



Maximising Value Capture in Life Sciences: How to rebalance your customer relationships

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Customer relationships in the life sciences industry are notoriously painful to navigate. Whether you manufacture devices, reagents, biological material, machinery, software, or pharmaceuticals, the only thing more difficult than securing a large supply contract is agreeing on commercial terms that properly reflect your value.

Most suppliers are willing to give a lot of ground at the beginning of a relationship, because it's considered the price of admission, and large enterprises will often add clauses such as price increase caps, price locks, notice periods or volume discounts.

But this creates a win-lose dynamic which is extremely tough to break from in future negotiations, because those clauses don't just stick around – they often become even more stringent.

So, while you might have just increased your list prices, it's likely that the only change to your biggest contract is an increase in the discount you provide. The upshot is that your customer gets better terms each year, despite your cost-to-supply having increased significantly over the same period.

Needless to say, your margins can only shrink for so long before this has a knock-on effect on your ability to invest in your business. So, how can you recapture that lost value? And how can you hit your margin targets without risking volume?



OVERCOMING THE BARRIERS TO A WIN-WIN PRICING DYNAMIC

It can feel like there is more risk than reward in raising prices with your most important accounts, even if the changes are fair to both parties. Manufacturing costs have increased by up to 30% in some cases, but there's an understandable reluctance to pass on the full and fair amount.

No one wants to damage the relationship and lose volume in a process fraught with potentially difficult conversations. And it's not always easy to effectively convey the value of complex products to your customer, or the long chain of customers between them and the end-user.

To overcome these barriers, you need to tackle four fundamental drivers behind their existence.

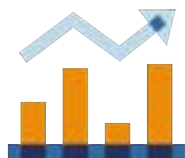


1.DEFEAT THE DESIRE TO PLEASE

It's entirely natural to want to keep your customers happy and to fear losing business if they're not. But we often find that many sales personnel operate on worst-case scenario assumptions, which leads to them overestimating their customer's price elasticity.

The key to overcoming this bias is a detailed and balanced assessment of the risk and reward of a price change – driven by facts rather than assumptions. Your customer's true elasticity can be uncovered through data-driven analysis of your win rate and similar experiences with other customers.

Combined with clear governance and visible buy-in from senior executives, you can give your sales teams the impetus they need to push through a more valuable price change.



2.PRIORITISE VALUE CAPTURE

The best commercial decisions require a significant investment of time and process from the people responsible for the supplier relationship. Without clear ownership and understanding of the need to maximise value capture, it's impossible to make fully informed decisions or overcome inherent biases.

To address this, you need to implement processes to regularly review your key commercial relationships and give your sales teams both time to prepare and a complete understanding of your value proposition.





3. BUILD CONFIDENCE IN NEGOTIATION

A quirk of life sciences is the fact that many of the people at the sharp end of the customer relationship have had little negotiation training. The complexity of the products involved often means it's the scientist or expert responsible for their development who is also managing key accounts.

This will inevitably lead to capability gaps for some individuals when it comes to negotiation skills and confidence, which is why it's important to ensure they get the correct mentorship and guidance on commercial decisions.

Map your sales teams' strengths and weaknesses, and upskill wherever necessary to ensure they can present the value you offer with clarity and purpose.



4. ADDRESS UNFAVOURABLE TERMS

Larger and more mature life sciences enterprises will often use their power and reputation to insert the clauses mentioned earlier to protect commercial interests at the expense of smaller suppliers.

Restructuring those terms is key to reducing value leakage, which means addressing the issues directly during the negotiation process.

The key to creating a more balanced proposal is being more assertive in pricing decisions. Ensure that any concession is reciprocated by you asking for something in return, and lean on the previous goodwill you have demonstrated in the past to keep cost rises to a minimum.



SECURE MORE VALUE FROM A SUSTAINABLE CUSTOMER RELATIONSHIP

By working collaboratively to help sales teams to recognise and rebalance their relationship with customers, we typically help clients to unlock between 7-10% in additional upside as a percentage of revenue. This all flows to EBITDA and recurs annually.

The result is a win-win pricing dynamic between you and your customer and a more sustainable relationship that benefits everyone in the long term.

But taking this approach also delivers more indirect benefits as well, improving sustainability and repeatability of customer relationships through regular training for relationship owners and negotiators.

And by building an in-depth approach from the ground up, it's easier to achieve a fully informed assessment that elevates value capture in the future as well.

Get In Touch

To learn how we can help you rebalance your customer relationship, please contact our Life Sciences lead, Emil Risom Foged, today.

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