

# Improving the Approach to Customer-Centric Costing and Pricing Activities

## Cost to Serve & Pricing Optimization



## Are you cutting into your margins unnecessarily or missing out on opportunities to win new business?

Businesses in the chemical, petroleum, and industrial industries have traditionally excelled at managing their assets in commodity environments where demand has exceeded supply. So, the need to increase profitability has often been met with some combination of production boosts, cost reductions, and price increases.

In today's global business environment, where customers have more choices and are more demanding of specialized products, services, and pricing, the traditional approach of chemical, petroleum and industrial companies is not as mature as the approach taken by other industries. Today there is a renewed focus on the customer side of the equation. A greater emphasis is being placed on two areas:

- *understanding the costs associated with individual products and individual customers (cost-to-serve)*
- *the optimization of pricing of products and services in relation to costs and the desired margins that determine profitability.*

Synovum helps companies optimize their profitability by providing industry-specific solutions that more closely manage costs and enable greater pricing maturity.





## Helping to Achieve Insights into Profitability

Only the top percentile of chemical, petroleum, and industrial products companies have streamlined and automated processes to manage their customer relationships when it comes to pricing. Their standard pricing lists are infrequently updated and quickly become inaccurate. The lists then are not used by the sales staff who are trying to make their numbers and close deals, especially deals that may require customer-specific pricing for longer terms.

Thus, pricing isn't mature. It isn't managed day to day or according to customer value. There isn't an integration of products, costs and service delivery. Manual processes for determining pricing are prone to errors, which can result in unprofitable or non-optimized sales; customers receiving levels of services they shouldn't be entitled to; or customers not receiving benefits when they should.

Chemical, petroleum, and industrial products companies have effectively managed their direct costs — it's relatively easy to correlate a specific quantity of chemicals, for example, to the costs of production. Direct costs are usually spread out on a standard costs basis — across all product lines. Indirect costs, however, have been more difficult for these companies to understand, control, and determine when allocating costs to products or customer relationships. Standard cost basis is inappropriate for indirect costs — the greatest proportion of which is sales, general, and administrative costs — because it results in a lack of accuracy in understanding the costs attributable to individual customers, products or services (cost-to-serve).

Without appropriate cost allocation, these costs can be disproportionately passed on to products, portfolios, and customers. This not only can make strategic planning and product development more difficult, it can also skew the establishment of accurate pricing that is in line with profitability objectives. Improving the maturity of cost to serve so that activities are analyzed, closely monitored, and allocated appropriately is a significant differentiating capability that can help improve profitability and increase competitive advantage.

Your customers don't have static businesses, and your business isn't static either. If you have static or custom cost and pricing processes, you may be cutting into your margins unnecessarily or missing out on opportunities to win new business and improve service to existing customers.

While raising prices to increase profitability is a strategy that works, improved management of the cost side of the equation has significant benefits also. According to Gartner, every one percent (1%) increase in price results in an eight percent (8%) increase in profit, while a one percent (1%) decrease in variable costs results in a five percent (5%) increase in profit.

Through process improvements potentially enabled by Synovum, your company can be more responsive, have greater control and insights into operations and sales activities, and make better decisions based on improved, timelier information. Ultimately, those cost and pricing process improvements and integration can enable greater profitability in an increasingly competitive environment.

### Synovum Helps You Tackle Key Challenges

- ▶ Identifying and benchmarking your pricing and cost to service maturity against industry leading practices
- ▶ Creating a blueprint for closing your company's maturity gaps and optimizing your portfolio
- ▶ Implementing cost-to-serve projects, while creating quick and transparent access to real-time information
- ▶ Enabling executives to make informed decisions about business operations and sales activities

Do you want to **understand the maturity levels** of your cost-to-serve and pricing practices and what are the key focus areas to enable greater profitability in an increasingly competitive environment?

Want to find out more about how Synovum can quickly help you to capture lost **business opportunities and profitability** through improved service to your customers?

For more information, let's talk it through with a no obligation video conference call or a meeting with one of our executive partners. Email: [info@synovum.com](mailto:info@synovum.com) to arrange a call.

Synovum is a transformative operational consulting boutique focused on working hand-in-hand with clients to rapidly deliver sustainable results. We work with executive leaders in the Chemical, Petroleum, and Industrial Manufacturing sectors to help make informed decisions, convert those decisions to actions, and deliver the targeted success desired. The result is a powerful process that enables Senior Executives to solve their toughest business challenges with innovation, impact, and integrity.

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