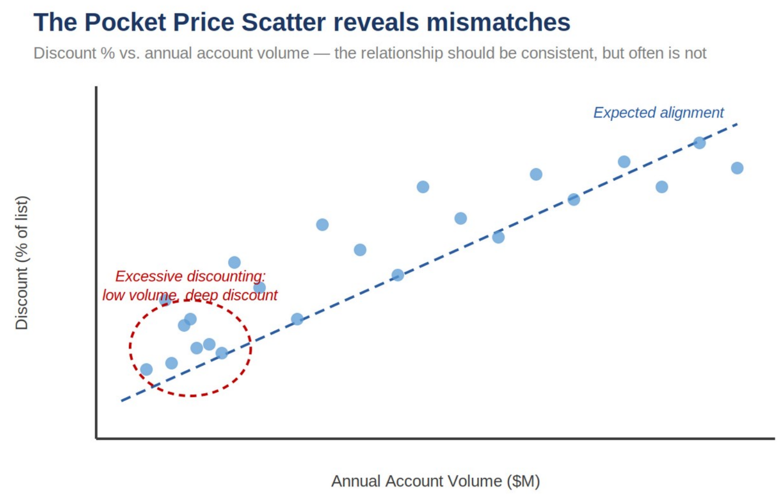

Exhibit 5. The Discount x Volume Scatter: outliers receiving deep discounts on low volume are the first place to look for recoverable margin.

The Culture Problem Underneath the Data Problem

Most transaction pricing failures in industrial B2B are not primarily systems failures. They are culture failures. The right policies are often in place. They are simply not applied consistently, because the organizational forces pulling against them are powerful and constant:

- Sales representatives incented to close deals, not protect margin
- Account managers who have built relationships on the implicit promise of flexibility
- Finance teams who track revenue but not pocket price realization
- Contracts teams working from templates that haven't been updated to reflect current pricing policy
- Senior leaders who approve pricing exceptions without visibility into how many exceptions have already been granted that quarter

These forces are not malicious. They are the predictable result of misaligned incentives and insufficient visibility. The fix is partly structural — governance, approval tiers, compensation design — and partly cultural, which is harder and slower.

Where AI Changes the Game at Level 3

This is where AI's impact on pricing is most immediate and most concrete. Real-time flagging of discount outliers against approved guardrails is now straightforward to automate. Pocket price waterfall visibility across every transaction, updated continuously rather than assembled quarterly by an analyst, is achievable with current tools. The discount-to-volume scatter that previously required a dedicated analysis project can be generated on demand and reviewed in a weekly pricing meeting.

More powerfully, AI can identify patterns that human reviewers would miss entirely: accounts whose discount depth has been creeping upward quarter over quarter without a corresponding increase in volume or strategic value; product lines where freight waivers are being granted as a closing tactic rather than a logistics necessity; regional differences in discount behavior that suggest individual sales manager culture rather than market conditions.

Predictive modeling adds another layer — identifying in advance which accounts are genuinely price-sensitive versus discount-conditioned, so that sales representatives can be coached to hold price with the latter rather than defaulting to the discount that has always closed the deal before.

What AI cannot do is design the governance structure that makes any of this matter. Setting the approval tiers, establishing pocket price as the universal performance metric, redesigning sales compensation to reward margin realization rather than just revenue closed, having the difficult conversations with account managers about customers who are structurally unprofitable — these require human judgment, organizational authority, and the willingness to absorb short-term friction in exchange for long-term margin health.

SIDEBAR: THE FRONT-LINE PRICING TOOL

Before any customer conversation — a renewal, a new proposal, a competitive situation — a sales representative opens a pricing tool, enters two variables: the SKU or service line, and the customer. Within seconds, the tool returns two numbers.

The recommended price: the target pocket price derived from what comparable customers are actually paying for this product or service, adjusted for current input cost conditions and any applicable contract terms.

The floor price: the minimum pocket price below which the representative cannot go without escalation to a pricing manager or commercial director.

Between those two numbers lives the rep’s judgment. What the tool changes is the default — conversations begin from data rather than memory, and deviations from the recommendation are documented and reviewed. That single shift captures margin that no amount of discount policy enforcement achieves, because it changes the starting point rather than policing the endpoint.

The tool is built in three stages. Stage 1: a simple lookup against cleaned transaction history — essentially a smarter, data-driven price book, buildable in weeks. Stage 2: dynamic factors added — input cost indices, customer discount history, contract vintage. Stage 3: predictive elements — probability of acceptance, churn risk, suggested negotiation framing.

The prerequisite is not AI sophistication. It is data discipline. A recommendation engine built on incomplete or inconsistent transaction data gives bad advice with false confidence — which is worse than no tool at all. For complex, multi-site proposals, the same logic extends to a deal desk: the cross-functional structure that coordinates sales, pricing, engineering, contracts, and finance on proposals too complex for a single rep to price unilaterally.

Key Questions for Transaction Pricing

- *Do you monitor pocket price for every transaction — including all discounts, allowances, rebates, and off-invoice adjustments?*
- *Do you know which customers are at the bottom of your pocket price band? Are they there for legitimate reasons?*
- *Is there a meaningful correlation between discount depth and account volume or strategic value — or is the relationship essentially random?*

- ► *Do your sales representatives know what their average pocket price realization is, and is it a factor in their compensation?*
- ► *Are pricing exceptions tracked and reviewed at a senior level, or approved in isolation without visibility into cumulative impact?*
- ► *Are AI tools being used to monitor transaction pricing in real time — or is your pocket price visibility still assembled manually?*

Level 4 — Pricing Infrastructure

> ***All the decisions made at Levels 1, 2, and 3 depend on having Pricing Infrastructure in place. Without it, pricing excellence is an event. With it, it becomes a process.***

Pricing Infrastructure is the management operating system that supports the pricing function across the entire business. It encompasses the processes, organizational design, performance management systems, and tools that ensure the right people are having the right conversations, with the right data, at the right cadence.

Price-advantaged industrial companies treat their pricing function as a significant profit center and invest accordingly. They understand that the gains achieved at Levels 1, 2, and 3 are temporary without the infrastructure to sustain them. A well-designed pricing transformation that is not embedded in the management operating system will revert within eighteen months — as sales force habits reassert themselves, as market intelligence stops being compiled, as the quarterly pricing review gets crowded out by operational priorities.

The Five Pillars of Pricing Infrastructure

1. Governance — who decides, and at what level

Every pricing decision should have a designated owner and a defined approval process. List prices, target prices, floor prices, and discretionary discount authority should be explicitly assigned by product line, customer segment, and transaction size. The absence of clear governance is the single most common root cause of pocket price erosion.

2. Performance Management — what gets measured gets managed

Pocket price realization should be a core performance metric at every level of the commercial organization — not just revenue, not just gross margin, but the actual price achieved after every adjustment. Sales compensation should reflect this. Senior leadership should see it regularly enough that trends are visible before they become problems.

3. Organizational Alignment — one version of pricing truth

Pricing decisions touch every function, and every function has its own instinct about the right answer. Sales wants flexibility to close deals. Finance wants margin protection. Legal wants contract standardization. Operations wants predictability. Pricing Infrastructure creates the forums and the shared data that allow these functions to coordinate rather than conflict.

4. Tools and Systems — the data layer that makes everything visible

Effective pricing infrastructure requires systems that can capture every element of the pocket price waterfall, track performance by transaction, customer, segment, and region, and surface that information in formats that are actually used in management meetings. In many industrial companies, this data exists but is fragmented across ERP, CRM, and individual spreadsheets. Consolidating and standardizing that data layer is a prerequisite for everything else — including AI augmentation.

5. Culture — pricing as a core organizational value

The organizations that sustain pricing excellence over time are those that have made it part of how they think about themselves. Pricing is not a back-office function or a quarterly exercise — it is a strategic capability that is owned, measured, and rewarded at every level.

Building that culture requires: defining clear ownership and process; setting explicit pricing targets by segment and product line; training front-line employees on both the policy and the economics behind it; rewarding good pricing decisions visibly; and measuring pricing performance with the same rigor as revenue and cost.

Where AI Changes the Game at Level 4

The historical barrier to robust Pricing Infrastructure was not conceptual. Most industrial executives understand, in principle, that they need better pricing governance, better reporting, and better cross-functional alignment. The barrier was operational: assembling the data, generating the reports, maintaining the cadence of management review, and keeping the system alive amid competing priorities required dedicated headcount that most industrial companies were unwilling or unable to sustain.

AI removes that barrier.

The management reporting layer that previously required a pricing analyst working full time — pocket price dashboards, variance alerts, competitive intelligence digests, discount exception reports — can now be generated automatically and delivered to the right people at the right cadence without manual assembly. The quarterly pricing review that used to begin with two hours of data preparation can begin with two hours of decision-making.

This is the electricity analogy made concrete. Electricity did not change what factories were trying to produce. It changed the economics of production so dramatically that factories that had not electrified became uncompetitive within a generation. AI does not change what Pricing Infrastructure is trying to achieve. It changes the economics of maintaining it so dramatically that companies still running their pricing management operating system on manual processes and quarterly spreadsheets will find themselves at a structural disadvantage — not immediately, but inexorably.

What AI cannot provide is the governance design, the organizational alignment, or the cultural change that give the infrastructure its authority. A dashboard that nobody acts on is not infrastructure — it is wallpaper. AI makes the data faster, cheaper, and more comprehensive. It does not make the organization willing to act on it.

AI TOOL TAXONOMY FOR PRICING

- **Data consolidation:** Pulling pocket price data from ERP, CRM, and contracts into a unified layer. The unglamorous prerequisite that everything else depends on.
- **Analytics and anomaly detection:** Flagging discount outliers, generating pocket price band reports, identifying variance patterns. The core operational AI layer.
- **Market intelligence tools:** Monitoring input cost indices, regulatory filings, trade press, and earnings call language for Level 1 signals.
- **Large language models:** Synthesizing competitive intelligence, accelerating willingness-to-pay research analysis, drafting pricing communications.
- **Pricing optimization platforms:** More sophisticated modeling of price elasticity and

willingness-to-pay by segment. Appropriate for companies with sufficient data maturity.

Most industrial companies are at Stage 0: they don’t have clean consolidated data. Start there. The act of assembling that data for the first time will almost certainly reveal where the highest-leverage opportunity is.

Key Questions for Pricing Infrastructure

- *Is pricing performance — including pocket price realization — visible to senior leadership on a regular cadence, or is it a black box between annual budget cycles?*
- *Do you have clearly defined governance for pricing decisions — who sets list prices, who can approve exceptions, and at what level of authority?*
- *Are Sales, Finance, Legal, and Operations aligned on pricing policy and performance metrics, or does each function operate from its own version of the truth?*
- *Is your pricing data consolidated in systems that generate actionable reporting — or fragmented across ERP, CRM, and individual spreadsheets?*
- *Does your compensation design reward pocket price realization — or does it inadvertently reward volume at the expense of margin?*
- *Have you deployed AI tools to automate the management reporting layer of your pricing infrastructure?*

> **If your pricing analyst left tomorrow, would your pricing management operating system continue to function — or would it quietly stop?**

The Change Management Reality

> ***The framework is necessary. It is not sufficient. The hardest part of pricing excellence is not analytical — it is organizational.***

> *In more than fifteen years of pricing work, I have never seen a transformation fail because of bad analytics. I have seen many fail because nobody was willing to have the conversation the analytics demanded. The spreadsheet is rarely the hard part. The meeting is the hard part.*

Every pricing transformation eventually encounters the same moment: the data is assembled, the analysis is complete, the framework is presented to the commercial leadership team, and the room goes quiet. Not because the analysis is wrong. Because it is right — and acting on it requires conversations that nobody in the room is eager to have.

Pricing culture change follows a consistent pattern across industrial B2B companies, regardless of sector or size. It moves through three phases, and skipping any of them produces a transformation that looks successful for two or three quarters and then quietly reverts.

Phase 1 — Make the Data Visible and Undeniable

The first task is not to change behavior. It is to change the conversation. In most industrial companies, pricing dysfunction persists not because people are defending it consciously, but because nobody has assembled the data in a form that makes the problem impossible to ignore.

The pocket price waterfall, the price band analysis, the discount-to-volume scatter — these are not analytical exercises. They are organizational interventions. When a sales leadership team sees for the first time that their top ten accounts by revenue are clustered at the bottom of the pocket price band, or that one region is granting freight waivers at three times the rate of comparable regions, the conversation changes. Not because anyone is being blamed, but because the data has made the status quo indefensible.

The goal of Phase 1 is a shared factual foundation. Until the commercial team — sales, finance, operations, legal — is looking at the same numbers and agrees that those numbers are real, no behavioral change is possible.

Phase 2 — Change the Conversation Before Changing the Compensation

The instinct in most pricing transformations is to move quickly to incentive redesign. This instinct is correct in the long run and premature in the short run. Changing compensation before changing the conversation creates resistance. Sales representatives who feel that the rules have been changed on them become adversaries of the transformation rather than participants in it.

The more durable approach is to change what gets discussed in commercial meetings before changing what gets measured in compensation plans. Introduce pocket price realization as a standing agenda item in the weekly sales meeting — not as a performance review, but as a shared operational metric. Ask reps to bring their exceptions to the table and explain them. Let the culture of transparency develop before the culture of accountability is enforced.

Phase 3 — Let Early Wins Create Internal Advocates

The most powerful force in pricing culture change is not management authority. It is peer credibility. When a sales representative who was skeptical of the pricing framework holds price on a renewal, the customer accepts it without churning, and that representative’s pocket price realization for the quarter is visibly higher than their peers — that representative becomes an advocate.

Identifying and nurturing those early wins is the most important management task in Phase 3. Be selective about where the new pricing discipline is applied first. Celebrate the wins visibly and specifically. Be patient with the laggards, because the most effective tool for converting a skeptic is a respected peer who has already been converted.

A Transformation in Practice

The experience of one industrial B2B company illustrates all three phases. When a pricing transformation began at a B2B data and services company with over 100 SKU configurations, 5,000 accounts, and a sales force that had been using discounts as the primary closing tool for years, the first instinct of the commercial team was that the analysis would be resisted.

The approach was to give each function its own data first. Finance saw the margin waterfall. Sales saw the discount variance analysis. Operations saw the cost-to-serve analysis. Product saw the SKU profitability data. Each function saw a different part of the same problem. When they came together, shared discovery replaced positional debate.

The moment that defined the transformation came from an unexpected direction. A fifteen-year sales veteran — one of the most experienced and respected members of the team, and the person most expected to resist the new framework — spent an afternoon with the discount variance analysis for his own accounts. He came back to the next commercial meeting and said, quietly, that he hadn’t realized how much he had been giving away. He asked to be the first to pilot the new pricing tool.

He became the most effective internal advocate the transformation had. Not because management recruited him. Because the data had changed his mind — and because his peers trusted his judgment in a way they would never trust a consultant’s recommendation or a manager’s directive.

> ***That is how pricing culture changes. Not by mandate. By evidence, conversation, and the credibility of people the organization already respects.***

Prioritizing Pricing Levers by Revenue Stream

Different revenue streams have fundamentally different pricing leverage points. Companies that apply a single pricing approach across all revenue streams — typically defaulting to transaction-level discounting as the universal tool — are leaving value on the table in some streams while over-investing in price defense in others.

Revenue Stream	Model	Priority Pricing Levers	Illustrative Opportunity
Contract Manufacturing / Processing	B2B	Market Strategy, Transaction	Are input cost increases being passed through systematically — or absorbed? Are freight and surcharge waivers being granted as closing tactics on long-term contracts?
MRO / Industrial Distribution	B2B	Customer Value, Transaction	Are you competing on price because customers don't perceive your service reliability as differentiated? Is your pocket price band wider than your discount policy would predict?
Hazardous / Industrial Waste Management	B2B	Market Strategy, Customer Value	Are regulatory compliance cost increases being captured in pricing? Are customers fully valuing the liability transfer embedded in your service?
Professional / Field Services	B2B	Customer Value, Transaction	Are you pricing on inputs (hours, headcount) rather than outcomes (uptime restored, compliance achieved)? Is emergency response being priced at a premium or given away as a relationship gesture?
Long-Term Service Contracts	B2B	Market Strategy, Transaction	Are escalation clauses keeping pace with actual input cost inflation — or were they set at a rate that has been systematically below actual cost increases?
Equipment Sales with Service Attachment	B2B	Customer Value, Transaction	Are aftermarket parts and service being priced to reflect switching costs and captive demand — or at the same margin as the original equipment sale?
Specialty Chemicals / Formulated Products	B2B	Customer Value, Market Strategy	Is the performance premium of your formulation being captured in price — or is procurement successfully commoditizing it by comparing to lower-spec alternatives?
Logistics / Transportation Services	B2B	Market Strategy, Transaction	Are fuel surcharges and capacity premiums being passed through consistently — or negotiated away individually by account managers trying to protect relationships?

Pricing Excellence: A Disciplined Approach

> ***In a low-growth, high-pressure industrial environment, pricing is the most powerful lever available. It is also the most neglected.***

The companies that achieve pricing excellence in industrial B2B markets share a common characteristic: they treat pricing with the same rigor they apply to product development, quality assurance, and operational safety. They understand that the enemy of pricing excellence is not malice or incompetence — it is sloppiness. The accumulated weight of uncounted exceptions, unreviewed discounts, untracked pocket price erosion, and unexamined assumptions about what customers will and won't pay.

The four-level framework in this paper offers a structured path from sloppiness to discipline:

- **Level 1** ensures you are reading the market correctly and positioning ahead of competitors rather than reacting to them.
- **Level 2** ensures you understand what customers actually value — by segment, not on average — and are communicating and pricing that value deliberately.
- **Level 3** ensures that the value you have built and communicated is not being quietly given away, transaction by transaction, in discounts that were never required.
- **Level 4** ensures that the gains achieved at Levels 1, 2, and 3 are embedded in a management operating system that sustains them over time.

None of these levels is optional. A company with excellent market strategy and no transaction discipline will watch its margin erode deal by deal. A company with rigorous transaction governance and no customer value work will compete on price by default. A company that executes brilliantly at all three levels but fails to build the infrastructure will find itself repeating the transformation every three years as the organization reverts to old habits.

The Role of AI: Real, Significant, and Bounded

AI accelerates the analytical foundation at every level — compressing the cycle time on market intelligence, scaling willingness-to-pay research, flagging transaction anomalies in real time, and automating the management reporting layer that previously required dedicated headcount to sustain. For industrial companies that have been assembling their pricing picture manually, quarterly, from fragmented data sources, AI represents a step change in what is operationally achievable.

But AI does not change the economic reality that pricing is fundamentally a problem of allocating scarce goods among buyers with different willingness to pay. It does not decide which market signals matter for your competitive position. It does not design the value proposition that shifts customer perception. It does not set the governance structure that gives pricing decisions their authority. And it does not build the organizational culture that sustains pricing discipline when the data is inconvenient, the sales force is pushing back, and the path of least resistance is the discount that closes the deal today at the cost of margin tomorrow.

The industrial companies that will lead on pricing in the next decade are those that combine the analytical power of AI with the organizational discipline to act on what it reveals. Neither alone is sufficient.

Pricing Excellence Is Ultimately a Question of Culture

The organizations that have mastered pricing have made it a core part of how they think about themselves and how they measure success. Pricing is not a back-office function, not a quarterly exercise, not something that happens between sales and procurement without senior leadership in the room. It is a strategic capability — owned, measured, rewarded, and continuously improved.

Building that culture takes time. It requires leadership that is willing to have uncomfortable conversations about unprofitable accounts, misaligned incentives, and the gap between pricing policy and pricing reality. The reward for that patience is durable. A company that has achieved genuine pricing excellence has built a competitive advantage that is extraordinarily difficult to replicate. It lives in the organization’s habits, its data, its conversations, and its instincts about what customers value and what they will pay.

That is the goal. The framework in this paper is the path.

Where to Start: A Practical Guide

The four-level framework is comprehensive by design — pricing excellence requires attention to all four levels. But no organization transforms all four levels simultaneously, and attempting to do so is one of the most common reasons pricing transformations stall. The right starting point depends on your current situation.

Start at Level 3 (Transaction Pricing) if…

- Your pocket price band is wider than your discount policy would predict
- You don't know what your average pocket price realization is by account, segment, or region
- Your sales force uses discounts routinely as a closing tactic rather than a strategic tool
- You have pricing policies in place that you suspect are not being followed consistently

Why first: Transaction pricing improvements generate the fastest, most visible results — typically within one to two quarters. The wins build credibility and momentum that make the harder work at other levels possible.

Start at Level 2 (Customer Value) if…

- You are losing deals on price despite believing your operational performance is strong
- Your win rate varies significantly by segment or region in ways that price alone doesn't explain
- Your sales force defaults to competing on price because they can't articulate why you are worth more
- You haven't done formal willingness-to-pay research by segment in the last three years

Why first: If the problem is perceived value rather than transaction discipline, fixing discounting without fixing the value proposition will not hold.

Start at Level 1 (Market Strategy) if…

- Your sector is experiencing significant input cost volatility that you are absorbing rather than passing through
- A major market event has created a pricing opportunity you haven't yet captured
- Your pricing posture is reactive — you find out about market moves after they have already affected your win rate
- Your contract escalation clauses are running below actual input cost inflation

Why first: In sectors with high input cost exposure, market strategy pricing is not a strategic nicety — it is an operational necessity.

Start at Level 4 (Pricing Infrastructure) if…

- You have done pricing work before and watched it revert within eighteen months
- Your pricing performance is a black box to senior leadership between annual budget cycles
- Different functions are working from different versions of pricing truth

- You are about to deploy AI tools for pricing and want to ensure the data foundation is in place first

Why first: If the problem is organizational sustainability rather than analytical capability, building more analytical capability will not solve it.

A note on sequencing: Whatever level you start at, data consolidation is always the first practical step. Clean, consolidated pocket price data — visible across all transactions, updated continuously — is the prerequisite for meaningful work at every level and the foundation on which AI augmentation is built. If you are uncertain where to start, start there. The act of assembling that data for the first time will almost certainly tell you where the highest-leverage opportunity is.

Appendix: What an Engagement Looks Like

Pricing excellence is not achieved in a single workshop or delivered in a single report. It is built in phases, each producing a tangible deliverable and each creating the foundation for the next. The phased approach below reflects how these engagements typically unfold — and is designed so that the first phase stands alone as a low-risk entry point.

Phase	Duration	Key Activities	Deliverable
0 — Diagnostic	2 weeks	Data consolidation audit; pocket price visibility assessment; stakeholder interviews across sales, finance, and operations; current-state assessment against all four levels	**Pricing Performance Diagnostic** — a clear-eyed assessment of the highest-leverage opportunities, deliverable as a standalone engagement
1 — Design	3–4 weeks	Governance structure design; floor and target price framework; segment value mapping; AI tool and data readiness assessment	**Pricing Architecture** — governance model, price book framework, and a prioritized tooling roadmap
2 — Pilot	4–6 weeks	Front-line pricing tool deployment in one region or product line; management reporting layer build; facilitation of the first structured pricing review	**Pilot Results** — measured pocket price realization delta, exception analysis, and sales force adoption assessment
3 — Scale	8–12 weeks	Full deployment; compensation design recommendations; front-line training; embedding pricing into the management operating system	**Pricing Infrastructure** — a fully operational pricing management operating system
4 — Sustain	Ongoing	Quarterly pricing reviews; annual framework refresh; AI tool optimization as data maturity grows	**Pricing Excellence** — a sustained organizational capability, not a one-time event

> *The diagnostic in Phase 0 is offered as a fixed-fee standalone engagement. It is designed to deliver value on its own — a clear assessment of where pricing value is being lost and what it would take to capture it — whether or not it leads to the subsequent phases. Most durable pricing relationships begin exactly this way: with a focused diagnostic that earns the right to the larger conversation.*

We would be delighted to discuss opportunities for Pricing Performance Improvement at your organization.

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Note: The four-level pricing framework was originally developed in The Price Advantage, Walter L. Baker, Michael V. Marn, and Craig C. Zawada, John Wiley & Sons. The AI augmentation layer and industrial B2B applications reflect the author's independent consulting experience across industrial distribution, chemicals, oil and gas, waste management, and PE-backed commercial strategy.

About the Author

Adrian Blake has spent more than twenty years helping B2B industrial and PE-backed companies capture the value they have earned through better pricing. He began his career in the entertainment business, launching *Saturday Night Live* and Comedy Central programs to television channels all over the world — work that meant determining, again and again, what a fair price was for a completely new market entrant in unfamiliar competitive arenas. As McKinsey's former Global Subject Matter Expert for Pricing, he developed and applied the four-level pricing framework across dozens of companies. As an operator, he ran a $17M B2B P&L as a publisher, led commercial integration across multiple acquisitions, and currently sits on the other side of the pricing table as co-founder and CEO of a medical device company. His pricing transformations — from industrial distribution in the American Midwest to a €300M distributor in Switzerland — share a common thread: the conviction that pricing decisions which stick are the ones the organization made, not the ones the consultant made for it. He holds degrees from Harvard College and the Wharton School.