

PRICING FOR PROFITABLE GROWTH

WHITEPAPER 1 - SERIES OF 5

Pricing as a Profit Engine

Pricing Models, Settings & the Revenue
You Didn't Know You Were Losing

The Fundamentals Every Business Leader Must Know

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EXECUTIVE SUMMARY

Most organizations treat pricing as a number that emerges from cost calculations or competitive benchmarking. This is a costly oversight. Pricing is, in fact, the single most powerful lever available to any business to improve profitability: faster, and with greater impact, than any cost-cutting program or volume initiative. This paper makes the case for pricing as a strategic discipline and provides business leaders with the foundational concepts needed to harness it.

+1%

price improvement yields on average a 6–7% improvement in operating profit

17.4%

operating profit uplift from a 1% price gain in the automotive sector

3×

higher margins in companies where pricing is a board-level priority

Why Pricing is not Just a Number

Ask ten executives what pricing means, and most will answer with a process: cost-plus, market benchmarking, or annual review. Very few will answer that it also involves strategy. Yet pricing is the only business lever that goes directly to the bottom line. Unlike cost reduction, which has a floor, or volume growth, which requires investment, a well-executed price improvement flows almost entirely into profit.

A landmark analysis of over 2,000 publicly listed companies (Revology Analytics) found that a 1% improvement in price yields, on average, a 6.7% improvement in operating profit. In automotive, that figure rises to 17.4%. Even in financial services, the least price-sensitive sector studied, a 1% price gain yields a 2.2% improvement in profit. No other lever comes close.

The implications for leadership are clear: **pricing deserves the same strategic attention as product development, talent, or capital allocation.** Yet in most organizations, it is delegated downward, treated tactically, and managed reactively.

"Pricing is the most relevant and immediate profit lever."

— Danilo Zatta, *The Pricing Model Revolution*

The Language of Pricing: Key Concepts for Leaders

Effective pricing governance starts with a shared vocabulary. Leaders who tangle price with cost, or who cannot distinguish their List Price or Selling Price from their actual Pocket Price, are making decisions without the full picture.

Price, Cost, Value, and Margin

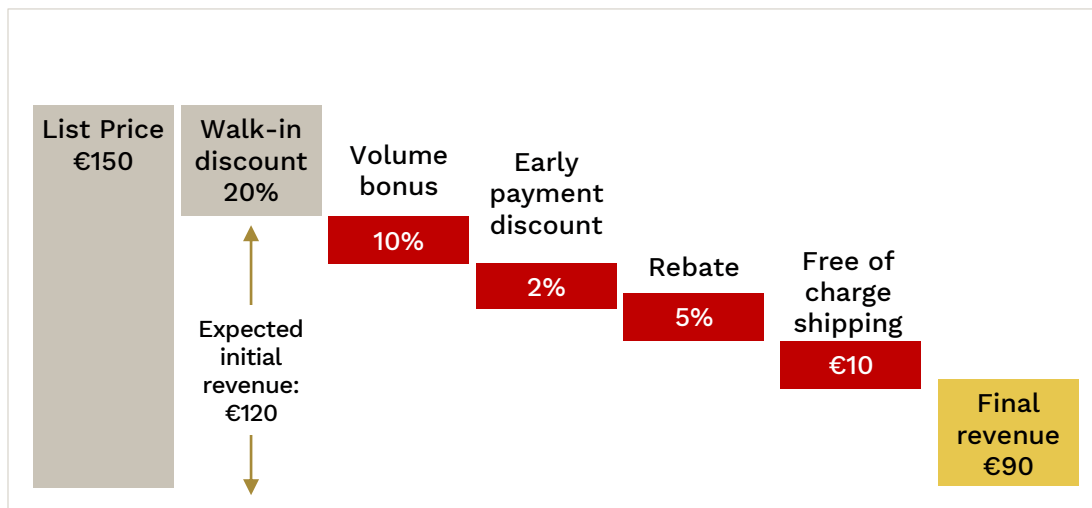
These four terms are often used loosely, but their distinctions are commercially critical:

- **Price:** The amount a customer pays for a product or service. It is the output of strategy, not an input from cost.
- **Cost:** The internal expenditure required to produce or deliver. Costs establish a floor, not a ceiling.
- **Value:** The benefit perceived by the customer. Value is the ceiling. Pricing strategy operates in the space between cost and value.
- **Margin:** The difference between price and cost. Margin is what pricing strategy is ultimately designed to protect and expand.

The Price Waterfall: Where Revenue Really Goes

One of the most revealing tools in pricing management is the **Price Waterfall**: a visual representation of the journey from the price you publish to the revenue you actually retain. Most organizations are surprised by the distance between the two.

Consider a simplified example: a company sets a List Price of €150 per unit. After applying standard discounts, the Invoice Price falls to €120 as agreed with Sales. After factoring in volume bonuses, payment benefits, and other concessions, the true net revenue (Pocket Price), is just €90. That represents a 40% dilution from the published price, against the expected 20%.



The difference between the List Price and the Pocket Price is not merely an accounting observation. It represents real value leakage, often the result of undisciplined discounting, misaligned sales incentives, and absent governance. Understanding and managing this waterfall is one of the highest-value activities a pricing-conscious organization can undertake.

Price Elasticity: The Strategic Compass

Price Elasticity of Demand (PED) measures how sensitive customer purchasing behavior is to a change in price. Understanding elasticity allows leaders to make informed decisions about when to raise prices, when to hold them, and when price is not the primary competitive factor.

Elasticity is not uniform. It varies by customer segment, by product, by geography, and by channel. It is neither static as it changes over time. A premium B2B buyer focused on supply chain continuity may be highly **inelastic (price-insensitive)** while a commodity distributor buying the same product may be highly **elastic (price-sensitive)**. Treating both as the same is a strategic error that leads to margin leakage in one direction and volume loss in the other.

Types of Costs: Strategic Implications

Not all costs should influence pricing equally. The distinction between fixed and variable costs, and particularly the concept of marginal cost, has direct implications for pricing decisions:

- **Fixed costs** are incurred regardless of volume. They do not change with each additional unit sold.
- **Variable costs** change proportionally with output. They are directly relevant to pricing individual transactions.
- **Marginal cost** is the cost of producing one additional unit. In many service businesses, marginal cost is near zero, creating significant pricing flexibility, but also the risk of underpricing if marginal cost becomes the default reference.

Understanding marginal cost is particularly important in deciding whether to accept a below-standard-price order to fill capacity, or whether to resist and protect long-term positioning. In other words, marginal cost helps answer two of the most consequential commercial questions: *“how low can we go to win this business and still create value?”* and *“how much would it truly cost us if we lost this customer?”*.

Where to Place Pricing in Your Organization

Pricing does not operate in isolation. It is the intersection of strategy, marketing, finance, operations, and sales. Each function influences pricing outcomes and each function is influenced by pricing decisions. This interdependence is why pricing must be owned at the executive level.

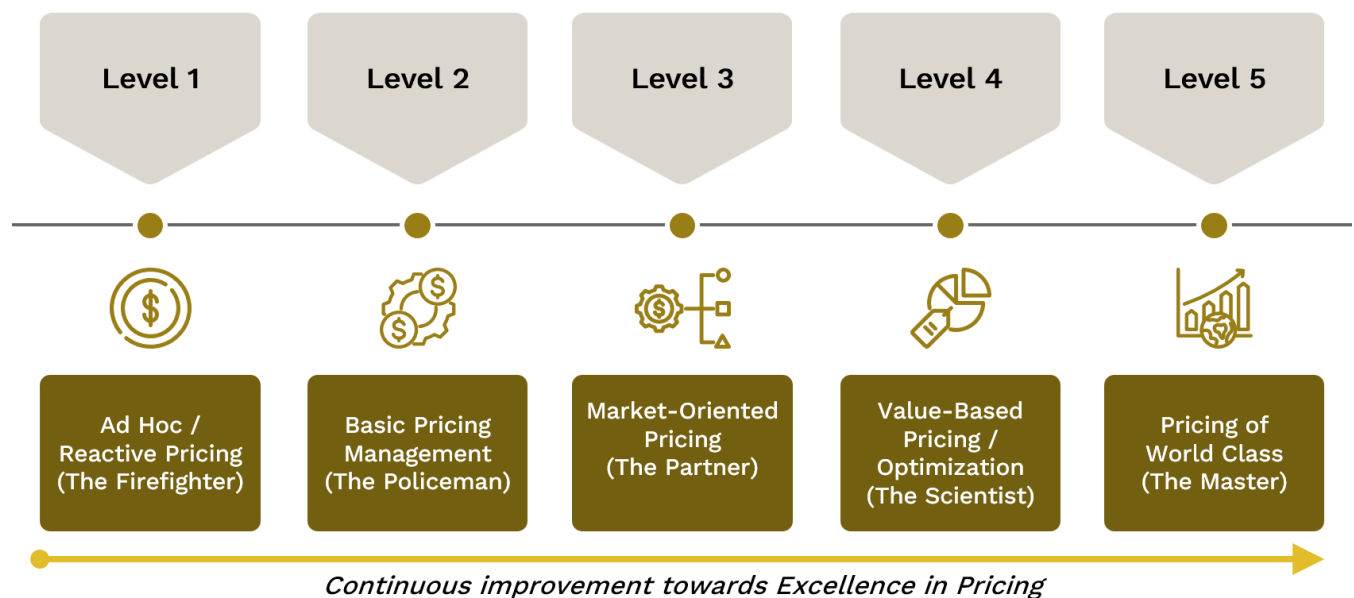
In companies where pricing has board-level visibility and dedicated governance, research shows margins are typically 3× higher than competitors, and the success rate of price increases is 23% better. These outcomes are not accidental. They result from pricing being treated as a capability, not a task.

Business Function	Its Role in Pricing Excellence
Finance	Profitability targets, cost structure, margin control, P&L alignment
Sales	Customer relationships, negotiation discipline, discount governance
Marketing	Brand positioning, perceived value, segment definition
Operations	Cost-to-serve, capacity management, service differentiation
CEO / Leadership	Strategic ownership, cultural alignment, KPI accountability

The Pricing Maturity Journey

Understanding where your organization stands today is the first step toward building a pricing capability that drives sustainable profitability. Our pricing maturity model describes five progressive levels:

- Level 1: The Firefighter**
 Pricing is frequently reactive, empirical, and driven by immediate commercial pressure. No clear processes or governance exist.
- Level 2: The Policeman**
 Basic structures are in place (price lists, discount approvals), but the approach remains cost-oriented and internally focused.
- Level 3: The Partner**
 Pricing is market-oriented, customer-aware, and aligned with brand and segment strategy. The pricing function is a recognized commercial partner.
- Level 4: The Scientist**
 Value-based methods, elasticity analysis, and advanced analytics drive decisions. Systems and data underpin precision pricing at scale.
- Level 5: The Master**
 Pricing is a strategic capability integrated across the organization, driving innovation and competitive advantage.



Research from our [Pricing Transformation Program](#) participants shows that most B2B organizations operate between Levels 2 and 3, with significant untapped profitability at the transitions ahead. The journey is not about leaping to Level 5, but about building consistent, sustainable capability at each step.

What This Means for Your Organization

The business case for treating pricing as a strategic priority is well established. The harder question is how to begin. The following three actions represent the highest-return starting points for most organizations:

- **Audit your Price Waterfall:** understand the gap between your published, negotiated and realized prices. Identify the top three sources of value leakage.
- **Assess pricing ownership by asking:** who in your organization is accountable for pricing outcomes? If the answer is unclear or multiple people are involved, that is the finding itself.
- **Initiate a pricing maturity assessment (see note below):** understanding your current level, honestly and with data, is the foundation of every transformation that follows.

Note: If you want to assess your current pricing maturity in a fast and simplified way, click on the following link: [VCE PricePulse](https://pricepulse.scoreapp.com/) (or copy/paste <https://pricepulse.scoreapp.com/>).

"A 1% improvement in price is worth more to the bottom line than a 1% reduction in costs, a 1% improvement in volume, or a 1% reduction in fixed costs."

— Based on analysis of 2,000+ public companies

This whitepaper is the first in a five-part series by **Vesper Commercial Excellence**, covering the full spectrum of pricing strategy, execution, and transformation.

ABOUT THE AUTHOR

Jorge Olivares is a Certified Pricing Professional (CPP) with 22 years at DHL Express, the last 16 in pricing, concluding as Sr. Director of Customer Pricing for EMEA. He holds an Industrial Engineering degree from IPN Mexico and a Master's in Project Management from Keller Graduate School of Management. He has also held roles at PwC, marchFIRST, TSYS, and Banamex. Jorge is currently a Senior External Advisor at Vesper Commercial Excellence, based in the Netherlands, where he helps B2B organizations build sustainable pricing capabilities that drive profitability.

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