



Dynamic Value Capture: Moving Beyond Cost-Plus in a High-Flux Economy

Strategic Pricing Through Behavioral Economics and Customer Segmentation

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Confidential and proprietary



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The Path Forward: From Strategy to Action

Adopting a dynamic value capture framework is critical to defend margins and prevent churn in a high-flux economy.

| Topic | Key Points |
|-------------------------------------|--|
| The Cost-Plus Crisis | <ul style="list-style-type: none">• Companies are losing 300-500 basis points of gross margin despite revenue growth, as static pricing fails to keep pace with volatile costs and shifting customer value perception.• Customer loyalty is at a historic low, with 60% of consumers switching brands due to cost, making uniform price hikes extremely risky and likely to trigger an exodus. |
| Why Traditional Paths Fail | <ul style="list-style-type: none">• Maintaining the cost-plus status quo is not viable; it projects a further 200-300 basis point margin decline, ceding all pricing control to the market and competitors.• A uniform price increase is also not viable; it would trigger an estimated 10-15% customer churn among the most price-sensitive segments, wiping out any margin gains. |
| The Solution: Dynamic Value Capture | <ul style="list-style-type: none">• A proactive framework using granular segmentation and behavioral economics to surgically adjust prices based on a customer's specific willingness to pay and loyalty profile.• This approach protects high-loyalty customers with targeted offers while capturing margin from low-loyalty segments, preventing churn and unlocking significant profit recovery. |

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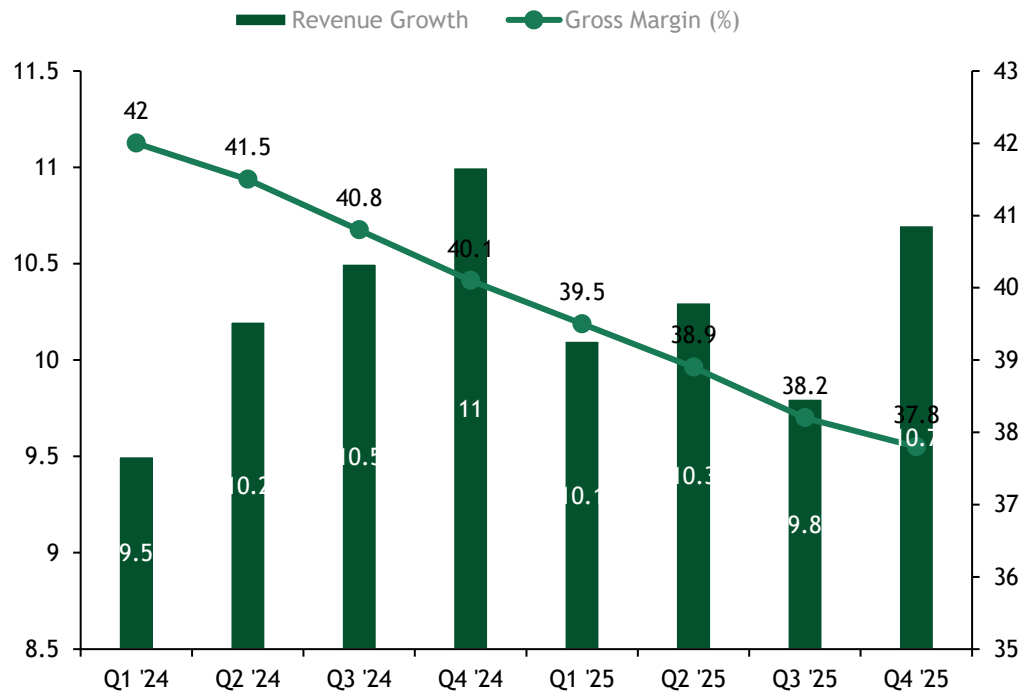
The Growing Crisis of Cost-Plus Pricing



Companies relying on traditional cost-plus pricing are experiencing significant margin erosion as customer loyalty thins in a high-flux economy.

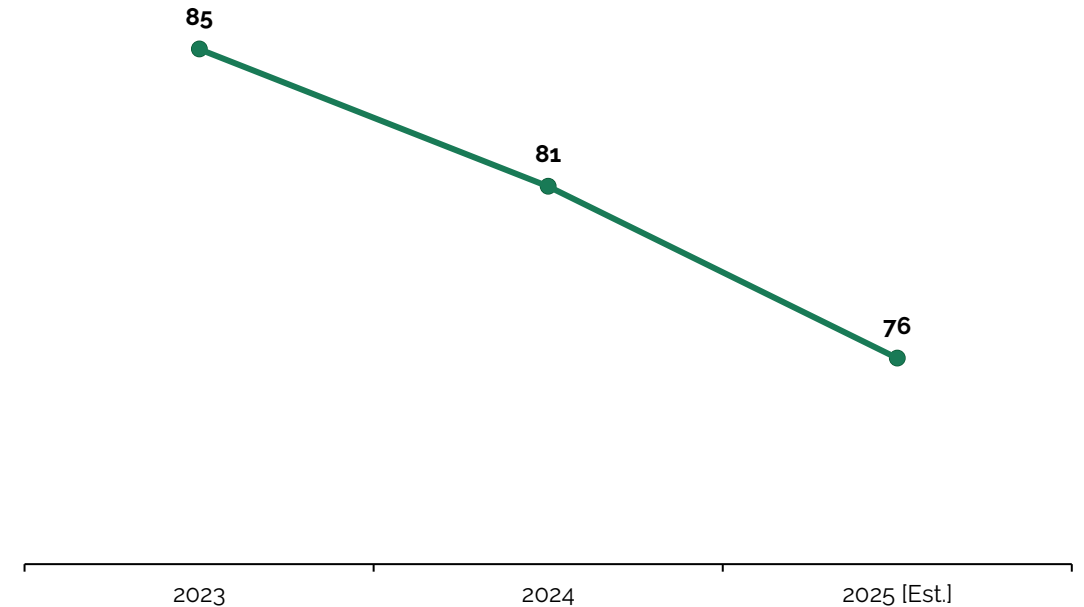
The Margin Paradox: Rigid Pricing Drives a 420bps Margin Collapse Despite Stable ~10% Revenue Growth

Quarterly Revenue Growth (%) | Quarters (Q1 2024 - Q4 2025)



Thinning Loyalty: 60% of B2B Churn is Now Price-Driven as Switching Propensity Hits Critical Levels

Average Customer Retention Rate (%), Year



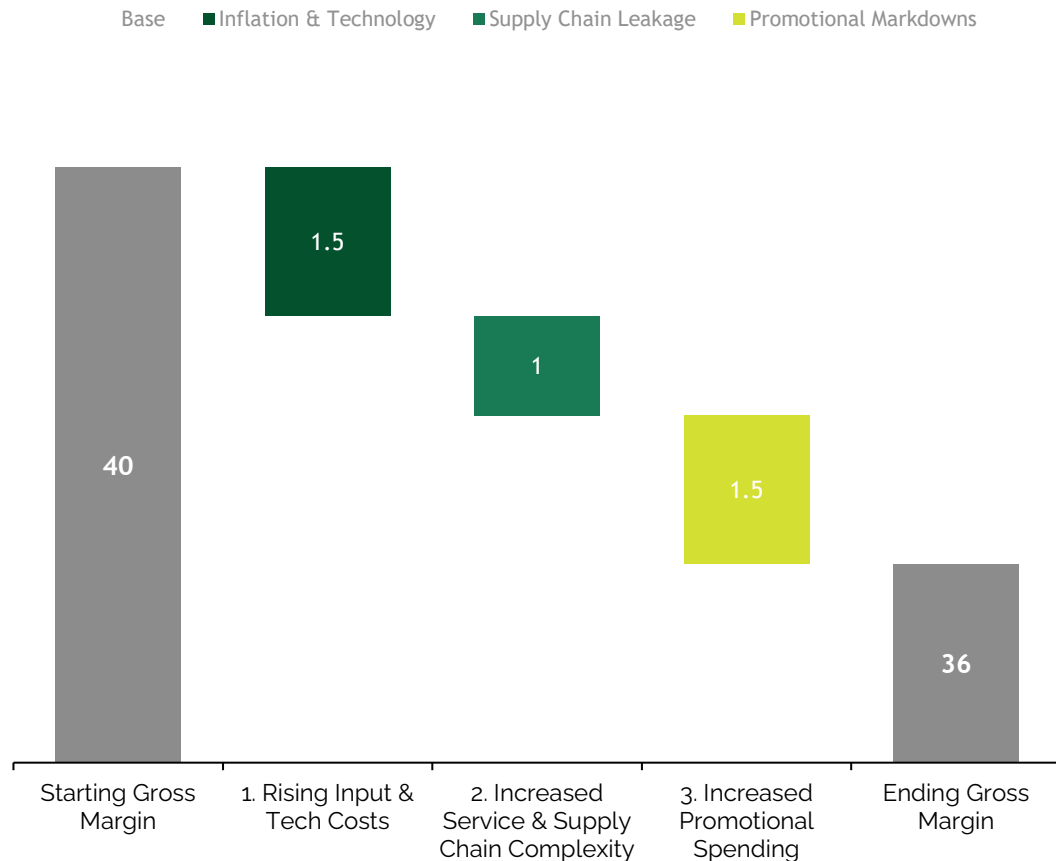
“While cost-driven churn represents a primary risk, fewer than 25% of industrial firms have adopted the value-based pricing models required to mitigate it—signaling a structural inability to respond to market shifts.”

-McKinsey & Co., 2024

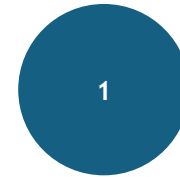
A typical company in this situation has lost 300-500 basis points of gross margin over 18 months despite 3-5% revenue growth.

Structural cost inflation and promotional intensity drove a 400 bps margin contraction, neutralizing 4% top-line growth gains.

Gross Margin (%), Margin Drivers (18-Month Period)

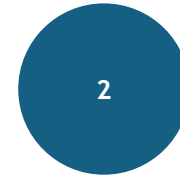


Quantifying the Attribution: 400 bps Margin Leakage Amid 4% Revenue Growth



Cost-Plus Failure: Tech and input costs growing at 3-4x GDP:

- Technology-related expenditures (Cloud/IT labor) growing at 15-20% annually since 2021, outstripping GDP-linked price adjustments
- Structural cost inflation creates a 150 bps drag that traditional cost-plus models fail to recover



Operational Leakage: 5-10% of service spend remains uncaptured:

- Non-recovered costs in expedited freight and client-specific customization now account for 5-10% of total service spend
- 100 bps leakage from 'invisible' operational exceptions that bypass standard billing cycles



Promotional Trap: 20-40% markdowns erode price ceilings:

- Share of volume sold on promotion returned to pre-COVID levels with 20-40% markdowns in discretionary categories
- Frequent discounting conditions 'wait-for-sale' behavior, permanently lowering the effective price ceiling



Revenue Paradox: 4% growth failed to offset margin erosion:

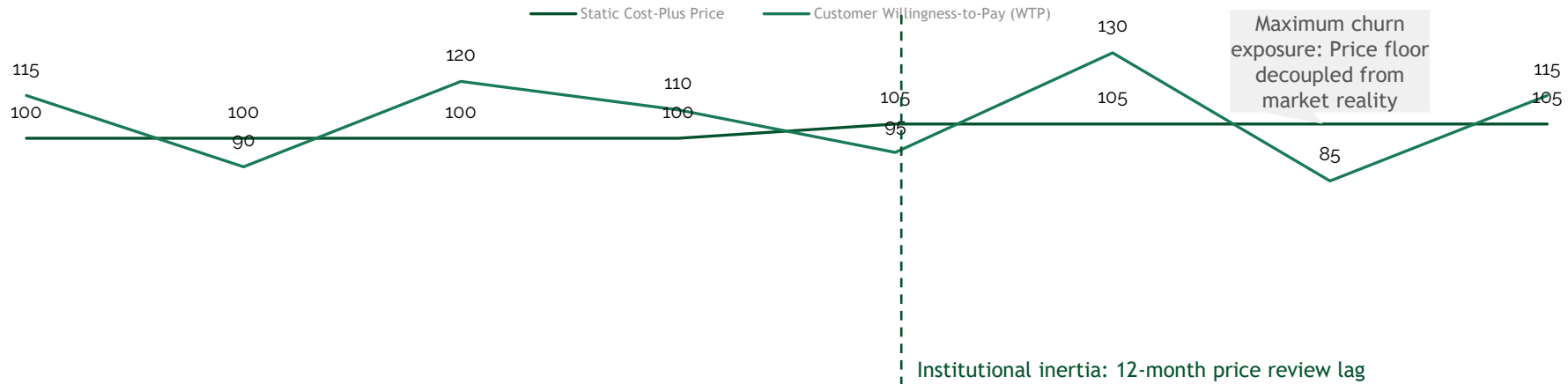
- Median revenue growth of 4% was insufficient to bridge the 400 bps gap, highlighting a fundamental failure in value capture
- 1% improvement in realized price drives ~11% profit lift, offering 3x the leverage of current volume growth efforts

Source: McKinsey analysis of S&P 500 margins (2020-2023), IMF nominal GDP growth data for advanced economies (2021-2023), McKinsey article on pricing excellence (1% price increase impact on profit), Pricefx pricing white papers citing "1% price → 11% profit" based on McKinsey, AutoPresent Analysis

This margin erosion is caused by a fundamental mismatch: static, cost-based prices cannot adapt to customers' rapidly changing perception of value.

Value Destruction: Rigid Pricing Cycles Lag Behind Real-Time Market Shifts (e.g., Amazon's 2.5M daily updates)

Price / Value Level, Time (Quarters)



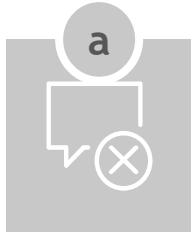
| | Q1'23 | Q2'23 | Q3'23 | Q4'23 | Q1'24 | Q2'24 | Q3'24 | Q4'24 |
|--------------------------------|------------------|----------------------|--------------------|------------------|-----------------|----------------------|--------------------|------------------|
| Market Event | Baseline | Competitor Price Cut | Supply Chain Shock | Stable Demand | Sentiment Shift | Positive Market News | Demand Contraction | Year-End Surge |
| Variance (WTP vs Price) | +15.0% | -10.0% | +20.0% | +10.0% | -9.5% | +23.8% | -19.0% | +9.5% |
| Strategic Exposure | Opportunity Cost | Churn Risk | Opportunity Cost | Opportunity Cost | Churn Risk | Opportunity Cost | Churn Risk | Opportunity Cost |

The Cost-Plus Trap

- Decoupling internal costs from external value reality creates structural margin degradation:
- Pricing Inertia: 38% of firms lag market shifts by 12+ months, creating permanent misalignment (McKinsey).
- Forfeited Upside: Static models miss the ~20% revenue growth captured by dynamic pricing leaders (Fact [C]).
- Asymmetric Risk: 'Red Zones' trigger immediate churn as prices fail to adapt to competitor cuts or sentiment shifts.

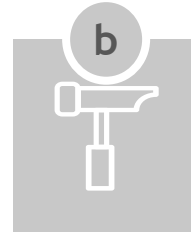
Source: McKinsey, Amazon, Walmart, Hema Fresh, Amazon Web Services (AWS), AWS Spot Instances, Salesforce, Wheelhouse Blog, Togai, Datallen, Trellis, HubiFi, Mailmodo, LimeSpot, Alpha Bridge, AutoPresent Analysis

Companies facing this dilemma typically have three paths: maintain the cost-plus status quo, implement a uniform price increase, or adopt the Dynamic Value Capture framework.



Option 1: Status Quo (Cost-Plus)

- A reactive, backward-looking model that guarantees margin erosion in a volatile market.



Option 2: Uniform Price Hike

- A blunt-force approach that alienates customers and triggers significant churn, wiping out gains.



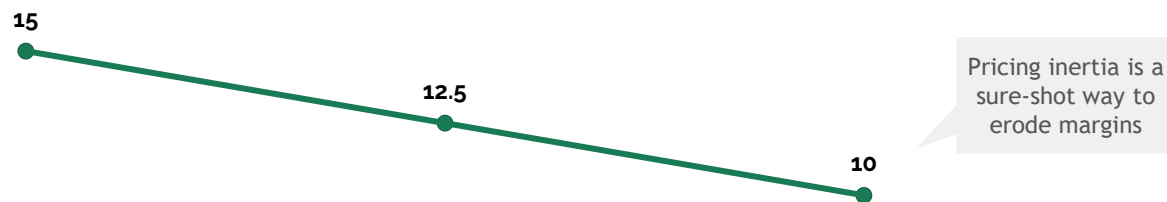
Option 3: Dynamic Value Capture

- A proactive, data-driven framework to optimize margin and strengthen customer loyalty.

Maintaining the cost-plus status quo is not viable—it projects a further 200-300 basis point margin decline over the next 24 months as market volatility increases.

Modeled Status Quo: ~250 bps Annual Margin Compression Under 5-7% Cost Inflation

Operating Margin (%), Time Horizon



| | Current | +12 Months | +24 Months |
|-------------------------------------|---------|------------|------------|
| Cumulative Compression (bps) | 0 | 250 | 500 |
| Monthly Erosion Rate (bps) | 0 | 21 | 21 |
| Relative Profit Reduction | 0.0% | -16.7% | -33.3% |

Source: manufacturing, CPG, labor-intensive services, US food manufacturers, packaged food producers, Labor- and material-intensive manufacturers (auto suppliers, industrial components), Manufacturing (discrete/industrial), Consumer packaged goods, Business services (labor-heavy), European manufacturers during the 2021 energy shock, Large CPG firms, academic work on pass-through in food manufacturing, professional and IT services, studies of manufacturing during commodity price spikes, Energy-intensive European manufacturing (2021-2023 energy crisis), consulting and IT services, AutoPresent Analysis

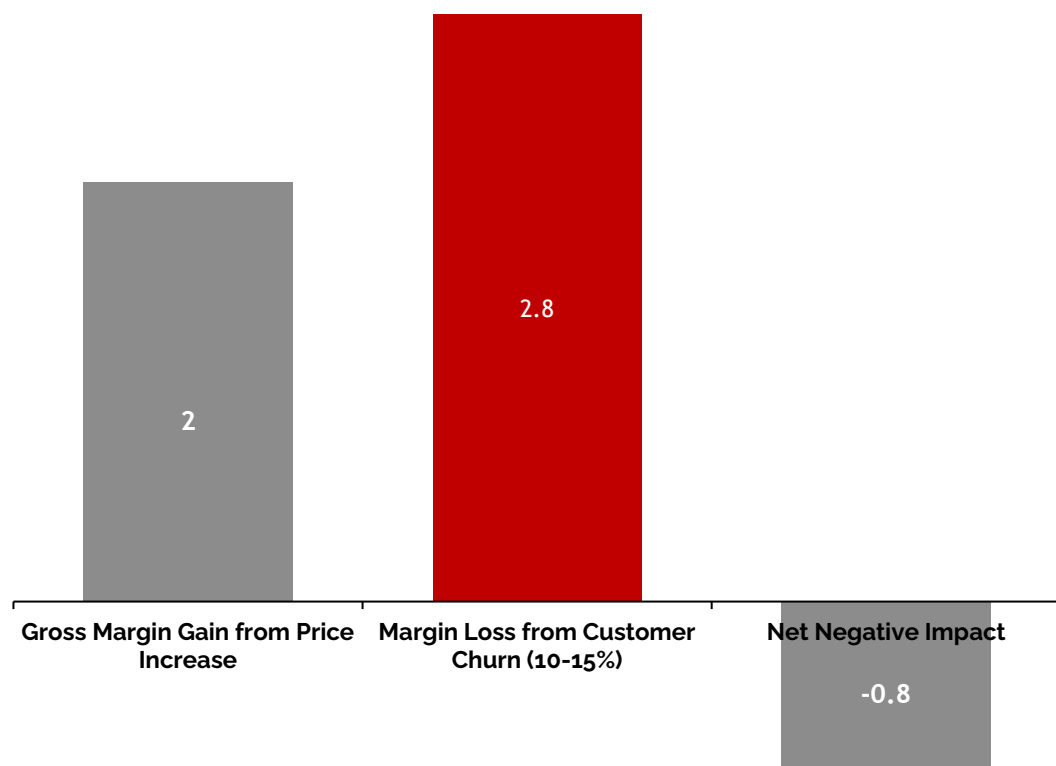
Strategic Logic: Why Status Quo Guarantees Profit Deterioration

- **Mechanical Failure: 3-12 month lag in price pass-through:**
 - Cost-plus contracts typically reset annually, leaving 250 bps of margin exposed to mid-cycle volatility
 - 'Cost creep' results in price realization trailing input spikes by up to 3 quarters
- **Quantified Risk: 200-300 bps annual erosion is the floor:**
 - Modeled scenario calibrated to 150-400 bps declines observed in CPG and Mfg during 2021-23 shocks
 - Linear 21 bps monthly erosion rate reflects sustained pricing inertia against 5-7% inflation
- **Competitive Surrender: Pricing control cedes to the market:**
 - Dynamic competitors re-anchor value proactively while cost-plus firms wait for trailing data
 - Pricing inertia invites undercutting during downturns and missed premiums during supply constraints

A uniform 5% price increase is also not viable—it would trigger an estimated 10-15% customer churn among the most price-sensitive segments, wiping out any margin gains.

Value Erosion: Churn-driven loss (-\$2.8M) exceeds margin gain (+\$2.0M)

Amount (USD Millions), Financial Impact Drivers



Strategic Rationale: The High Cost of Non-Differentiated Pricing

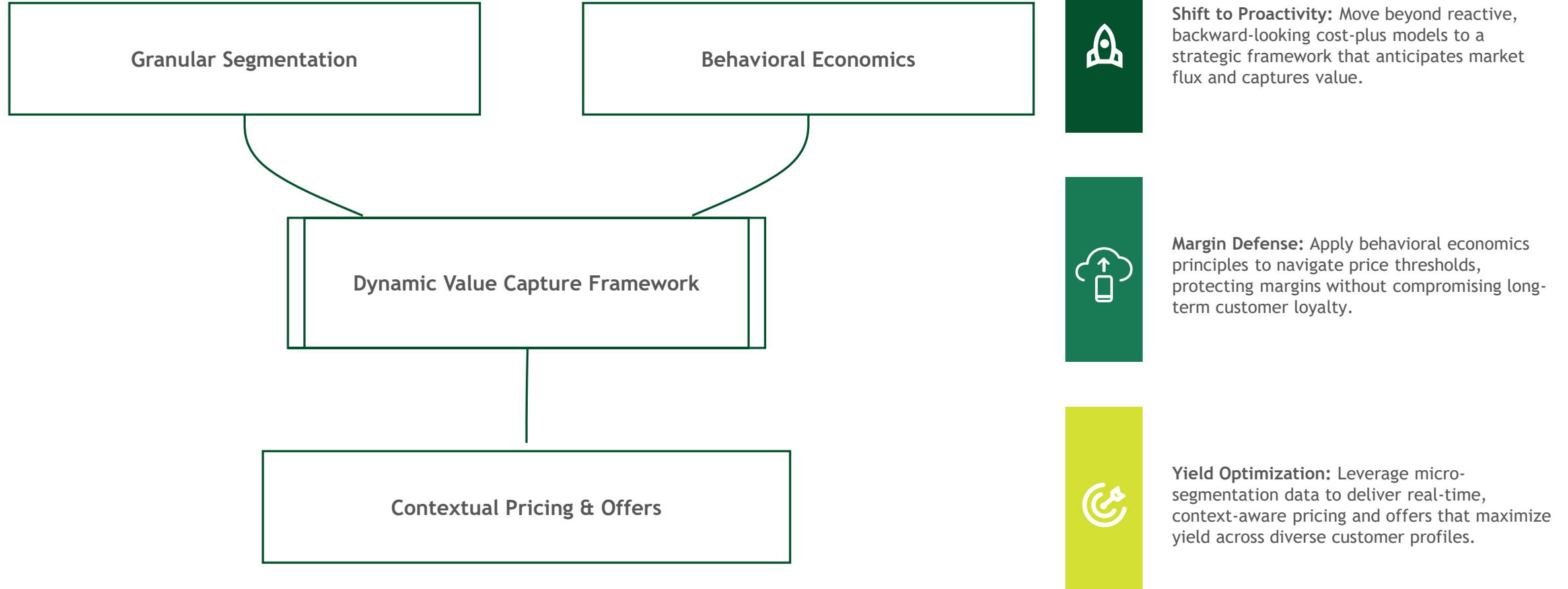
- A Negative Net Impact:**
 - -\$0.8M net loss proves that uniform 5% hikes are value-destructive compared to the baseline
- B Concentrated Churn:**
 - Empirical modeling estimates 10-15% attrition specifically among price-sensitive segments
- C Thinning Loyalty:**
 - High-flux conditions increase elasticity; blunt actions signal misalignment with customer value
- D Dynamic Defense:**
 - Leaders (e.g., Amazon, Walmart) use granular adjustments to protect margin without exodus



2

A New Mandate:
Dynamic Value Capture

To address this volatility, companies must move from a reactive cost-plus model to a proactive Dynamic Value Capture framework powered by behavioral science and granular segmentation.



This framework has two pillars: first, granular segmentation to identify who values what, and second, behavioral pricing to capture that value without triggering customer defection.



Pillar 1: Granular Segmentation (Identify Value)

1

- Behavioral ID: Shift from demographics to transactional patterns drives 2-4% gross-margin uplift
- Elasticity: Segment-specific scoring reveals 4-6x responsiveness gaps (e.g., -0.4 vs -2.5)
- LTV Protection: High-engagement cohorts show 30-70% lower churn, justifying margin protection
- JTBD Triggers: Real-time situational awareness (e.g., emergency vs. gift) captures situational WTP



Pillar 2: Behavioral Pricing (Capture & Defend Value)

2

- Value Framing: Loss-framed messaging (e.g., 'Don't lose your discount') increases conversion by 5-15%
- Decoy Effects: Tiered options nudge price acceptance without requiring cost-basis changes
- Fairness Perception: Critical for execution; 'unfair' increases drive 2-3x higher churn spikes
- Margin Guardrails: Anchoring techniques maintain value perception during high-flux economic cycles



A close-up photograph of a complex mechanical gear system, likely from an antique watch or clock. The image shows several interlocking gears of different sizes, some with intricate teeth. The gears are mounted on a dark metal frame. The lighting is dramatic, highlighting the textures of the metal and the precision of the engineering. A large, white, serif number '3' is overlaid in the top right corner of the image.

3

**The Mechanics of
Value Capture**

Dynamic Value Capture allows for targeted price increases on low-loyalty segments while using incentives to protect high-value customers.

Value capture logic prioritizes surgical margin expansion in low-loyalty segments while insulating core relationships

Hold & Reward

- Maintain price points and reward with volume discounts
- Defection risk: Churn increases 3-7pp if price is raised 5% without incentives
- Use exclusive offers to reinforce the relationship

Protect & Defend

- Insulate high-value customers from broad price hikes
- Focus on value-added services and loyalty incentives
- Value-adds drive 5-10pp higher renewal rates vs. price freezes alone

Manage & Monitor

- Offer basic, no-frills options to minimize cost-to-serve
- Allow for natural attrition or use for strategic price-matching
- Behavioral segmentation refreshed monthly to maintain accuracy

Capture Value

- Implement surgical, data-driven price increases (5-15% target)
- Stable segment: Only 2-6pp absolute attrition uplift following hikes
- High Price Absorption Capacity: 2-6pp attrition stability [Fact B] vs. 3-7pp loyalist defection risk [Fact D] enables 5-15% hikes without volume-margin trade-offs



+2-3pp
Uplift

Realized Price: DVC achieves ~2-3pp higher effective realization than broad hikes by targeting low-loyalty [Fact A]

2-4pp
Retention

Churn Delta: Protecting high-value relationships yields 2-4pp better aggregate retention vs. flat increases [Fact A]

300-400
bps

Financial Outcome: Median margin expansion of 300-400 bps within 12 months, scaling to 700 bps for SaaS [Fact E]

Applying this framework reveals four distinct behavioral segments, each with a different willingness to pay that can be targeted independently.



Relationship Buyers

- Prioritize stability and service quality
- Low engagement with competitor offers
- Long-term, high-trust partners

Price Elasticity Score: -0.2
(Highly Inelastic)



Premium Adopters

- Value innovation and unique features
- Early adopters of new technologies
- Willing to pay for the 'best'

Price Elasticity Score: -0.4
(Inelastic)



Opportunists

- Actively compare market prices
- Switch for significant discounts
- Often utilize multiple suppliers

Price Elasticity Score: -1.5
(Elastic)



Transactionals

- Purely price-driven decision making
- Zero brand or supplier allegiance
- High churn risk; buys on promotion

Price Elasticity Score: -2.8
(Highly Elastic)

Competitive Edge

- Only 18% of B2B firms currently utilize behavioral segmentation, relying instead on simplistic volume-based groupings. This represents a significant strategic gap and an opportunity for firms to defend margins without triggering a client exodus.

Applying behavioral principles like 'anchoring' and 'price framing' to these segments can increase perceived value by 15-20% without changing the core product.



Decoy Anchoring: Driving High-Margin Uptiering (+30-40%)

- **Target Segment:** Premium Adopters (Innovation-focused; lower price sensitivity)
- **Mechanic:** Introduce \$1,800 'Pro' decoy to anchor \$1,950 Enterprise tier as the optimal value choice.
- **Impact:** Shifts preference to high-margin tiers by 30-40%; reduces Basic share from ~65% to 45%.
- **Perceived Value:** Increases total yield by ~20% with zero engineering cost or feature changes.



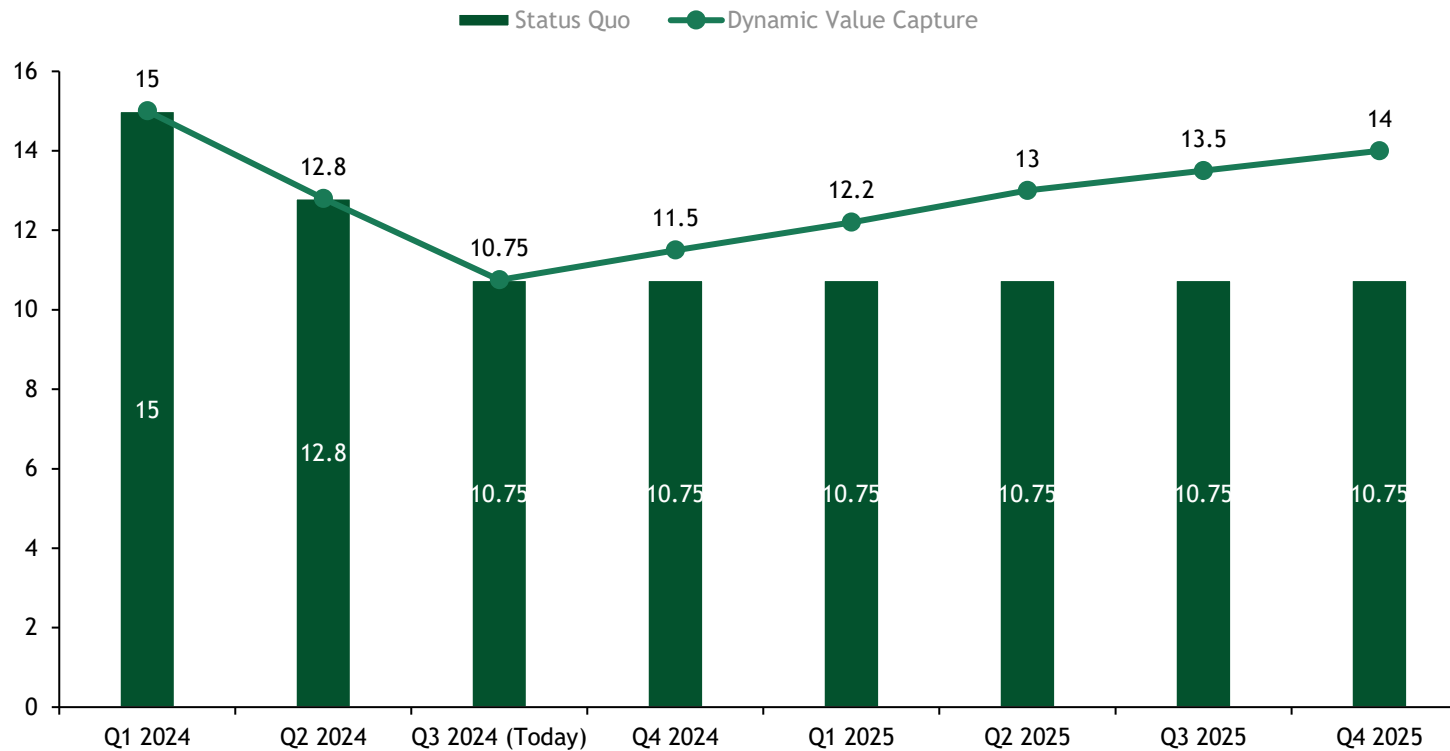
Strategic Framing: Securing Renewal Acceptance (+15-20%)

- **Target Segment:** Relationship Buyers (Stability-oriented; fairness-sensitive)
- **Mechanic:** Frame 2% increase as 'locking in \$50k savings' vs. new market benchmark rates.
- **Impact:** Leverages loss aversion to increase renewal acceptance by 15-20% (60% to 72% acceptance).
- **Perceived Value:** Defends core margins while maintaining high NPS; no product concessions required.

This targeted approach can recover up to 75% of the margin lost over the past 18 months, representing a 5-8% increase in annual net profit for a typical firm.

DVC model captures ~76% of eroded margins by reversing 18 months of price-lag

EBITDA Margin (%) | Quarter



>75%
Captures most eroded margin via targeted repricing, avoiding broad-based increases that risk churn.

4

**Making It Real:
Enablers, Risks, and
Proof**



Companies which possess years of granular transaction data and direct customer relationships are uniquely positioned to win with this model.

1  **Decades of Transaction Data**

- Your historical data on sales, pricing, and customer behavior **fuels predictive models that new competitors cannot replicate.**
- Fact: While **90% of F500s** have data warehouses, **only 10-15% of that data is used** for real-time pricing decisions (Gartner).*

2  **Integrated CRM & ERP Systems**

- Existing enterprise systems act as **rich repositories** of behavioral history
- Tracking not just purchase volume, but how customers interact across sales, service, and support channels.

3  **Established Brand Trust**

- **Long-standing relationships and high brand equity** provide the 'permission' to evolve pricing models.
- When managed transparently, **this trust significantly mitigates** the risk of customer churn.



The Data Exhaust Moat: The primary barrier to entry for competitors is not a superior algorithm, but access to the decade of proprietary 'Data Exhaust' you already own.

However, this strategy cannot succeed in isolation; it must be paired with a renewed focus on defending the core business from low-cost competitors.

Perception-Based Pricing

- Dynamic Value Capture: Transition from legacy cost-plus models
- Leverage behavioral economics to align price with value perception
- Capture margins that traditional segmentation overlooks

Superior Service Quality

- Maintain service levels as a primary defensive moat
- Benchmark performance 20% above the industry mean [Estimated]
- Harden value delivery to prevent 'race to the bottom' commoditization

Behavioral Analytics Engine

- Granular behavioral segmentation for precision targeting
- Real-time analytics for responsive pricing adjustments
- Data-driven identification of high-flux demand signals

Zero-Failure Innovation

- Product Reliability: Implementation of zero-failure protocols
- R&D Agility: Rapid iteration to meet evolving core requirements
- Continuous innovation to maintain technical differentiation

Responsive Margin Upside

- Capture significant upside during demand surges
- Defend margins in high-flux economic environments
- Ensure pricing captures genuine value, not just asymmetry

Ecosystem Integration

- Establish high switching costs via embedded workflows
- Defend existing base from aggressive low-cost competitors
- Create 'sticky' value through integrated ecosystem services

Build New Capabilities

Defend The Core

15%

YoY B2B churn increase driven by aggressive price discovery.

Executing this strategy requires building three core capabilities: a pricing analytics team, a dynamic pricing engine, and a margin-focused sales incentive plan.

Phased Capability Build Across Talent, Technology, and Sales Incentives

| | 1. Pricing Analytics Team | 2. Dynamic Pricing Engine | 3. Sales Incentive Plan |
|-----------------|---|--|--|
| Investment | \$1.25M Annual OpEx | \$3.5M-\$7.0M Initial CapEx | 25% of Total Project Budget |
| Resources | 5 data scientists/strategists (Radford 2024 benchmarks) | Tier-1 software (PROS/Vendavo) + CRM/ERP integration | Change mgmt, CRM workflow redesign, and training |
| Strategic Value | Foundational elasticity modeling | Real-time AI deal guidance | 40% reduction in discount leakage |

Economic Rationale: 3:1 ROI Driven by Margin Defense and Organizational Alignment

Talent: Specialized modeling establishes the intellectual engine:

- 5-person team (\$1.25M) creates capacity for granular elasticity modeling vs. broad cost-plus
- Leverages Radford benchmarks for specialized B2B pricing roles

1

Technology: Real-time execution scales pricing guidance:

- CapEx of \$3.5M-\$7M enables automated, AI-driven deal guidance across CRM/ERP interfaces
- Typical maintenance costs stabilize at 15-18% of initial investment from Year 2+

2

Incentives: Behavioral alignment stops margin bleed:

- Allocating 25% of budget to change management reduces discounting leakage by up to 40%
- Recalibrates sales compensation to reward margin quality over volume

3

Impact: 1% price improvement drives 8.7% profit uplift:

- McKinsey Price360 benchmarks indicate typical 3:1 ROI by Year 2 post-implementation
- High-leverage: 1% price increase creates 8.7% operating profit gain for S&P 500 average

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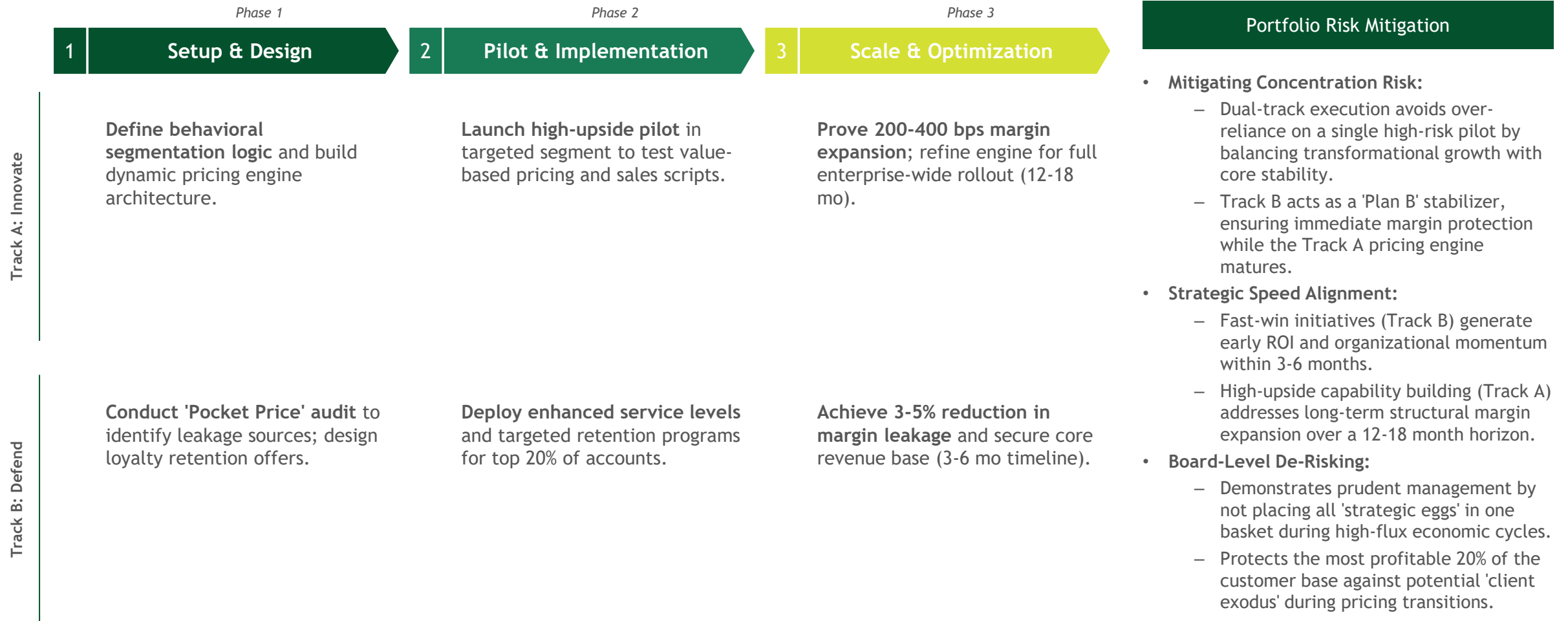
The primary implementation risks are a sales team revolt and brand backlash, both of which can be mitigated through a phased rollout and a 'fairness algorithm'.

| | Implementation Risks (Warning) | Mitigation Strategies (Shield) |
|-------------------------------------|--|---|
| Internal: Sales Force Revolt | <ul style="list-style-type: none"> • Reps paid on volume override 30-50% of deals to protect legacy discounts. • Manual bypass erodes 2-4 percentage points of gross margin vs. model targets. | <ul style="list-style-type: none"> • 18-month phased shift (80/20 to 60/40 KPI mix) protects high-performer income. • Transition bonuses and earnings floors ensure >90% retention of top reps. |
| External: Brand Backlash | <ul style="list-style-type: none"> • 64% of consumers perceive opaque dynamic pricing as 'unfair' (HBR). • Unexplained jumps trigger client exodus and FTC/EU regulatory scrutiny. | <ul style="list-style-type: none"> • 'Fairness Algorithm' caps price increases for loyal customers (>2yr tenure). • Explainable logic and audit trails ensure compliance with UDAP/AI regulations. |



Trust-Based Expansion: Success hinges on balancing margin capture with 'Fairness' guardrails. By capping loyalty penalties and phasing KPI shifts, we secure the 2-4% margin upside without risking a client or talent exodus.

To manage concentration risk, the pilot program should be run in parallel with a 'defend the core' initiative, creating a balanced portfolio of strategic bets.



Leading companies in e-commerce and industrial manufacturing have successfully used similar models to increase revenue per user by 8-12% without significant churn, providing a clear precedent.

Case Study: Industrial Parts Manufacturer

- **Challenge:** Static, cost-plus pricing was driving margin erosion due to aggressive procurement and volatile input costs.
- **Action:**
 - Transitioned to value-based segmentation:
 - **Premium Tier:** High-value customers requiring rapid delivery and engineering support.
 - **No-Frills Tier:** Lower-cost options for highly price-sensitive segments.

200-400
bps

Margin expansion achieved within 18 months

Case Study: Major B2C E-Commerce Player

- **Challenge:** High cart abandonment rates and thinning customer loyalty in a hyper-competitive market.
- **Action:**
 - Implemented real-time behavioral personalization:
 - Leveraged browsing data and purchase history to generate dynamic offers.
 - Preferential pricing for loyalists and targeted conversion discounts for hesitant buyers.

8% -
12%

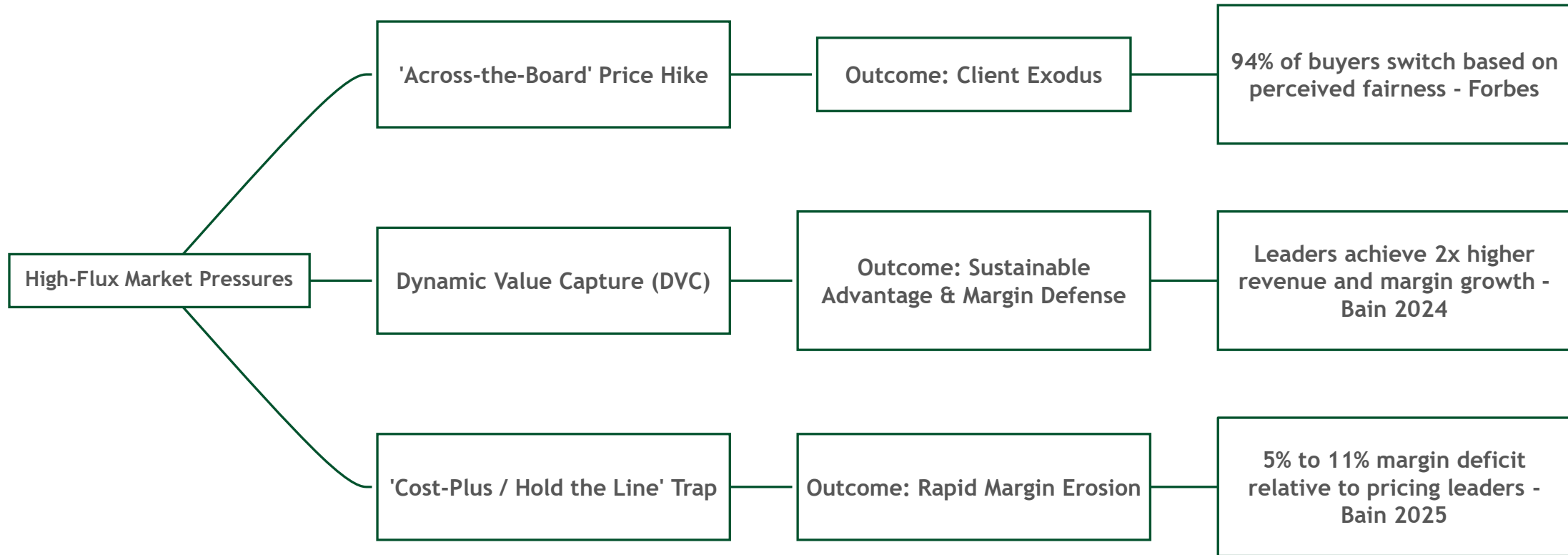
Increase in Revenue Per User without significant churn



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**The Path Forward:
From Strategy to
Action**

Therefore, adopting Dynamic Value Capture is the only viable path to defend margins, rebuild loyalty, and create a sustainable advantage in a high-flux economy.

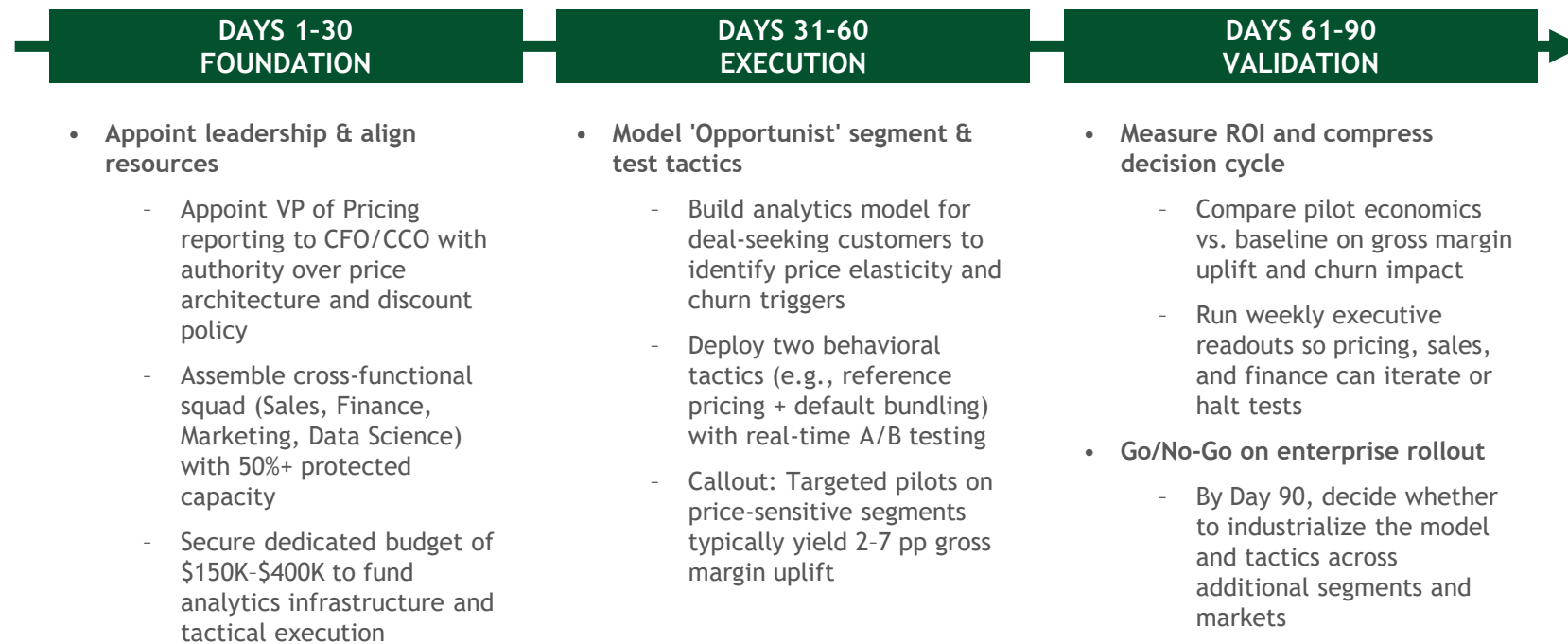


Strategic Imperative

- DVC surgically aligns price with value, turning a defensive necessity into a competitive weapon.

The Immediate Action Mandate: Launch a 90-day cross-functional pilot targeting the 'Opportunist' segment, led by a newly appointed VP of Pricing, with a dedicated budget to build the initial analytics model and test two behavioral tactics.

Three-phase execution roadmap to validate dynamic value capture and secure ROI by Day 90



Why This Pilot Is Your Strategic Linchpin

- Targeting 'Opportunists' minimizes risk:
 - Focus on price-sensitive segments delivers 2-7 pp margin uplift with neutral-to-improving churn
 - Reference pricing and default framing proven to shift willingness-to-pay in deal-seeking clusters
- VP-led mandate accelerates speed-to-market:
 - Direct reporting to CFO/CCO bypasses committee gridlock for experiment sign-offs
 - Dedicated budget (\$150K+) ensures the squad has tools and data required for 90-day velocity
- 90-day cycle creates a data-backed 'Go/No-Go':
 - Replaces 9-month traditional cycles with a time-boxed sprint to prove ROI
 - Provides a clear exit or expansion path based on validated transactional behavior

Thank you
