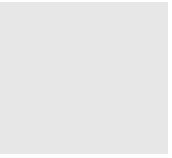




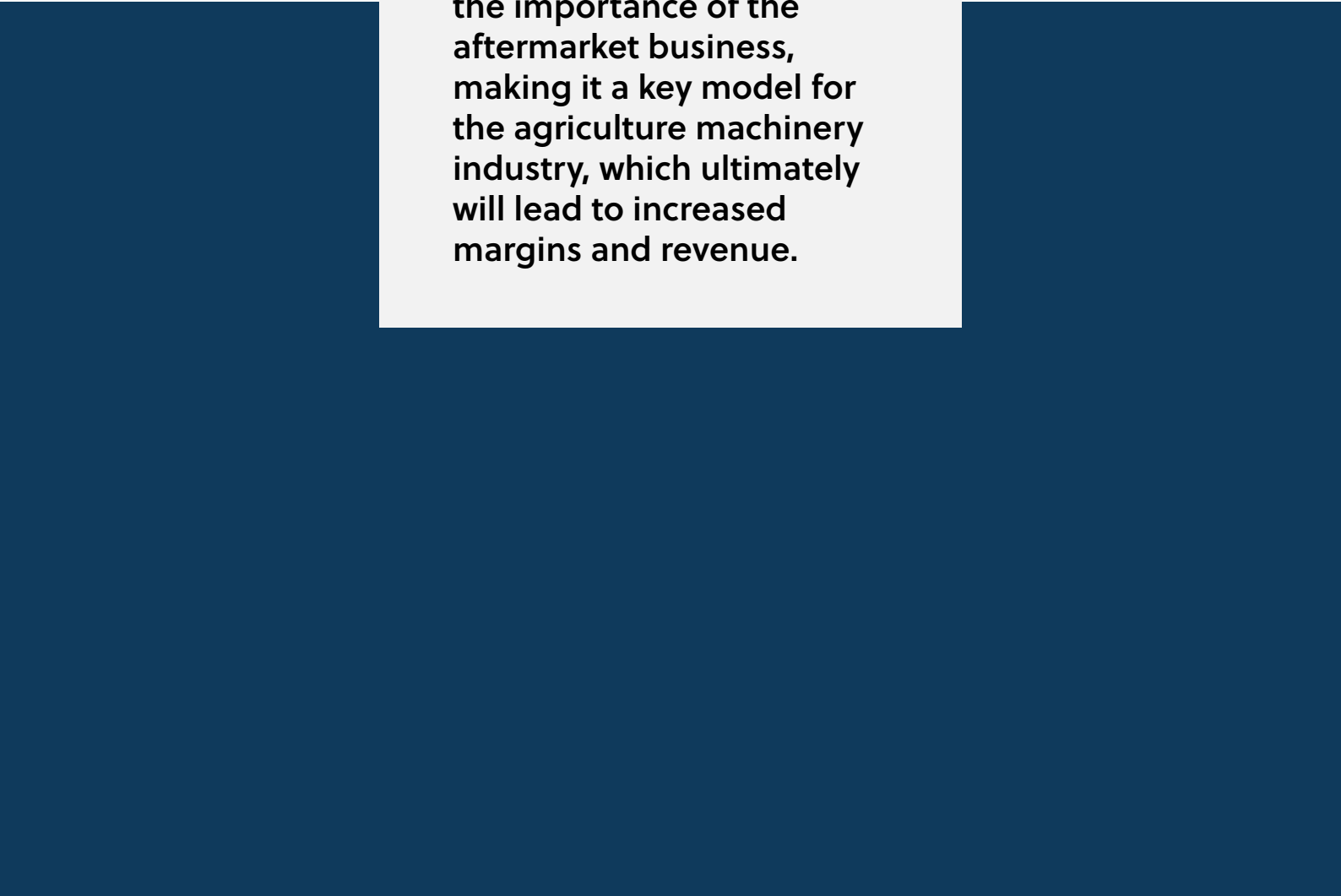
WHITEPAPER

Why Agriculture Machinery Manufacturers Need Market- Based Pricing





OEMs in the agriculture sector need to adopt market-based pricing. This approach offers more flexibility, competitiveness, and alignment with market realities. It also highlights the importance of the aftermarket business, making it a key model for the agriculture machinery industry, which ultimately will lead to increased margins and revenue.



CONTENT



01 Introduction

Agriculture machinery manufacturers are facing a consistent downturn in revenue, driven by a number of global challenges. High production costs, increasing global competition, fluctuating interest rates and changing market demands have severely impacted the agriculture industry, and the agriculture machinery manufacturers have not been immune to these challenges. Although a rising global population suggests a higher demand for food and, consequently, an increase in agriculture machinery sales, the reality has been quite different, with revenue consistently declining.

One of the most significant obstacles in the growth of the agriculture machinery market is the financial pressure faced by farmers. According to the US Department of Agriculture, net farm income has been on a consistent decline since 2022, with a massive \$35.6 billion (19.5%) decrease in 2023 and a further forecast decline of \$6.5 billion (4.4%) in 2024. In inflation-adjusted dollars, net farm income is forecast to decrease by \$10.2 billion (6.8%) in 2024. Additionally, production expenses are expected to increase by 4% and cash receipts from crop sales are expected to decline by \$21 billion owing to the decrease in prices for key crops like corn (down by 14%) and soybeans (down by 10%).

These factors are adding an immense pressure on the bottom lines of farmers and are negatively impacting the sales of new agricultural machinery. In fact, this decline has been so dramatic that Reuters has reported a five-year peak in the monthly inventory of unsold used tractors in the US. Furthermore, increased competition from low-cost machinery manufacturers in emerging markets, along with rising tariffs and trade barriers, continues to squeeze profits for even market leaders like John Deere. These trade challenges limit the ability of manufacturers to maintain competitive pricing while managing higher production costs.

Meanwhile, the demand for technical upgrades and rental equipment continues to rise. As machinery sales slow, more farmers are opting to extend the life of their current equipment through regular maintenance and part replacements. This brings the aftermarket and spare parts business right to the center. It not only holds the promise of offsetting the losses incurred from declining machinery sales but opens up new strategic opportunities for long-term growth.

Net Farm Income

According to the US Department of Agriculture

2023
\$35.6 billion (19.5%)



2024 Forecast
\$6.5 billion (4.4%)



02 The Case for Maximizing Spare Parts Revenue

In this market environment, the answer for manufacturers lies in ramping up their after-market and spare parts business. By focusing on the growth of the parts business, agriculture machinery manufacturers can unlock new revenue streams, offer affordable solutions to financially strained farmers, and build long-term customer relationships.

The spare parts business not only ensures greater customer loyalty by reducing downtime but also offers a sustainable revenue stream for high-margin products. In the face of consistently declining new machinery sales, the focus on the spare parts business is inevitable, and the companies making the pivot earlier can dominate market share. It also holds the promise of boosting brand retention amongst farmers which can lay down a strong foundation to capture new machinery demand when the economic climate regains upward momentum.

To maximize the potential of spare parts business, agriculture equipment manufacturers need to focus on improving their pricing strategies and adopting market-based pricing that can ensure margin optimization without losing sales or goodwill from customers.





3



03 What Is Market-Based Pricing?

Market-based pricing is a pricing strategy that relies on activating real-time market analytics to make informed pricing decisions.



Market-based pricing of parts is based on market data and insights. Deploying market-based pricing thus requires access to real-time market intelligence regarding a part's price, availability, and lead time, delivering competitive and intelligent insights that grow revenue and profit. The data driving a market-based parts pricing strategy can help agriculture machinery manufacturers establish a price in line, above or below prevailing prices to maximize profit or other strategic objectives.

Many OEMs in the agriculture industry lack visibility of their competitive pricing position, meaning they do not know their competitors' pricing, availability, or lead times for the parts they want to sell. However, to ensure a strong competitive footing, these manufacturers need to get the pricing right for every single part, which requires monitoring of market rates for thousands of SKUs. To further complicate matters, the frequency of price changes is steadily increasing. Competitors are trying to pass on rising raw material costs and account for inflation, all while attempting to maintain or expand their market share. Absent a detailed understanding of the marketplace, many agriculture machinery manufacturers continue to use cost-plus pricing, where the supplier's cost and the application of a standard markup dictate the price of a part, putting them at a disadvantage without a fully informed pricing decision.



COST-PLUS PRICING

Cost-plus pricing is the most common approach to parts pricing due to its simplicity and wide applicability. In an increasingly demanding and data-driven marketplace, it has several shortcomings, including wildly fluctuating prices, which can quickly alienate customers, especially if prices are not competitive. Due to their ability to buy parts in bulk and secure heavy volume discounts, when agriculture machinery manufacturers apply standard markup on parts they bought at heavily discounted prices, they unknowingly pass on the discounts to their customers. As a result, equipment manufacturers are often selling parts cheaper than their competitors without knowing it.

MARKET-BASED PRICING

A market-based pricing of parts delivers competitive and intelligent pricing to grow revenue and profit. It also allows agriculture machinery manufacturers to increase their customer share, become a trusted supplier for all parts, and increase win rates. Just as important, it fosters improvements in customer satisfaction as it delivers pricing and lead times in line with the market. Deploying market-based pricing requires access to real-time market intelligence regarding a part's pricing, availability, and lead time. And agriculture machinery manufacturers need this intelligence for their entire portfolio.

At every stage of the part lifecycle, from introduction to obsolescence, market-based pricing allows an agriculture machinery manufacturers to price parts according to what the market will bear. It also allows them to increase their customer share, become a trusted supplier for all parts and increase win rates. Just as important, it fosters improvements in customer satisfaction as it delivers pricing and lead times in line with the market.





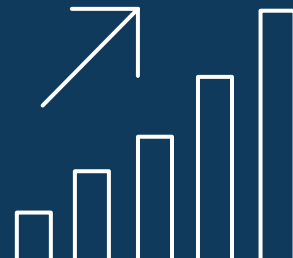
04 Why Implement a Market-Based Pricing Strategy?

Traditional pricing methods are outdated in today's digital environment and do not make use of valuable revenue potential.

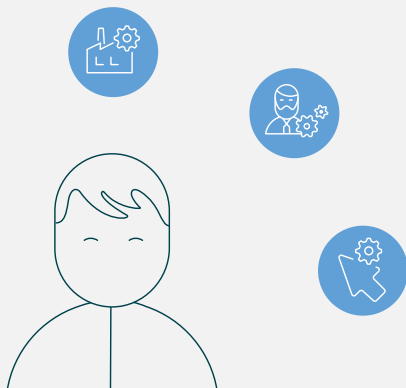
An OEM can use the intelligence gathered to deploy the market-based pricing strategy and confidently increase or decrease prices for existing parts previously subject to cost-plus pricing. Market-based pricing improves revenues by identifying parts priced below market, capitalizing on purchased part exclusivity and leveraging advantageous lead times.

"An analysis across 30 industries showed that average EBIT margin for aftermarket services was 25 percent, compared to 10 percent for new equipment."

Source: McKinsey - Industrial aftermarket services: Growing the core



BUSINESS BUYERS ARE MORE INFORMED THAN EVER



Nowadays, customers of machine manufacturers have many more options when it comes to purchasing parts: manufacturers, online vendors, distributors, online shops, and marketplaces. Many of these providers publish their prices and lead times online, putting real-time market intelligence in the hands of customers to make fully informed purchasing decisions. Manufacturers have to adapt and align their pricing strategy with these changes.

MARKET-BASED PRICES INCREASE CUSTOMER LOYALTY

Customers are no longer bound by geographical boundaries, so they are free to buy from any online marketplaces, platforms, etc., all around the world to compare prices, quality and lead times. It is important to show to your customers your value through consistently adjusting prices as needed to show your attentiveness to the market and your position in the market. When you are making these pricing adjustments, open communication with your customers is necessary. Customers appreciate transparency, and this will raise their willingness to pay for your parts over a competitor.

EMPOWER AFTERMARKET SALES

Market-based pricing also empowers the aftermarket sales team as it provides them with competitive pricing they can confidently share with new and existing customers. Instead of relying on cost-plus pricing, the sales team can rely on market-based prices, backed by data and robust analysis. An aligned, market-based pricing strategy can strengthen dealer relationships, bringing manufacturers closer to the end customer. This approach fosters a mutually beneficial partnership, enhancing transparency, service quality, and customer satisfaction.

CONTINUE TO PROVIDE CUSTOMER EXCELLENCE

For long tail parts—those developed years ago with low but steady demand—market-based pricing helps maintain a consistent revenue stream. It allows businesses to justify keeping inventory of SKUs with low turnover by aligning prices with market demand, ensuring these parts remain profitable. In addition to contributing to the bottom line, supplying older parts for longer will build customer loyalty. And when deciding whether to launch new products and equipment or enter new geographical markets, creating financial forecasts using market-based parts pricing can provide a sufficient profit over the long haul to justify expanding a product line.

LEVERAGE DATA TO INFORM OPERATIONS

While a market-based pricing strategy allows agriculture machinery manufacturers to charge a competitive price backed by data, it also allows for the development of alternative pricing strategies. For example, having established the competitive price for a part, a manufacturer may decide to charge below the market rate to earn more market share or above it if it deems the part superior to those offered by competitors. In either event, the manufacturer possesses the data to drive its pricing strategies.





Increase your sales and customer satisfaction at the same time



Use your monopoly position for spare parts without competition



Raise your sales prices to market price levels in a data-driven and confident way



Increase the success rates of your offers and win customers



With intelligent price reductions at market level, you position yourself as a fair-priced service partner

In many cases, market-based pricing can raise the profile of the aftermarket business, transforming it from an afterthought to a critical component of the agriculture machinery manufacturers business model. Market-based pricing for parts gives customers confidence and allows the manufacturers to increase margins for parts since their prices are competitive and fair in the minds of the customer.

05 What are the Requirements for a Market-Based Pricing Strategy?

Agriculture machinery manufacturers requires real-time market intelligence to adopt market-based parts pricing.

The data used to derive prices must be accurate, timely, and include as many competitors as possible. However, a manual approach for market-based pricing systems will not execute effectively across all distribution channels and required geographies.

ALL-ENCOMPASSING MARKET DATA OVERVIEW

The global marketplace is too large and dynamic for a team of analysts to maintain real-time, exhaustive pricing intelligence. Manual research with a focused approach on a few key parts can work, but it cannot scale or deliver full market coverage for several thousands of parts. The labor-intensive work can utilize too many resources to be profitable, leading to the prominence of cost-based pricing. Efforts to collate and analyze up-to-date market intelligence will inevitably struggle due to the market's complexity

DIGITAL DATA COLLECTION

Generic web crawlers allow an agriculture machinery manufacturer to automate and scale its approach to gathering pricing intelligence, yet due to technical limitations, they cannot limit their focus to specific industries, do not offer online and offline market coverage and only supply raw data that requires analysis and interpretation. Thus, making fact-checking for data accuracy essential, which is a very tedious and time-consuming process. However, utilizing an intelligent and automated software that delivers full insight and transparency on pricing, lead times and detailed data collections is a game-changer. With an automated solution, you not only reduce costs, but also manual errors.





With more than 1,000 manufacturers globally, selling millions of parts, manual approaches to market intelligence fall short.



INTELLIGENT MARKET SOLUTIONS

Dedicated solutions offering intelligent automation can provide a comprehensive and fully automated method for collecting market intelligence. Using such an approach, agriculture machinery manufacturers can focus on specific sectors and quickly gather online and offline market data to inform their pricing decisions. Global coverage and the continuous nature of the analysis mean that a manufacturer's pricing knowledge remains current, complete, and accurate. By limiting manual efforts, intelligent solutions free resources to

then dedicate to acting on the new market intelligence. It also provides a scalable approach. Embracing a data-driven approach to pricing decisions allows agriculture machinery manufacturers to adapt quickly to changes in the marketplace, maximizing internal resources and their return on investment.



06 How to Leverage a Market-Based Pricing Strategy

IDENTIFY MARKET OPPORTUNITIES

Integrating real-time market intelligence will provide the market price, including prices charged by specific competitors, and compare your lead time against competitors'. This exercise is to help an agriculture machinery manufacturer analyze its entire parts portfolio to ensure each SKU is priced competitively and in line with the company's strategic goals. This analysis will also generate pricing benchmarks from real-time market data and uncover price adjustment opportunities. It will ensure an equipment manufacturer has the information to price its entire parts portfolio at competitive rates, including identifying parts that are underpriced, overpriced, or exclusive.

DEVELOP ACTIONABLE MARKET INSIGHTS

From our experience helping OEMs in agriculture and other industries, integrating real-time market intelligence in parts pricing allows manufacturers uncover approximately 22% of parts that are underpriced, around 52% of parts that are exclusive and candidates for premium pricing, and over 22% that are overpriced. On average, just 4.1% of parts are priced at market. Competitive parts intelligence can also generate pricing data for new parts that the manufacturer has yet to sell on the open market, avoiding mispricing throughout the part's lifecycle.

KEEP PULSE OF MARKET DYNAMICS

As the competitive landscape changes, the pricing framework generated via this analysis allows agriculture machinery manufacturers to monitor and react to market changes quickly. Just as important, it provides a sustainable digital foundation to migrate the equipment manufacturer from manual SKU pricing to an automated approach that is cost-effective and far more responsive to changes in market conditions.

While some may view the shift to market-based pricing as a one-time event, monitoring competitors on an ongoing basis is critical to helping agriculture machinery manufacturers generate significant increases in revenue and profit. Due to market fluctuations and volatility, third-party vendors change their prices constantly. To react quickly, avoid leaving money on the table, and stay competitive, agriculture machinery manufacturers need up-to-date information, not just a one-time analysis.

DELIVER HIGHER LEVELS OF CUSTOMER SATISFACTION

While such analysis focuses on the financial benefits of competitive pricing, it also drives improvements in business reputation and customer satisfaction. A data-driven approach to pricing is simple to explain to customers. Moreover, customers can verify the accuracy and integrity of an agriculture machinery manufacturer's pricing by conducting independent research.





07 Conclusion

As agriculture machinery manufacturers tackle a variety of challenges in this uncertain and volatile market, the importance of a healthy and growing aftermarket and parts business cannot be ignored. Not only can it help offset the losses incurred by declining sales and other growth challenges, but it also allows agriculture machinery manufacturers to increase their customer share, become a trusted supplier for all parts, and increase win rates. This in turn helps foster better customer relationships and brand loyalty.

With the right market intelligence and a truly exhaustive market data, agriculture machinery manufacturers can stay informed of all competitors and resellers to price their parts competitively and without losing any sales volumes. Additionally, they can monitor distributors to flag any deviations from recommended mark-up prices and also keep an eye on knock-off parts.

These measures will help the aftermarket and parts business grow consistently, without jeopardizing the brand loyalty and customer relationships. In the current climate of uncertainty, a forward-looking and digitally sound parts strategy can serve as the lifeboat for agriculture machinery manufacturers and ensure long-term market dominance.



LET'S TALK AND LEVEL UP YOUR PARTS BUSINESS.



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LET'S TALK



More than 150 machine manufacturers already rely on MARKT-PILOT and actively benefit from our solution.

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12

