



# **10 Tips** for a More Successful Price Optimization Project

A price optimization project is a major undertaking for any company. There are often multiple internal stakeholders, and it is likely to affect a wide range of internal systems and processes, from basic product management systems to cost and profit allocation and customer relationship programs. When done right, it can be one of the most profitable activities a company can undertake. But when done wrong, the dangers are equally significant.

Based on our experience from hundreds of price optimization projects, we have assembled some general advice for any company that is about to embark on – or is thinking of starting – a price optimization project with the target of sustainable improvements. In our experience, these 10 points are applicable irrespective of whether the aim of the price optimization project is to improve profits, increase customer satisfaction, or create better internal efficiencies.

## 1) It Starts at the Top – C-level Support is Needed

Few things matter more to most CEOs and CFOs than their company's revenues and profitability. And few things can impact these things faster and more positively than a successful price optimization project. Hence, it sounds like getting support from the top would be a done deal. But things are rarely that straightforward. Pricing and price optimization represent a lot of opportunities, but there are also risks involved. Pricing has both an internal and external impact, and it must be done well in order to avoid causing frustration, problems, or both.

Sometimes a pricing project starts because a CEO or CFO initiates it. But more often, it originates from somewhere in the organization and eventually starts to materialize as a draft project proposal. If you are involved in the development, now is the time to prepare an executive summary of what the intended scope of the project is and what the project hopes to achieve. And of course, what resources are likely to be needed for this – including a senior executive (usually a VP/EVP/SVP, head of business, or similar) to run the steering committee that oversees the project and how well it meets its targets.

If you are on the receiving end of such a project plan, by all means question and challenge the plan and the team, but also consider the consequences of not updating your pricing strategy. And if you are a candidate for the steering committee, do try to accommodate this among your engagements. Chances are it will be one of the most profitable activities you will ever oversee.

## 2) Excel is a Great Tool for Ad-hoc Analysis, but not for Operational Pricing

Some companies feel they already have control over pricing and how to set prices that optimize revenue and profits. After all, they manage the set-up today and can see the effects of price changes on the demand curve for their products and how this affects profits. Often they have developed their own business intelligence models to analyze changes in sales and profits across the product range.

We applaud these efforts, because they are generally done by people with a deep understanding and insight into the dynamics of their market. But invariably we find that while Excel might be a good tool for analysis, it is not optimal for managing and optimizing prices in a dynamic way, especially if a more agile and responsive pricing strategy is desired. And given the complexity of international sales, where markets, competitive situations and commercial conditions can vary immensely, a dedicated system will soon pay for itself. If we take all different permutations based on product, currency, distribution, and commercial conditions into account, the average Navetti customer manages around 28 million different price points in our system. And by manage, we mean being on top of, setting and implementing pricing strategies, doing tests to verify the strategy, and so on – rather than just coping with price management.



### 3) Distribute Central and Local Responsibilities Within a Common Framework

In a large organization, there are likely to be many parties that want to be involved in setting and optimizing prices. Often there is a central pricing team working with product and category management, but the local sales organization who faces the customer should also be involved. And then there are a host of other central and local functions – controlling and finance, IT, communications, customer support, etc.

Some companies believe that all business decisions should be made as close to the customer as possible – and we tend to agree. But when it comes to pricing, that means working within the pricing framework, not defining it. Hence, our experience shows that successful pricing projects rely on a good balance between central and local resources. It needs a hub: a central team that can establish the project structure, manage the framework, and give each market relevant recommendations. And it needs local teams that provide input to the project team and can optimize prices against local conditions and manage exceptions.

The world is certainly getting more transparent, with data and information available across the globe instantaneously. This is also a compelling argument for why a price optimization project needs to have a certain degree of central project management – because there are fewer and fewer instances of truly local prices. In addition, more companies are also standardizing their operations on a number of core IT platforms, systems, and processes – so it would only be natural for pricing and price management to be one of these core central approaches.

### 4) It Is a Change Management Project, not a Price List Project

Pricing and price optimization is a process that has implications well beyond the product and market dimension. While the outcome might be defined as a revised price list based on customer-perceived value and competitive adjustments, the consequences for processes and systems tend to extend in many dimensions. The end result is often a change of working processes and approaches as much as it is an adjustment of prices.

For example, by adopting a value-based pricing model that is anchored to customer-perceived values, a company can establish a value-based sales strategy as well. Understanding how market conditions impact price levels means better handling of different distribution channels and customer segments, not to mention reduced trading risks. And with better price management tools, there are also opportunities to review how costs and profits should be allocated and which accounting methods the company should follow.

This means that a price optimization project should be treated as a change management project. As with all change issues, different parts and functions in the company will view these changes differently, including the need for any change at all. It means that an important part of the success of the project lies in defining and communicating key strategic issues such as:

- Why are we doing this?
- What do we want to achieve?
- What are the consequences of not doing this?
- What are the goals of the project (how do we define success)?
- What are some of the key success factors in the project?

And for each function, to have an understanding for each person's key concern: "How is this going to affect my role and my way of working?"



## 5) Communication Is Key

As anyone who has been involved in a change management project will tell you, it is impossible to communicate too much. Price optimization will affect many different functions internally, and hence the communication needs to be both regular and wide. And it needs to target both your own staff as well as your customers.

A good approach is to think of the need as two levels of communication. One level is about communication around the project itself and the changes it involves: why it has been started, what it should achieve, what progress it makes, and so on. The other, and even more important level, is to communicate about the results: why the revised prices are set the way they are. This is something that must be communicated and understood internally by all people who face customers, so that prices can be explained and defended. In that way, the revised prices can be trusted by the sales organisation, and unnecessary discounts avoided. The approach also needs to be communicated to customers, so that they understand, can accept, and trust these prices.

A general recommendation is that communication about a change project like this should be regular and reasonably frequent. Don't wait until you feel

you have enough information for a full newsletter – and as a consequence only feel comfortable communicating when the project is almost finished. Another general recommendation is to divide the communication flow into two or three streams: One that is more frequent and which goes to a smaller group of recipients that are more closely related to the project (but not directly part of the project team). And one that is more condensed and not quite so frequent, which goes to recipients that are more in the “nice-to-know” than the “need-to-know” category. If needed, additional tiers of communication content and distribution can also be added.

## 6) Focus on Desired Outcome Rather than a Specific Platform or Technology

It is certainly rare that a price optimization project takes place without any expected deliverable and/or results at the end of the project. But at the same time, we would advise for some caution in already defining the deliverables in too much detail in the initial request for proposal. In our experience, the most successful projects focus on highlighting the key issues and problems, and identifying the expectations of what the desired solution should deliver, but have a fairly open view on exactly how that end solution should look or the technology



on which it should be based. Clearly there are restrictions and considerations for the delivery, based on aspects such as organizational structures, existing IT systems and platforms, current operating procedures and so forth. However, being too definitive in already identifying the solution specifications in the RFP risks overlooking possible additional features and deliverables that could further enhance the performance of the system.

There are two reasons for this. One is the ever-increasing performance and capabilities of modern pricing systems, so that defining the deliverables in terms of a finite system specification might mean that a range of existing features and functions are neither included nor considered, perhaps not even as optional deliverables. Consequently, inviting the system providers to inform and educate their potential customer about new opportunities and pricing strategies is often a smarter approach than already having a fully defined system specification in the RFP. The other is that an RFP is generally written with an inside-out perspective, whereas an important skill of a good pricing system provider is their ability to analyze the existing pricing structure from an outside perspective. This might mean that there are additional opportunities for price optimization results that emerge from the supplier's analysis in their response to the RFP than were apparent from the start.

## 7) Pilot + Full Implementation Rather than Step-Wise Approach

You may be familiar with the expression “the way to eat an elephant is one bite at a time.” Some people view pricing projects in the same way: by carefully adding incremental pieces of price optimization technology and processes in a step-wise approach, often evaluating each step before moving on to the next, they hope for a slow but steady improvement in their revenue and profit levels.

We think this approach works - in one aspect. But we also know that there are ways of speeding up the process. For example, by setting up a well-planned pilot where results can be evaluated quickly and comprehensively, the lessons of the pilot can be applied in full, rapid implementation across markets. Doing so repeatedly, adding modules and features in sequenced new pilots, is a tried and tested way to optimize prices and increase profits faster.

The key is to have a well-planned pilot, so that all key functions can be tested in a small-scale, but fully scoped, project. Once the “pressure test” has been performed and analyzed, and the approach

verified, a full roll-out should be planned and implemented. A key part of this roll-out concerns training and transfer of knowledge to all functions that will be working in the system, so that the new resources can be fully utilized. Even in a step-wise approach, each step should also include a pilot to test the potential implications – which of course adds more time to the full implementation cycle.

## 8) The Right Cross-Functional Competences on the Team

In order to run a successful price optimization project according to the method described in section 6, our experience indicates that there are a couple of key success criteria that will help ensure that the project meets its intended goals. One of these is the composition of the core project team.

A good cross-functional project team contains a balance of people along two different dimensions. One is the range of different professional expertise areas needed, and the other is the personalities of the people involved. As a minimum, the following experiences and fields of expertise should be represented on the core team:

- **Pricing management** – someone who knows how prices have been set, managed and optimized
- **Product/sales** – someone who understands the category in question and the customers that buy these products
- **Business analysis/intelligence** – someone who has experience in analyzing supply and demand changes and the external and internal factors that influence this
- **IT** – someone who knows how pricing systems interact – or need to interact – with other systems such as ERP and/or production, sales and financial reporting

Equally important, but often overlooked, is the type of personalities of the people involved. In the same way that different professional competences are needed, it is also important to balance personalities in the team composition. Some people are driven by change and development, whereas others are more motivated by clear goals and structures, and yet others focus on the interaction between people and strive to foster good relations.

Having people with different personalities on the team will ensure a more balanced approach in how the project is run, and it means that the project will have a higher chance of long-term success than if all project team members are cut from the same mould.

## 9) It Is a Full-Time Job

Another important success criterium for a price optimization project is that the people on the core team are allowed to focus their attention on the project itself, and the numerous tasks that the project entails. Whilst it may be tempting from a cost perspective to assemble the team and let them manage the project in addition to their regular operative functions, our experience is that at least the overall project manager (or managers in the case of shared leadership) should be allowed to focus their attention on running the project and little else.

This is especially true if there are expectations for a speedy implementation and evaluation process. This will require a lot of communication and involvement across different parts of the company, which in turn puts high demands on the team's availability and ability to interact with all relevant functions along the way.

## 10) Create a Reference Framework in Order to Understand Local/Segment Differences

A key challenge in many price optimization projects is how to cater for local market variations. What works well in one market will not be the ideal solution in another – and vice versa. In our experience, the best way to manage this is to go beyond “how things are today” in order to create a separate definition of “this is what we want to achieve,” i.e. how we believe the ideal situation should look. This also means defining what the different challenges are that have prevented us from achieving this so far. With such a reference model, including relevant price structures, analysis tools, etc., it is also possible to both identify the challenges and opportunities that exist in each local market and to develop practical solutions for how to implement the desired system and price optimization methods.

## 10 Tips for a More Successful Price Optimization Project

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- 2) Excel is a great tool for ad-hoc analysis, but not for operational pricing
- 3) Distribute central and local responsibilities within a common framework
- 4) It is a change management project, not a price list project
- 5) Communication, communication, communication
- 6) Focus on desired outcome rather than specific platform or technology
- 7) Pilot + full implementation rather than step-wise approach
- 8) The right cross-functional competences on the team
- 9) It is a full-time job
- 10) Create a reference framework in order to understand local/segment differences

### Vendavo Enables Pricing for Sustainable Profit Growth

We implement operational pricing to deliver enhanced revenue and sustainable profits. By combining Vendavo® PricePoint™ with our highly qualified consultants, leading companies across the globe are achieving value-based and market-driven pricing. Our solutions offer all of the components you need to control, improve and grow your business.