

Pricing Diligence

Critical Insight For Buy- and Sell-Side Market Diligence



Market diligence is standard in private equity transactions, but pricing diligence remains an untapped lever for both value creation and risk reduction. Focusing on pricing prior to acquiring an asset provides both value creation and risk reduction benefits. Additionally, including pricing diligence as part of sell-side work provides clarity and confidence to potential buyers and informs value creation plans.

IGS has developed a pricing toolkit that works in tandem with traditional market diligence projects on both the buy- and sell-side. We provide a structured approach that fits within the standard diligence window and leverages existing data. **The IGS Pricing Diligence framework is designed to be rigorous and adaptable to each engagement, providing impactful insights before a transaction takes place.** This early diagnostic equips leaders with actionable insights to hit the ground running on pricing initiatives post-sale. Importantly, investing in pricing work has a high and quantifiable year one ROI.

The pricing toolkit evaluates the unique factors, including vertical, customers, maturity, and others, and dynamically generates the insights needed for each client and situation. As a result, diligence scopes are tailored to deliver the right mix of pricing insights related to the market or target.

The Evidence is in the Outcome

Significant pricing opportunities can be identified during the diligence phase and can feed directly into value creation planning. As just a few examples across industries, IGS identified pricing opportunities for the following clients:

- **An equipment leasing company:** The company had superior service levels relative to industry peers, and IGS identified target segments where they were underpriced relative to the competition based on deep competitive research.
- **A software company:** IGS uncovered profit leakage where underpriced packages delivered outsized value, limiting upsell opportunities and constraining realized pricing.
- **A financial services research firm:** IGS isolated material pricing and packaging opportunities relative to customer value and competitors' offerings. These and other improvements rolled into a pricing optimization workstream immediately after closing.

Despite the differences in industry, strategy, and customer types, IGS identified areas of actionable pricing improvement during the diligence phase that led to increased confidence in the pricing hypotheses.

Pricing as a Lens on Revenue Quality

When conducting buy-side diligence, private equity firms often analyze historical revenue growth, customer acquisition trends, and retention rates. These are critical, but without isolating pricing as a variable, firms miss a critical driver of top-line performance.

One part of pricing diligence is disaggregating revenue into its components – volume, mix, and price. Consider a company that has grown revenue at 8% annually over the past five years. That growth could be driven primarily by new customer acquisition, increased utilization, or greater adoption of a product line. But it could just as easily derive from **price increases** or **mix improvement**. Each implies a very different outlook and uncovers varied areas of opportunity.

If growth has relied heavily on continuous **price escalation** without increases in customer value, a question arises whether there is remaining headroom to continue that strategy. If pricing has been flat or is **discounted heavily**, or if **buyer value** or **competitive pricing insights** indicate higher price potential, then the company could have a meaningful opportunity for improvement after the transaction.

On sell-side diligence a structured pricing assessment can increase buyer confidence and support stronger valuation narratives. Pricing stands out as a quantifiable item on the list of improvements and value drivers that can be communicated to a buyer. A pricing report on potential, specific levers, magnitude of potential impact, and the underlying insights removes any black box perception around pricing potential and sustainability.

In these situations, pricing diligence provides clarity on the sustainability of past performance, how much additional opportunity exists, and what levers should be prioritized.

Identifying Value Leakage and Latent Potential

A recurrent finding in pricing diligence exercises is that many companies leave value on the table through inconsistent or poorly structured pricing practices. These issues can include:

- Limited or outdated segmentation that treats customers with different economic willingness to pay as if they were identical.
- Setting prices that are misaligned with customer value and the level of competitive differentiation, often underpriced in certain areas and overpriced in others.
- Discounting policies that vary by customer or by sales rep, eroding margin without a clear strategic rationale.
- Renewal or contract structures that fail to capture growing customer usage or the value of embedded switching costs.
- Misaligned price metrics that charge customers based on inputs (hours, SKUs, or seats) rather than outcomes or value delivered. Other examples include volume price breaks or price tiering improvements.

Each of these gaps represents both an immediate risk of margin leakage that depresses EBITDA and a potential upside lever for post-close optimization.

Pricing as Risk Assessment

In addition to identifying upside, pricing diligence can protect against overpaying for risky revenue. Some key examples include:

- Poor insight into the perceived value of an offering can lead to an inaccurate view of pricing potential.
- High customer concentration coupled with bespoke pricing structures can signal future renegotiation or churn risk.
- Inadequate pricing process can generate inconsistent pricing, produce missed upside pricing opportunities, and lengthen quote turnaround times.
- Lack of pricing governance can lead to poorly managed discounting practices, contract terms, and negotiated rates.
- A salesforce compensated primarily on volume rather than margin may undermine disciplined pricing execution post-close.

For private equity professionals surfacing these issues before submitting final bids provides a more accurate lens on a target's risk profile. It protects against underestimating challenges that could emerge in year one of ownership, and it enables deal teams to adjust valuations or negotiate terms accordingly.

Building a Practical Pricing Diligence Approach

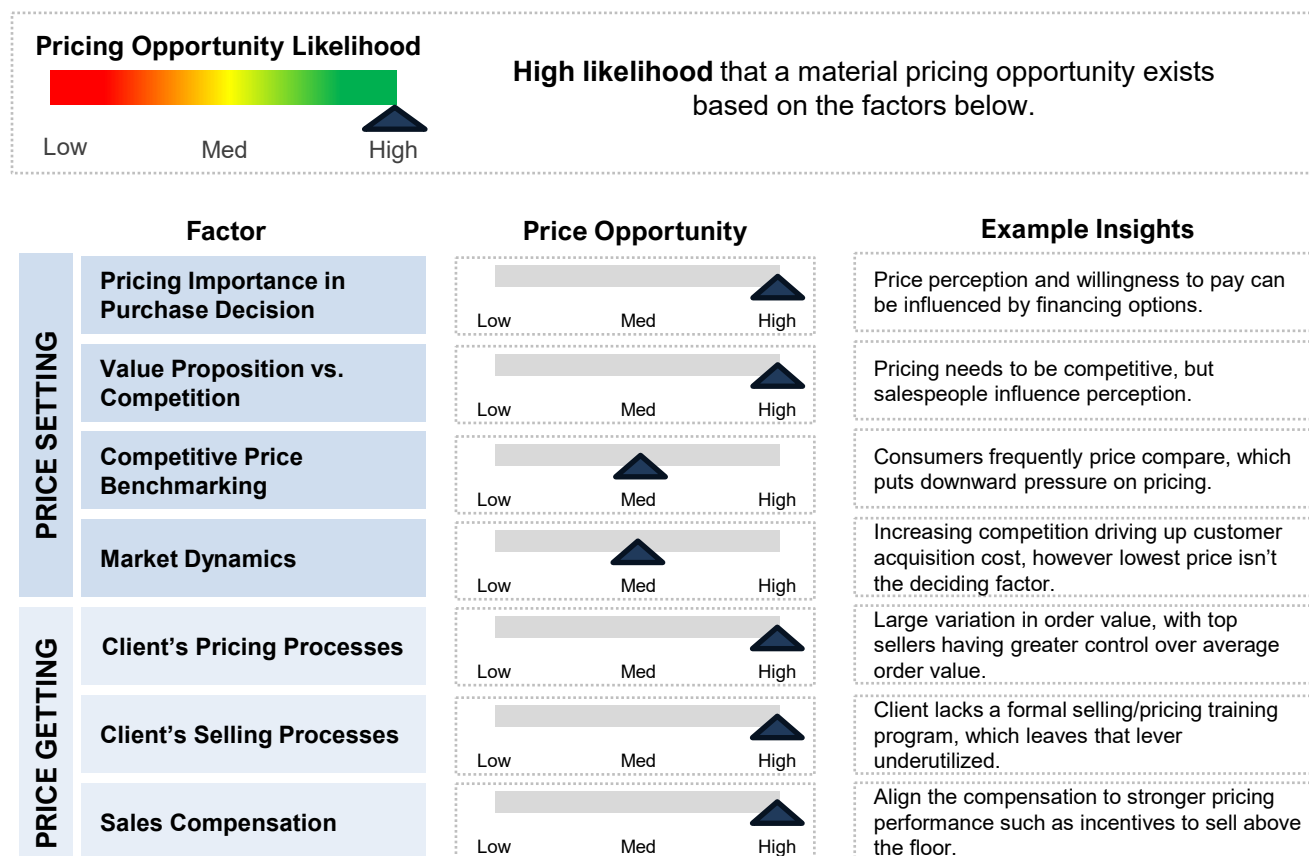
A structured approach to pricing diligence can typically be executed within the standard market diligence window and leverages data that in many cases is already available in the data room. IGS has developed a framework for performing pricing diligence that is rigorous and adaptable.

IGS Pricing Diligence Framework

1. **Decompose Revenue Growth** - Isolate price vs. volume vs. mix contributions
2. **Benchmark Market Positioning** - Assess customer value and competitive pricing
3. **Identify Value Leakage** - Pinpoint inconsistent or suboptimal pricing practices
4. **Quantify Impact & Risk** - Translate findings into EBITDA impact and post-close roadmap

Each of these components can be used to gain deep insights related to the asset and can be scoped precisely based on the needs of the situation, the company, hypotheses, and other factors. These pricing improvements can deliver meaningful EBITDA impact in the first year, with compounding effects over time.

Example: Pricing Opportunity Assessment



Connect with our Pricing Experts

Pricing diligence offers a direct and measurable lever on both sides of a transaction. A focused pricing diligence process sharpens revenue quality assessments, surfaces margin opportunities, and helps identify hidden risks. **As pricing becomes an increasingly important driver of portfolio returns, incorporating pricing diligence is no longer optional—it's a competitive advantage.**

Reach to our pricing team to learn how our approach to pricing diligence can help you.



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