



When Execution Matters

Change Management Perspective: Critical Implementation Success Factors for Strategic Pricing & Profitability Management Technology March 30, 2009 – 11:50 am by Cindy Lo

In today's economic downturn, many high tech companies face the challenge of sustaining or improving their sales growth rates despite suboptimal margins and profitability erosion in such a complex business environment. The inability to strategically manage a closed-loop pricing process (Figure 1) is also a major concern for these organizations, especially when current policies and analytics systems lack accessibility, scalability, and technical capabilities. Overcoming these challenges in order to effectively price and discount products and services is critical in order to minimize revenue and margin leakage.

This article will discuss why strategic pricing and profitability management is important to companies, and the types of investment returns gained from improvement opportunities such as pricing optimization software. A large part of the successful implementation of this software is not only putting the technology in place, but also assessing the degree of change management required throughout the organization and proactively managing executive sponsorship, stakeholder engagement, communications and user training.

The figure below highlights a view of the pricing process that many companies establish in their organizations.

Figure 1



- **Strategy** serves as the guiding principles and clear vision behind a company's price positioning of products, services, and software in the market, discount structures, and profitability management
- **Planning** supports the pricing strategy across go-to-market, account management, and new / existing business models (e.g. geography, competitor, customer segment, etc.)
- **Optimization** is achieved as modeling technology and price scenarios are assessed to identify the optimal solution for product, service, software pricing across competitive information, globalization, tax and regulation business rules, and profitability goals
- **Execution and governance** happens within end-to-end processes, policies and procedures for a company to deliver its optimized prices to the marketplace. Cross-functional partnership to manage performance is required to ensure that cultural factors that shape pricing behavior such as organization structure, sales and marketing effectiveness, training and talent management are addressed
- **Analytics** are used to understand profitability and past transactions such as expenses, costs, discounts, and adjustments are critical to drive better decision-making and sales negotiations

Strategic Pricing and Profitability Management Technology

Many companies that want to improve sales effectiveness but have complex product and service lines and pricing models are exploring the use of pricing software tools to set, optimize, and enforce pricing processes and policies. As such, some companies have established pricing and profitability management as a core competency in their organizations to maintain pricing excellence and stay competitive. AMR Research has suggested that price management initiatives can increase a company's margins by 2 to 7 percent in 12 months, yielding a return on investment of between 200 and 350 percent. Furthermore, an industry survey of 153 pricing management projects have reported annual outcomes of:

- Average benefit: \$3-45 million increased annual revenues
- Increased revenues: 1-2 percent
- Increased gross margin: 10-15 percent
- Increased contribution margin: 20-50 percent
- Project paybacks: 3-10 times or more

Companies striving for results like these conduct pricing improvement efforts, implementing sophisticated pricing software that automates and integrates data analytics and business intelligence capabilities across the business functions that touch pricing in a consistent and coordinated manner. For example, according to Thomas Davenport's *Competing Analytics*, pricing and revenue optimization software may use predictive mathematical modeling to identify the most profitable customers – including those with the greatest profit potential or ones most likely to cancel accounts. This information is based on pooled in-house data or outside sources (a combination of market, customer, product / service, promotion, business segmentation, and competitor marketplace data) and can be used to improve business margins by either increasing unit prices or gross revenues through real-time pricing to get the highest yield from each customer transaction, or modeling how operational costs relate to financial performance.

Davenport also describes companies that “establish prices in real-time to get the highest yield possible from each of their customer transactions. They create complex models of how their operational costs relate to their financial performance”. The value of implementing technology is not only to be able to better predict how customers will react to changes in price, but also to raise the company's understanding of price visibility and analytic insights, ensure an integrated process for cross-functional business users, and improve salespeople's negotiating position by giving them real-time profitability information and decision support tools.

Implementation Change Management Success Factors

While new pricing software is used across a wide range of industries, the key implementation success factors listed below ensure that change readiness and adoption can be applied to all organizations.

Executive Sponsorship

Before a technology solution is selected, it is important for companies to educate their leadership team and workforce on pricing improvement opportunities and associated ROI through a formal business case. Buy-in and commitment from top-level executives is extremely important in order to convey the priority of pricing in the organization, provide a visible level of executive sponsorship for the group's related programs, and to manage and address any people issues that result from the change. For instance, a major network manufacturer established a strategic pricing organization and dedicated senior management to establish a Program Management Office (PMO) to select, test and implement a pricing optimization management initiative. The PMO used an integrated approach to manage change that considered all people, process, policy, systems, and data implications.

Ambassador Network

After selecting a vendor, the charter and goals of the pricing PMO should include introducing the software and process to stakeholders through application demonstrations, communications, training, and continuous improvement of pricing processes and business / IT capabilities. It is critical for the PMO to structure a core and extended program team to not only execute against development and implementation activities, but also to work with the business and IT partners to form an Ambassador Network – a group of leaders and “super users” who can communicate, provide feedback, and own / manage the change in their respective group. For example, since the major network manufacturer’s strategic pricing organization served many cross-functional groups including, Finance, Sales, Marketing and IT – their PMO had to understand the degree of impact and influence the various groups had, take necessary action to capture concerns, and ensure appropriate business readiness and user adoption. The network manufacturer leveraged a “train-the-trainer” approach and helped make stakeholders aware of the expected technology benefits and outcomes for their organization.

Implementation, Planning & Execution

Program execution efforts should include creating the governance and operating procedures framework, scope, and major roadmap and release planning to target “quick wins” and longer-term goals. The core team must drive business requirements across cross-functional processes and create user scenarios to understand the “As Is” and “To Be” pricing capability changes and enhancements that the pricing software offers. By understanding the fit between the business pricing needs and the vendor software, more of the end-state IT landscape vision, geographical localization, and software alignment to IT infrastructure and skills can be accounted for. Business intelligence, data modeling, access management, and a solution architecture analysis are also critical to the design, test and build stages for functional / technical requirements, and any proof-of-concept development. In the case of the network manufacturer example, much of this work required the core team to validate and socialize the pricing analyses with the key stakeholders and representative end-user groups throughout the program lifecycle.

Internal Marketing Campaign – Communications & Training

Effective communication is important to ensure business readiness and user adoption. The primary components of communication management include an overall communication strategy, core communication tools, and standards for disseminating key messaging. The PMO should conduct a stakeholder analysis to understand sources of support and resistance, and create an overall communication plan that allows information to flow across all levels of the program.

Leveraging multiple communication and knowledge-sharing channels (e.g. town halls, newsletters, emails, project portal, interviews, and feedback sessions) also ensures that all of the impacted groups are appropriately involved and informed of the changes well in advance. By taking an internal marketing campaign approach, a “buzz” is then created around the program, equipping senior management with the right message to socialize and promote the pricing improvement efforts. For instance, the network manufacturer conducted a pricing optimization implementation presentation road show to gain additional support, and track the effectiveness of the change through measurable success criteria and program scorecards. The message also supported their company’s strategic business objectives regarding pricing excellence and maintaining a competitive edge.

Finally, learning is another key aspect of change management which directly impacts user adoption. Training and knowledge transfer activities are necessary to build the skills and abilities that end-users and support teams need to be effective in their roles while using the new pricing software application and “To Be” processes. Developing curriculum maps for the software implementation, designing training solutions, delivering training, and creating user guides, are some of the key activities and outputs. Ideally during the test phase, the PMO and IT teams can engage the Ambassador Network early to gather feedback and conduct training sessions to prepare for the formal training series with a wider audience. After testing and go-live, the PMO should set up an ongoing support and maintenance processes to ensure continuous learning, measurement, and improvement.

Achieving pricing excellence has rapidly evolved into a successful company’s core competency. When done right, there are significant returns, such as increased revenues and gross margin, contribution margin, and overall project payback. In this recessionary economy with its intense pricing pressures, that is a compelling business case. There are multi-faceted areas to consider within the pricing process, not to mention the level of change management needed to engage cross-functional stakeholder groups. By taking advantage of improvement opportunities such as strategic pricing and profitability technology, companies can drive an integrated view of the pricing function and process, quickly respond to marketplace changes and evolving business needs, and, in turn, increase shareholder value.

Endnotes:

1. Laura Preslan, "Price Management: Conventional Wisdom is Wrong," AMR Research Outlook, February 2, 2004
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3. Davenport, Thomas H., Competing on Analytics. Harvard Business School Publishing, January 2006
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