



HOW PRICE OPTIMIZATION HELPS B2B SALES

WHITEPAPER



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CONSIDERATIONS:

- Minimize revenue risk and maintain customer win rates
- Reduce quote turnaround time
- Help every rep improve selling performance

In many companies, there is a constant tension between the sales team and the pricing team. The pricing team wants sales reps to quote from the price list and follow a set of rules, while sales, often faced with highly-competitive selling situations, wants to quote a price that is guaranteed to win the business.

To address pricing challenges, many companies resort to automating exception approvals or setting more rules. Neither approach has the desired effect of providing better prices or driving higher profits. They fail to fix the root cause - setting the right prices upfront.

In stark contrast, when pricing is optimized using data science, margins are enhanced without putting revenue at risk, and companies can transform the status quo. This changes the relationship between sales and the pricing department.

Rather than creating rules to control price quotes from sales, optimized pricing provides market-aligned pricing guidance to sales reps that is specific to each unique selling circumstance, product and customer. This boosts sales reps' confidence in their price quotes and enables them to spend more time selling.

Price optimization starts with analyzing past transaction data, which means the optimal price recommendations are never outside the bounds of what the product was sold for in the past, under similar circumstances (order size, customer type, geography, etc.).

Consider if all the sales people in your company could come to a consensus price for every deal that is currently in negotiation, those consensus prices would be indistinguishable from the optimal price recommendations, statistically speaking. Put another way, transaction-driven price optimization takes the wisdom of sales people, applies AI and machine learning algorithms to it, and converts it into actionable price guidance for those same sales people. In the end, it's the experience that the sales team has accumulated in the transaction history that helps drive prices.

In addition to providing better prices, price optimization helps sales in three ways:

1. MINIMIZE REVENUE RISK

When compared to the price that your customer paid for this same product last time, most optimal price recommendations represent a minimal change.

2. REDUCE QUOTE TURNAROUND TIME

In many pricing projects, companies provide prices to only a handful of pricing professionals, then expect sales reps to route their thousands of exception requests through the pricing team for approval. This usually results in pricing staff getting stuck with a huge backlog of pricing requests that never goes away, slowing down quote time and further frustrating the sales team. A more effective approach is to give the price guidance directly to the sales teams. Companies that take this approach see substantial improvements in margin rate, margin dollars and price realization, while speeding up quote time. When sales people start with the market-aligned price, exception requests drastically decline.

3. TURN B AND C PLAYERS INTO A PLAYERS

If your company is like most organizations, your sales team consists of primarily “B” and “C” players along with a handful of “A” performers, or those reps that consistently meet or exceed quota and do so with profitable sales. Imagine for a moment that all the B and C players could sell at the same level as the A players. What impact would this have on your top and bottom line? There’s no doubt it would be huge, but can it be done?

The key to achieving this kind of impact is enabling all reps to know which price to charge in every selling circumstance. If every one of the B and C performers could take every deal they are negotiating and have the prices reviewed by the A performers on the team, do you think that would make a difference in the kinds of prices the B and C performers were able to achieve? In an abstract sense, this is what data-driven optimal pricing is really doing. It sees what the A performers can achieve under many different selling circumstances (i.e. for each price segment) and recommends optimal price points for the B and C performers to follow.

Which is more valuable to you, getting slightly better margins on the A players who comprise 20 percent of revenue, or raising margins by 20 or 30 basis points with the rest of the team that makes up the other 80 percent of revenue? It’s the second case that leads to massive improvements in gross profit dollars.

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