



INDUSTRY X: CONTEXTUAL PRICING & PROMOTIONS

VIDEO TRANSCRIPT

Russ Rasmus:

We've got Tom Jacobson and Georgios here, who are going to talk to us about the contextual pricing and promotion side of DTM. So Tom, please introduce yourself and take it away.

Tom Jacobson:

Thanks Russ. Hi everyone, Tom Jacobson. I head up globally for Accenture, our pricing and commercial strategy practice. I started my career out as a clinical psychologist, discovered I didn't like people, went to business school and now I work smack-dab in the middle of human dynamics and economics. And I'm going to take you through a story about a sliver of a go-to market work and an industrial client, just as you know, what I do is a high IP and I don't look good in stripes. So we're going to avoid any client specifics.

One other story that probably well defines who I am as a person and when I knew I would be a pricing strategist, at age 10, I started charging a five-year-old sister rent for her room in our parents' house. And I learned about willingness to pay at the dinner table when she asked to borrow money from my father, who immediately, for some reason, looked at me knowing that something might be up. And when he asked her and he called her sweetheart, he had other names for me, "Sweetheart, what do you possibly need money for? We provide for everything." And she said, "It was to pay the rent." So I kind of learned about willingness to pay there, very early on. And I guess I ended up where I should end up career-wise. Boris, can

you go to the next slide? The slides are going to be props. So don't focus on them too much. Next slide, please.

So I want to have you take away three things and I'm going to pass on to George who's our deep data science expert on pricing for a final takeaway. But one is value, like beauty is in the eye of the beholder. And I'm going to talk a little bit about how we understand value. And it's not by asking customers what they're willing to pay for things because they lie. They never follow through. They might express interest. And we track very closely, not interest, but realities. The second point to takeaway is that an engineer "rendition" of a product or service is going to be quite different than a marketer. So I'm going to talk about how we use those. What is beautiful to different customers in different segments to actually help design the product that's going to activate a certain customer a certain way in a certain condition and context. And then my third takeaway is going to be, what does cost have to do with it? Russ mentioned he spends a lot of his time in the cost side. I spend most of my time curating the quality of our client's revenue, but we do have to go back and iterate against whether or not that clients and customers or that segments of their market's willingness to pay is somewhere in a zone of cost. And as Russ pointed out earlier, it's an iterative process to make sure our prices, willingness to pay, costs, value, competitor position, all line up. And then finally, as I said, George is going to talk about what math matters. We'll leave data science to



the analytics, the data scientists, not the psychologist.

Next slide, please. So again, don't focus on what's on the slide. This is a prop for me, but in this particular engagement, we interviewed over 100 customers at numerous global focus groups, sent out 1000s of targeted surveys to answer questions we had, but all that information was the basis for us to (in that middle picture) come up with a broad set of segments that were really on one axis having to do with what the relationship with that customer was. And the other one was, and I always say if I was stranded on a desert island with nothing else as a pricing strategist, the one thing I'd want to know is how my customer's customer uses the product. How is it used? What's his value in application? And this was a client that's in the moving people vertically business. You guys can figure out maybe what that is. And when they go horizontal, it's not a good thing. So vertical movement of humans and other things, if you have this apparatus in a luxury high-rise, it was a significant importance for it to work that same apparatus in a two story flat in the middle of Paris, with where that apparatus is only used to store luggage. It is less critical to that particular customer. So in this case, and it is quite often, how was the product applied was a critical factor in determining the segmentation schema. And this took us to where we could price, certainly.

We could think about how we were going to treat promotions. And you'll see in a minute because of the interviews and because they were global, we knew that in Gallia for example, a certain set of incentives would activate them to buy or not buy. They were very different incentives in other countries and regions and markets. So next slide please.

And ask me questions as we go, if you care, or we'll steam ahead. This is getting a little bit into what I mentioned a second ago, where these interviews told us the kinds of things we needed to care about, the things that were different from country-to-country to within

those segments and helped us do what's very important in this particular discussion is... Next slide, please. This goes back to my... I've got a cute visual to bring up on this, about the notion of what an engineer might think about versus the marketer. Next slide please.

Russ Rasmus:

All right, Tom, that's twice you beat up on the engineers. That's your limit for the day. All right, Tom?

Tom Jacobson:

I did put it in quotes, so I was being generic about it to my engineering and manufacturing friends. All of what I've talked about helped us do in the context of design to margin is take what was a... It's a very common approach coming up with a tiered set of offers to clients, good, better, best, or in this case, basic, plus pros as opposed to different names, gold, silver, platinum. But making sure that we curated what features and functions were in each tier that allow us to achieve the objective in that tier. And this was interesting in this one, in that basic tier, for example, we didn't charge for this particular new product. We used it as a reason for a price increase.

Whereas in the segment that found this a very valuable asset, we made it a point to market the fact that this was a new and different feature and function and capability they would have. And of course, because of the value, they would have to pay for it. So it became a discreet thing. So we learned all this from talking to customers understanding what it is. Again, never asked them the price, but asked them how they thought about it, how they value it, and how they used it in their business, how critical it was. And as I mentioned, even too, what types of incentives would cause them. For example, a month's free for a condo owner is valuable because they need time to pitch this to the owners, to be able to then justify the increasing in the fees. Whereas if someone in Germany, I'll pick on Germany, some propensity not to want



to lease or borrow things, a desire to want to pay for them immediately.

So we used all those things to get there, but as it relates to design the margin, designing both promotional strategies and investments, also looking at the features and functions that came up from the, I'm going to say it again, Russ, the engineer and the accounting teams, as they very logically and empirically built a tiered set of features and functions to come up with the different offers. But when you go back into understand what customers wanted, we came back and said this very inexpensive feature that you had in the most advanced tier of offer, if we were to include that in all the offer tiers, we would get significantly more uptake than we would if we didn't. So it was getting back to the cost point.

How do we work the arbitrage between the cost of a feature or a function with what someone's willing to pay or values? Or in this case, would someone even buy this thing? And use that to basically reconstruct and curate what was in the offers. And again, not going into details here, but that was a very different set of things. One set was all cost based. The other one was an introduction of how do we align engineering, costing, willingness to pay; using that as raw material to execute, come up with the offers. The features were different in the different tiers than they were from the original quote unquote "engineering design". I'll stop there and see if there are any questions or reactions.

Russ Rasmus:

Tom, how common is that, when you do pricing work for our clients, that the perceived value is different than the actual value, right? You find those sort of nuggets where it's like, man, no one would have intuitively thought that, but that's actually what's happening out there.

Tom Jacobson:

I would say so many of my clients have been doing this for decades, still are stuck in a bit of cost plus or margin plus thinking and it permeates. You and I go back and forth on zero-based budgeting projects. You know you take out the costs, you still price based on cost and wonder where your results went. It kind of went right back to your customers. So it is very prevalent. It's very prevalent that a monolithic view of costs is used to curate what the product is and the features out of there matter versus really the triangulation between... I think I have a slide on here later. Triangulation between the cost, the competitors offer, because you're always competing against someone else. So I've got to be somewhere in that zone. Could you flip ahead a slide? I think-

Russ Rasmus:

Yep.

Tom Jacobson:

Yeah, It's this one, sorry. I got ahead of myself by getting behind. So looking at perceived value from... And when we do this work, to your point, a lot of times we have clients that want to operate on intuition and I'm a big fan of intuition, but I actually like to add the word informed in front of intuition. So when we informed the intuition with data from clients and data from transactional work, we often find what even our clients think is valuable to customers really isn't. So one of the first steps when we do this work is a bit of an 'a-hah'. Gee, I never would've thought this particular thing had so much value for our customers because we just don't think about it very much.

And then as I mentioned it was that cost. And then competitive position is always interesting because in these interviews with customers, we have to get outside our clients vantage point and ask them what the spend is competitive with. Not just a competitor, but in this particular case, this apparatus that move people vertically within the structure was competing with security systems, fire systems,



luxury expenditures. So understanding where the client's particular product fit into the stack of priorities for that, and use to that customer was very critical.

And we kind of used that to make sure that we understood if we were to try to get X amount of money, we'd probably be taking it away from some other service they had. So we had to make sure we had a strong proposition to do that. Long answer to your question, but this gets into the iterative nature of perceived value, competitive position and costs. And we cycle this several times through that product to make sure we got up to a place where we were comfortable with what features were in what offer tier.

Russ Rasmus:

Yep. And there's a question in the chat here, Tom, that relates to this as well from Cynthia is, "What's the best way from a pricing standpoint, how best do you decide on the trade-offs between profitability and the fact that maybe, as you launch a product, you've got more cost put into promotions of that product, et cetera?" And I'll expand since he has a little bit here to not only the cost of promotions and marketing, but also just the product costs are usually higher at the earliest stages of a product life cycle, as well as a little bit of thought there and how pricing strategies changed through that time period.

Tom Jacobson:

So let me try to answer that. I'll often say, I segment, therefore I am, as a pricing strategist. So we have a lot of clients want to go from one monolithic strategy to another one. And a lot of our work is to come back and say, "Gee, for this particular market, with this particular product set or solution set or assortment, depending on what business you're in, what are our objectives that we're trying to our price to gain share? Do I price the gain share or do I... Am I in a mature market where I'm trying to re cash out?" So the question is really answered, not monolithically

or with one answer, but getting at the right segment view and making sure our strategies are tuned for those.

I've been in... Like in the example I just went through, I briefly mentioned the fact that this apparatus had to be installed on the base of equipment that was in around the world. So we wanted not to lose money on the installation. We were expanding labor, we were expanding material to install, but we knew it was to our advantage to have that apparatus on the equipment because it allowed us to control our costs, to service that stuff better. So as we went through this, we made sure that in some segments we were willing to give the installation away because of the benefits we had from the insights. We had another segment so we wanted to make a point about charging for it because the fact that we charged for it psychologically signaled, the fact that we felt it was value and therefore the clients did.

So a lot of the answer to the question, I'll often also say as much as pricing has to do with analytics, strategy, marketing, all those things we think about, it's also a choice. And that choice represents who you are, what you are, whether your employees are excited to work at a place that gets the full value of the brand and whether they feel less activated by the fact that you're not fully getting your values. So a long answer to your question, hopefully it got to some of it. And I apologize. My mind is built to wander around and eventually, hopefully it makes sense.

Russ Rasmus:

Great. A good follow on conversation as well for the networking a little bit later, that'd be great.

Tom Jacobson:

And with that, Georgios, if you're ready, have you take you through an example within more deeper analytics.

Georgios Passalis:



Thank you, Tom. We can move on to the next slide. Excellent. So first of all, let me introduce myself. I'm Georgios Passalis. I am 11 years with Accenture and I'm a data scientist working for all these years on what we call front-office analytics. So commercial pricing, marketing, and customer analytics. My job in them, Accenture, as part of the broader group within Accenture called applied intelligence, is to lead global intelligent pricing. So that's where I spent almost all of my time. What I would like to walk you through today is some thoughts, some of the latest direction we have seen our clients in consumer goods going, using data to make a decision. So, heading a bit with what is that gut feeling of intuition that also Tom walked us through, but also trying to use as many data points as we can. And what I would like to do is do a deep dive, a little on the perceived value box that Tom had on the previous slide. And then let me ask the question - what was the in Tom's example there, the reason why he sits there thinking the room was so special and that is worth paying rent even higher? And the short answer is that consumers do not choose products in the, let's say, abstract sense of a product in terms of a product idea or SKU ID, but effectively, they choose the product because of their attributes. So as manufacturers, we manufacture products, but in reality, how our consumer perceive them is due to the combination of the items. And I have here examples for different categories, spectrum for fast moving goods, to footwear, to food as well. And of course, the attributes are different in every category, but in reality, all these consumer facing properties of the products is one way or another, what determines the final consumer choice.

And if we have the chance, a magic mirror that allowed us to understand how much our consumers value each of these articles then maybe we could make better decisions, smarter pricing, more better uncovering what is the willingness to pay. Now, regardless of which category your products are there's always the

question of whether we have enough attributes to describe our own product. And of course our competitive products, because that's always a comparative study. The short answer is that we never have all of them, or at least not all of them answer for the full category. But in reality, even a handful of attributes, let's say we have 10 to 20 different types of attributes are enough to describe most of the products in the category. And even though there are always even additional attributes, dozens of them, and maybe they are too obscure for the consumers to understand that. Or in any case when the consumer goes to the point of sale, their decision logic is based on one, two or three basic attributes.

Maybe different customers consider different attributes or stock, but nevertheless, it's a very similar story. So if I take the example of the soft drink, maybe brand plays a big role, absolutely, pricing does as well. But also, so does the material, whether it's a plastic or whether it's aluminum can, whether of course it includes if it's carbonated or not, whether the size pack is small or large. And of course, whether it is no sugar, diets and so forth. And I said, with a handful of attributes it's not so hard to explain how consumers choose. Usually with a handful of authors 10 to 20 different types, we can pretty much describe most goods.

Now, how do we do that? What is the magic mirror for that? And then maybe we'll move on to the next slide. So the answer is data, of course. Being a data scientist, of course the answer would be data, but there are enough data and there are different ways to extract the data. And three types of options we have at our hand; first of all is to create consumer surveys. That really isn't a traditional approach to Tom's earlier point because consumers sometimes lie. We have specialized types of market research, like conjoint analysis. We can quantify the importance of individual product attributes. In the terminology of concern, that usually is called a utility score. But effective intelligence gives us a score of importance, how we



interpret this score, this is debatable, but in principle, it does rank us the attributes. This is one way of looking at that. A second way is not asking explicitly the consumers, but listening to what they say. So now we have a very rich set of data in the social media. This is usually for texts in Twitter, Facebook, we tend to find easily mentioned to products.

So we can estimate what we call the word of mouth, or we can estimate sentiments so we can understand whether the attributes, this particular attribute like a flavor like brands have a positive or a negative connotation. Or even if we don't look at the connotation, we can just look at the set of words for how prevalent they are. And this is a common, in many cases in the text space of the social media. But for some clients, we have even taken the next level and try to identify for example, color trends from influencers in Instagram and other cases. So the options in social media are limitless because even though we cannot frame the question ourselves, we can listen and get a lot of answers. So this is also very important when we are also focusing on trying to find the insights for product innovation. Like what are the attributes of the properties the consumers talk for?

And the last one, but not least. I will say this is a more flexible and easier applied, is effectively analyzed with statistical means our data. Traditionally, this was done with what we call an attribute analysis, what, again, identifies an importance to the articles with the latest technology we have now machine learning algorithms, and can properly more than the decision logic of a customer. So we started with I choose first, we started with I choose second and then try to decompose it and give us a very accurate view of really, which percentage of the customer choice was driven by it in every attribute. Now, if we get all these we can unlock several use cases. And I will explain that then we may, in a second, but the bottom line is that we are taking the design to imagine their concept to one level deeper from the product.

So you already have your cost elements of many of your product features one way or another, because they are separate or more expensive to manufacturer, or either like the pack size. It can be the impacts a logistics model as you have that. What we can offer with looking deeper into the data is also to associate their consumer report. And so if the cost is the loss, this is the profit in a PNL. So effectively we have an elegant way using the data to go from a product BNN down to even another group. A PNL. But how can we change our decision? I would say, stay for we'll move on to the next slide.

These are just the four examples that you have to pick from three different clients. So, the first and foremost application, of understanding how important the attributes is, is to understand their willingness to pay. So, importance of attributes can be effectively mapped into pricing and then comparing what the modeling data suggests that this is the right price or the maximum price the consumers would pay. It can be contrasted without historic decisions of what we decided to price our products for. So we can have like a quadrant for products where we priced up above what the market could bear or what the consumers want, but also a lot of opportunities of underpriced products where features of, were not expensive to manufacture we didn't price them accordingly. We missed the premium potential they had. Now similarly, we can use this information to try to understand future demand of products. And why this is important because in many category where you have seasonal products, or with these let's say more fashion driven and your actual SKU savings over time.

And it's not always same. It's actually hard to have an accurate forecast on the product level. This is where we decompose this importance into the demand elements. And then we can reconstruct our next decision products in a more accurate way. Minimizing our manufacturing costs, especially when we are facing a scenario where we manufactured six or



seven months in advance, especially going to market. So our methods on logistics become much more efficiently. Similarly, we can make better decisions on how we monitor our category or where we position our brands, because we can use this attribute to understand how demand transfers from one area to the other, and therefore can fine tune our price, pack architecture to figuring out if it makes sense to, for example, up-size, some pack sizes, change the price accordingly, reposition brands into white spaces in the price pack ladder.

Last but not least, I will say that this has a profound implication on managing our lifetime of our products, because we can use the same attributes, and not only to infer the optimal price or the transfer ability, or even the future of demand, but actually determine the sale of the lifetime. So going from design to observe, lets us understand which features really push the longevity of the products, which features accelerate the initial launching phase of the product and what could result to faster adoption for the products. And then by understanding all these making better decisions on not only on the production, but even on the product design, or better balancing our decision on arrange to account for the natural phases of the product lifetime evolution.

So not discount because we have a lot of products in stock and they're out of towards the end of their lifetime, but better plan it, anticipate it and make up my decision. So that's some ideas on how, what each case we're going to look by getting to the next level of using data to further understand our attributes. And I can reassure you that the data exists. All the data are never perfect, but that's okay. I mean, that's why the algorithms work even with an incomplete data. And happy to pick it up afterwards with any questions. Or even give more examples. Let me pause here and back to the team here to see if they have questions or if they will have me go to the next presenter.

Andy Kohok:

Andy Kohok here. Just a quick question, right? I mean, a fact-based decision-making is great, right? There's examples of it, but then who owns the final pricing decision for the product?

Georgios Passalis:

That's a tough decision. To be honest, it really depends on the type of category or the industry that the... It's client belong. I have worked with several consumer goods clients. It's never, I would say, a straight answer and thankfully, it's not my main job plan. Essentially, I'm trying to provide the best answer. And then of course, it's the person operating model. But even if you don't have pricing decisions in some cases, this gives you a fact-based approach, at least to provide the recommendation. So if you look on the life cycle of manufacturing the product, moving it to your customer, to your retailers, being more fact based in pricing decisions helps even on the next stage, about it even on the next page, even if you don't directly control the price.

So like an average retail price, because the retailers can make up their mind on top of that, but even arming them with information on why these products are premium or less premium, or why in the beginning of the season, this product is priced higher than the other, can influence a lot, even the subsequent decision. So open, summarize, open point depends really on the operating model of our client, but the more fact-based we are, and yeah, the easier it is to have this discussion.