

Pricing/Profitability Optimization: Getting Sustainable Results with a Closed-Loop Approach



High performance. Delivered.

At A Glance

Accenture
Pricing and Profit
Optimization
Consulting and
Outsourcing
Practice

The Potential Opportunities:

- Smarter pricing drives higher net income than cost reductions—a 1% improvement in pricing typically has 1.5–4.5x the margin impact of 1% cost improvement
- Reduce pricing cycle times by up to 90%
- Lift revenue 1–8% versus current practices
- Decrease promotion spending by 5–15% yet maintain revenue
- Trim markdowns 5–30%
- Eliminate pricing errors
- More market agility...respond faster to demand volatility and competitive threats
- Data-driven approach to supply and demand imbalances
- Price dynamically across product lifecycles to optimize yield

Representative Challenges Solved:

- Limited, inconsistent, and inaccurate information on product, customer and market profitability—an inability to see real drivers of value
- Misalignment—little linkage between corporate objectives and pricing strategy
- Panic pricing decisions during market downturns
- Revenue leakage from time consuming manual price update process and invoice errors
- Ineffective sales negotiations, due to a lack of real profitability history and market forecasts
- Competitors shaping the market through rapid adoption of profitability optimization best practices
- Risk from costly and time consuming adoption and deployment of advanced technologies
- Inadequate change management fails to align stakeholders stuck in functional silos
- Focusing the company's scarcest resource—talented professionals—on the decisions that matter most

A New Approach To Sustained Profitability

It's only going to get more challenging. The threat of a severe market downturn, intense global price competition for raw materials, manufactured goods and even services, along with more demanding and sophisticated customers and less predictability, require a new approach to sustained profitability. Yet many companies continue to rely on manual processes to set and modify prices as they lack a rigorous approach to manage and improve pricing. Without the data necessary to understand and forecast profit by customer, product, geography, sales territory or other measure, these companies cannot know with certainty where to sell more or less.

What's worse, they have no way to set optimal prices to take advantage of market anomalies or competitive advantage or differences between micro-segments. Indeed, many companies aren't even aware of the advanced analytics capabilities now available, or lack the ability to adopt such approaches. Or they are aware of the opportunities, but stuck in manual processes due to culture or environmental issues. Furthermore, these companies lack a corporate-wide mechanism to align various operating units' pricing or any effective means of enforcing accountability.

Companies may try to cope with the competitive pricing challenges by just reducing costs, but that's not enough in markets where prices fluctuate daily. Just developing a pricing strategy and organization isn't enough, either. And buying a stand-alone pricing analytics software application isn't the solution, either (see chart, Sustainable Pricing Strategy). Companies must take a closed-loop approach to solve their profitability challenges.

A Closed Loop Approach to Achieving High Performance Pricing

An incremental attitude toward change is not sufficient to overcome the challenges and achieve the opportunities of leading adopters of pricing and profit optimization practices. To obtain and sustain maximum benefits, a closed loop approach is needed. This is a learning process that continuously observes and responds to market reactions to price changes. A closed loop approach also enables organizations to update pricing strategy at the microsegment level.

This approach includes four fundamental pricing capability areas—strategy, analytics, price setting and execution. These are supported by two key enabling areas—clear governance over pricing and a robust pricing-data

infrastructure—to achieve world-class pricing in a continuous learning process that closes the loop.

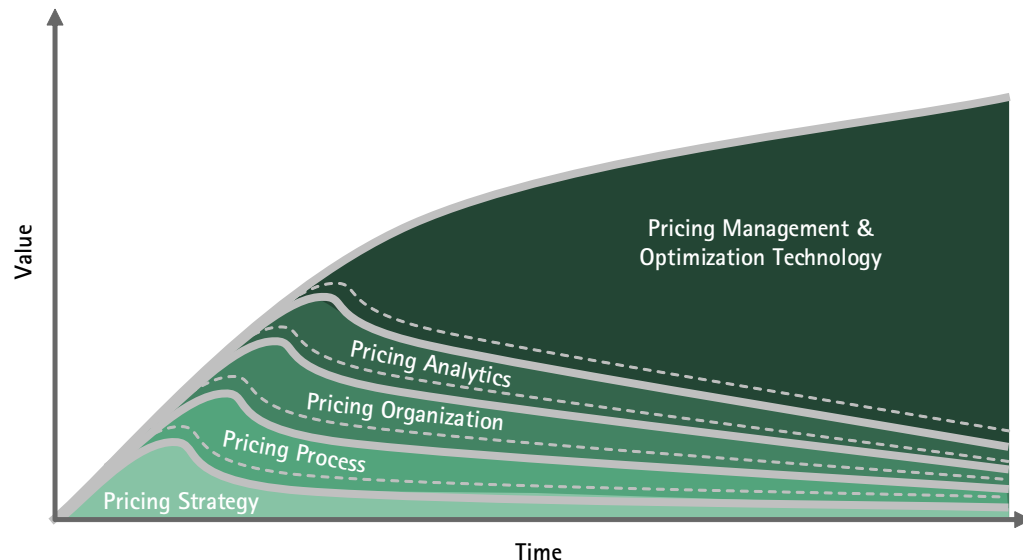
If combined correctly, these capabilities provide a focused alignment between a world-class strategy and execution for the long term. Note that the half life of strategy, process, organization and analytic changes is extremely short unless they are built into a sustainable pricing and profit optimization culture and operating environment. Accenture's unique combination of unmatched pricing strategy, experience, industry and solution delivery insights—coupled with our relationships with leading technology providers—provide this closed loop solution.

Accenture's Pricing and Profit Optimization (PPO) services include a suite of consulting, and outsourcing services which dramatically upgrade clients' pricing capabilities. Six key PPO offerings are:

- Diagnostic analysis
- Strategy development
- Operating Model Design
- Technology Design/Development
- Capability Deployment
- Process outsourcing and technology hosting

Accenture's services are supported by its Office of Pricing Technology. This is the center of expertise (CoE) for

Sustainable Pricing Capability: A closed loop approach to pricing, including strategy, process, organization and analytics, optimizes profitability for the long term.



the science of pricing management. The CoE is devoted to the assessment, analysis, development and deployment of pricing management-science technology.

Strategic Guidance

One of the key drivers of high performance in pricing and profit optimization strategies is effective customer micro-segmentation leading to more targeted pricing, which in turn enables companies to shape demand. Accenture PPO creates high-performance companies by helping clients better understand customer needs and price sensitivities. PPO develops a unique strategy and then translates the needs, price sensitivities and vision into market leading value propositions, prices, and tangible rules the business can follow by microsegment. The strategy and implementation program combines actions by marketing, sales, customer service and supply chain to deliver targeted pricing of particular offerings for specific customer segments.

Optimizing pricing must go beyond understanding customer needs and sensitivities, though. Product lifecycles and business cycles also play important roles in closed loop pricing and profit optimization (see chart, Business Cycle Opportunities). Accenture's PPO provides the agility companies need for management

of yield and marginal economics to anticipate business-cycle fluctuations.

New strategies are doomed to fail unless they take into account the existing infrastructure, culture and processes. Accenture's strategic guidance includes Diagnostic services to understand the existing processes and create a transformation roadmap. The PPO's Operational Model Design service develops an operational model that includes systems and data quality evaluations, along with "to-be" process development.

Building Capabilities

A closed-loop approach to price and profitability optimization includes being able to deliver on a business technology vision. Accenture has relationships with the leading technology vendors, including SAP® Price and Margin Management by Vendavo, Oracle, Retek, Demandtec, Zilliant and PROS. Accenture's PPO service includes vendor selection, data cleansing, systems integration as well as design and testing.

To fully implement the new pricing capabilities, Accenture will create and help deploy processes, business rules and workflow models as well. PPO services ensure that sales teams are equipped with the information and system to effectively negotiate deals with customers and conform to operational policies.

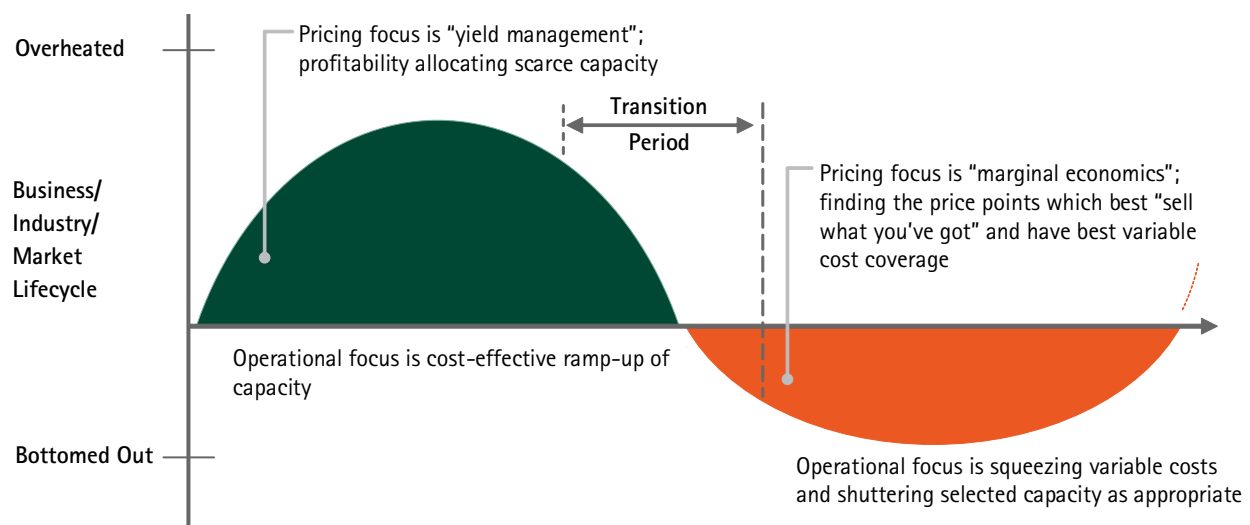
Technology is not enough, of course. Without a thoughtful and extensive change management program, software and hardware will fail to deliver a long-term improvement to profitability. Accenture's extensive experience in transitioning staff to the new processes and approach will be crucial to achieving an organization's new metrics of success.

Sustaining the Advantage

Price and profitability optimization is not a one-time effort or initiative. Because markets, technology and capabilities always evolve, standing still means falling behind. A profitability optimization program has to adapt to be sustainable. As an organization learns more about the opportunities and capabilities, PPO offers an array of advanced analytics development programs to continue providing a unique, as well as sustainable, competitive advantage. In addition, Accenture offers a hosted service approach for organizations that want to focus on their products and customers and not worry about the constant evolving of information technology.

This closed-loop approach to pricing and profit optimization enables organizations to create strategies and capabilities that sustain benefits over the long-term.

Business Cycle Opportunities: During an overheated stage of the business cycle, the pricing focus should be on yield management as demand exceeds supply. As the cycle slows, marginal economics should be used to eliminate, but not give away, end-of-life inventory and to stimulate demand for the most strategic offers.



Contacts

Greg Cudahy
Global practice leader
greg.cudahy@accenture.com

James G. Bogue
Practice leader—North America
and resources industries
james.g.bogues@accenture.com

Thomas G. Jacobson
Practice leader—products
thomas.g.jacobson@accenture.com

John G. Hanson
Practice leader—communications/
high technology
john.g.hanson@accenture.com

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