

Pricing Technology: *The Next Wave for the Middle Market?*

By Paul Stukel

Let's be honest. Probably 95% of middle market companies look at pricing from a relatively seat-of-the-pants perspective. Cost-plus, "price-to-win," and, these days, utter fear tend to be the driving factors in pricing decisions.

But what if middle market companies applied the same rigor to pricing as they do to cost containment? To customer service? To human resource management? While in the past such a concept might have seemed foreign or academic, today there are technologies that allow for just that – a scientific, analytical approach to pricing that can show extraordinary results while maintaining customer satisfaction.

What is pricing technology?

Pricing technology is typically broken down into three major elements:

Pricing Analytics: Pricing analytics is a backwards-looking process that takes (primarily) historical data – transactional information, external factors, win-loss results, financial performance, etc. – and attempts to identify and explain trends, major influencers, missed opportunities and success factors through the utilization of statistical techniques and applied expertise. Pricing

analytics seeks to answer the questions: “How have we been doing, why, and what are the major factors that impact our overall pricing and financial performance?”

Pricing Execution: Pricing execution, as the name implies, focuses on the functional aspects of pricing across the enterprise. Pricing dissemination, administration of pricing guidelines and deal development, automation of approvals, etc. Pricing execution typically replaces the highly-disparate, manual processes that tend to dominate in middle market sales organizations.

Pricing Optimization: Pricing Optimization is perhaps the most powerful of the pricing technology elements, particularly in terms of financial returns. Pricing Optimization utilizes segmentation, analytics, modeling and forecasting to actually produce pricing recommendations – often in real time. In many ways,

Obviously, each vendor brings its own methodologies and technologies to the table. And each approaches the science of pricing in its own way.

	RATING				
	Strong Negative	Caution	Promising	Positive	Strong Positive
Model N			x		
Navetti			x		
Oracle			x		
PROS					x
Servigietica			x		
SignalDemand			x		
Vendavo					x
Vistaar Technologies				x	
Zilliant				x	

As of July 29, 2011
Source: Gartner (July 2011)

optimization is the culmination of analytics and execution, in that it incorporates elements of both to produce a tangible, actionable result – a pricing recommendation that can be implemented by the sales professional.

Different vendors provide some or all of this functionality, with varying emphasis between the component elements.

A little history – Embracing B2B and the middle market

Advanced pricing techniques are not a new phenomenon, of course. Andres Reiner, the CEO of Houston-based technology provider PROS Pricing, points out that “we’ve been in business for 25 years, starting in the B2C space – mainly travel and other services.” Indeed, while PROS is the most long-lived vendor in this marketplace, most other players in the industry have reasonably long histories as well, generally in the 10-13 year range. And most started in either the B2C space or a defined vertical.

Take Servigistics, an Atlanta-based provider. Founded in 1998, Servigistics’ pricing business grew primarily out

of its software solutions for managing aftermarket services parts, field service activities and service logistics. Model N, headquartered in Redwood Shores, California, and founded in 1999, grew primarily as a vendor to the medical device industry. Similar growth paths define most of the other vendors in the space.

What has changed is that all these vendors have now expanded to the B2B space, and that most have begun targeting middle market companies.

Enterprise Vs. Middle Market Solutions

As in so many other areas, the demarcation between large (enterprise) and middle market companies in the pricing technology space is defined somewhat differently by each vendor. In general, however, it appears that pricing technology companies define the cut-off between middle market solutions and enterprise solutions – the latter of which can cost millions of dollars to implement – somewhere between \$500 million and \$800 million in revenues.

In this respect, of course, even enterprise solutions can be considered viable

for the upper middle market. As such, it’s worth a look at the larger offerings as well as the newly-tailored options available to the lower-middle market.

Enterprise Solutions

In the enterprise space, pricing technology and science has developed into an extraordinary tool for many businesses. According to a recent Gartner report, *MarketScope for Price Optimization and Management Software for B2B, 2011*, there are typically four broad corporate objectives for adopting B2B pricing solutions:

- I. Defend and improve profitability (i.e., gross margins or even pocket margins);
- II. Defend and grow sales without sacrificing margins;
- III. Improve governance and consistency in pricing practices and realized prices (like eliminating rogue discounting);
- IV. Increase organizational agility in tailoring pricing for specific market conditions or sales cycles.

According to the vendors we spoke

to, these objectives are met on a routine basis.

“Our experience has illustrated that our pricing techniques can lever a 1% increase in sales to a 9% increase in profitability,” says Tim Girgenti, PROS Chief Marketing Officer.

Other vendors identify similar impacts. Usha Iyer, Senior Vice President of Product Marketing and Presales for New Jersey-based Vistaar Technologies, describes their results for a high-end technology company. “They have seen incremental revenues of \$800 million, with a corresponding margin increase of \$200 million after implementation of our solution.”

These kinds of results may be extraordinary, but according to Gartner, “investments in price optimization and management software will help increase gross margins, on average, by more than 2%.”

So how does it work?

Obviously, each vendor brings its own methodologies and technologies to the table. And each approaches the science of pricing in its own way. But the common denominator, at least

in terms of Pricing Optimization (which is the ultimate “bottom line” element), is segmentation.

Utilizing historical transactional data, external information, win/loss experience and other various inputs, all optimization vendors utilize proprietary analysis and algorithms to produce what is known as prescriptive pricing suggestions – i.e., a customer-specific prices or ranges, based on the factors above, which provide the most likely “win” situation, while obtaining the best possible price point for the company.

The effectiveness and substance of these pricing ranges ultimately rely on the data points used in their derivation. Different models are applied by different vendors.

For instance, vendors like Servigistics go to great lengths to obtain hard competitive information for their clients’ pricing efforts.

“Most software vendors will have the ability to take in competitor prices,” say Jon Utterback, Vice President, Pricing Product Line for Servigistics. “But the quality of that information is questionable. To address that, as an example, for one



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As the world leader in business-to-business prescriptive pricing and margin optimization software solutions, PROS Pricing (NYSE: PRO) continues to deliver on its 26-year heritage of providing pricing and profit management excellence to customers in the manufacturing, distribution, services and travel industries who consider price and revenue optimization core to their strategic market leadership. PROS helps companies achieve the results needed to grow their business and gain a competitive advantage. From increasing shareholder value to responding to market volatility and overcoming competitive pressures, PROS solutions enable companies to maximize their pricing power and take advantage of the most effective lever available to impact profitability. **PROS solutions deliver hundreds of millions of dollars** in sustained bottom-line profitability to customers around the globe. Using PROS prescriptive pricing solutions to drive price analytics, price execution and price optimization, customers gain insight into pricing strategies, identify detrimental pricing practices, optimize decisions and improve financial performance.

The embedded science in PROS prescriptive pricing and revenue management solutions is what drives the accuracy of PROS decision-making guidance. The PROS science team is made up of a team of 30 scientists, including more than 20 PhDs, all committed to applying science to solve the unique challenges that face the customers in the industries we serve. PROS provides the fastest time-to-value and a comprehensive roadmap to deliver incremental profitability for years to come. With a 36% faster time-to value than the market average and a 99.7% implementation success rate, it's no wonder PROS is considered the undisputed leader in the pricing and revenue optimization market.

Founded in 1985, PROS has implemented more profitability management and optimization solutions than any other market provider. PROS operates globally, with world headquarters in Houston and European headquarters in London.

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...what if middle market companies applied the same rigor to pricing as they do to cost containment

of our automotive customers, we'll get a list of 1000 to 2000 parts for their product, and we'll have our engineers assess them in detail, identify the key attributes, look for part 'kits,' and consider alternatives. After that, we'll go to actual dealers and get real price lists and use those, with our technology, to arrive at appropriate price lists for our customers."

Servigistics may, on the other hand, be a somewhat unique case, given their fairly narrow vertical focus.

Barrett Thompson, Director of Pricing Excellence at Austin-based Zilliant, points out the basic problem. "The complicating factor in B2B is the lack of transparency," he notes. "You really never get actual competitive price points, because

you never see the actual transaction information. We rely extensively on scientific studies on the drivers of price – interestingly, geography can very frequently be a major driver – as well as win/loss analysis, and from these you can get a pretty strong indirect understanding of competitor pricing."

Reiner of PROS agrees. "In most cases, it's difficult to find competitive price data [for B2B]. But our approach relies on various aspects of segmentation, product attributes, customer attributes, and incorporating independent "leading indicators" to find correlations with prevailing prices, along with other factors. In this way, utilizing real-time data streams of these leading indicators to update our technology, we can arrive at prescriptive pricing in a real-time environment."

One of the non-financial benefits of pricing technology might not be as intuitively obvious – pricing confidence on the part of salespeople. Girgenti of PROS: "Salespeople want to win. Using real-time, scientifically-derived prescriptive pricing firm-wide gives salespeople enormous confidence in negotiating with the client. That alone increases success."

Middle Market Solutions

Until recently, mid-to-lower middle market companies have basically been shut out of the pricing technology marketplace, due primarily to cost and implementation time. Implementation of an enterprise solution can take 12-18 months, and there is a considerable up-front cost that must be borne by the company. The initial cost and complexity of traditional enterprise solutions is typically not justified at lower revenue levels.

But several pricing technology vendors have made reaching the mid-to-lower middle market a priority.

Zilliant appears to have been a first-mover in terms of this respect.

"We were the first provider to offer subscription-based pricing," says Thompson. "We started that in early 2010 as a means to make the economics work for the middle market. We found that middle market executives are pretty practical when it comes to adopting this kind of technology and methodology. The basic premise is 'Don't make me take a lot of risk' in terms of large licensing fees and long implementations. So our implementation time for middle market deployments went from the 12-18 month timeframe for enterprise customers to 90 days. We're saying 'Let's do something this year.'"



Zilliant

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“...investments in price optimization and management software will help increase gross margins, on average, by more than 2%.”



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PRICE *verb*
1 to set a price

TECHNOLOGY *noun*
2 : a manner of accomplishing a task especially using technical processes, methods, or knowledge

(Merriam-Webster)

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Vistaar price performance management solutions enable industry-leading manufacturers, service providers and retailers to drive measurable revenue and margin improvements by providing:

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- End-to-end pricing solution that supports core functions, unifies processes across functions, and enables collaborative decision making;
- In-line intelligence and analytics to empower pricing, sales, finance and other managers to make more informed decisions;
- Embedded 'what if' scenario planning capabilities to develop, consider, and implement winning go-to-market strategies.

Vistaar works with global companies including Advanced Micro Devices (AMD), Beam Global, Cisco, GE Aviation, and Pernod Ricard to transform pricing operations into a strategic advantage. Vistaar pricing solutions drive measurable price and margin improvements and deliver profitable growth.

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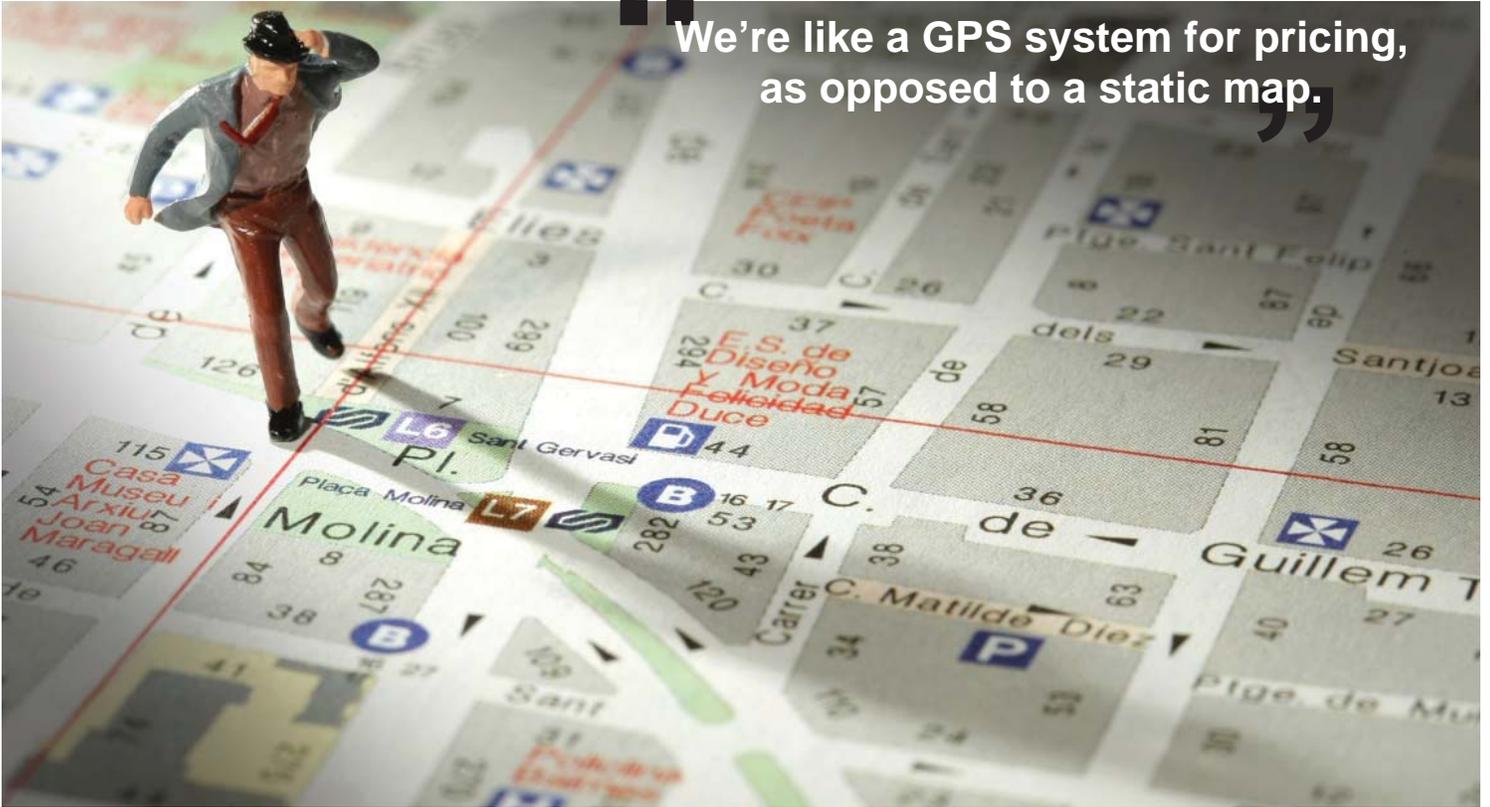
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Vistaar has also recently jumped into this market. “Our middle market strategy is basically three-pronged,” says Iyer. “First, we are creating what might be called “templated” versions of our high-end solutions that can be deployed rapidly for specific types of companies. Second, there are some instances where pricing is much more transparent, and in those we can take advantage of more standardized solutions to reach the middle market. Third, we’re identifying and delivering those elements of our functionality that have the highest impact [on price and profitability] while excluding some of the complexities of our enterprise solution.”

PROS is taking a somewhat different approach.

“We wanted to offer a solution designed for the middle market,” explains Reiner, “not just a piecemeal set of functions extracted from our enterprise solution.” The result is a new solution built on the Force.com platform and tied to the cloud via integration with popular CRM Salesforce.com.

Cost and implementation times have been scaled down across the board for these new middle market offerings. Subscription pricing is standard, and implementation times have gone from months to weeks to address the concerns of middle market companies. The focus is on rapid adoption.

“Our Excel user interface is very robust,” says Iyer, “so we can make the solution look very similar to how they currently do things. Thus adoption becomes much faster.”

“We make it so easy to adopt,” says Girgenti of PROS. “You don’t have to be an expert to use the solution. We’re like a GPS system for pricing, as opposed to a static map.”

The Next Wave?

The enticing returns from pricing technology and science are beginning to be noticed by businesses of all sizes. From Gartner:

Firms have become more ambitious in their pursuit of optimization capabilities. In 2010, more than one-quarter of the calls that Gartner received from clients and prospects were inquiries about the potential for price optimization in generating pricing guidance for sales forces.

For the upper middle-market, the enterprise solutions available have established themselves as viable and effective tools that can provide significant results to both the top and bottom line. With the advent of cloud computing, SaaS and the ubiquity and effectiveness of CRM, these benefits are now available to the lower-to-mid middle market as well.

As one takes a look at the overall landscape for middle market companies, there is an intriguing question. Is the convergence of CRM, pricing technology, social networking and social pricing, all enabled by cloud computing and SaaS pricing models, the next big wave for middle market companies?

Time will tell. &

Paul Stukel is the founder and Editor-in-Chief of PRESIDENT&CEO magazine. He is also the founder and Chief Executive Officer of NEXXUS Publishing.