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Digital pricing transformations: The key to better margins

B2B companies can capture hoped-for value from their pricing transformations by matching technology solutions to their unique needs and avoiding common pitfalls.

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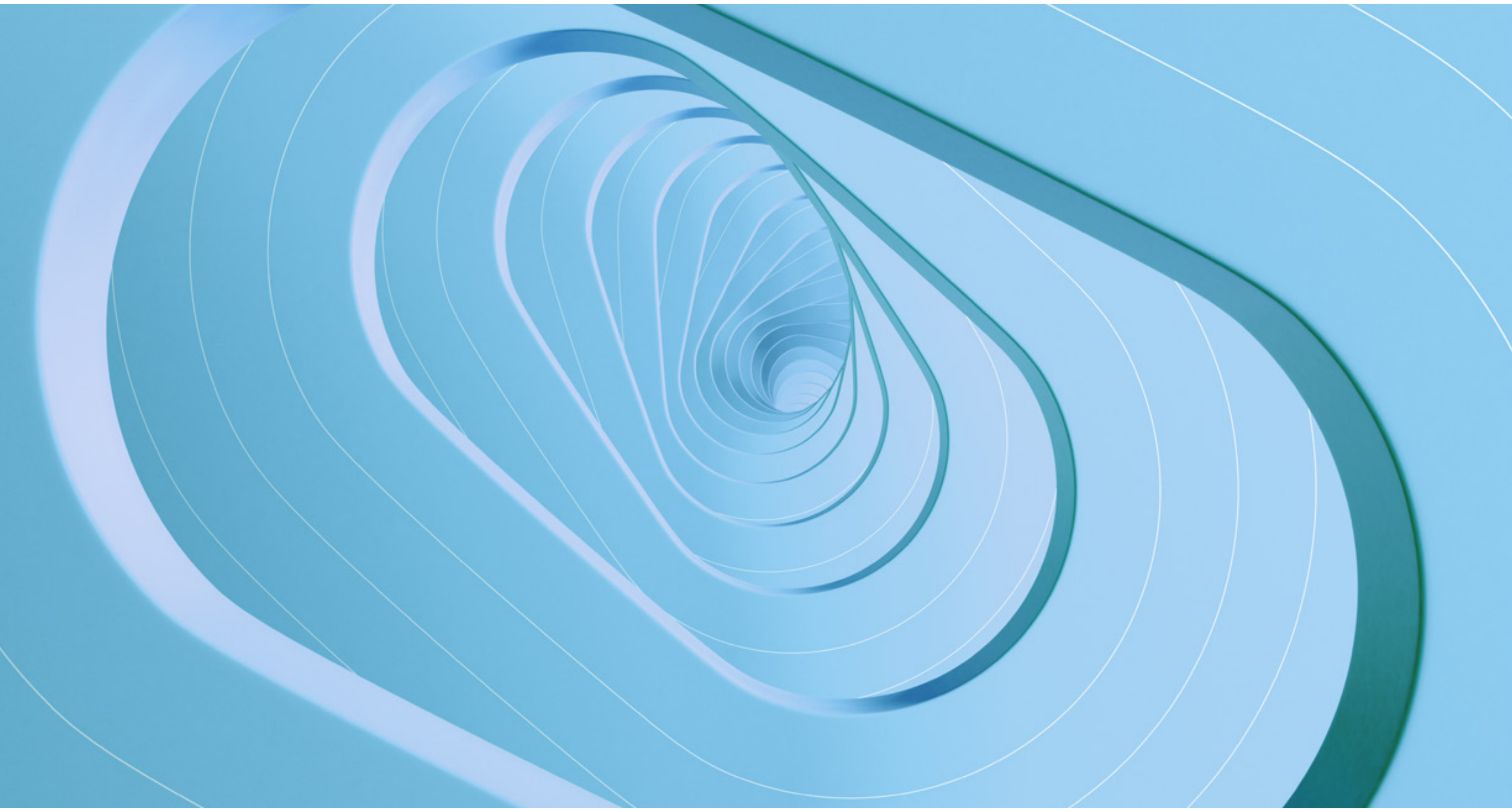

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Many companies launch pricing transformations as a way to create value quickly and sustainably. Indeed, pricing excellence in B2B settings--setting the right prices, and ensuring the right price is paid in each transaction--is driven by precision, attention to detail, and agility, all of which digital pricing transformations facilitate. Our experience shows that such transformations, when done well, can enhance pricing to generate two to seven percentage points of sustained margin improvement with initial benefits in as little as three to six months.

Digitally enabled pricing transformations hinge on new technology tools, and B2B companies are increasingly adopting approaches such as end-to-end price optimization and management, configure-price-quote (CPQ) applications, and business intelligence (BI) packages. However, inexperience and bias can lead organizations to give too little consideration to tech tools, to overemphasize tools rather than examine their actual needs and processes, or to cobble together ad hoc tools that don't work together smoothly. As a result, many pricing transformations, even at organizations that are willing to invest in technology, fail.

Pricing transformations and pricing-technology selections are more likely to be effective when they are grounded in a redesign of the whole pricing process. In that context, decision makers such as CSOs, CMOs, and CIOs need to assess their current systems, design the future-state systems that fit their needs, and deploy the right tools to meet those needs so they can support and sustain the gains from the transformation. Only by taking this more holistic approach can companies hope to quickly capture the significant margin improvements at stake.

Common pitfalls in approaching pricing technology

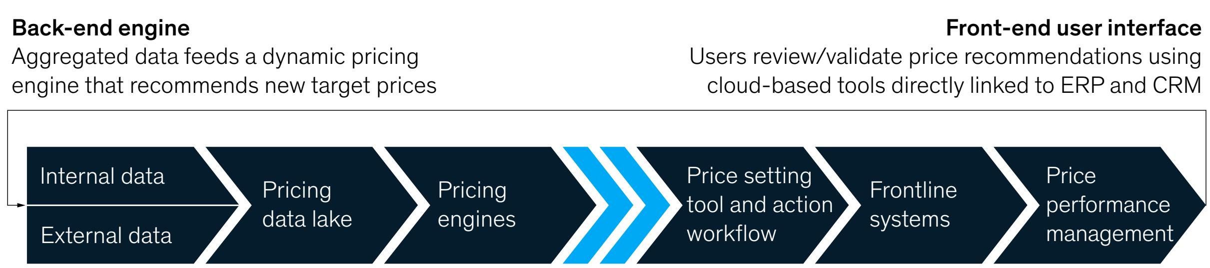
Tech-enabled pricing-transformation misfires stem from a failure to consider how different pricing-tech components may—or may not—fit with a given organization's unique capabilities and needs (Exhibit 1).

Some companies are technology averse. They believe that they can produce the impact of optimized pricing through processes and policies without relying too much on tools and technology. Without this focus on tools and technology, organizations struggle to implement the right governance and accountability for their new processes. Crucially, they often find it difficult to monitor and manage overall pricing performance and misinterpret this as a failure of policy, when it is actually more directly linked to missing the opportunity to use pricing tools to support a holistic transformation.

At the other extreme, many companies have an inflated belief in the effectiveness of a single

Exhibit 1

These are the components of a comprehensive pricing tech system.



tool. In large companies, this approach means that disparate—and separately managed—business units can try to implement a single tool that will define and drive the global pricing process. But without taking into consideration the value of an updated and holistic pricing process and its technological requirements, not to mention the needs of business units that deal in variably commoditized or specialized offerings such as long-term contracts and spot sales, this tool-focused approach often fails.

A third common trap is a “build-as-you-go” approach, premised on a company’s belief that it can meet its needs with existing and ad hoc tools without planning for change. Many companies that take this approach have not invested in robust customer relationship management (CRM) systems, master data processes, or integrated pricing processes. A suite of ad hoc solutions may not translate across markets or business units. Such tools may also depend on the knowledge of a few key individuals, which makes them harder to sustain should these key individuals leave. Such companies can find themselves unable to scale the positive changes they make, and transformations can fail to deliver—or sustain—their initial impact.

Pricing technology for maximum benefit

It is crucial that companies treat pricing tech as a key *enabler*—not the *agent*—of pricing transformation. Easy to overlook is the fact that tools and systems need to be embedded into the right process and organization, accompanied by the right mindsets, behaviors, and capabilities.

No two companies or transformations will have the same requirements, so decision makers should first understand their organization’s unique core pricing issues and needs. Companies that capture the most benefit from pricing transformations begin by designing the pricing process they want, assessing their existing systems, and building the future-state systems they need. Then, with input from stakeholders in functions such as IT and field sales, these companies evaluate their options and select the right combination of tools. Finally, they sustain the improvements brought about by their pricing transformations, including the habit of gathering feedback from cross-functional stakeholders, and make adjustments as their needs evolve.

Design the new pricing process

Before evaluating tech and tools, decision makers should define the organization’s needs through the lens of customer value and articulate the pricing strategy that will best serve the business. One crucial consideration that will affect decisions about the whole pricing journey is the nature of the business’s sales, which are generally make-to-order, configure-to-order, or make-to-stock.[1]

Indeed, decision makers may need to alter pricing processes that are applied to several points in the pricing journey. New analytics tools and methods embedded into the price-setting process may, at scale, change how prices are set, how pricing scenarios are modeled, and how prices are recommended to the front line. For instance, B2B companies can feed external and internal data into models to dynamically update prices for specific customers. Price execution may then need to change to reduce variability and protect margins across customers as well as provide guidance and control over rebates and discounts.

Increasingly relevant is the setting and getting of prices in new channels, particularly e-commerce. Since discounting practices can vary widely within a business, dynamic approaches such as micro-segmentation can help reduce this variability and provide more informed guidance on discounting to the front line.

Decision makers may change performance management for pricing to increase transparency and generate insights about the pricing journey as a whole, and to measure the impact of pricing changes (see sidebar, “Matching pricing methods to the process”).

[1] The pricing journey can be broken down roughly into articulating the strategy, price setting, price execution (receiving the prices set), and building and maintaining the organization to support pricing.

Matching pricing methods to the process

A global specialty chemical company worked for almost two years to increase its margins through traditional pricing approaches such as a redesigned go-to-market strategy and a pricing governance body that reviews and makes decisions on new deals with sales teams. However, the company's price-setting approach was still largely unstructured.

The pricing team's analysis identified the need to adapt the pricing process and support more granular product pricing based on the traits of each product and customer. The team developed a new process around three distinct pricing methods that could be embedded into price setting and price execution:

1. Dynamic commodity pricing to allow the company to quickly react to market forces and cost fluctuations on commodity inputs.

2. Dynamic data-driven value pricing to set prices—at scale, using advanced analytics—according to customers' current willingness to pay.

3. Value-based pricing to set prices for key accounts according to their willingness to pay and to help sales teams negotiate more effectively.

The pricing team worked with IT, data scientists, and pricing experts to collect data, using advanced analytics to develop pricing engines for each approach.

The company's work and application of their new process, insights, and technology eventually delivered a $100 million gross profit impact from pricing within the first year of rolling out the new approach.

Assess current systems

Organizations vary in how ready their systems are to support pricing changes, so it is helpful to evaluate these systems' maturity against clear criteria and industry benchmarks (Exhibit 2).

For example, the merger of two companies created a mid-cap technology company saddled with legacy systems and inconsistent pricing processes. Sales teams were relatively free to set prices for their own customers, and the company had limited ability to systematically change its pricing strategy because its tech maturity was at the lowest level (Exhibit 3).

Decision makers determined early on that the company would have to invest in new technology to support systematic changes in pricing strategy.

This kind of evaluation can help companies identify the most significant gaps between their current and future-state processes. At higher levels of tech maturity, the tech tools can support the company's move into omnichannel sales, particularly e-commerce, which is increasingly common in B2B sales.

Design the future-state systems

Decision makers should articulate their requirements for pricing tools and tech, as well as the corresponding enhancements to existing tech and investments in new tools and systems. Blanket solutions tend to imperfectly cover the pricing journey, so companies should detail their requirements to better combine tools that can meet those needs. If they work with an external

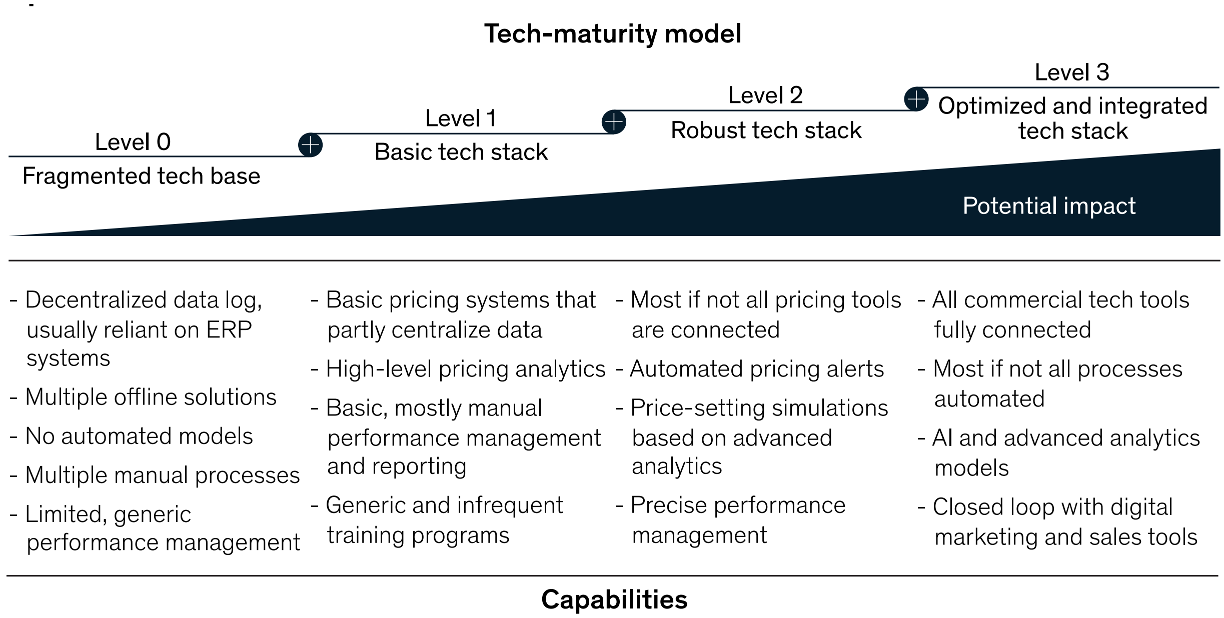
Exhibit 2

Companies should evaluate elements of their systems against clear benchmarks.

Price execution and CPQ		
Features		Integrations
Contract-type selection	Workflow and approvals	CRM
Deal configuration and pricing	Quote generation	ERP
Data- or analytics-driven deal guidance	E-signature and delivery	Data and analytics platform

Exhibit 3

Higher levels of tech maturity can help the pricing function achieve more impact.



partner, it should be someone who knows the nuances of pricing in their specific industry. This vision should include the ideal system and an outline of the most important investments for capturing the highest—and highest-priority—value from pricing.

Organizations at the lowest level of tech maturity can gain significant benefits from implementing basic pricing and performance-management tools and processes, and embedding them in their customer performance-management processes. Companies with institutionalized customer performance-management processes, however, could improve the execution of their pricing strategy by integrating deal CPQ capabilities into their CRM tools. These companies can also strengthen frontline pricing discipline (behaviors that help the company receive the prices it sets) and governance (the way in which the organization sets and manages pricing throughout the organization). Updated discounting analytics, approval workflows, enhanced-deal desks (cross-functional teams that can help streamline deal processes and coordinate nonstandard or strategic deals), pricing committees, and robust performance management can help accomplish this work.

For instance, the previously mentioned technology company identified a need to overhaul pricing processes and approaches to include list-price calculations that incorporated internal and external inputs, machine learning, dynamic deal-scoring for customer-specific prices, and ongoing price performance management. The organization responded with digitized pricing processes for price setting, execution, and performance management.

A company's business type will also influence its choice of pricing system. A make-to-stock business might focus on designing and implementing ways to update list prices in response to market trends and price management based on channel and inventory. A make-to-order business, however, might need to focus on using feedback from past deals—both wins and losses—and on comparable customers and products to outline pricing guidance.

Evaluate options

Requirements in hand, decision makers should devise ways to combine existing and new in-house tools and third-party offerings to meet them. To ensure a fit between the solution and the business, companies should tailor any collection of solutions to their specific needs, know when to use current tools and systems, and consider costs beyond the initial deployment.

Not every transformation requires a large number of new tech tools. Indeed, companies with high tech maturity may be able to extend existing systems, such as CRM, to support pricing changes. Companies with low tech maturity, however, may find their new solutions difficult to replicate and scale.

Finally, decision makers should consider the cost of potential overruns, the ongoing costs of running new solutions, and any hidden costs in addition to the cost of deployment. These hidden costs include diverting—or creating—capacity to support and maintain pricing processes and solutions.

Ensure successful deployment

Because pricing transformations are smaller than enterprise transformations, they can be perceived as less complex and less demanding of leadership attention. And because pricing solutions often require neither a major technology deployment, as do enterprise resource-planning projects, nor a single solution that can be outsourced to a vendor, common change-management practices tend to be overlooked.

Instead, decision makers, especially pricing-function leaders, should deploy all pricing changes with the change management and capability building targeted to the teams that will execute the updates, just as they would in a larger transformation. Indispensable measures include a detailed project plan and project-management process, UX testing of both front- and back-office applications, and a system for measuring the project's impact and success. These measures can help institutionalize updated processes, KPIs, and incentives, and ensure that adoption is sustained.

Sustain the changes and benefits

No matter how well thought-out a set of processes and tools is, they will likely need to adapt to the business's changing needs. After the initial transformation, sustaining the benefits requires ongoing assessment of the pricing tools' performance. Companies should make changes where required to adjust and adapt to new needs.

The team leading the transformation should work with stakeholders across the business to regularly reevaluate needs. Important signals that further changes are needed include a significant change in the volume and quality of data, shifts in customer buying preferences, decreasing process adherence, and unstable levels of price execution relative to performance targets. In each case, the company can follow the steps we describe to identify new process requirements, design and implement tech changes to the system—and achieve the full potential impact of the pricing transformation on profit margins.

Done well, technology-enabled pricing transformations can provide commercial rewards that are swift and significant. The pricing function should lead a robust cross-functional assessment designed to match the right tools to the organization's specific challenges while building in flexibility and accounting for evolving needs.

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