



FROM PRICE SETTING TO EXECUTION: HOW PLI REACHED THE NEXT LEVEL OF PRICING MATURITY

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THE PRICING CLUB



PLI is the global lubricants manufacturing and marketing arm of PETRONAS group, Malaysia's national oil corporation.

For more information, please visit www.pli-petronas.com



Top 10 Lubricants Player
972 mil litres sales, \$1.8B Revenue



PLI has over 30 marketing offices in 27 countries



PLI has a wide range of automotive, agricultural segments and industry applications.



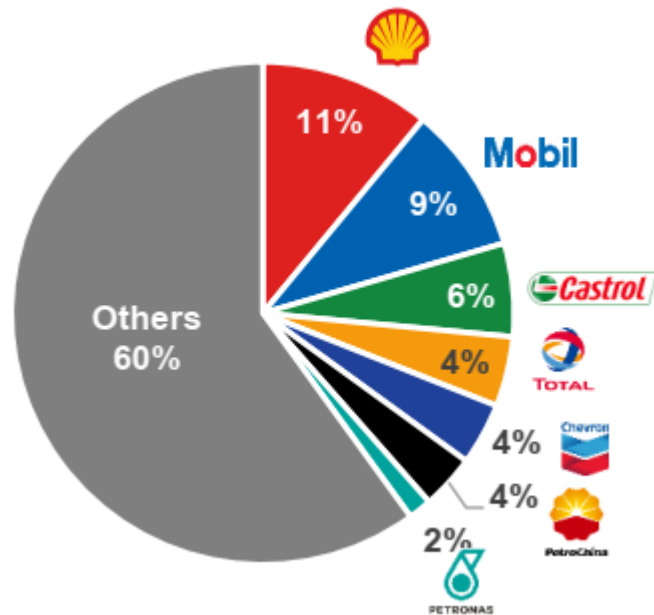
> 50
nationalities

53%
Below 40 y/o

A diverse, multilingual workforce around the globe

There is intense competition and pricing pressure from customers and suppliers out there.

Global Lubricants Market Share



Only five companies represent around 34% of the total lubricant market (~43 billion liters per year), making this market highly consolidated. **Petronas holds 2% of the total market.** However, it has a more substantial presence in its core markets (Malaysia, Italy, and Brazil).

Source: IHS Markit _ 2019

! Overall Petronas business challenges

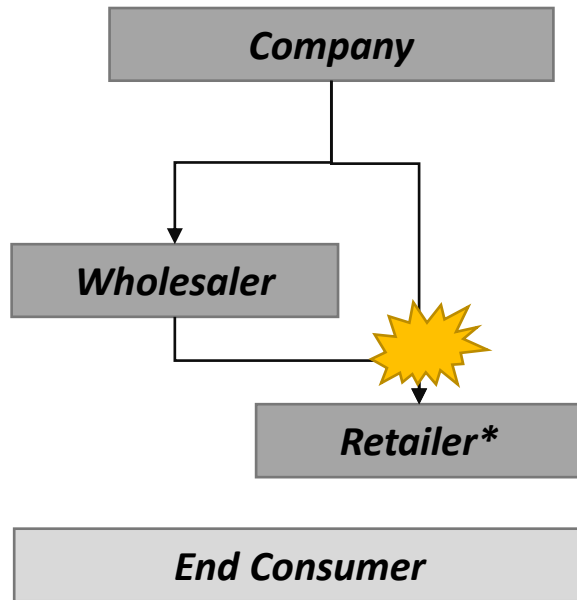
- **The Petronas** EBITDA margin was performing below its market peers.
- **The company has a sales culture of selling on volume** with no metrics associated with profitability.
- Lack of Brand Awareness and Price Strategy among powerbrands.
- **More than 4,400 SKUs** creating a “bad complexity” to manage value, pricing, and costing.
- **Price setting based very much on cost-plus** without market inputs, customer segmentation, and proper framework.

Source: Price Assessment made in 2017

Multiple Route to Market models for the various regions – affecting the local pricing approach and strategies.



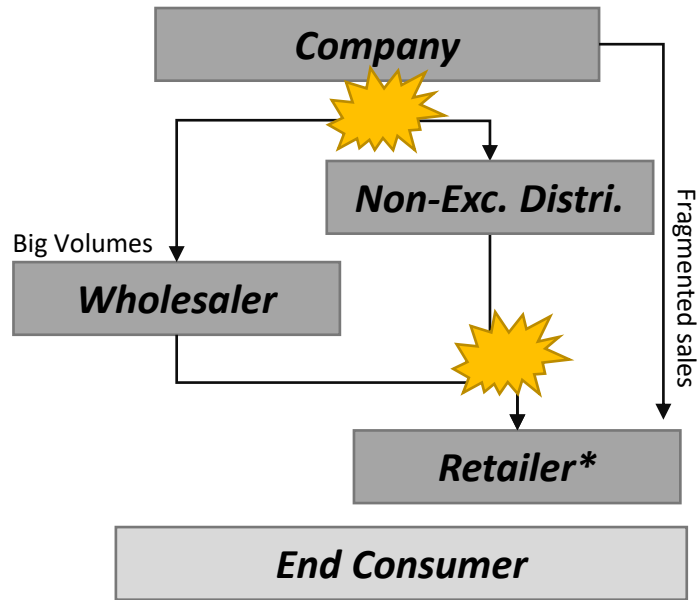
Automotive Market



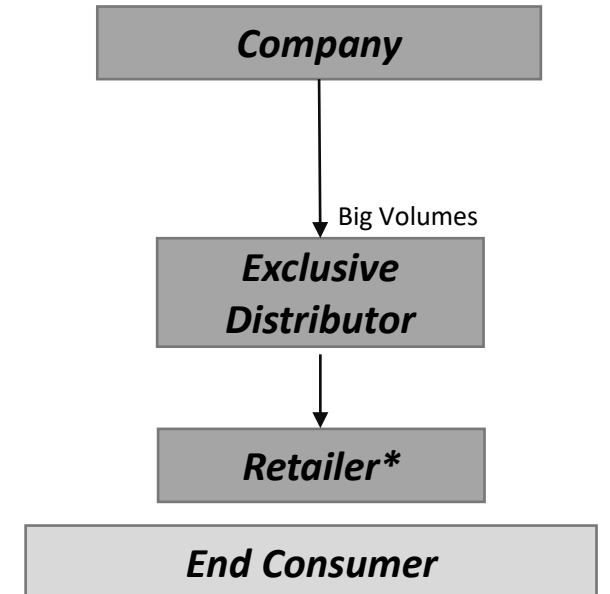
- Traditional RTM

Price Conflict

* Independent Workshops, Auto Parts Resellers, Franchise Workshops, Franchise Workshops, Oil Change Shops



- Distributor for main regions and products;
- Wholesalers cover out-of-coverage areas (more pricing conflicts)



- Large business entity chosen to cover 1-2 regions in the country.
- Typically, involve long-term strategic alliance – significant investments.

Most of the regions have shown a pattern in terms of Pricing Issues due to lack of governance and weak pricing execution.

WEAK GOVERNANCE

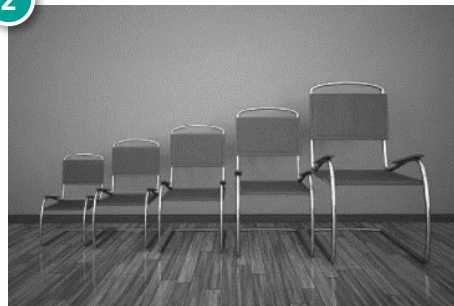
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- **No documented price strategy**, no standard price framework;
- **No dedicated price roles in key countries**; Lack of accountability on pricing decision;
- **Sales selling on cost**, requesting tsunami of price concessions.

INCONSISTENT SCALE PRICING

2



- High risk of Pricing Exposure;
- Comparable clients, purchasing **similar volumes**, have widely **distinct prices**;
- Number of discounts and bonus elements vary signif between markets; No standard commercial Policy;

CHANNEL CONFLICTS

3



- **Channels** conflicting directly, competing **even with PLI** for the same end-client (Retailer), leading to **margin erosion, price conflicts**, across the value chain;

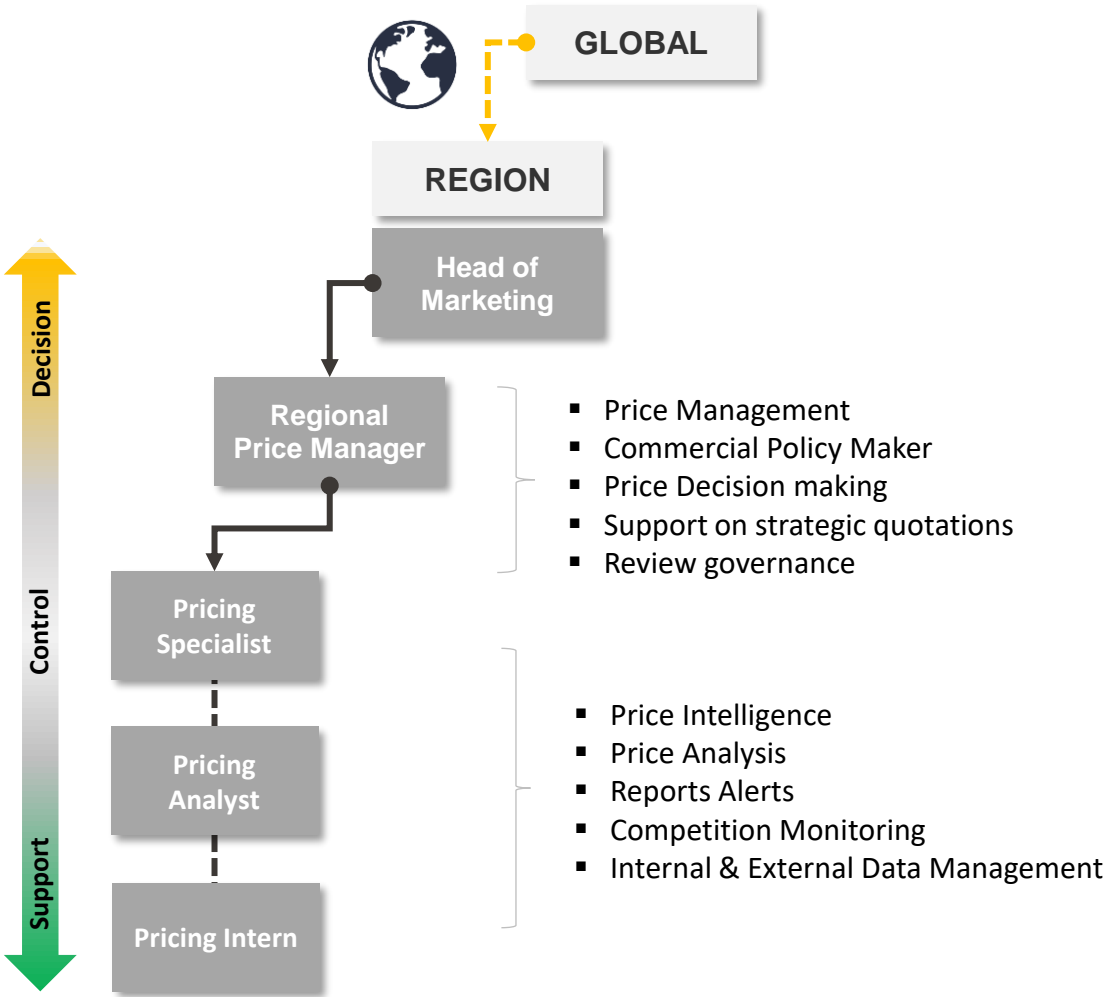
UNCLEAR PRICE POSIT

4



- **Unclear price positioning** against competitors; Competing against wrong competitors;
- **Not establish portfolio price hierarchy based on value and product benefits.**

On Pricing Governance, Petronas adopted a hybrid model, with global defining strategies with regional clusters executing and controlling.



Global to establish the general Brand Price Strategy, Price Framework, Standard Policies, while allowing the right degree of local entrepreneurship.

Petronas build a Community of Pricing Professionals

It is where we go to meet our peers, learn what other people are doing, and to get the ideas that will change the future



Marco Ferreira
GLOBAL
Global Strategic Pricing



Peik Lean Yap
GLOBAL
Head of Revenue Management

- Pricing managers important change agents to lead the organization towards a value and profit orientation culture.

Members



Sezai Turkmen
EMEA
Revenue Management



Bruno Reis
APAC
Revenue Management



Rodrigo Mohamed
AMERICAS
Revenue Management



Xiaohui Dou (Sherry)
CHINA
Revenue Management



Anshul Kapoor
INDIA
Revenue Management



Anshya Soobhar
ENGEN
Revenue Management



Muhamad Naquib
Group Base Oil
Business Development

Xueyan Zhang (Shirley)
CHINA
Head of Marketing

Adnaan Emeran
ENGEN
Head of Marketing

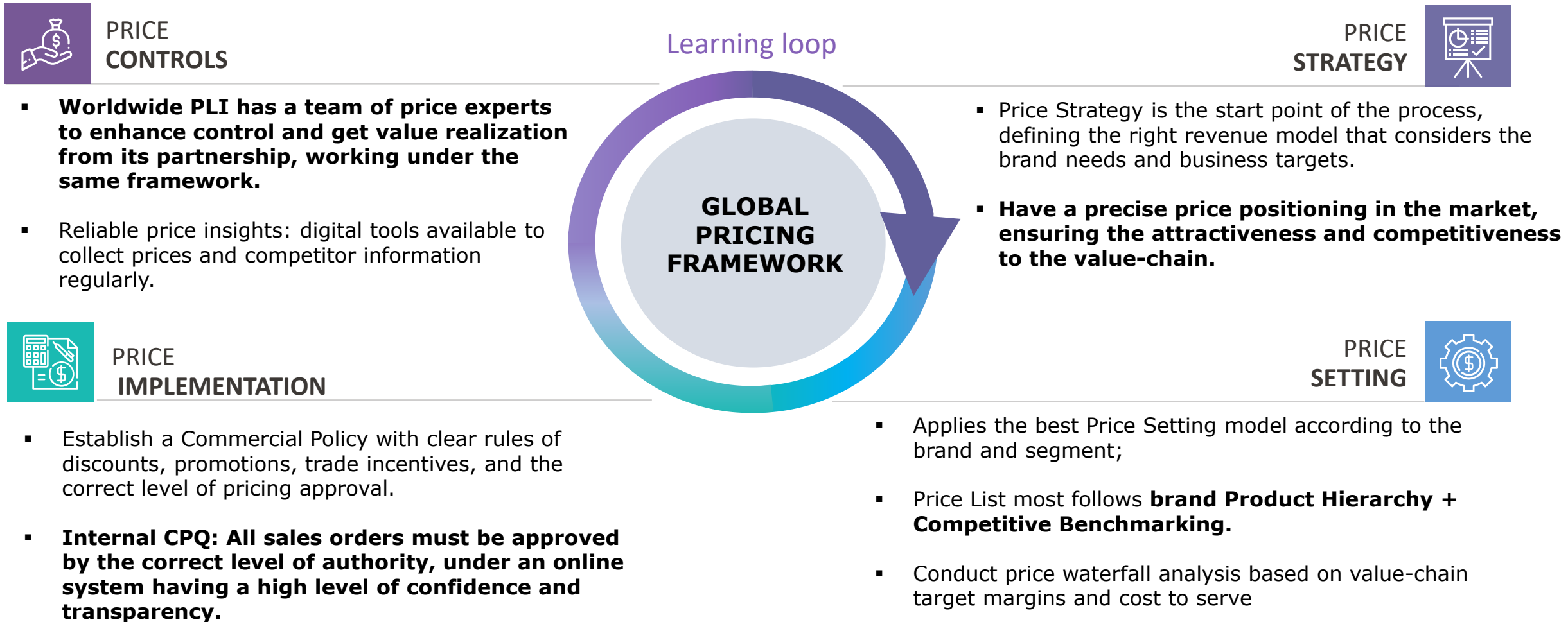
Discipline in execution and monitoring is crucial to success. Develop a platform to govern, monitor progress, and enable communication between the regions and global.

Top Down

Bottom-Up



The Petronas Pricing Framework is an internally developed framework, that can be used as a roadmap for developing pricing maturity.



The Pricing Framework deployment attends to different company sizes and market complexity.

GLOBAL PRICING FRAMEWORK

Criteria for level of Deployment



Based on the Corporate Strategy



Country Size: Revenue & Sales



Availability of pricing Enablers / Local capabilities

Light

Price Analyst & BI reporting to local Marketing Manager

Quartely Price Committee

List Price by Channel

Pricing Intelligence

Follow regional strategy based on Global Framework

Medium

Price Executive reporting to local Marketing Manager

Marketing Manager in charge for Pricing

Bimonthly Price Committee

Commercial Policy based on Regional CP

Pricing Intelligence

Define local strategy with input from regional pricing manager based on Global Framework

Complete

- Complete Price Structure Team
- Marketing Manager supports in Pricing
- Monthly Price Committee
- Commercial Policy by segment
- Strong Pricing Intelligence Capability
- Regular pricing training for sales and marketing teams
- Define local strategy based on Global Framework

Designing Global Strategies for Powerbrands, making clear desired targets, price positions, and value drives for better market planning and execution within regions.

TEMPLATE

GLOBAL PRICING STRATEGY POWERBRANS

Base Oil Fluids	Passenger Car Engine Oil	Two Wheeler Engine Oil	Commercial Vehicle Engine Oil	Automotive Functional Fluids
The Secret Inside	Inner Cool	Come Alive	Core Strength	Hidden Heroes

Outcomes:

- Enhance better product mix
- Consistency:
- Positioning:

PRICE STRATEGY



Value Chain & Profitability guide

	Control Cost / Control Sell out	Control Sell In / Recommended Sell out	Recommended Trade Sell Out Price
	PLI Price List	Distributor Wholesaler	Trade Price
PRESTIGE	45%-55%	35%-45%	60%-70%
PREMIUM	X	X	X
STANDARD	X	X	X
FIGHTING	X	X	X

Workshop Mechanics

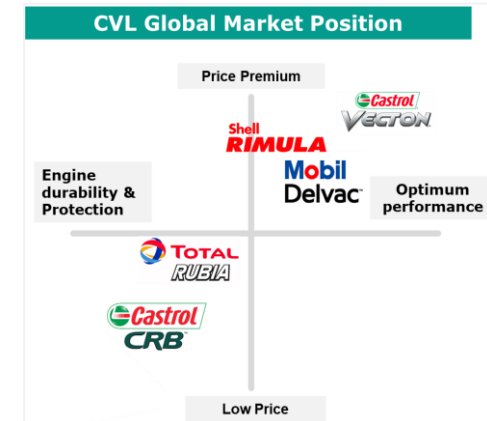
- Profits are
- Traffic
- Training

Consumer

Margin and quality products is crucial for us to push to and gain. Typically people don't care of brand or reputable (Shell, Petronas, Castrol).

Lubricant costs equals to 1% of total cost of vehicle, but excessive impact larger costs such as Fuel Consumption and Repairs and Maintenance (5%).

Making a comparatively small change could make a big difference to our customers' bottom line.



- Typical price upside of 3-5% based on results from previous exercises

We recommend four pricing setting methods for the regional team to deploy in their business units.

+ Cost-based

Production cost as the starting point of the price



- Commoditized Goods
- Low range industrial products
- No market reference



Competition-based

Prices based on select competitor reference (Anchoring Benchmark)

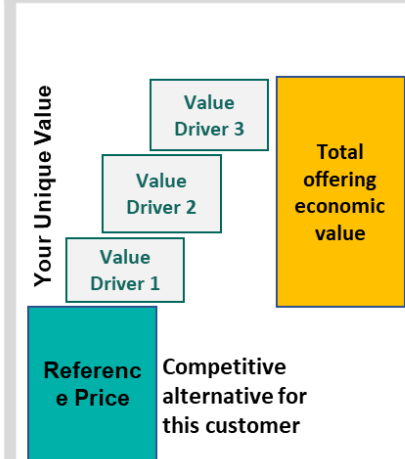


- B2C and Online Channels
- Customer make choice
- Market reference available



Value Based Price

Price based on Total Value created to the customer

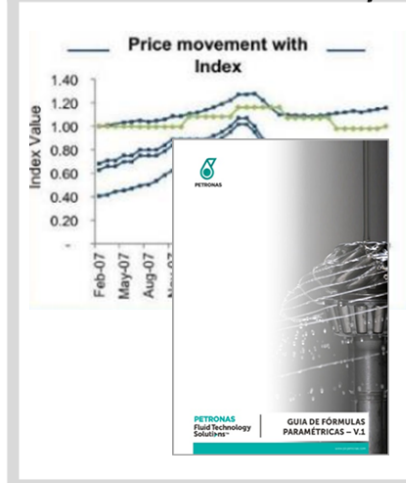


- B2B Sales, OEM's
- willingness-to pay
- Total Economic Value estimation



Formula-based prices

Formula-based prices can significantly help mitigate the risk of cost volatility



- OEM's and Industrial customers

PRICE SETTING



Implement Competition-based prices: In order to provide reliable and relevant price insights for Petronas sales force, digital tools were deployed to collect prices and competitor information on a regular base

Price Collection Tools and Price Intelligence System (PIS)



Mobile App (IOS)

- End Consumer Prices
- B2B Prices
- PLI Sales Personnel
- 1.500 / month



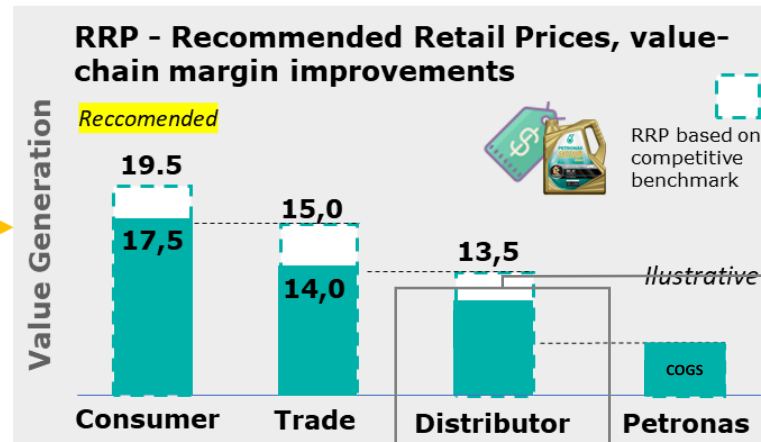
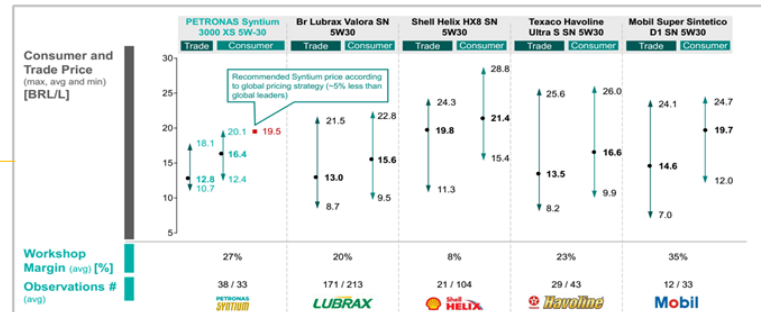
CRM Sales Force

- Distributor Prices
- Sales Force
- Distributor
- 400 / month

PRICE SETTING



Identify relative competitive market position and potential opportunities

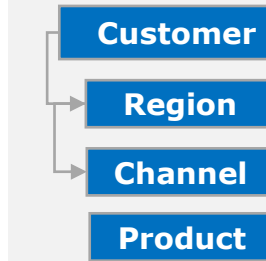


Reflecting the Market Prices on our internal Commercial Policy



Executing correctly: Price Policy

New Price Policy gives transparency, and guide for the right price to offer.



Approval request

PRICE IMPLEMENTATION



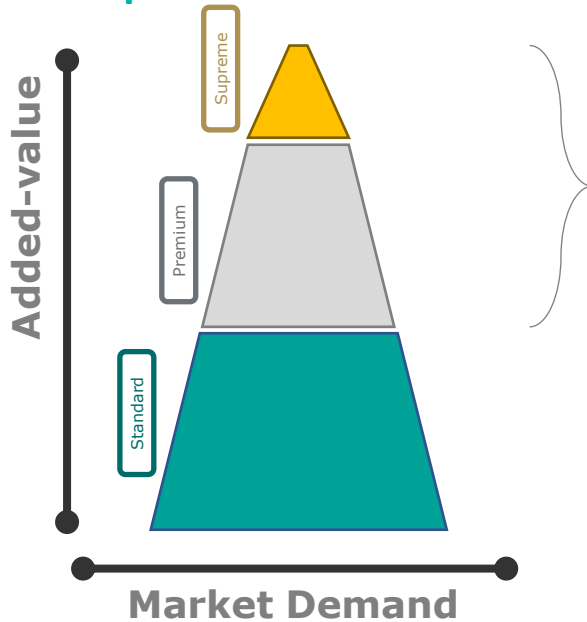
Value-based: Extract a fair share of the value that we deliver for the customer



Direct sales B2B

Organize the Portfolio according to Customer Segment value perceived

Step 1:



PRICE
SETTING



Evaluate the other value metrics that we offer and rated against competition

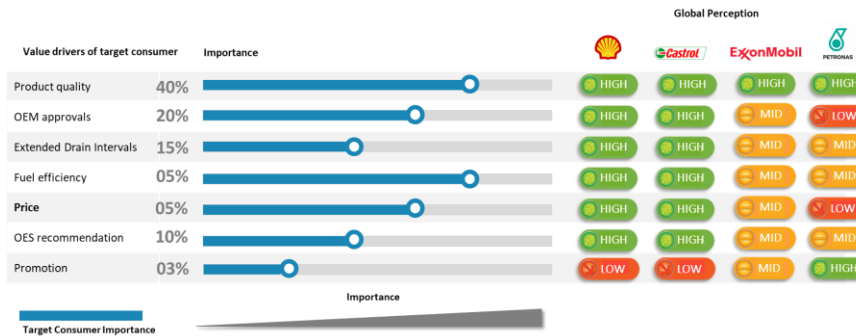
Step 2:

What do we offer?

Benefits &
Features

Why should the customer care?

Value metric

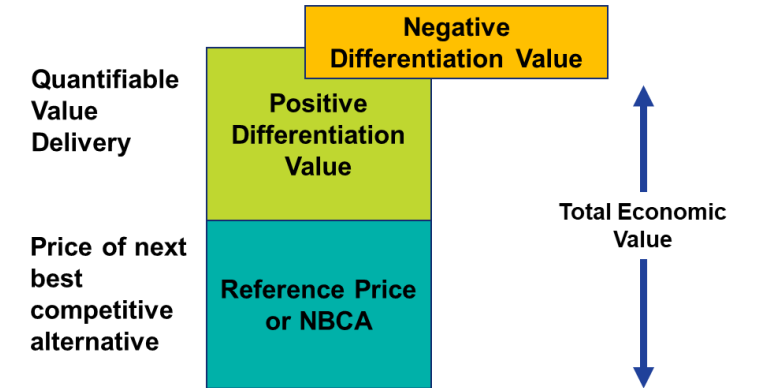


Listen to your customer, understand his problem!!

Calculate the EVE®, for the tangibles values identified

Step 3:

Economic Value Estimation (EVE)



- Natural evolution from Competition Price;
- Existing price levels of comparable products and services

Step 4

What is the worth?

Value Price



The Economic Value Estimation (EVE®) must be done by product according to customer segment target

Owner Operators



Reference or NBCA

Mineral, multi CH-4
Oil Drain Interval:
20,000 km
3
changes / yr*



Urania 3000 15W-40

Mineral, multi CI-4
Oil Drain Interval:
30,000 km
2
changes / yr*

Illustrative
TEMPLATE

Stronger Business

- Stronger Profits
- Reduced Operating Costs
- Sustainable Operations

Retail Price

\$ 45,00 **\$ 55,00** **+22,0%**

COST Year

\$ 135,00 yr **\$ 110,00 yr** **-18,5%**

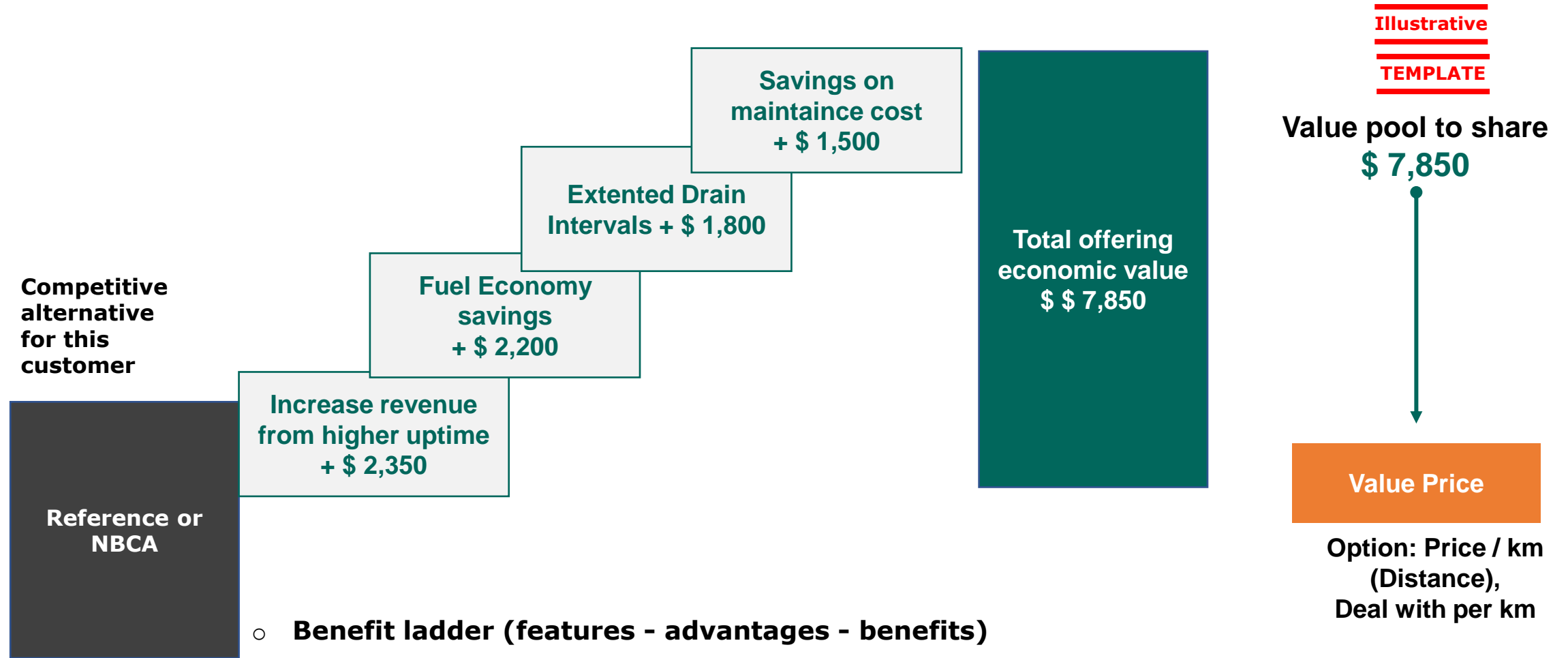
COST per Km

\$ 0,0023 km **\$ 0,0018 km** **-18,5%**



- Additional value:**
- Revenue from higher uptime;
 - Fuel Economy savings;
 - Extended Drain Intervals;
 - Savings on maintaince cost.

The Economic Value Estimation (EVE®) must be done by product according to customer segment target



EVE is a value modelling framework described in the classic book, *The Strategy and Tactics of Pricing* (by Thomas T. Nagle et al. 2013)

Pricing was proved as a profit lever: Petronas enjoyed a strong financial result in 2019. The EBITDA has grown +7,4% compared to last year.

Value Generation Global Financial impact 2018-2019

Corporate Level

EBITDA Margin

+7,4%

SPLY

+8,4%

FY vs Company Plan

Total Revenue

PLI Volume, Revenue and Profit remains healthy vs SPLY

+6,0%

SPLY

Powebrand Level

Sales Volume

+27%

SPLY

Total Revenue

+23%

SPLY

Gross Profit

+29%

SPLY

Strong premiumization with **Premium range grew from 29% to 38%** vol contribution of total Syntium portfolio in ASIA and EU.





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