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WHITE PAPER

Checkmate: Winning Strategies for the Ultimate Aftermarket Pricing Mix

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Introduction

As executive pricing leaders working within manufacturing, we are amid industry-wide sea change. In particular, for Original Equipment Manufacturers (OEM), multiple external disruptive forces are creating challenges and opportunities in equal measure. Across recent years, we have seen global supply chains stress-tested to breaking point through pandemics and war.

Yet, despite these generational hardships, the manufacturing sector has continued to evolve at pace. This is in no small part due to the industry-wide adoption of technologies such as Artificial Intelligence and Machine learning, which not only allowed us to adapt and pivot far quicker than we could in years previous when the need arose but also embraced opportunities to grow after-market revenue through more dynamic and effective approaches to pricing, opening the doors to greater profits and new long-term revenue streams.

Indeed, these tools and technologies will form the backbone of our ability to overcome other challenges looming, such as increasing regulation around ESG and Digital Product Passports within the EU. They will allow us to embrace disruption and harness the opportunities that it always brings.

This white paper explores the aftermarket's pricing challenges, key considerations, and strategic solutions that can help organizations navigate the disruptive economy. It explores the limitations of traditional pricing models, the need to redefine pricing for tangible and intangible offerings, and the role of value-based pricing, technology integration, and aftermarket mix optimization in improving margins.

This comprehensive paper exploring pricing challenges and considerations ends with a practical roadmap, offering actionable steps for service and pricing professionals to navigate the twists and turns of the aftermarket effectively. By following the steps in this report, organizations can align their pricing strategies with market dynamics, boost profitability, and enhance customer satisfaction. —

Chapter 1

Watch Out for the Pitfalls of Traditional Parts Pricing

With the industry's shift towards everything-as-a-service in recent years, parts pricing has become more focused on sustaining profitability and ensuring customer loyalty.

Effective pricing is always a well-refined art. However, given the multiple layers of complexity within the aftermarket supply chain and the many additional variables added into the mix, determining the value of spare parts demands a more strategic approach.

Organizations in the industrial sector have long relied on traditional cost-plus models to determine spare parts pricing, meaning that the main factor they considered was the manufacturing cost of the part. Then, they added a markup to secure a profit margin. However, when we consider rising customer expectations, easier access to third-party replicas and perhaps most critically of all, the shift to servitized or X-as-a-Service style agreements that blur the lines of parts, service and asset in terms of pricing, then a cost-plus, often proves inefficient when applied to spare parts.

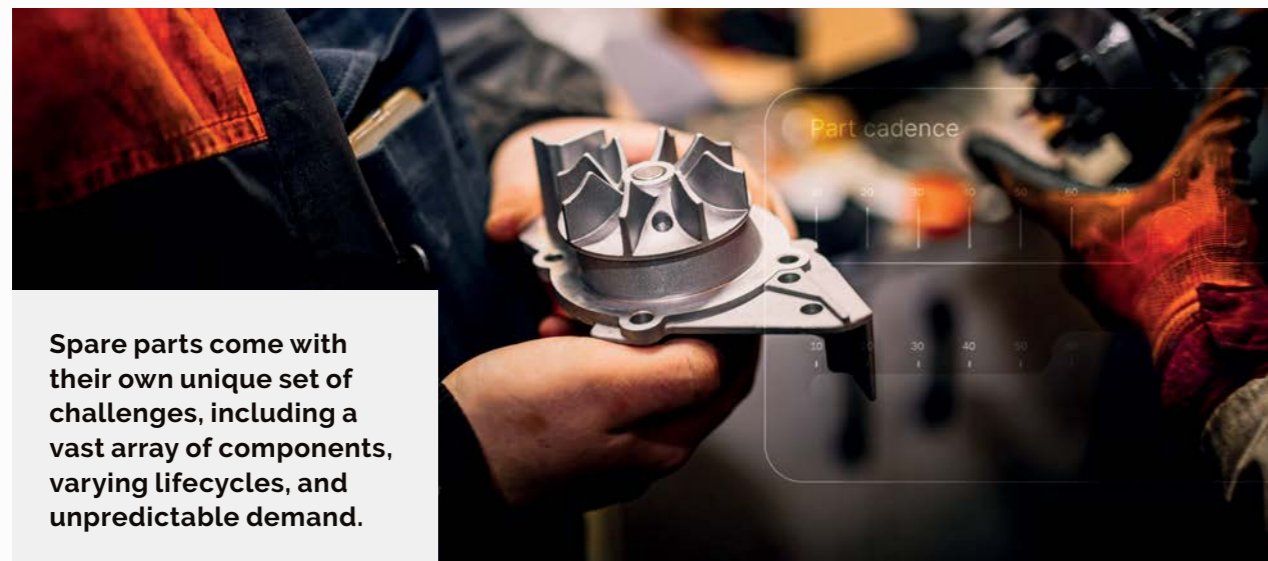
There are several reasons why, for example:

- **The complex nature of spare parts:** Spare parts come with their own unique set of challenges, including a vast array of components, varying lifecycles, and unpredictable demand. Traditional cost-plus models fall short of accurately quantifying the true value of spare parts, resulting in pricing misaligned with market dynamics, profit leaks, and lower customer satisfaction scores.
- **Competitive industry players:** The aftermarket segment in the industrial sector is highly competitive, with original equipment manufacturers (OEMs) and third-party providers fighting to win over service business deals. Organizations must understand their competitors' pricing strategies to maintain a competitive edge and strategically position themselves to seize long-term revenue opportunities.
- **Global pricing challenges:** Managing prices across a global

service network increases pressure on organizations, with fluctuating market conditions, currency volatility, and regional demand variations continuously impacting pricing decisions. To navigate these challenges successfully, organizations must adopt intelligent, data-driven pricing strategies that unlock resilience and predictability.

- **The limitations of the cost-plus model:** Relying solely on the traditional cost-plus model for spare parts pricing often yields sub-par results. This method overlooks critical factors such as market demand, competitive pricing dynamics, and customer willingness to pay, resulting in profit leaks and decreased customer satisfaction.
- **The impact of currency fluctuations:** Currency exchange rate fluctuations can significantly impact profit margins for global organizations, affecting revenue generation and market position. Manufacturers must closely monitor currency shifts and adjust pricing strategies to maintain profitability and competitiveness in the global marketplace.

Due to traditional pricing's limitations, it has become apparent that the industrial sector must shift away from cost-plus models for spare parts pricing. There is an increased need to adopt more strategic and value-centric pricing strategies for spare parts and services. —



Spare parts come with their own unique set of challenges, including a vast array of components, varying lifecycles, and unpredictable demand.

Chapter 2

Fine-Tune Pricing for Intangible vs. Tangible Offerings



Pricing tangible goods like industrial equipment parts is a relatively straightforward process.

Tangible goods have physical attributes and quantifiable production costs, making it easy to calculate prices based on the cost of raw materials, manufacturing expenses, market demand, and competitive pricing dynamics. Likewise, their quality and functionality are much easier to assess, facilitating more transparent pricing strategies.

However, pricing intangible services, from integration and installation to predictive maintenance, introduces different challenges and considerations. Services are abstract concepts compared to physical products and are often designed to address specific customer needs and preferences.

They are customer-centric offerings that need to be continuously adapted and innovated. Thus, each service interaction demands



Pricing intangible services, from integration and installation to predictive maintenance, introduces different challenges and considerations.

a degree of customization and personalization to truly meet customers' individual expectations and pain points.

As such, determining the value of a service becomes inherently subjective and should be evaluated based on factors such as perceived benefits, customer experience, customer impact, performance outcomes, delivery method, and the unique value proposition offered by the service provider.

Because services are much more difficult to quantify and evaluate than tangible parts, pricing them requires an in-depth understanding of customer expectations, willingness to pay, and market dynamics. It also requires quantifying and accurately communicating a service's added value. And the list of considerations does not end here.

- **Global service network management:** Service pricing across a global network should account for market dynamics, cultural nuances, regulatory frameworks, and currency fluctuations, as all these influence pricing outcomes and sales. Implementing a holistic approach to global service network management is key to effectively managing prices across diverse regions. Agility, adaptability, and market intelligence can help organizations tailor their pricing strategies to specific geographical regions and align prices with local market conditions and customer preferences.
- **Trust and transparency:** Transparency in pricing practices is essential for building trust and fostering long-term customer relationships. Customers value being told clearly and openly the reasoning behind pricing, and it helps them understand how factors such as raw material costs, operational over-heads, and value-added services contribute to pricing decisions. Transparent pricing enhances customer satisfaction, supports brand credibility, and fosters loyalty, driving sustainable growth and market differentiation.
- **Competitive pressure and differentiation:** The service industry is highly competitive, so pricing strategies must evolve beyond mere cost considerations and encompass competitive positioning and value differentiation to stand out in a

crowded marketplace. It is essential to balance competitive pricing and value-added services to attract and retain customers, secure profitability, and maintain market relevance. Furthermore, continuous innovation and differentiation in service offerings are critical to maintaining a competitive edge and sustaining long-term success.

- **Pricing innovation:** Organizations should always explore innovative pricing strategies prioritizing value and customer satisfaction. Value-based pricing, for instance, is a customer-centric model that focuses on aligning pricing with the perceived value of the service to the customer rather than solely on costs. Adopting such value and customer-centric strategies empowers organizations to optimize pricing decisions, boost profitability, and secure long-term customer relationships.

Innovative pricing strategies, such as value-based pricing, can help organizations drive sustainable growth and profit across both tangible parts and intangible service offerings. So, how can organizations create value further to boost profitability and customer satisfaction in the aftermarket? —



Chapter 3

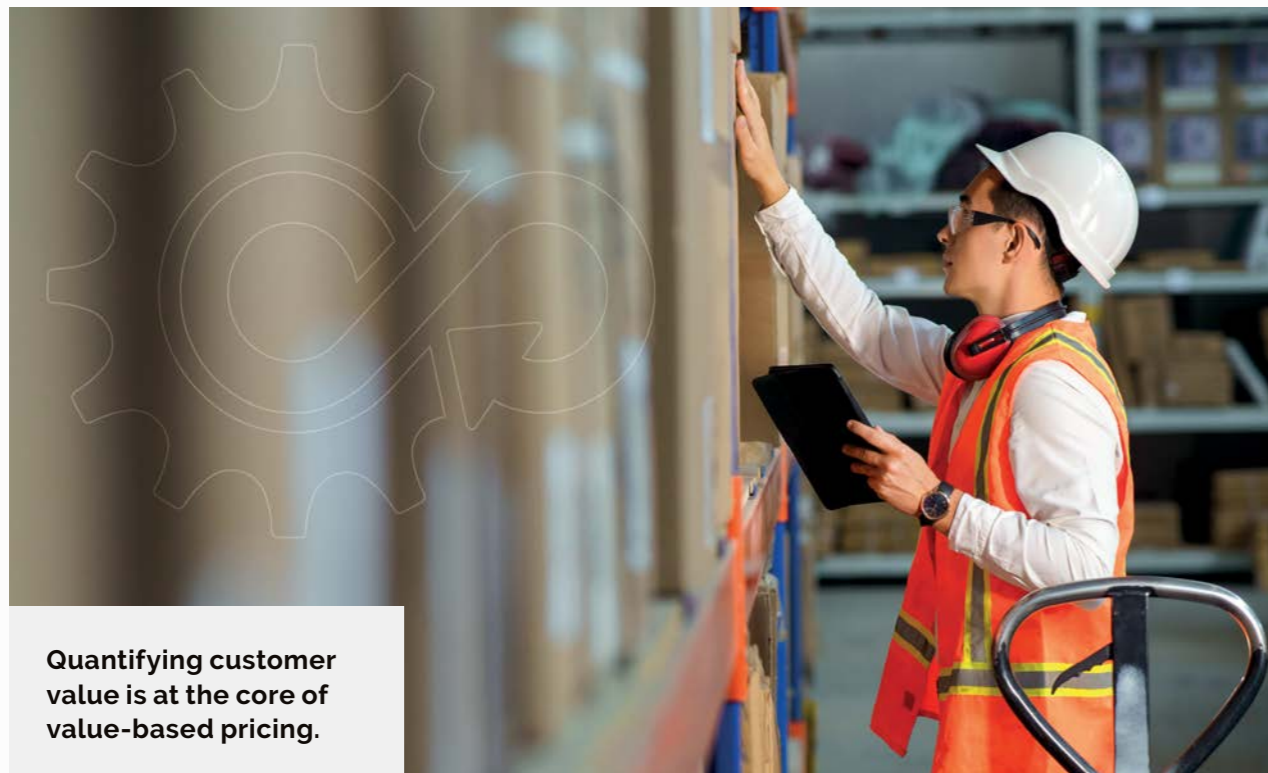
Create Value With Strategic Pricing for Parts and Services



Unlike traditional cost-based and competitor-based pricing, value-based pricing puts customer value front and center. This makes it the most reasonable model for pricing in the aftermarket.

For spare parts, value-based pricing means understanding each component's unique benefits to customers. Instead of just considering the manufacturing cost, organizations can consider factors like reliability, efficiency, and how the part contributes to overall operational performance and customer outcomes. This outcome-based approach enables them to set prices that align more closely with what customers are willing to pay based on the value they receive.

For service contracts, value-based pricing means adjusting pricing structures to align with customers' specific needs and preferences. Instead of offering a one-size-fits-all solution, organizations quan-



Quantifying customer value is at the core of value-based pricing.

tify the value of each service delivered to the customer. This means accounting for factors like response time, maintenance quality, outcomes, and overall service experience.

As such, value-based pricing benefits both spare parts and service contracts pricing by:

- **Maximizing customer value:** Customers feel they get the most value for their money.
- **Enhancing perceived quality:** Setting premium prices aligned with perceived value enhances the perceived quality of the offering.
- **Improving customer satisfaction:** Customers feel they are getting fair prices for the quality of the products and services they receive.
- **Increasing profitability:** Organizations can justify higher prices and improve profit margins based on customer benefits.
- **Maximizing revenue:** Organizations can capture the maximum value from their products or services.
- **Encouraging innovation:** Organizations are prompted to continuously innovate and improve their products and services to increase their perceived value.

Figuring out what customers value and how to talk about it

Quantifying customer value is at the core of value-based pricing. What are the specific needs, preferences, and pain points of customers? Translating such customer data into actionable insights and metrics is the key to creating value. Communication is key to helping customers perceive that value as precisely as possible.

Organizations should provide customers with transparent cost breakdowns to help them understand the value they receive for the price paid. They should likewise compare the value offered with that of competitors to emphasize the unique benefits of the offering further and reinforce the value proposition. Pricing software provides organizations with the necessary capabilities to obtain the data and insights to demonstrate value.

- **Real-time monitoring:** Using advanced software tools, organizations can track contract status, pricing, and coverage in real-time. The system continuously analyzes data related to customer usage, contract terms, and market trends and provides insights into changes in customer behavior, market conditions, and competitive pricing strategies. Thus, organizations can adjust pricing strategies to align with customers' perceived value.
- **Automated contract management:** This system streamlines the entire lifecycle of contracts, from creation and negotiation to execution and renewal. Contract drafting, approval workflows, and compliance monitoring are all automated, and contract data is in one place to ensure accuracy and consistency. In real-time, stakeholders are automatically notified about contract status changes, pricing updates, and renewal opportunities.
- **Scalability:** Organizations need scalable pricing solutions to adjust pricing tiers easily, add new products or services, or customize pricing parameters to meet the specific needs of different customer segments. These solutions allow them to adapt to the ever-evolving market dynamics. Scalable solutions offer flexible pricing models and bespoke features, and they easily integrate with existing systems and workflows.
- **Data analytics:** Organizations capture data from a myriad of sources, including customer interactions, transaction histories, market dynamics, and competitors. Analyzing this data can help them better understand which services customers value most, which pricing strategies are most effective, and which market segments offer the highest growth potential. It also enables them to measure the impact of pricing adjustments, forecast future demand, and identify opportunities for optimization.

Value-based pricing should be integral to aftermarket mix optimization for OEMs and equipment service providers. It should inform decision-making regarding product and service design, differentiation, and innovation to ensure that offerings meet customer expectations and competitive standards. —

Chapter 4

Optimize the Aftermarket Pricing Mix



The aftermarket pricing mix is essentially the toolkit organizations have available to maintain customer satisfaction and product performance long after the initial sale.

This means offering them spare parts, maintenance contracts, upgrades, and other services to keep them returning.

How organizations price this blend of tangible and intangible offerings can fill or drain their margins. Switching from cost-plus models to value-based pricing or developing a strategy is pivotal but not enough to optimize the aftermarket mix. Organizations should adapt and innovate to truly thrive on the current aftermarket and outshine the competition. They should redefine the marketing and pricing of the aftermarket mix due to several factors shaping customer expectations.

- **Complexity of industrial equipment:** Industrial equipment involves complex machinery and systems with unique parts and components. As such, the marketing and pricing of fixing, maintaining, and replacing these parts requires increased focus.
- **Long product life cycles:** Industrial machinery typically has a longer life cycle than consumer goods. As it ages, the demand for aftermarket services and parts changes, and so should its pricing to accommodate the demands of the installed base over time.
- **Reliability and downtime reduction:** Industrial equipment is expected to work well to avoid delays and boost productivity. Aftermarket services and parts are key to keeping equipment running smoothly and meeting those expectations. The marketing and pricing strategy should reflect the value of equipment reliability and performance.
- **Relationship-based sales and service:** Sales and services foster long-term relationships between suppliers, manufacturers, and customers. Good marketing and pricing strategies for aftermarket services and goods should focus on building

these relationships and offering ongoing support as products are used over time.

- **Regulatory compliance and safety standards:** Industrial equipment is subject to strict safety protocols and regulations. When marketing and pricing the aftermarket mix, organizations should consider the costs of meeting these standards and ensure customers understand the value of safety and compliance.
- **Technology advancements and innovation:** As technology evolves, so does the industry. Aftermarket services often include new predictive maintenance or monitoring solutions, and organizations need to adjust pricing and marketing to show customers how these new technologies can help them.
- **Global supply chains and market dynamics:** Organizations operating in global supply chains constantly deal with demand, supply, and market changes. To market and price aftermarket services fairly, they need to understand these changes and be able to adjust their strategies to stay competitive.



Crafting fair and transparent pricing strategies

When redefining pricing and marketing for the aftermarket mix, organizations should rethink how prices are set and ensure they are fair and transparent to customers. Once the prices are reset, they should use their understanding of customer behavior to communicate the added value and break down the costs effectively. It is not premium pricing that churns customers away; it is the lack of effective value communication.

Leveraging data-driven insights

Data can tell organizations much about their customers, competition, and market. Using intelligent data analytics and AI, they can use said data to develop pricing models that cater to different customer segments. Offering a range of pricing options enables them to attract a wider range of customers, nurture existing ones, and sustain growth over time.

Developing competitive pricing strategies

Organizations must align their pricing with what customers expect and what competitors offer. By continuously monitoring market changes and adjusting pricing accordingly, they can gain a larger market share and stay ahead of competitors.

Adapting, building resilience, unlocking agility

It is paramount to be agile, adaptive, and able to respond quickly to changes in market or customer needs. However, pricing professionals alone cannot forecast and meet customer demands or stay updated on market trends in the competitive aftermarket. They need solutions like data analytics and automation to help the organization adapt and become more agile.

Adopting value-centric pricing principles

Understanding what customers value and how much they

are willing to invest in that value is key to creating relevant offerings.

Pricing software solutions help organizations develop value-based pricing models for their offerings and efficiently deliver them to customers.

Investing in intelligent aftermarket parts pricing

Strategic investment in advanced pricing solutions specifically designed for aftermarket products and services helps organizations adapt more effectively to changing customer preferences and market dynamics. —



It is paramount to be agile, adaptive, and able to respond quickly to changes in market or customer needs.

Chapter 5

Integrate Artificial Intelligence & Machine Learning in the Aftermarket Pricing Process

Artificial Intelligence (AI) is a Hot-button topic not just within the manufacturing sector but across all industries worldwide.

However, this is for good reason. In modern organizations, where data-led decisions drive the business forward, AI is no longer a nice-to-have future technology. It is rapidly becoming the backbone of all aspects of operational excellence.

Integrating AI and the subset of Machine Learning into aftermarket operations is key to helping organizations achieve the objectives discussed throughout this white paper:

- Overcoming traditional parts pricing structure limitations;
- Navigating the challenges of pricing intangible service offerings;
- Implementing value-based pricing for parts and contracts;
- Optimizing the ultimate aftermarket mix.

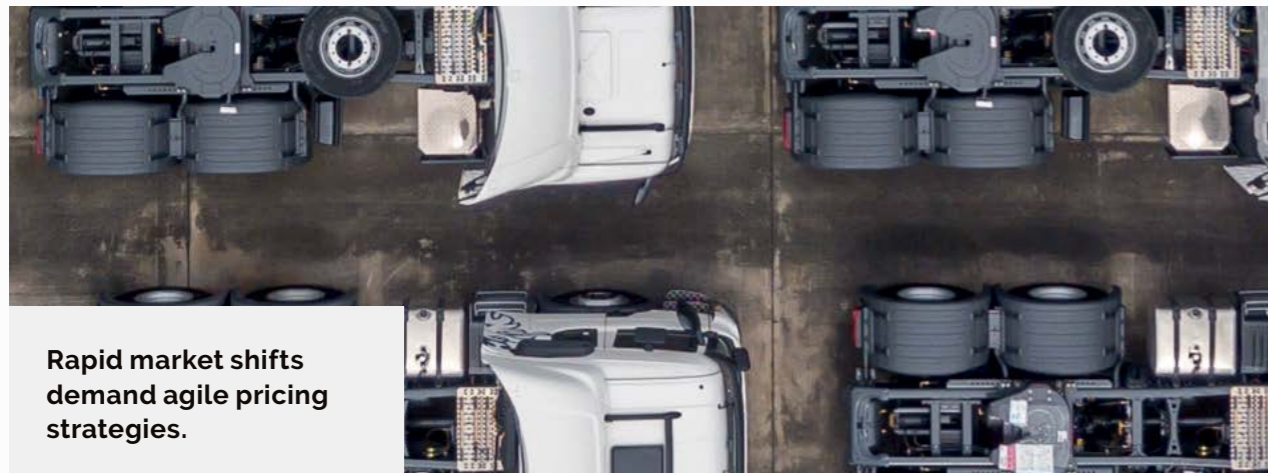
Integrating AI and ML alongside other technologies into aftermarket pricing processes means connecting pricing with other key systems in the organization, such as inventory management, customer relationship management (CRM), and enterprise resource planning (ERP) systems. This ecosystem enables organizations to understand better how pricing fits into the bigger operational picture. More importantly, pricing software unlocks capabilities critical for aftermarket excellence.

- **Global-scale automation:** Automated pricing management systems simplify operations for global organisations. They ensure consistency across regions and enable quick adjustments to market changes, boosting operational efficiency.
- **Advanced price modeling:** Organizations can gain insights into the factors impacting their pricing strategies through advanced price modeling, better aligning with market dynamics and adjusting prices in real-time.
- **Real-time insights for market response:** Rapid market shifts demand agile pricing strategies. Pricing software gives

organizations real-time insights, enabling swift responses to demand changes and competitive pressures.

- **Optimal price forecasting:** Predictive analytics enable organizations to plan parts delivery better, ensuring they meet service level agreements and control costs. This leads to accurate forecasting and smoother integration.
- **Improved service levels and cost efficiency:** Organizations can enhance service levels and save costs by reducing unplanned downtime and building resilience, which can directly impact their pricing strategies and marketing efforts.
- **Precise pricing optimization:** Organizations can fine-tune parts and service contract pricing with automated pricing and technologies like artificial intelligence and machine learning. This streamlines operations, boosts efficiency, and supports better marketing initiatives.
- **Efficient service and contract pricing:** Automation in pricing processes helps organizations secure recurring revenue and gain better visibility across the service lifecycle. This results in accurate pricing, improved decision-making, and contract renewals.

Technological integration is key in the aftermarket business, where foresight and streamlined services create a competitive edge. Organizations can get ahead and sustain long-term growth by leveraging pricing software to help quantify, create, communicate, and deliver their value propositions globally. —



Conclusion

Roadmap for Optimizing the Ultimate Aftermarket Pricing Mix



Watch out for the pitfalls of traditional parts pricing

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| Evaluate the limitations of traditional cost-plus models for spare parts value pricing | Assess the complexity of the spare parts inventory management and its challenges | Stay informed about competitor pricing in the aftermarket |
| Adapt to global currency fluctuations and regional demand variations | | Simplify traditional price modeling to ensure accurate pricing decisions |



Fine-tune pricing for intangible vs. tangible offerings

| | | |
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| Determine factors influencing the pricing of tangible industrial equipment parts | Evaluate the complexity of pricing services and their customization for each customer | Address global service network management and currency exchange fluctuations |
| Build customer trust and transparency in global service pricing | | Develop strategies to quantify and communicate the added value of services |



Create value with strategic pricing for parts and services

| | | |
|--|--|--|
| Adopt value-based pricing principles to align prices with customer perception of value | Quantify customer value to understand pricing preferences and expectations | Communicate value through transparent cost breakdowns and competitor comparisons |
| Adjust service contract pricing to align with specific customer needs and preferences | | Optimize pricing strategies and drive sustainable growth with data analytics |



Optimize the aftermarket mix

| | | |
|--|---|--|
| Redefine marketing and pricing strategies to meet diverse customer needs | Leverage data-driven insights to set competitive pricing strategies | Stay agile and adaptive in responding to market dynamics |
| Evaluate the complexity of industrial equipment and its lifecycle in pricing decisions | | Evaluate the role of reliability and downtime reduction in aftermarket pricing |

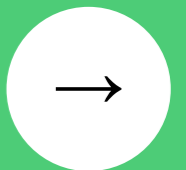


Integrate technology in the aftermarket pricing process

| | | |
|---|---|---|
| Embrace automated pricing management systems for global scalability | Utilize advanced price modeling for accurate, value-based pricing decisions | Leverage real-time market insights for adaptive pricing strategies |
| Assess integration of pricing software with other key systems | | Optimize service and contract pricing through automation and technological innovation |

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About Synchron

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Synchron helps manufacturers and distributors capitalize on the new service economy by optimizing aftermarket profitability, increasing customer loyalty and enabling the transition to servitization.

Synchron aligns all aftermarket services with its Connected Service Experience (CSX) cloud platform, helping companies differentiate themselves through exceptional aftermarket experiences while driving significant revenue growth. The world's top brands trust Synchron, making it the largest privately-owned global leader in intelligent service lifecycle management SaaS solutions.

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With years of experience, we have cultivated a robust global business network, supported by continuous research and relationships with key stakeholders in the manufacturing industry. Our reputation for reliability and success is built on delivering outstanding platforms that provide key insights into industry challenges, future trends, and market developments. Our business platforms serve as catalysts for growth and global relationship-building within the industry.

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Output segmentation

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