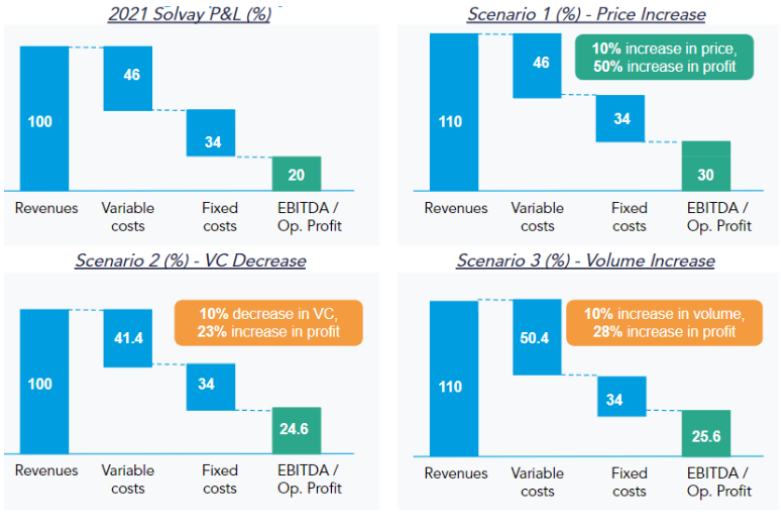
# Pricing

## Pricing

### Why is pricing important to Solvay?

As part of its strategic transformation, Solvay launched a commercial offensive with the objective of driving growth. The Customer Engagement Model (CEM) team was launched to support and coordinate the commercial offensive. A number of commercial initiatives were rolled out including Pricing and Contract Management. Margin protection and expansion are critical imperatives for Solvay to deliver shareholder returns and reinvest more, thus strengthening our future growth, profits, investments, and sustainability of supply - our *profitable growth strategy*.

Solvay recognized the need for a structured way forward - a solution beyond the routine, business-as-usual approach.  Among the levers used to manage, protect and expand profits, pricing has the biggest impact on profits as shown in the charts below. Solvay's pricing capability, while historically good, needed to become a robust and differentiating capability in the face of rapidly changing market conditions and competitive landscape.




*Comparison of profit improvement for Solvay using Price adjustment vs. other levers*

## What do we want to achieve through our pricing initiatives?

The new pricing capability system will aim to target six aspects that are key to Solvay's sustainable growth:

- **Grow top line.** Prevent revenue leakage and capture price increase opportunities.
- **Innovate and stay ahead of competition**. Reinvest to be in line with GROW transformation priorities.
- **Charge for the value we provide.** Our pricing performance is currently lagging - we do not correctly charge for the value we provide, while competitors are raising prices.
- **Minimize margin erosion.** Unprecedented cost inflation (raw materials, energy, transport, labor) as well as pricing & margin leakage are being experienced across GBUs at the moment.
- **Provide security of supply for customers.**

- **Improve processes for employees.** GBUs currently have limited pricing process maturity, which includes lack of data transparency and structured pricing governance.

The Customer Engagement Model (CEM) Pricing team was set up to transform Solvay's pricing and contract management capabilities, with the aim of controlling any further margin erosion, as well as driving growth for Solvay to protect long-term propositions for our customers. Since its conception, the CEM Pricing team has been working in collaboration with Digital Technology team and different GBUs to deliver technological pricing solutions, as well as to actively support GBUs in pricing governance and capability advancement.

## How are we building Solvay’s pricing capability?

Solvay’s pricing capability system is focused on three areas: *Tools, systems & infrastructure; Governance, performance & process management; Mindset, behaviors & capabilities*.

- **Tools, systems & infrastructure.** State of the art tools & systems are built and deployed to support frontline employees by providing insights, improving workflows, simplifying processes and enabling informed pricing actions. The tools are tailored to specific GBU requirements and delivered with dedicated training, regular monitoring of usage, and continuous improvement.
- **Organization,** performance and process management. GBUs are supported in designing and building a strategic pricing organization. Regular governance forums and processes are set up to track pricing and pricing power performance by GBUs each month.
- **Mindset, behaviors & capabilities.** Training about Pricing and the tools are developed and delivered to build knowledge & skills for the commercial teams, as well as to generate commitment across all levels, starting from top management.

With a multidisciplinary nature, building a strong pricing capability across Solvay requires our internal stakeholders to work together in an agile way. The CEM Pricing team is central in putting together the efforts, coordinating with involved parties and ensuring that functional excellence is scalable across GBUs. The Pricing team works in conjunction with the Digital Technology team - who are directly responsible for building the pricing tools, and with GBUs and functions to execute tool design, roll-out and capability building.

## What pricing approaches are used by Solvay?

Solvay pricing approaches including Commodity Pricing, Dynamic Transactional Pricing and Value-based Pricing, click here to access the details of these three approaches in Pricing Playbook.

## How does Solvay Measure the Impact of Pricing Actions?

Our ability to increase our price is measured by a KPI called "Pricing Power". The Pricing Power (see illustration below) includes the contribution margin effect of:

+ Price variation without the effect of exchange rates

+ Variable cost without the effect of exchange rates and without taking into account the cost impact of Log and Pack or Manufacturing Excellence initiatives

+ Log and Pack cost initiatives (at constant volume)

+ Transaction exchange rates

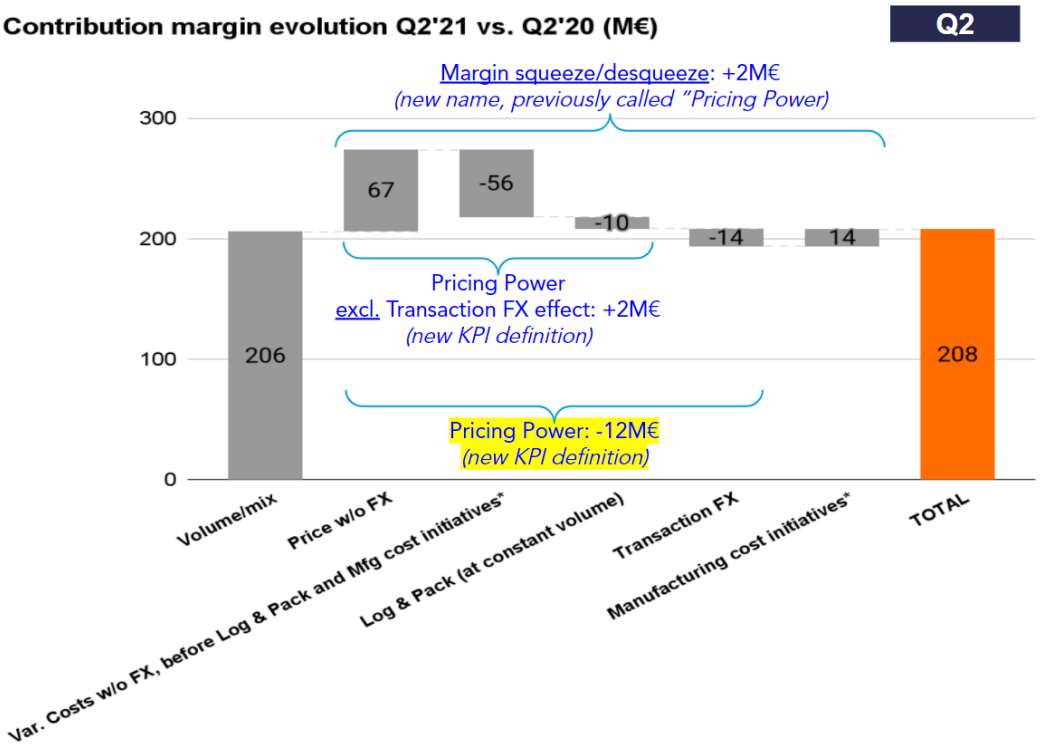



*Image 2. Pricing Power illustration*

Note that by including the Contribution Margin impact of Manufacturing cost initiatives (such as Manufacturing Excellence or specific programs (e.g. plant competitiveness, energy transition, footprint optimization)), we get to the full margin squeeze/ desqueeze.

## What has been Solvay's pricing transformation journey since its inception?

The Pricing Transformation journey shortly after the GROW Announcement

- The first phase of the journey was focused on scoping the transformation effort
- The second phase focused on piloting tool development and deployment in Specialty Polymers (SpP) in addition to supporting pricing campaigns
- In the third phase, the journey focused on accelerated development and deployment of tools and enablement actions across GBUs, including Novecare, Technical Solutions, Aroma & Composite Materials/

## What pricing tools are being built?

***"Price smarter - Sell the right product, to the right customer, at the right price, at the right time."***

Three front-end pricing tools have been developed and are currently in deployment, with ambition for a full roll-out for Specialty Polymers, Novecare, Technology Solutions, Composite Materials, Aroma, Oil & Gas by the end of 2023. In addition, an AI-based back-end tool has been deployed in SpP, and a CM improvement module is being developed for capacity-constrained businesses like Novecare.

| Tool | Functionality | User | Status |
|---|---|---|---|
| Transparency tool (Historical & Forward looking ICM) | Provide historical & forward pricing key metrics | All | *Live with historical costs for SpP & Novecare, partially for TS* |
| Campaign tool | Define & Maintain price guidance by product | Sales reps, RMDs, PAMs | *Live with BOM MVP for Novecare; on track to be launched for SpP* |
| ONEQuote (Price setting & execution tool) | Define & Maintain price guidance by product; Make quote to a customer | Marketing directors, PAMs, sales reps | *Live for SpP & Novecare* |
| Back end tool (AI algorithm) | Generate AI-based recommendations | All | *Live for SpP* |
| CM improvement / Asset optimization | Generate floor price on constrained assets | - | *Live for Novecare, under deployment for TS* |

*Image 4. Overview of Pricing modules in 2022*

**Transparency tool**

The Transparency tool consists of dashboards that provide the analysis of the historical evolution for sales, volume, price & margin, and forward looking cost & margins. It also offers an overview on past quotes & campaigns, sales drivers decomposition, margin leakage, pricelist compliance, etc. Frontline employees can utilize this tool for their preparation of price negotiations with customers.

For more details and support materials on the Transparency tool, please refer to the links in the right bar.

**Price Setting & Execution tool (ONE Quote)**

The ONE Quote tool provides support on price setting and delivering the price to customers.

- Updates to price guidance based on cost development, margin rules, and quote customer & products, helps Account Managers *set* the price.
- From this determined price, sales representatives prepare the commercial offer through creating a Quote, await for approval, and formally communicate the prices to the customer - thereby *executing* the price.

For more details and support materials on the Price Setting & Execution tool, please refer to the links in the right bar.

**Campaign tool**

The Pricing Campaign tool is a module in which frontline employees can see pricing recommendations from Pricing Managers, review and commit price guidance, as well as create pre-populated Quotes.

For more details and support materials on Campaign tool, please refer to the links in the right bar.

## What have we achieved so far in our pricing transformation journey? Key Outcomes

Solvay's pricing capability development and transformation has delivered significant impact and value relative to the investments

- Enabled significant price increases and pricing power gains through campaigns across GBUs in 2021, 2022 & 2023
- Supported price increases above variable cost escalation, resulting in positive pricing power
- Developed and deployed scalable pricing tools across SpP, Novercare and TS
- Helped establish pricing organizations with SpP, Novecare and TS
- Ensured contracts have flexibility clauses to adjust pricing according to market conditions
- Developed and deployed contract management database, a single source of truth for all contract data and information
- Supported negotiation preparations for large and upcoming deals / contract negotiations
- Put in place price performance tracking and governance across all GBUs

Please reach out to the CEM contacts above for detailed information on impact

## What pricing organization and governance is needed?

Pricing organization and governance include 3 core elements:

**Clearly defined processes and calendar:**

- Clearly defined pricing calendar for each pricing approach (per GBU)
- Week-by-week plan to ensure regular execution
- Standard templates, inputs, outputs for all key meetings

**Well defined roles and responsibilities:**

- Dedicated pricing / commercial analytics office
- Detailed descriptions of roles and responsibilities
- New roles (e.g., data scientists, engineers) embedded

**Fact based Impact tracking & performance management:**

- Impact tracking calculation automated and integrated
- Limited set of KPIs defined and cascaded across organization
- “Real time" performance dashboards leveraged in regular performance dialogues

## *Navigation tree*

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Key Documents :

- **Pricing playbook**
- **Commodity Pricing Methodology**
- **Dynamic Transactional Pricing**
- **Value-Based Pricing**

Tools:

- **Pricing Dashboard**
- **Opportunities (Sales Quote) - iCARE**
- **ONE Quote - CORE**
- **Pricing Campaign - iCARE**
- **Pricing Campaign - CORE**

Trainings:

- **Pricing Value and Fundamentals**
- **Price Setting, Quote & Pricing Campaign Training (Novecare)**
- **Pricing Dashboard Training-Discovery E-learning(Generic)**
- **Pricing Dashboard Training Documentation (TS)**
- **Pricing Dashboard Training Documentation (Novecare)**

Contacts

Customer Engagement Model (CEM)

- **Clemens Gschwandtner - Head of Customer Journey & Commercial Capabilities**
- **Julien Noe - Head of Global Pricing Excellence**

Digital Technology

- **Fabian Kersten - Head of Digital Customer Journey**
- **Mathilde Lascombes - Pricing Product Manager**

GBU

- **Andrea Pappada - Specialty Polymers**
- **Julien Gena - Novecare**
- **Laurie Sabbath - Technology Solutions**
- **Simon Delens - Aroma Performance**

Linked pages:

- **Contracting**

- **Sales Academy**
- **Professional Pricing Society**
- **Pricing Dashboard User Wiki Documentation**