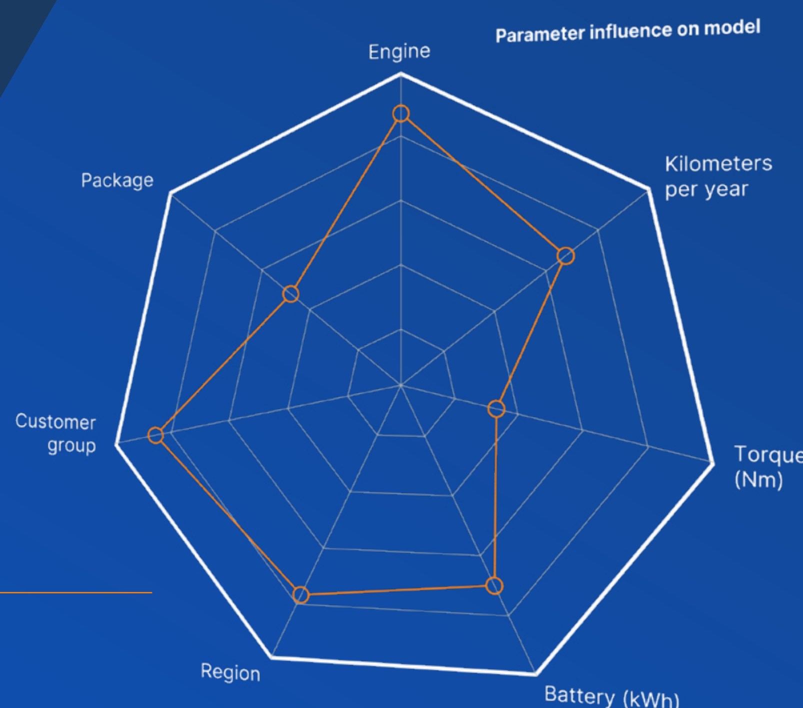
How To Modernize Service Contract Pricing

ACCURATE COST PREDICTION,
ADVANCED PRICING STRATEGIES,
EFFECTIVE FINANCIAL MONITORING



“Research shows that 50% only break even, while **25% lose money** ”

Hancock et al. (2005). Better B2B Selling

THE CONTRACT PRICE OPPORTUNITY

The growth engine of the aftermarket is shifting away from equipment sales and towards more value-based offerings.

Most prominent among these new opportunities are the service contracts that are sold alongside equipment.

43% of service leaders view contract profitability as a top revenue/margin opportunity.[1]

However, OEMs and service providers are, instead, making consistent losses on their service contracts (and ending up stuck in them for years!).

Research shows that 50% only break even, while 25% lose money.[2]

Why?

Selling profitable service contracts is hard. It means being able to accurately predict how much it will cost you to service equipment in the future, price that future-unknown strategically and then track performance over time.

Doing this effectively is incredibly complex, and many businesses are still working with manual processes and using basic pricing strategies that simply aren't fit for purpose.

As a result, they are leaving the lion's share of their potential profit on the table!

They are struggling with:

- **Accurately predicting the cost-to-service**
- **Basic and time-consuming pricing strategies**
- **Tracking contract performance and identifying risk**

This is partly because this part of the business simply hasn't received the investment that other aftermarket functions have received (for example, parts pricing).

But that investment would pay for itself many times over. According to academic research, shows it is precisely "inadequate pricing" that makes it hard to exploit the financial potential of more advanced, service-oriented contracts.[3]

1 Vanson Bourne report

2 Hancock et al. (2005). Better B2B Selling

3 Rapaccini, M. (2015). Pricing strategies of service offerings in manufacturing companies: a literature review and empirical investigation

There are three main reasons why companies are looking to modernize and improve their contract pricing capabilities.

1. Driving higher profits on existing contracts by:

- Improving cost prediction accuracy to reduce risk
- Leveraging advanced pricing strategies to increase margins
- Tracking contract performance to improve financial management

2. Acquire new contract sales to scale the business by:

- Using value- and competitor-based pricing to improve customer proposition
- Managing complexity to deliver wider range of customer-centric offerings
- Lowering risk and increasing transparency to sell with more confidence

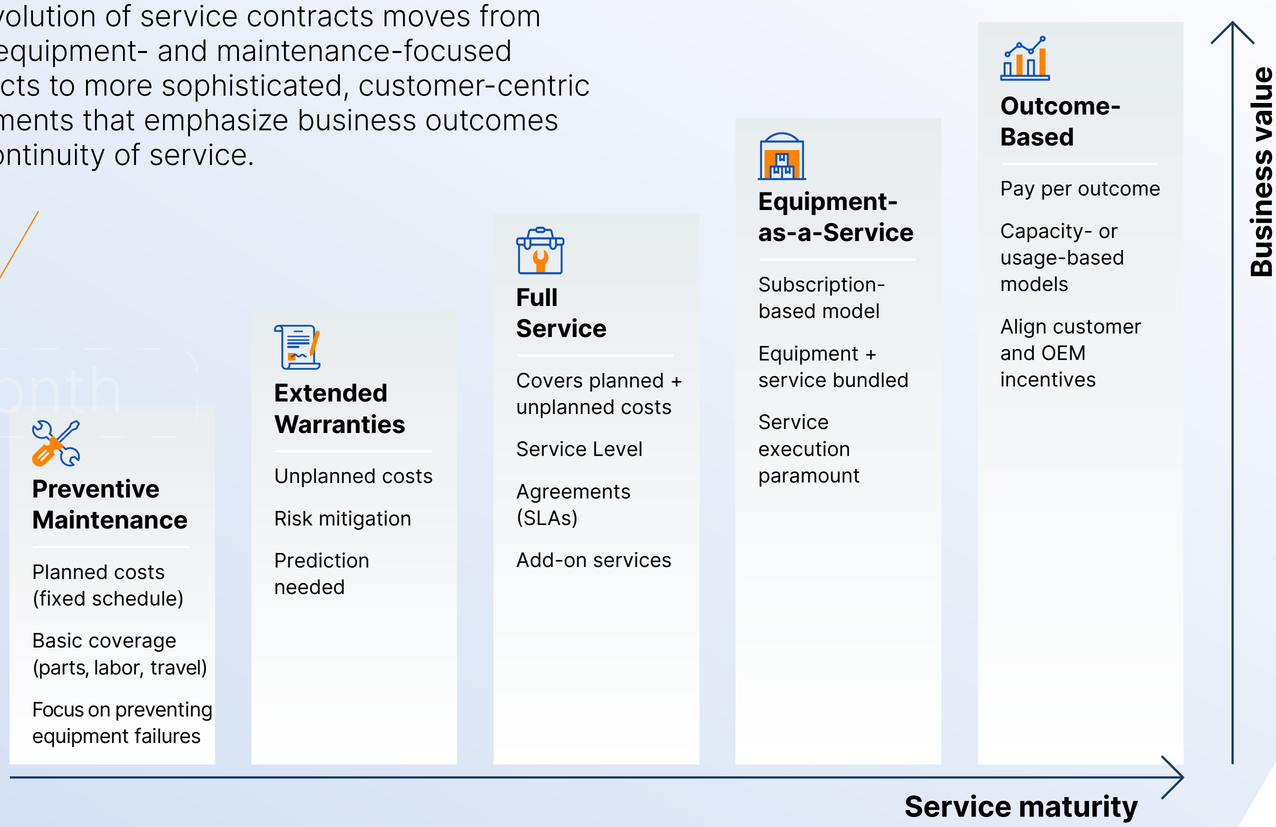
3. Improve customer stickiness for predictable business by:

- Leveraging data to provide tailored contracts to increase customer retention
- Developing customer-centric contracts to get closer to the customer
- Bundling services into contracts tailored to the customer to increase customer lifetime value

SERVICE CONTRACT EVOLUTION

Improving your pricing capabilities opens the door to increasingly advanced service contracts that progressively provide more value to the customer and more profit for the OEM (but are more challenging to deliver in terms of data and technology!).

The evolution of service contracts moves from basic equipment- and maintenance-focused contracts to more sophisticated, customer-centric agreements that emphasize business outcomes and continuity of service.



For example, with outcome-based contracts, customers can pay up front for a hole in the ground (rather than buying a digger themselves) and forget about the maintenance, upkeep and so on. They know what they'll get and how much it costs. With a piece of equipment, both are uncertain.

As businesses mature in their service offerings, they increasingly rely on data, predictive analytics, and dynamic pricing to create contracts that are both profitable for the service provider and valuable to the customer.

Equipment-as-a-service contracts, for example, allows the customer to lease the equipment, with replacements being sent in case of failure, saving the customer time spent waiting for repairs and ensuring smooth cash flow. But it requires much greater awareness and proactivity on part of the OEM as well as sophisticated analytics to derive a profitable pricing model.

Each stage requires a more nuanced pricing strategy. As businesses move toward more complex, outcome-based models, accurate cost predictions, dynamic pricing adjustments, and financial monitoring become critical to maintaining profitability while delivering greater value to the customer.

THE LIMITS OF TRADITIONAL CONTRACT PRICING

Traditional contract price approaches have served their purpose, but quickly run into quite severe limitations that can be extremely costly. In this section, we'll explore the top three and the business consequences of each.

01

Cost predictions are time-consuming and inaccurate

The data variables needed to accurately calculate contract prices are many, complex and often siloed in different IT systems and markets. Integrating all these data points is laborious, especially when—as is often the case—it is done manually.

Inaccurate cost predictions: many service businesses struggle to accurately predict contract costs and end up stuck in loss-making contracts

Prices updated infrequently and simplistically: predictions are generally updated only once a year and in a simplistic, across-the-board way which delivers suboptimal results compared to more frequent, more nuanced pricing updates

No follow-up to test predictions: often the accuracy of past pricing predictions are not reviewed so there is no accountability (or path to improvement) if the predictions are bad

Uncertain contract renewals: when a contract comes to an end, it's difficult to determine what the price of the contract renewal should be in the absence of sufficient historical data

02

Pricing strategies are basic and time-consuming

Cost predictions are so time-consuming and effortful that by the time they are done, most businesses don't have the space to carefully consider their pricing and tend to just add on a cost-plus margin. But better pricing strategies are the key source of higher margins and revenues!

Inability to use sophisticated pricing models: businesses are limited to basic cost-plus pricing strategies (compared to value- or competition-based pricing)

One-size-fits-all approach: manual processes force a uniform approach to pricing, failing to optimize for different contract types and needs

03

Poor financial monitoring and tracking

Businesses lack the capability to monitor contract performance, meaning that they run into unexpected costs that negatively impact cash flow and struggle to identify the cause of loss-making contracts.

Higher-than-expected costs: inadequate cost control due to operational risk factors (e.g. technical risks on the equipment, challenging customer behaviors/environments, poor contract definitions etc.)

Lack of live contract cost monitoring: businesses often struggle to track the actual costs of the contracts they have sold in real-time, making it difficult to spot loss-making contracts early on

No control over risky contracts: without tools to monitor and adjust risky contracts, businesses cannot proactively manage financial risks, leading to potential losses and reduced profitability

HIGH-LEVEL CHALLENGES

How can businesses overcome these limits? There are several high-level capabilities that businesses struggle with. Any effective contract pricing approach will have to meet these challenges.

No single source of truth

Many businesses have three or four major IT systems that generate data. Each system is then often siloed by geographic region or market. There is no place where the 'truth' of the business can be found to inform pricing and other critical aftermarket operations.

Inefficient and inaccurate data integration

Bringing all these disparate datasets together, transforming them to ensure interoperability between them and then trying to analyse them in Excel or with a BI tool is an incredibly laborious (and error-prone) process.

Manual processes

In many businesses, contract prices are still largely calculated manually in Excel spreadsheets. The data is integrated by hand, meaning that the amount of nuance and precision you can deliver is extremely limited.

Manual processes are inherently unreliable; critical data might be missed or not properly read, with issues going unnoticed until it's too late. Scaling these processes across numerous contracts increases the likelihood of errors.

Lack of skills

Many organizations lack the specialized skills required to handle complex contract pricing. Without expertise in data analysis, machine learning, and pricing strategies, businesses struggle to implement effective pricing models and risk management strategies.

Continually updating your data

Every month you have important new data, not only on how your service contracts are performing but from competitor price changes, parts price changes, economic data (e.g. inflation) that need to be incorporated into your calculations in order to maximize accuracy and minimize risk.

Manually updating all your contracts each month is a gargantuan task that requires either the expenditure of vast amounts of resources to do it well, or simply accepting doing it poorly.

At Syncron, our solution to these challenges was to build a service that puts data, analytics and automation at the heart of your aftermarket operation, overcoming the difficulties of data integration, manual processes and pricing predictions.

In the next sections, we will explore how Syncron Contract Price can help you level up your service contract business.

SYNCRON CONTRACT PRICE

Syncron Contract Price (SCP) is an AI-enabled analytics solution that integrates near-unlimited data sources with deep machine intelligence to optimize every facet of contract pricing.

It gives you the power to maximize contract revenues, margins and manage risk at a speed and scale that would otherwise be impossible.

SCP leverages data analytics, automation and machine learning to accurately predict contract costs, optimize pricing strategies and track contract performance—in real time across thousands of contracts, data points and variables.

The software embeds automation and intelligence into every corner of your contract price function, bringing machine-like accuracy to ensure profitability, supported by automated workflows to make real-time adjustments and optimizations across all of your contracts at the push of a button.

By leveraging contract templates and pricing logics, you can be incredibly nuanced in how you work, creating different contract types/pricing strategies for different verticals, geographies, risk profiles, equipment types, service offerings and so on.

HOW IT WORKS

Syncron Contract Price is purpose-built to meet the high-level challenges mentioned above that prevent businesses from delivering profitable contracts at scale.

Here are the main components and features that make it work.

Ingests and Transforms Data At Scale

Businesses generate and rely on vast amounts of data from multiple systems, including ERP, CRM, FSM, IoT sensors, and external market data. SCP can ingest and transform unlimited data from a variety of sources, regardless of format or structure. The platform then transforms this raw data into standardized formats that are ready to use. This capability ensures that businesses have a comprehensive and up-to-date view of their operations, enabling more informed pricing decisions.

Crunch data complexity with machine learning

SCP addresses the challenge of data complexity by leveraging advanced machine learning algorithms capable of processing and analyzing large volumes of data at scale, identifying patterns, and making accurate predictions.

Machine learning also enables the platform to continuously improve its own algorithms, cost predictions and pricing models over time, learning from historical data and adjusting to new information. By automating the analysis of complex datasets, SCP eliminates time-consuming manual data processing and allows businesses to focus on strategic decision-making.

Automated templates and frameworks

Syncron Contract Price simplifies the implementation of pricing strategies through automated templates, workflows and price logic modules. These templates are designed to cater to various pricing models, including cost-plus, value-based, and competitive-based pricing.

The use of price logic modules ensures consistency and accuracy in pricing across different contracts and customer segments. Businesses can customize these templates to create standardized processes (e.g. for quotations), making it easier to apply complex pricing logic without starting from scratch each time. This automation streamlines the pricing process, reduces the likelihood of errors, and accelerates the time-to-market for quotes and pricing strategies.

Powerful BI dashboard

The dashboard presents key information in a user-friendly format, allowing users to visualize metrics, track contract profitability, and monitor risks in real-time.

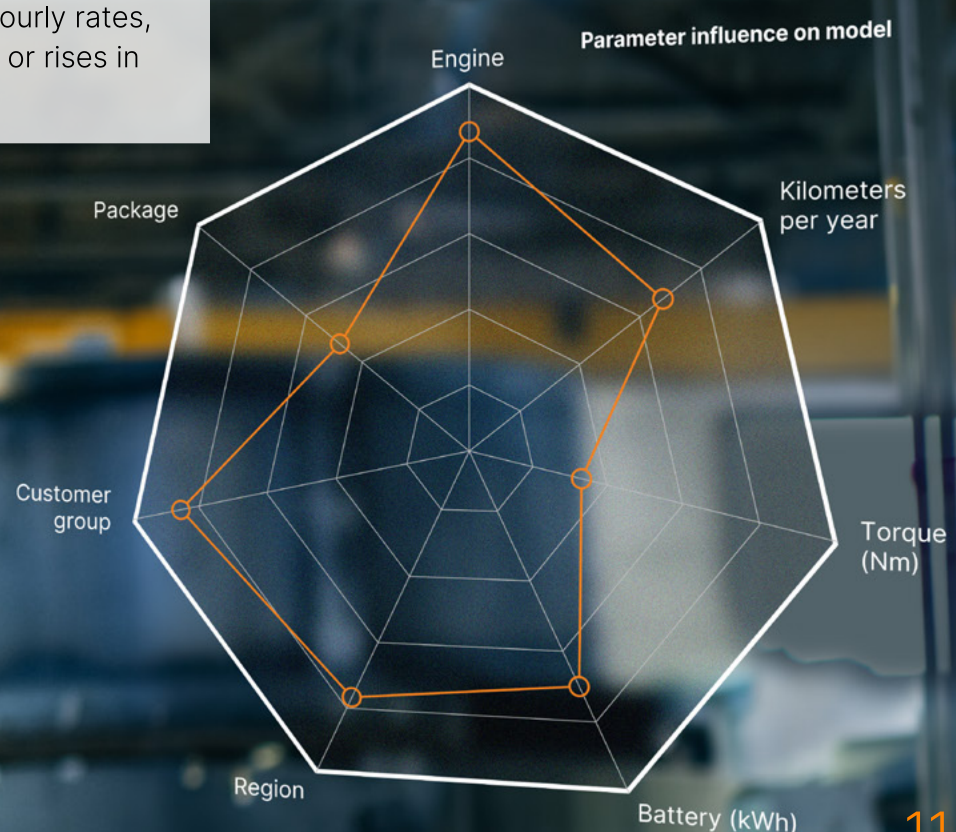
Customizable dashboards enable businesses to focus on the most relevant data points for them, supporting better decision-making and proactive management of contracts.

The ability to conduct scenario simulations and analyze the impact of pricing changes further enhances strategic planning capabilities, e.g. by simulating the impact of big business decisions such as increasing technician hourly rates, cost increases for spare parts or rises in inflation.

Single source of truth

Syncron Contract Price serves as a central repository for all contract-related data, providing a unified view across the organization.

By consolidating data from multiple sources into a single platform, Syncron eliminates data silos and discrepancies, ensuring that everyone in the organization is working with the same information. This single source of truth not only improves collaboration and communication but also enhances the reliability of pricing decisions and financial reporting.

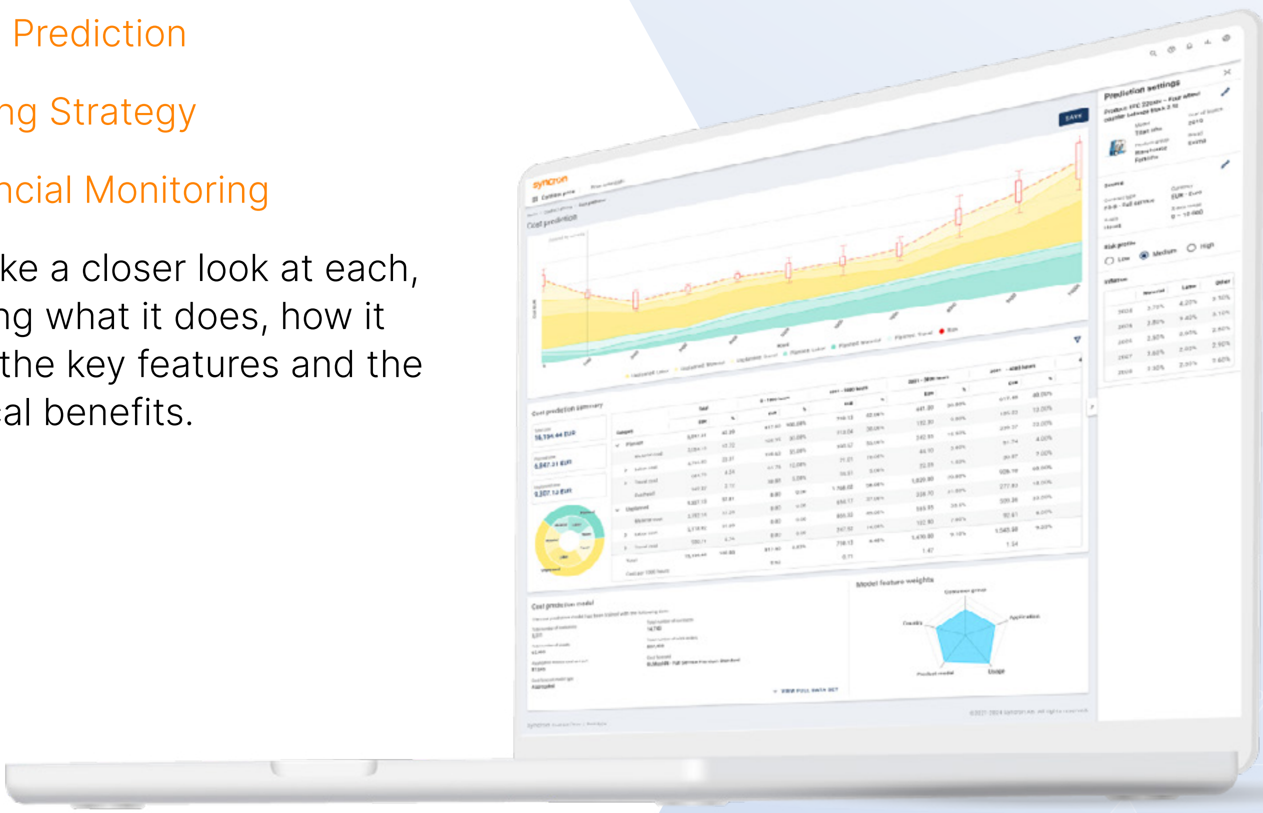


CORE CAPABILITIES

Syncron Contract Price is made up of three core tools:

1. Cost Prediction
2. Pricing Strategy
3. Financial Monitoring

Let's take a closer look at each, exploring what it does, how it works, the key features and the technical benefits.



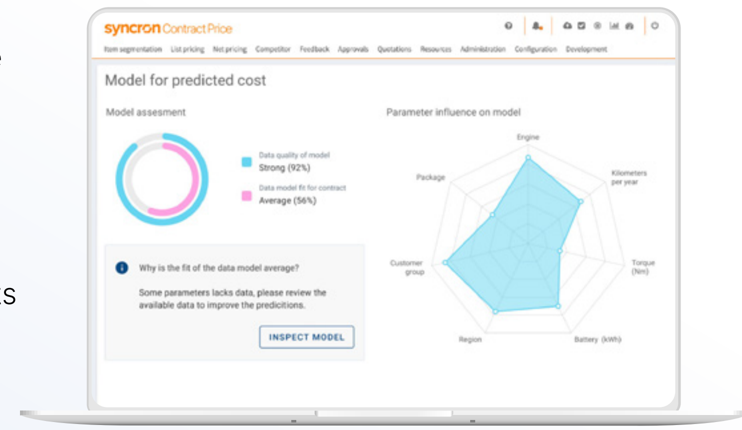
COST PREDICTION

Quickly and easily make accurate cost predictions

Analyze historical service data through the lens of desired contract parameters to deliver accurate cost predictions for service contracts quickly and easily.

How It Works

Here's how we accurately predict expected future contract costs.



1. Leverage historical business performance data:

Gather and transform a wide range of live datasets including service history, equipment type, industry, customer risk profile and many others to inform cost prediction models

2. Determine contract scope and structure:

Set the parameters of the contract, e.g. what is included/excluded, whether it includes spare parts, emergency repairs etc.

3. Live data feeds continually update cost models to ensure accuracy

Continuously update your datasets as new service and customer data come in over time; also checking the accuracy of models by testing them with historical data

4. Create profitable contracts in real-time at scale

Once you have set up your data variables, ML models and contract types you can quickly and easily make accurate cost predictions for new and existing customers

Key Features

- **Configurable contract templates:** set up contracts quickly using flexible templates that cover all necessary cost components, tailored to different service levels
- **ML-driven cost models:** utilize machine learning to analyze data (and effectiveness of models) and improve the accuracy of cost predictions continuously
- **Comprehensive cost coverage:** forecast both planned and unplanned costs, across all key variables—service, labor, parts, expenses etc.
- **Risk profile customization:** adjust risk profiles for each contract to align with specific business needs and market conditions, balancing risk and profitability
- **Scalability:** predict costs for as many contracts as you need quickly and efficiently

Technical Benefits

- **Accurate cost models:** massively improve cost prediction accuracy with ML
- **Ensure up-to-date data:** continuously integrate real-time data from multiple sources to ensure cost models are up-to-date
- **Enhanced profitability:** ensure that new contracts (and renewals) are profitably priced
- **Resource optimization:** proactively plan costs and resources across your service organization
- **Risk mitigation:** eliminate the risk of incorrectly pricing contracts

PRICING CONTRACTS

02

Apply strategic pricing logics, quickly and efficiently

Adjust initial cost predictions with fine-grained pricing logics to create automated, yet highly-nuanced pricing decisions that can be adjusted on the fly with incredible precision across hundreds of contract and customer types.

How It Works

1. Create strategic segmentations for pricing framework

Segment your customers and contract types so you can set different pricing strategies for different customer-contract intersections

2. Apply advanced pricing logics to give different pricing approaches

Automatically adjust prices according to relevant variables, e.g. customer type, regional economic factors, regional competition levels, currency conversion costs, prospective use cases, risk factors etc.

3. Automatically update prices in line with new data

Continuously monitor and ingest new, real-time data from various sources, such as market trends or operational costs, automatically updating prices to ensure that pricing strategies are always aligned with the latest market conditions and business objectives

4. Simulate the business impact of different contract scenarios

Model different pricing strategies and explore "what-if" scenarios, such as price increases, discounts, or changes in economic conditions, and assess their effects on profitability or market share before making actual changes

Key Features

- **Customizable segmentation:** tailor pricing strategies with highly nuanced segmentation by customer, contract type, product, region, risk etc.
- **Advanced ML algorithms:** utilize sophisticated pricing algorithms that take into account all relevant variables
- **Real-time data integration:** incorporate real-time data into pricing decisions, ensuring that prices reflect current market trends and operational costs
- **Automated price adjustments:** Automatically update prices across near-unlimited contracts in response to new data, minimizing the need for manual intervention and reducing the risk of pricing errors
- **Scenario simulation:** test different pricing scenarios and evaluate their potential impact before implementation, allowing for data-driven decision-making

Technical Benefits

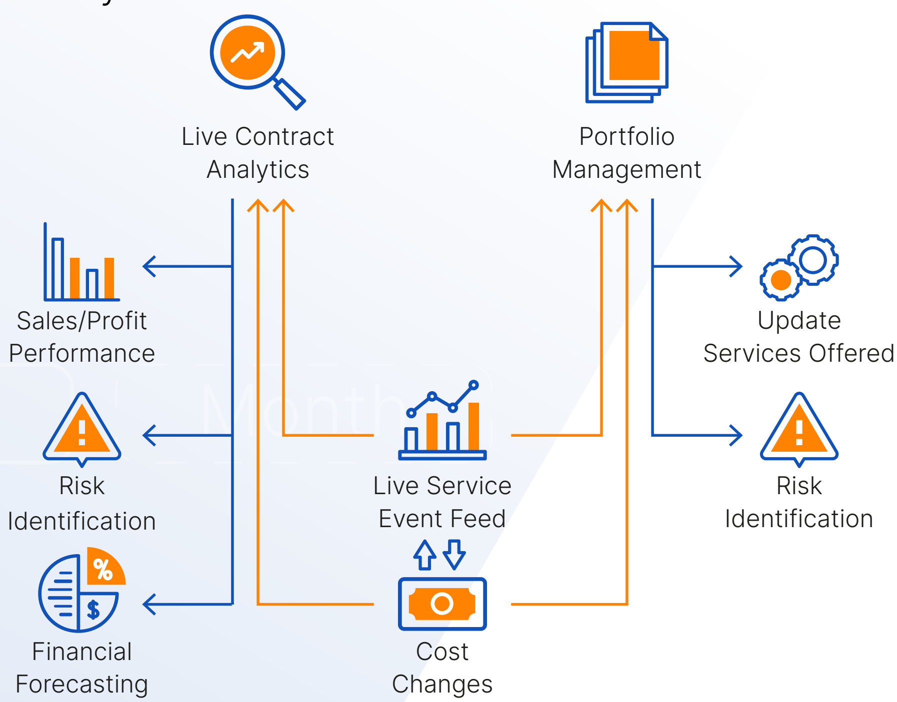
- **Enhanced pricing accuracy:** provide highly accurate pricing models that reflect real-world conditions
- **Scalability:** leverage automation to handle large volumes of data and complex pricing scenarios at scale
- **Improved efficiency:** automating the pricing process reduces the time and effort required to manage prices, freeing up resources for other strategic initiatives
- **Resource optimization:** proactively plan costs and resources across your service organization

FINANCIAL MONITORING

03

Complete visibility of contract performance to mitigate risk

Track contract performance and contract cost changes in real-time in order to ensure balanced P&L accounts, identify contracts that are over cost and make adjustments to mitigate risk on the fly.



How It Works

1. Integrate live performance data and cost changes

Feed integrated data to inform analytics from live contracts as well as cost changes in real time

2. Track and dissect contract performance across a range of key capabilities

Leverage business intelligence capabilities to drill down into different contract elements to see how they vary from initial forecast, e.g. spare parts costs, labor costs, economic forecasts etc., including:

- Detailed revenue charts by month
- High-level analysis of contract-level profitability
- Performance breakdown across key variables (e.g. customer segment, equipment type)
- Detailed cost breakdown for each contract

3. Leverage insights to update services to mitigate risks

Identify risks to profitability early on and then update your services and contracts to mitigate risk and optimize financial performance

Key Features

- **Automated risk alerts:** receive real-time notifications about potential financial risks, enabling prompt corrective actions
- **Comprehensive business intelligence:** access detailed analytics with both high-level overviews and in-depth drill-down options to monitor contract performance
- **Customizable dashboards:** create tailored dashboards to visualize key financial metrics and track contract health
- **Historical performance analysis:** analyze the performance of past contracts to inform future pricing and risk management strategies
- **Scenario simulation:** test different financial scenarios and assess their potential impact before making changes, supporting informed decision-making

Technical Benefits

- **Transparency and visibility:** gain a clear and comprehensive view of the financial health of each contract, supporting proactive management
- **Risk identification and mitigation:** detect potential financial risks early, identify their root causes and implement corrective actions to maintain profitability
- **Data-driven decision-making:** use advanced analytics and simulation tools to make data-driven decisions, optimizing financial performance
- **Loss prevention:** eliminate the risk of incorrectly pricing contracts by continuously monitoring performance

CONTRACT PRICE WORKFLOW

The core capabilities come together to create a contract optimization workflow that accurately predicts costs, applies them according to sophisticated pricing logical, tracks financial performance and then updates contract terms and pricing to mitigate risk.

These capabilities can be easily scaled across as many contracts and contract types as your business needs.

Cost Prediction	Contract Pricing	Financial Performance	Portfolio Management
Utilizes relevant data sources and contract structure to determine accurate long term cost predictions.	Applies pricing logic structure to generate product, market and customer level pricing.	Monitors ongoing costs to accurately track individual and portfolio level contract performance.	Tracks existing pricing against latest cost predictions. Update contract terms and pricing to remain profitable.

BUSINESS BENEFITS

How do the technical benefits translate into concrete business outcomes? Here's what effective contract pricing can help your business to achieve:

01

Maximize profitability

By going beyond basic, manual cost-plus models and cost predictions to see immediate gains in revenue and margins.

- **Maximize revenue and margins:** tailored pricing models can be used to offer competitive prices to price-sensitive customers while maintaining higher margins for those willing to pay a premium for added value
- **Maximize market share:** deliver more attractive contracts (more quickly and easily) to customers to increase market share
- **Protect future profitability:** continuously validate and improve ML models

02

Improved risk management

The platform provides real-time visibility into contract performance and financial health, allowing businesses to identify and mitigate potential risks early.

- **Reduce loss-making contracts:** identify underperforming contracts rapidly and make adjustments (to current and future contracts) to avoid costly oversights
- **Stable cash flow:** by preventing unexpected costs and ensuring that contract terms are adhered to, businesses can maintain stable and predictable cash flow
- **Protect profitability:** effective risk mitigation strategies ensure that contracts remain profitable, even in the face of unexpected challenges

03

Advanced pricing strategies

Advanced pricing logic opens the door to more dynamic, agile and bespoke pricing approaches that open the doors to new markets and business models.

- **Increased market share:** tailored pricing strategies (including value-based, competitive, and cost-plus pricing models) enable businesses to compete more effectively in different market segments
- **New business opportunities:** easily scale pricing models to accommodate growth and increasing operational complexity, supporting expansion and new business opportunities
- **Revenue growth:** flexible pricing models allow businesses to adjust prices dynamically, maximizing revenue opportunities in response to market demand
- **Adaptability:** the ability to quickly adapt pricing strategies to new market conditions helps businesses stay competitive and responsive to customer needs

04

Data-Driven decision making

By creating a single source of truth for your contract data and leveraging machine intelligence, you can derive insights that can powerfully inform your business decision-making.

- **Optimized business performance:** real-time data and analytics gives you the visibility and insight to be able to make strategic decisions that would otherwise be impossible
- **Strategic planning:** greater transparency supports better planning and forecasting, helping businesses align their strategies with market opportunities and challenges
- **Reduced uncertainty:** using data to guide decisions reduces the uncertainty and guesswork often associated with pricing and contract management

05

Enhanced customer satisfaction and loyalty

Data-driven contract offerings help to make service contracts more attractive, which tightens your relationship with your customers, making the contracts less price-elastic and less susceptible to market shifts.

- **Improved customer retention:** by offering fair, transparent, and competitive pricing, businesses can build trust and retain customers over the long term
- **Higher customer lifetime value:** satisfied customers are more likely to purchase additional services and products, increasing their overall lifetime value to the business
- **Bring the customer closer:** tailoring pricing and service offerings to meet specific customer needs helps to build stronger, more loyal customer relationships, reducing churn and increasing repeat business

CONCLUSION

The future of contract pricing lies in the ability to harness real-time data and sophisticated tools to deliver accurate, dynamic, and profitable pricing strategies.

For businesses looking to stay competitive in an evolving aftermarket economy, embracing automation and data-driven decision-making is key.

Syncron Contract Price is built to empower businesses to streamline their pricing processes, eliminate manual errors, and leverage predictive analytics to ensure every contract is not only profitable but reflective of the true costs and value provided to customers.

By simplifying complex pricing tasks and enabling ongoing updates with real-time data, the solution allows businesses to optimize their pricing strategies while effectively managing risk.

Learn more: https://www.syncron.com/resources/syncron-contract-price-more-accurate-pricing/

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