EJ+ Live Content Session #2: Pricing Tactics in an Uncertain Economy
Adam Echter with Ryan Drew
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Live Event Transcript

Ryan Drew:
Good morning and welcome everyone to this Evergreen Journal Plus virtual event on pricing tactics in an uncertain economy. It's great to have you all here. Today we're joined by Adam Echter, a leader whose expertise sits squarely at the intersection of pricing, value creation, and long-term strategic thinking.

Our guest here is the partner and Global Head of Industrials at Simon-Kucher & Partners, which is widely recognized for its work in pricing, sales excellence, and business model innovation across industrial and B2B business sectors. Many of you may be familiar with Adam's insights from our Evergreen Journal article posted just a couple of weeks ago and taken from his talk at our gathering, Tugboat Institute® Summit, here earlier this summer.

In that talk, Adam highlighted how disciplined value-based pricing can support resilience, clarity, and long-term competitiveness. What's fun is today's session is a special Ask Me Anything event. So, think of this as your chance for a direct conversation with one of the world's leading experts on pricing strategy.

We strongly encourage you to submit your questions now or during the conversation as we go through the chat function here in Zoom. I'll be paying attention to that so you might see my eyes moving around looking at the chat to make sure I can catch everyone's questions and keep them coming as we talk.

I think I'm going to start just by hopefully getting some grounding questions out to Adam that come from his talk and from his book *Beating Inflation* that he wrote with Dr. Hermann Simon, who also came and visited us here at Tugboat Institute Summit. So, with that, Adam, I'd love to say welcome. Thank you for being here. Anything you want to kick off with or say before I start plastering you with questions?

Adam Echter:
No, Ryan, thank you for having me. Thank you to everybody who's dialed in from the Evergreen® team and the Tugboat Institute. It was really a pleasure meeting so many of you in Sun Valley this spring, and now the questions have continued to come one-on-one.

I'm excited to be here. I think Ryan framed it up as it could be fun slash terrifying, but I'm hoping you all dust off the hardest questions, fire them at us, and keep this an interactive conversation. I know Ryan will be filtering them as we go so, we can stay engaged and stay focused, but really, the opportunity to have an Ask Anything question with a bunch of leaders of businesses who are working in today's environment is really rewarding for me, so I appreciate the two-way exchange here.

Ryan Drew:
Love that. Well, thanks for being here. So let's just dive in. I'll start with maybe grounding the folks. We have a mix of Tugboat Institute members and executives, non-members of other Evergreen companies out there that are Evergreen Journal Plus subscribers. And so maybe we can just ground in the talk that you did here, and I'll just dive into one particular place, Adam, to start.

So you said in that talk that family businesses are prone to underpricing their products, and quite frankly, that's been an opportunity for private equity firms in their acquisitions and their strategy. So these PE firms will access information from the outside prior to the deal, and then as soon as the deal closes, raise prices with very little churn, which would then greatly increase the firm's profits.

And your argument in your talk was that Evergreen leaders should do this themselves. And so the question for you to start things off is: How does an Evergreen leader know if they have pricing that's too low? Are there any rules of thumb or tricks to determine this short of just hiring Simon-Kucher? What can you share with us on that front?

Adam Echter:
Yeah, I think it is a great point, and I do believe it's quite valid. I think you also have to put it into context of the arc of private equity. Really if you kind of go back to the 1970s—so I went to the Simon School of Business at the University of Rochester—and I think every school has a claim that one of their alums or their namesake invented private equity. And of course, it's no different at Simon where they look at the Gibson Greeting Card example in the seventies where he showed up with a bunch of debt, bought a business, and then used the proceeds from the business to service the debt and made a ton of money. There were a couple of young guys in New York City—Schwarzman, Kohlberg Kravis—who saw what he did and said, “I want to do that.”

And you moved into phases of private equity. So it went from: let's just bring debt to the table. Then you got into a world of financial engineering, then you got into a world of cost-out, and it was really around the Global Financial Crisis where we started to see a lot of the bigger firms realize those playbooks had been run and they needed to come up with something different.

And so, we started to see some of the largest firms in the world bring pricing in-house, start to think about it from pre-money, and that really matured in the 2010s. And so, you started to see people get very good at, during diligencing, asking questions around price at the highest level. And that's the sort of thing I think the Tugboat members could capitalize on today—that it doesn't have to be rocket science. You don't have to come in and do some kind of advanced cluster analytics or cross-sell/upsell analysis to figure out the opportunity.

The early playbooks had simple lines of questioning like: “When was the last time you raised prices?” And if the answer was five-plus years ago, you probably have a scenario where your value has increased and drifted higher and higher, but you just haven’t adjusted price. And so the price–value relationship is always keeping those things aligned. Where: if the value of your product goes up because you've added innovation, higher levels of service, higher quality in manufacturing, new feature functionality in software, then you have a right to track your price up along with that. And a lot of people get that disconnected.

So, you'll have some questions about that. You'll have questions around: Is somebody responsible for it or not? We'll often say if we go into a company and 20 people are doing pricing 5% of the time, no one's doing it. And so that's another thing people have learned.

If it's on the executives' radar and they have a pricing council, if they have a group, if they have a dedicated individual that they can point to and ask what's happening—that's a leading indicator that they've taken some of the first steps.

And then other things you would look for: If you win all your deals—and that's super counterintuitive usually to family-run businesses as well—that when you have the discipline to know that I need to have some loss, I need to have some churn in my existing customer book, because it indicates I'm pushing the limit. If I'm out there winning 100% of my deals and my customers are sticking at an abnormally high 98.5%, I probably am underpriced.

So those would be three things. If you're an executive of a company and you're asking yourself: When was the last time we did it? Does anyone own it? And are we winning too much—and is that an indicator that we are underpriced?

Ryan Drew:
You also talked about, when you shared with us—and maybe I hope a handful of our attendees today are familiar with the concept and/or watched your talk—but for those that didn't: You talked about the money illusion being the number one thing that kills companies. So maybe you can talk about what the money illusion is for those that don't know, but then also: What's a specific approach or practice that Evergreen companies or leaders should think about implementing to force their team to think in real dollars, to counteract that psychological comfort of rising nominal dollars? I know I alluded to it, but maybe talk a little bit more: What is it, and how might Evergreen companies think about that?

Adam Echter:
Yeah, so the money illusion is the effect that happens in all fiat currencies as they inflate up, and it creates a world where you have more dollars in your bank account, but their buying power has decreased.

And so, you feel better than ever: you have a larger record revenue year; at the individual level your paycheck's larger than it's ever been. But you turn around and you wonder: Why can't we buy new equipment? I can't afford to pay my team what I want to pay them in the market and I'm losing team members. Or: I've never had a bigger paycheck but felt poorer—I can't afford month to month or also have the savings. That's the money illusion come to life. And so that's a well-known phenomenon that happens during inflation.

Our take going into the decade was: We were going to see inflation accelerate and the 2020s were going to look entirely different from the 2010s. And I'm probably one of the few people that is now coming up on the midway point of the decade and excited that the results actually manifested—I mean, horrible for me as an individual, but great as someone who wrote a book betting that this would happen.

And so you can look backward in the 2010s. If you're an executive on this call, what it boils down to is: The entire decade of the 2010s, average inflation was about 1.8%. So it was below the 2% target. It was really slow. It's always there, but it was a really slow effect.

And most companies could grow their real buying power—or their real purchasing power—by holding prices flat and costing out 2%. So, if you could hold your revenue line and cost out, through operational supply chain improvements, things like that, about a 2% gain, you were at least holding real buying power and, in many cases, you were expanding.

When you flash forward into the 2020s and you start to see inflation numbers, some of the spikes as high as eight, seven… now you've got sort of sustained in the threes. The math at the midyear point is: If you actually look at the cumulative curve, you can see a kink right there at 2020, and this decade the cumulative effect of inflation is significantly higher.

It's about 3x what it was in the last decade. So as an executive you have to know that, and you have to understand that costing out might be off the table. Now, for some of you it's still going to work—but think about how hard it is to cost out 2%, 3%, 4%. If you're not matching—if that's not keeping up with inflation—then your real buying power is going down.

And so, our bet is that this decade, as an executive, you have to lean on both sides. So you have to be pushing price and watching costs simultaneously—which I know most people will say, yeah, we always thought about that. But if you actually go back in the 2010s, I think a lot of people took very simple 2% price increases, or low-price changes, and said: Let's focus on cost, cost, cost, and expand volumetrically. That was the story of the 2010s.

This decade: We've got to watch both of them simultaneously and we can't fall behind on the top line.

Ryan Drew:
Great. I think I want to go deeper, but I see we've already got a question that hit the chat, so I'm just going to jump straight to that one and maybe we can come back and maybe this'll be key into that as well.

Question from Jeff Patterson: I'm in a highly competitive market with too many companies in the space. My PE-backed competitors are dropping prices drastically to preserve revenue and steal new customers. In one recent case, a competitor undercut the market by 50% and committed to holding the customer price for five years despite inflation fears. Any advice on how to price in such an environment?

Adam Echter:
Great question, Jeff. And a tough environment. I think when we see that scenario, the question is: Is it signal or is it noise? And so, I think there is definitely an argument that there are record amounts of private equity money out there. There's a lot of people who bought and maybe regret their purchases, and they're stuck in a long-hold environment and they're just trying to maintain some of the metrics that will help them to exit appropriately, which does make a very competitive environment.

A couple of things that we looked at. One is: What's the average growth rate of the industry and then yourself versus others? So, if you have a world where the industry is expanding high enough and you can all float up, then that would be an indicator that maybe this is a mistake on their side—it was an erratic behavior. They have bad pricing controls, and you shouldn't be concerned that it's going to perpetuate. If you have a world where the market, the TAM of the market, is compressing and competitors are seeking to grow faster than that expansion rate, now you are in a land-grab environment. And that sort of gets into the question of: Who's going to win that race in the long haul?

It can be quite frustrating when you're dealing with outside investors who will maybe bring money to the table to pursue some of these things. They're not sustainable for the long haul. So as an Evergreen company—just: there are a lot of private equity firms that are no longer on their third or fourth fund because they blow up. That does happen. It doesn't take the sting out of their immediate behavior to you, but you do have the ability to take a look at a long play.

There are pricing defensive moves that you can do. So, I would take a look at someone who did a 50% price cut and locked it in for five years.

That might be something we would advise someone to do if their product is not innovating, if they're not adding value, and they are going to lose share. And so, if you take a look at some of the basics that we were talking about before—people will call us and say, “Adam, I want to raise price 20%.” We'll go out and do a study and find out they haven't changed the product in five or 10 years. They haven't added value. Their customer service has gone down. Their competitors have gotten better. They have no right to increase price.

And if that was a board-level conversation that I was having with a company like that and their PE backers were in there, they would pull me aside in the hall and say: “What do you do?” And we would say: Lock in a whole bunch of five-year contracts at a discount and sell this thing—because it's not going to end well. Or: Plow money into R&D and get your product value moving up again.

But because so many of them are in the late stage of their holds—they were planning to be in a company maybe three to five years; now they're in year seven, year eight—very few of the private equity investors want to plow into a big R&D investment that could take many years to pay out.

So that's one thing: framing up the question. I would encourage you to ask yourself: Are you in a market that's expanding enough that there's room for all? Or is the TAM shrinking and it's a land grab? If it is a land grab, do you want to have a product ready to respond to a competitor? So if you think this one competitor is going to do it again and again and again because they're trying to shore up a revenue line in advance of a sale, you could do that.

The other thing would be: Keep an eye on them because if they can't exit in a couple of years and the money dries up, they're an acquisition target for you.

Ryan Drew:
Awesome. Thank you, Jeff, for the question, and please don't hold back. Adam's prepared to answer any of these, so yep, send them in the chat. And I think I mentioned in the chat too, if you have anything that's specific about your business scale, your business, or anything that helps provide context to your question, please include that as well.

Maybe going back—I've got a few that are… all these things are going to start to be interwoven, Adam. And as I say that we just got another question, so I'll just ask that:

What do you do when costs have doubled during an inflationary and unpredictable economy when consumers are being careful? That's from Jean Thompson.

Adam Echter:
Consumers are fickle. So you are living through the first movers. And so when we look across our business—I run our industrial practice; we have consumer; we have services; we have software, internet, and media—we're all sector heads talking all the time about what's going on.

The consumers were the first to react and get hit with tariffs. A consumer-based business couldn't really get around that. So while industrial companies were trying to figure it out and do the math and find alternative supply chains in 2025, consumer businesses were acting and moving—and so were consumers.

And so I do think that you are moving into a world—in the talk and the presentation, the content that's out there through Tugboat—we talk about how tariffs are going to put a lot of volume in play. And it really is going to be a volumetric move, huge volume shifting between competitors along a supply chain. And then ultimately at the consumer level you're going to see trade-down and you're going to see exits of certain categories.

Good news is: Sort of cocoa and confection areas and coffee seem to be pretty sticky and they'll power through a lot of these ups and downs. People will give up other things before they give those up. But they will be very sensitive to it.

So, a couple things to think about there—and this is our bet: it's going to continue into ’26—that you're going to continue to see a K economy. That's the one where the rich get richer and the poor get poorer. That's going to perpetuate into 2026. Consumers are going to be really mindful and tight with their wallets, and so it's going to be a very tough consumer market next year.

A couple things to think about in that world: Making sure you have Less Expensive Alternatives—or LEAs is what we would refer to them as.

And so by that logic, what we mean is: If you have a super-premium cocoa and it's high price, high value, it comes from all the right places, it has all the certified trade sourcing history and all the things that the market was asking for in 2021 and 2022—we were in the height of COVID; everyone's locked down—and they would pay a premium for a green product that made them feel good and we had flush-with-cash.

We flash forward to today: If you still have that product, what you want to be careful about is: If you just start dropping price on that product, now you've sort of wandered into the world of a price war where you're just devaluing your own product.

What you'll see a lot of people do—great examples are the seven-ounce Coke and the smaller packaging—you start to create smaller versions or de-featured. So maybe you have a secondary product that you launch that doesn't have all the same certifications but a similar quality; or all the certifications but maybe it's a slightly different quality of product for a different market.

So you're able to try to fill up a product line that hits your high price/high value, medium price/medium value—which is probably where you'll want to go next. It's very hard for anybody to live in a world where they have a high price/high value and a very low price/low value. Most companies can't pull that off unless they put them in different buildings because of the service-level expectations.

But I think that's what, if you're running into that world, you'd want to be careful of in ’26. We're kind of advising: Make sure you've got your Less Expensive Alternatives ready to go; that you're looking into smaller and smaller sub-segments—because you might have a segment today that you've been able to treat universally. But going into ’26, you'll see it bifurcate, and a group of it will trade down and a group of it will stick. And you want to make sure that you can catch both of those versus underpricing to the half that would've paid more, or staying high and losing the volume of the half that needed you to move down.

So that's a little bit of—when I hear cocoa and think consumer—you are right. They are super sensitive. They were much more sensitive this year and they'll continue to be more sensitive next year. And just refining the level of segmentation seems to be the answer.

Ryan Drew:
That's awesome. Thanks for the question, Jean. And yeah, thank you for that, Adam.

Maybe we can talk a little bit about—in your presentation, you just alluded to a piece of this too—is that Simon-Kucher value map with its consistency corridor, the hubris zone, the attack zone. And maybe in simple terms for those that haven't seen it, can you talk about that concept a little bit, go a little bit deeper on that, and also what's the biggest risk for profitable and non-aggressive companies—which is typically what we see with most Evergreens—that are too slow to adjust prices in the current environment?

I think you've alluded to pieces of that, but can you ground folks in that value map and how you think about that?

Adam Echter:
Sure. So that's kind of one of the Simon-Kucher classics, if you will. We've been around for 40 years. You can find it all over our website and a lot of materials. And it gives that idea of, in a two-axis, I have one axis which is a perception of price and the other is a perception of value—and the idea of keeping them in balance.

So: high price/high value; low price/low value; medium price/medium value. Most balanced markets and products, whatever it is, you want to have competitors and players—or your own product portfolio—in that group.

The corners to watch out for: The obvious one is very high price/low value. And so that becomes the one where—going back to the question that Jeff asked—if your competitor was high-value 10 years ago, but the technology has shifted and they have not kept up, they would probably have that risk of being a high legacy price, but the value has gone away.

So now they've wound up in this world where they're losing market share; competitor entrants are gobbling up faster in a fixed TAM; and so the signal back to them would be: You've got to either add more value—which takes time; that was that R&D argument and service-level argument—or you just drop price.

And so that's that upper quadrant. You tend to see it where your win rates start to plummet; competitor entries are coming in. And if you have the honest conversation with yourself, it's when you look at your product and just realize it hasn't changed in a while; and you look at your service level and realize, yeah...

A very classic one for an engineering company is: “Well, we always return to RFP in two weeks.” The market felt that that was fine. With some of the technologies today, your competitors are turning RFPs in two minutes. And so I see that one a lot where a legacy business is like: “Well, our RFP for a custom drop ceiling”—this was a ceiling manufacturer, the commercial ceiling where you have to do the engineering of the grid and then the tiles—“we just always took two weeks to get back to people.” This was almost eight years ago now.

While they were thinking that this was industry-normal performance, their competitors had turned ways to do it on the website in five minutes. And they just sort of fell behind. So that's the hubris zone.

The other one is the attack zone. It sounds good, but it can be dangerous.

This is probably where I think a lot of Tugboat members will find themselves. And that's that world where you have a very high value and a low price—and that's why it's called the attack zone.

In that world, you should be gobbling up market share; you should be growing faster than others. The risk is that that's also where price wars come from.

So if you are the highest value—which often happens in a privately held business—you've got incredible quality, you'll pull things off the line if they don't meet your level of quality; you've got great customer service; you're super customer-friendly; you'll waive a bunch of fees and restocking and you'll do all this great stuff just because that's the culture of your firm. So, it's really, really valuable.

But you're underpriced. What will happen is a large corporate—they can't beat you on quality. So they'll use their buying power to drive down their costs, and they'll try to beat you on price. And then they bring down their price, and you see that happen. So, you bring down yours, and it perpetuates a downward price spiral. And so that's that attack zone—sounds great but can be very risky.

Ryan Drew:
Love it. Thank you for that. I know it's often difficult, but it's enough of a quadrant—like a grid—that you can visualize it without sharing something. So, appreciate the description.

Adam Echter:
I think the other thing is to realize: No market is 100% of any of them. When people are like: “We want to be the high-value/high-price person. We want to win everything.” Those don’t exist. There’s always a third of the market that just wants to buy the low price.

And then other people will say: “Hey, I'm the low-price person; I should be able to win everything.” No. We do studies every week and there's always a bigger group that usually comes back and they prioritize quality and speed. Writ large across thousands of studies, we normally see price coming in somewhere like number five or six on buying criteria. And it's almost always behind product quality, product availability, service, and customer experience.

Ryan Drew:
Makes sense. So, let's talk a little bit more about pricing and inflation. I know it's come up in portions, but a question I have—I think that we've heard from a lot of folks, you probably had this in the conversation when you were out here too—and it's a more generalized question, Adam:

What are some of the common mistakes that companies make when thinking about inflation just in general? Do company leaders often raise their prices by increases in CPI thinking they're just fine, missing that the increase in their actual COGS may be higher depending on specific inputs? What do the smart businesses do in this regard?

Adam Echter:
Yeah. I think the biggest miss on inflation is that people look at their own costs, and they don't think about the value of their product to the next person in line.

What do I mean by that? Well, the example I often use—and I think I did in Sun Valley—was: Imagine you make a robot. And this was a client who makes human-assist robots, and they were selling them for, call it $10,000. And I give the example of Mexico because Mexico was kind enough two years ago to mandate a 30% wage increase to everybody.

So, you're selling a robot for 10 grand. It was worth 10 grand; some planted labor and the economic value is there. And so, the person bought it. Inflation happens. People call us up and they say: "Hey, I looked at my plastic, my metal, my inputs, and for all these reasons I think I need to raise my price about six or seven percent because that was the effect to me personally—my costs."

And I was able to talk to them and say: "Well, that's great, but the labor in Mexico went up 30%. So, if your robot made sense at $10,000 by replacing labor, today your robot is probably worth $13,000. So, we should be talking about a 30% price increase—and maybe plan to open at 30 and concede down to 15, and kind of get focused on the other side, the next person in line—not just what's happened to you."

And so, as inflation happens, because it's universal, it's debasing the currency, all the other effects of your product are also changing in value. So, taking the time to do that calculus is usually an oversight.

Ryan Drew:
Yeah, makes sense. And that is the example you used when you were out here.

Adam Echter:
The robot one tends to stick.

Ryan Drew:
Yeah, it's good.

Adam Echter:
Easy. And it makes everything—security: if you're in a security firm; if you're in fire sprinkler suppression—the cost to build the next house, that's up. If the house comes down; if the factory is sitting still because of a software outage: that's more expensive. People are getting paid more. And so the value of every product is getting reset constantly as inflation is eroding the dollar.

And so staying ahead of your calculators, staying ahead of your EVA calculators, and doing that math of what is my product worth during inflation—I see a lot of people focused on what's happening to my own costs instead of asking themselves: I'm an input to someone else's solving someone else's problem, and what's the value of that problem now?

Ryan Drew:
Right. No, that completely makes sense.

So, let's talk about pricing tactics. I've had a couple individual questions to me—another one that Gretchen posted—and I'll try to summarize them because I think they're all centered on the same thing.

And I had a question about it as well. So, you mentioned the concept around lots of little price increases are going to give you better outcomes than one just punch in the face—maybe I'm taking words out of your mouth. But how should an Evergreen company use this principle? One of our seven Ps is Profit. How should an Evergreen company use that principle to normalize and formalize these multiple smaller price steps?

I think you're more in favor of smaller, more frequent pricing versus annual—or I don't know if that's true—but can you talk a little bit about that with that concept of lots of little ones vs. the better outcome vs. one big punch in the face, and how Evergreens should think about this?

Adam Echter:
And I think Gretchen—great question. I've been able to read it, and so I'll try to hit that one as well.

Yes, in general—and this is more of a human thing than an economics thing—we like, and we will accept, lots of small increases better than a large increase.

What winds up happening mechanically is—and many of you have done this—you send a letter that says: "We're raising prices five, six percent." The other side says: "I don't want to pay that." And you have some back-and-forth. And then somewhere in their brain they say: Is it a reasonable ask? Is it worth my time? Should I go worry about the next person who's also asking me for a price increase? And they'll recalibrate to how much energy they want to put into your debate.

And so that's also where some of the obvious tips and tricks—if you are selling screws, and the screws are a couple of pennies, and they go into a multimillion-dollar machine, the procurement agent is not going to spend a ton of time. That's how you get those examples you see in the news of the $20 screw or the $100 screw—because people just weren't looking at that part on the BOM.

Back to the core question: You engage in this conversation of here's what's going to happen. When you go in and say: "We have to do it 30%" red flags go up. They see the whole item; they see the delta; they start seeing: Now it's worth my time to go shop this. I'm going to find an alternative because this is too much.

And if you've done your homework, you might know there is no alternative. So, they're going to go out shopping, and they're going to come back to you anyway because you're massively underpriced.

And when we do that with—there are definitely scenarios where we find massive misalignments, and we have to help the seller understand: If you really believe that you are underpriced by that much, and there is nobody else out there, then they will go out and they will do their diligence and they will come back to you anyway—because there's no better price–value relationship.

But in the long run, it rubs people the wrong way. They then think your next one's going to also be massive. So they'll want assurances that if they accept a big price increase now, you're not going to do it again in a year or two.

And then you might win the battle but lose the war, in the sense they accept it right now because maybe you didn't give them time to react. You're going to be shopping your business, and they'll try to get a second competitor in there just to make sure they don't get in that position again the next time the contract comes up.

So those are the practical reasons why lots of little increases usually manifest in a better outcome than one big one.

Ryan Drew:
Did you want to go any deeper on—I know you said you read Gretchen's question. Is there anything else that called out to you in that one? And I can read it; it's long.

Adam Echter:
Oh no, that one's good.

So yeah, so Gretchen: You got the "one of little ones vs." etc.—signals to stop. Yeah: If you start losing business; if your win rates go down; everything like that.

Ryan Drew:
Here, how about I read it, Adam? We only saw it. So:

Commercial and industrial construction materials and service costs have escalated rapidly. As a niche HVAC manufacturer in a $20 billion SF retrofit market segment, we tend to look for signals from the big brands to gauge our pricing moves. Are you in favor of smaller, more frequent pricing vs. annual— which you touched on—and at what point are there signals to stop? What are those signals other than deal-winning percentages, assuming inbound costs continue to creep forward annually? One other data point: We gained share in a down new-construction market after significant price increases. We've documented that our pricing is 15–20% higher than our primary competitors.

There's the full…

Adam Echter:
Well read, Ryan.

So great question. I love HVAC. I've done dozens of HVAC companies over the years. They've been a favorite of private equity and roll-ups, so quite familiar with them. But I would tell you a couple of things.

One would be: If you're grabbing share and you're 15%, 20% higher than your competitor, you're doing something right. That's that argument that price is not the number one; it's further down. And you might have part availability; you might be able to get it to the site faster; your product catalog might mean they can get a whole basket from you versus having to chop it up. There's something in there that says it's worth it to them. And that's great. That's a great signal to you that you're running a good business, and you should be proud of that.

You can think about that question of: Alright, in HVAC, we'll often look at a classic question—and obvious ones would be: If 100% of your revenue is coming from product sales, then you're missing 10–12% of revenue that could be coming from fees, surcharges, and add-ons.

So that's an obvious one that has been played out there: If you're rolling trucks and putting people out there, then it can be disposal—refrigerant disposal fees; it can be rolling the truck; it can be all those PPE fees that allow you to walk an invoice up. Those are costs you're already bearing today. You flip them and put them on the invoice—they're pure profit gains. And that's a great way to improve the bottom line of an HVAC business.

And if you're more the D2C house-type things, there's different ways you'd do it. But I think those would be a couple things to look for: Look at your revenue mix, and if you don't have enough coming from non-part, non-product sales, then you'd probably be able to grow your business in a down market by adding some of those here in ’26.

Because it's pretty normal, and everyone else has already done it over the last couple of years. So you might be the one who shows up and says: “Hey, we're going to have a refrigerant disposal fee.” And they'll say: “Okay, it's about time. Everyone else is doing that.” So it'll breeze through.

Ryan Drew:
So another question came in from Jeff, which I think is something we also—we've talked a bit about. They've implemented a good–better–best pricing package in the last month. Any advice on how to roll it out, what opportunities or pitfalls they should watch out for? Do we offer the new low-price “good” option just for new customers?

Maybe some more philosophical question, Adam, on how to approach that.

Adam Echter:
Sure. And while I'm answering, Jeff, drop in the chat what you're selling—I don't know what exactly you got here. That would help me orient.

Ryan Drew:
EdTech.

Adam Echter:
EdTech. Okay, great. Yeah, EdTech's an interesting one because their buying cycle and the budgeting—where it's done now and then all the work is done the next July—it’s a very interesting cycle.

Ryan Drew:
And more specifically—sorry—Jeff just wrote back: Student safety solution to school districts.

Adam Echter:
Okay, cool.

Alright, so let's jump into good–better–best. Great tools. And it's one of the more powerful things. So if anyone's listening and they're in professional services—if you're going out and doing landscaping, garage doors—where you have a seller–doer in the field and it's a technician who doesn't want to sell, they just want to do the thing and leave; they don't want to sit there and tell the homeowner that they have to buy this and this and go through the big menu of stuff—good–better–best are great tools for that.

A couple ways to think about them and some of the watch-outs:

What you're trying to do there is you're trying to tap into psychological elements where people like to concede to the middle or stretch to one of the outsides. So mostly when you're doing a good–better–best, your thinking is: How do I always have a cross-sell/upsell path? What's my entry product and how do I not box myself in?

So some of the areas we'll see is: You put too much good stuff in the bottom product, and it gets 90% of the take rate, and no one ever buys the "better" and "best." The "good" is good enough. That would be an oops.

You had the question there about: Do you use it for penetration? Sometimes. Sometimes we'll make a dummy product. Where—if you have a competitor who has a really low-price product and you feel their product is not right for you—we'll make a good–better–best where your product is the "better" and then you also have a "best." And the dummy product, or the "good," kind of looks like your competitor's. And it gives your sales team the ability to say: "Well, I can sell you that, but it doesn't do what you want."

"Oh yeah, you've got that bid from the competitor, but *that's* what they're selling. And I mean, it's okay, but it's missing these things here in mine—and those are the key factors that you buy from me. And I think you really value those. So let's talk about the 'better' version."

So when you design a good–better–best, sometimes we do that either as an entry point for new clients, or you'll do it for the purpose of thwarting a competitor.

If you're doing it for entry, then it's usually: Make it a good one, and you can give time away. So if it's a SaaS software company, you have the benefit of saying: "We'll give you three months for free." So you fabricate a discount, but you never actually *give* the discount.

So instead of a $100 item that you now are selling for $75—where then a year later procurement can open up their system and say: "Well, Jeff, you sold it to me for $75—I know you're willing to go to $75"—if they go in their system, it was always 100, 100, 100, and zeros. They understand that it was a discount and they won't ask for 75 because they've never seen it.

That's a couple things on one side.

The other side: If you start to think about good–better–best, what you really want to do is try to understand the items that are in the packages and what are the two or three that are going to push people from one package to the next.

So you can also hit up our website and learn about Leader–Filler–Killer, we refer to them. You'll hear us talk about Burgers, Fries, and a Coke. And so, you're doing a design, and by intent, you're putting a couple of good things in each one to push people up and make a forced choice. But if you just throw a bunch of fries in there, people don't care. It's just a bunch of French fries.

So, package design matters to move people.

And then the last point is the jump points between the two. That's a big game there. You usually set them for where you want people to go. So for good–better–best, you usually design it something like a 60–20–20. Your primary product is going to pick up 60% of the volume, and the other two are going to catch 20.

You can do it 60–20–20; you can do 20–60–20. A lot of people try to steer toward the middle one—that drives that psychological behavioral-economics proof: People like to say "I'll take the middle one."

That's like your wine list at a restaurant: They gear it so you pick the middle one. Don't look too cheap in front of your date but also don't throw money out the window that you don't need.

So a lot of good–better–best will be designed for that. And then you're calibrating on the jump points to steer a no-brainer in the middle. I can go on—good–better–best are a wonderful way.

The last thing I would tell you is, depending on your business: If you're doing long-tail, lots of SMBs, you're going to do hard bundles. So that's where they are fixed—you cannot break them—and it's a velocity game and a volumetric game and you're just trying to put them out there, put them out there, put them out there. And you can watch what people do.

If you're selling in big enterprise accounts or key accounts or large school districts, and it's a negotiation—that's where we would call it soft bundling.

You still want to put the good–better–best together to help the salesperson—it becomes a sales-assist tool so they can open up and say: "Hey, these are my offerings." But you don't do it expecting a firm bundle—you do it so the procurement side on the other side says: "I want that thing right there moved into that package."

And the minute they do that, you know what they care about and what they value. And they've just revealed it to you. You've used the good–better–best to open a negotiation and facilitate information extraction from the procurement team.

Ryan Drew:
Love that. I hope that's helpful, Jeff.

A couple other questions in here. I'll ask maybe more tactical, but let's go with Kyle.

So, Kyle asked a question: In a recent board meeting, a board member of mine shared their organization was adding a 2% invoice processing fee. What's your opinion on this, and are other companies doing something like this?

Adam Echter:
Yeah, so it's a great question. We get that one a lot. It used to be the credit-card processing fee. And then you discovered—to anybody who's thinking about adding credit card fees or who has already done it—it is legally controlled at the state level. So there are 38 states where you can do it; there are others where you can't. You can call it different things.

And so most people have evolved past that, and they just call it a service fee—something like this. And then they also intentionally make it less than the credit card fee to mask it.

And if your credit card fees are 2.65% and you are saying "we have a convenience fee of 2.65%," there's some legal risk there. If you just throw in a service fee or a processing fee of 2%, you're getting the vast majority of the cost covered. And that's what we would call a cost-to-serve recovery loop—where you're taking one of your costs and you're flipping it up on top of the invoice.

So in general, I like them. In general, the market has been softened up. A lot of people do it. If you look around, you might find in that situation, Kyle, that three of the four competitors are already doing it—so you're the last one to go.

What you watch out for in those situations is—especially if you're selling to… I'll break it up again: If you're selling to large volumes of consumers, you can mask it and they will usually not notice.

If you want to go crazy—have a beer, and I'll tell you about sports tickets. But all of you have probably tried to buy sports tickets for $30 and you check out and it's $65. That's because sports tickets are where you will lock yourself into the bleachers with your son, and you are not going to give that idea up. And we can just walk you up on fees and fees and fees, and you'll stay forever.

Ryan Drew:
I did it last week.

Adam Echter:
Yeah, that's like the weaponization of pricing. But again: Consumers will do that; they'll hang on.

Professional procurement won't. They're going to slow down. They're going to do the math and say: "Fine, you added me 2% here, but I expected 2% discount over there." Or they'll do the net math and try to move it around.

So if you're going to roll that one out, you always have to be able to isolate it and make sure it doesn't come around and pop up in an additional discount someplace else—but the end result of a net increase actually manifests.

Ryan Drew:
Okay. And obviously transparency versus being deceptive on what that fee is plays some role in this, as you mentioned earlier. But yeah.

Adam Echter:
I mean, I think that's the sort of thing where it's gotten so commonplace today that you can probably just say: “Hey, we're doing this. You guys know about it—everyone's doing it,” and be pretty transparent. The last thing you want to do is start shipping invoices with new fees on them and surprise a bunch of procurement professionals—that usually doesn't end well.

Ryan Drew:
Great. I've got two questions here. I'm going to go back just quickly—Dave asked a question that I should have probably asked you when we were talking about good–better–best—but the question was just generally:

Have you seen anyone who's moved to dynamic pricing for every customer using—we hear AI everywhere now—using new AI capabilities?

Maybe we can tackle that one first, then I'll go to Wade Binkley's question after.

Adam Echter:
Yeah, so AI—our take on that is: We've had the pleasure of pricing AI technology for almost eight years now. So, we got to watch the technology grow and then watch those companies figure out: How do we price it?

Now we are definitely getting into the world where it's matured and everyone's using it. So, most people on this call probably have some form of a tool that people are playing with, and they're trying to encourage their employees to find ways to be more efficient and move the business forward.

The biggest advancements we've seen boil down—in our world as consultants—to some sort of matrix for framing the problem.

If you have a product that is augmenting a human vs. replacing a human, and if the value can be hard quantified or soft quantified, it sort of tells you how concerned you have to be about AI disrupting your revenue model.

So if you have a tool that makes a human better and it's like a fuzzy thing, you're probably fine. You can keep selling end-user licenses.

If you have a tool that replaces a human, and you can absolutely count the number of humans it's replacing—now you've got a bigger AI monetization risk.

We haven't seen a lot of efficacy on the tools that are generating pricing. I've seen some stuff that can monitor your costs and—as soon as your costs go up—immediately raise your price. So really, really fast cost-plus pricing. Okay—still doesn't tell you if it's *the right* price. It's just really fast cost-plus. AI can do that.

We see a lot on the go-to-market and the channel motions. So your outbound call center: You're seeing young people who are coming into work and they're just doing 15-minute calls back-to-back-to-back-to-back—to the end of time—because they used an AI to drive volume and then used something like Calendly to schedule all these calls.

The ironic thing is: We're seeing that manifesting top line, where outbound call centers are getting very efficient—excuse me, yes, efficient—but they're *not* getting effective.

So, these junior people—they're not debriefing, they're not talking to anybody, they're not learning. They're just going from call to call to call. And so, their conversion… that's an interesting phenomenon that's now presented itself.

And you'll get sales executives like: "Can I go yell at the junior people now and just tell them to slow down and do a debrief? Read a book on how to sell?" Because they come to me and they're so proud that they've just done nonstop calls—but they're not converting anything. We see a little of that happening right now.

The other top-line thing where we *are* seeing AI have a positive effect is customer service departments. So you are getting a lot of that getting automated; provide fast service, fast answers—not so much new price recommendations per se. Gotcha. If you qualify your resolution and code about your path, an AI bot can solve that for you.

Ryan Drew:
Okay. Alright. Question from Wade Binkley:

I operate in the tourism industry selling excursions and experiences. We are a classic Evergreen business living in the attack zone. We have two main customer groups. 85% of guests are coming with a tour company and have our excursion included in their trip. We discount rates to these tour companies on the passenger volume they bring. The other 15% are fully independent passengers that find us and book directly with us. They pay the full retail rate and are highly price-sensitive and fluid.

We have amazing market penetration on our tour-company side, but the independent-traveler market is highly competitive. COGS and labor continue to climb. I know I have room to push on rates, but I want to be sensitive to not price out my independent guests. Also, tour companies sell their packages up to 18 months out, so they don't appreciate last-minute pricing increases. Should I be applying your principles to our service-based industry?

Adam Echter:
I believe so. And I think we were on the mountain bikes together—unless there's another person who's doing Alaskan tourism here. And it was awesome.

Ryan Drew:
I think you're right.

Adam Echter:
A couple of things that come to mind in that.

So again, secrets from pricing and pricing studies: Humans love their vacations. And we could see that during COVID, that people were really anxious to get out and get back to having vacations. And so there was a huge swelling of budget and people didn't want to let it go.

So many of you probably did that—as soon as COVID is over, you went on vacation. There were music hits about it—about going back on vacation, getting on the road. That's a very human thing.

Then you'll also see in people’s minds: They'll trade down their coffee; they'll trade down their clothing; they have a mental idea of what their tourist budget is going to be. And they will not let it go. So that's a good thing for the tourist space. I would tell you that your dual-channel thing is an interesting one. That might be an area where you could think—between AI, between the move from search to generative product location.

So instead of somebody—you can look at all the research now that's showing the volume and traffic of historical search is going to go down. It *is* going down. And that's where someone might go on, say: I want to have an Alaskan vacation. And you're going to get outbid by Caribbean or something huge who's just throwing more money at the click.

But if they go into an AI tool and they say: “Who has the best vacation in Alaska?” You might come up. That's actually worked really well for Simon-Kucher. We were getting hammered in the bidding wars for clicks by the people you would expect—Deloitte, PwC. But as soon as Chat came out and you just ask it “pricing advisors,” we pop right to the top. So I think if you think about your channels, that could be a good thing for people who are organically searching—get you a lot more access; drive more into that high-profitable channel.

And then the other way I would think about it would be: To what degree can you switch it from pre-booking spend to onsite spend? So they might book through these excursion companies and other places to find you and get to you. But once they're there on the ground, what can you do to expand their total wallet spend with you *in person*? My guess is that you would pocket a lot more of that.

And so then you start to see that phenomenon where, if they feel like they're getting a good deal and they show up—they're expecting upsell opportunities. “Can I add additional high-value events while I'm here?” And then maybe you can take all that directly.

The example I give a lot of people: If you ever go to a really high-end Michelin restaurant, you've already spent four or five hundred dollars just to go to dinner. I don't do this often, but I've been once or twice. And then they're like: “Do you want to add the foie gras? It's another $100. Do you want to add the caviar? It's another $200.” And they turn a $500 dinner into a $1,000 dinner.

Ryan Drew:
“Well, I'm here. Why wouldn't I?”

Adam Echter:
Yeah. Because you're already in that experience.

I would have to imagine—with nothing other than personal anecdotes of: Alaska is the only state I've never been to—you've got boomers that are dying to check it off. You've got the next generation that are dying to check it off. I think you're going to see a ton of demand for people who want to go up there and get that done. And you're probably in a high-demand, capacity-constrained environment where you could, again, skim off that premium willingness-to-pay segment and do quite well up there.

Ryan Drew:
So I'm going to ask—we've got one more question in the Q&A, so I'm going to ask that one and then ask you for any final comments you have, Adam.

Thank you for this and thank you for all the questions for folks who've been asking. I always sweat a little bit thinking: "Is anyone going to ask questions?" So, I appreciate that from the audience.

Final question here from John Dreher:

Can you speak to transitioning from a T&M (time and materials) to value-based pricing for professional services/consulting/legal, etc.?

Adam Echter:
Love that one. And I live that personally. Right? So, I'm not just the—what was the old saying? "Not just the president—also a client."

I run a professional services business. And so we have the same question inside of Simon-Kucher. We do more of a fixed-fee model instead of T&M.

You are definitely seeing that as you move across the spectrum of professional services. Anything that's codified—like legal briefs or accountancies and audit—are at a higher risk of, in theory, AI disrupting the delivery model and therefore really dragging down the revenue model of those businesses.

And so we see a lot of people in the professional services space—and white-collar professional services specifically—making that move to outcome-based pricing. It's great.

The things we talked about before: You're going to overinvest a little bit on the front end to try to scope a project. Best practice is always open with a good–better–best—same thing. And then you have an information advantage versus the buyer in most cases, where you're doing it regularly.

And you can now, before AI comes in—if it takes you 10 weeks to do something and you're worried AI is going to compress that to three—you can still mentally anchor people to 10. And then over the next couple of years say: "Now we can do it in nine; now we can do it in eight." And the efficiencies will manifest, but you're going to be able to hold up the revenue line longer by getting onto more of an outcome-based price.

And so that's a great question, a real threat to industries, and something we see rolling through professional services right now.

I would also say from a Tugboat perspective: Professional services are having a moment. If you look at private equity, they're buying Grant Thorntons, they're buying Armanino-type firms—they're buying really large professional services firms.

Which, if you've ever run one, you know what a nightmare it is. You can go in and change a widget price—good luck getting 500 partners to agree on the price of their services, from personal experience.

And so the fact that the money is moving there shows me they're running out of other places to put it—and they're coming to one of the hardest pricing environments possible. It's a tough question, but it's worth it. If you can get people to the other side, it tends to result in higher margins, higher outputs. We're doing a lot of that work for players in the space right now. I think it will be a continuing mega-trend in professional services that you can ride right now.

Ryan Drew:
It's that human-capital knowledge-work variable in the equation that's a little different than the widget portion.

Adam Echter:
Yeah. Ryan, I think probably the other thing that didn't get asked—but the widget-type of question: Big 25-in-review and bets on 26.

For those of you who have a domestic manufacturing company and you were worried about tariffs—by now, you've probably done all the supply chain analysis; you've probably done the costing; and you might've found out you're a winner.

I remind people: Tariffs were put in to benefit domestic American producers. And a lot of the Tugboat Institute, I think, is that group. I'm getting phone calls from people saying: "Man, my factory's full. I'm thinking about adding a third shift. What should I do?" And my answer is: Yes—take the volume and raise the price. There's nothing wrong with that. If you happen to be one of the ones who've won—and it's now been a year and you've looked around and realized: "Wow, those tariffs pushed all my competitors up into the hubris zone; I am now relatively low priced and my quality remains great

Step one: Fill your factory until whatever level your operations head will tell you is the optimal plant capacity. Step two: Raise prices. Because a full factory *and* high prices is going to be very good for an Evergreen company.

It's going to give you some flexibility then to start to say: "Okay, now maybe give yourself some time." Tariffs can—they're not going to go anywhere for the remainder of the administration, but they can go up and down. But you're probably looking at a multi-year run of that environment. So take this opening inning and get the full factory at a high margin. Get your financial balance sheet to a point where it's like a fortress and you're sound.

And then start to flex in additional shifts—things that are not huge capital-intensive. But if it keeps going—if you get to '26 and you're just sitting on huge cash reserves—now it's capacity expansion. Now it's starting to attack. So that's one of our bets for '26—that you're going to see a lot of domestic industrial manufacturing go kind of on the offense versus the defense.

Ryan Drew:
We love that gift of wisdom right at the end of the session. So, thank you for that, Adam. And thank you all for taking morning/afternoon to join us here today for this event. Adam, we remain eternally grateful for your wisdom and ability to do this with us. Thank you very much. And thank you all for joining, and we look forward to seeing you all at our next live event soon. Enjoy the rest of your day, rest of the week, and we'll chat soon.