

## Linking Price & Promotion to Bottom-line Improvements

Traditional revenue management practices were no longer effective in the mature and saturated Alcohol Beverage industry. Manufacturers, faced with increasing costs and shrinking margins, were searching for new ways to drive profit.

One major global manufacturer had a strong vision for the future. With multiple breweries and thousands of employees, they partnered with Pricing Solutions to transform their revenue management processes. Using a custom-built Pricing & Promotional Planning Tool™, the client transitioned to a more data driven revenue management process and developed advanced pricing management capabilities for long-term success.

### The Challenge

The Alcohol Beverage market is fiercely competitive and in the multi-brand and multi-SKU environment, product differentiation was low. So like many manufacturers, the client was struggling to overcome several key pricing challenges:

- No way to accurately evaluate the impact of pricing & promotion decisions
- Difficultly pinpointing what exactly was driving sales (for example, brand-switching, seasonality, advertising, changing consumer preferences or shelf location?)
- Manufacturer was overloaded with data. They were sitting on a 'gold mine', with large amounts of historical POS data, but lacked an effective management system
- Size and scope of the project meant commercially available solutions would not be an option. A custom-built Pricing Tool would be needed.

### Building a Solution that Fits

Pricing Solutions would need to deliver a choice-modelling tool for the client to assess the effect of pricing and promotion decisions across multiple products and brands. Pricing Solutions' Analytics practice custom-built a Pricing and Promotional Planning Tool™ (P3T) capable of evaluating pricing actions down to the SKU-level. The model could also forecast Volume and Margin for price, product and brand

combinations of interest, still taking into consideration the impact of seasonality, advertising, consumer preferences, shelf location etc. These factors could be isolated & evaluated as needed.

The P3T™ leveraged the client's existing POS data and would continue to solve their data management challenges by 'refreshing' using new sales data as it was collected. Up-to-date data instilled confidence in the tool and generated consistently accurate results.

**The model was able to re-create actual incidence rates with 94% accuracy.**

Pricing Solutions' Pricing Management division also introduced frameworks to support the integration of the model, including the Pricing Waterfall. The client's existing knowledge and expertise was essential in quickly integrating new World Class Pricing™ processes.

### The Result?

This project was designed to uncover both short- and long-

## ALCOHOL BEVERAGE

*“ We were building a complex model in a complex category, on a scale larger than what commercial software could handle. It was imperative to develop confidence in our custom P3T™. ”*

- Greg Thomas,  
Vice President Pricing Research & Analytics, Pricing Solutions Ltd.



term pricing improvement opportunities. **It enabled the client to positively change share trajectory, stabilize sales & margin, and significantly grow incremental revenue and profit annually.**

Due to the success of the project, Pricing Solutions is rolling out similar studies in additional markets for the client.

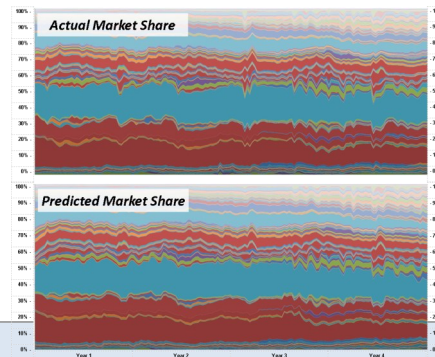
Introduction of promo optimization in the European market for example, **is estimated to result in a \$3 million profit opportunity at one major retailer.**

The P3T™ model is now an integral part of the revenue management team's annual, monthly and weekly planning process. It is also used to respond to changing market dynamics. When needed, data-driven pricing decisions can be made quickly according to the industry.

*Clockwise: P3T™ successfully reproduces market shares, seasonality & complex brand interactions; Easy-to-use interface for real-time decision-making.*

### What's the Pricing Solutions Difference?

The success of any project depends on the pricing team. Pricing Solutions' product knowledge was instrumental in narrowing down the range of model structures to consider. Since commercially available solutions were not an option, Pricing Solutions' experience developing similar tools gave the client confidence in our modeling approach. The model was able to re-create actual incidence rates with 94% accuracy.



DISPLAY AREA	NORTH		REFERENCE	RESET ALL
WEEK DATE	10/08/2014		RESET	MAIN PAGE
WEEK NUMBER	2489245		RESET PRICE	
MARKET GROWTH	0%			

	\$ PRICE		VOLUME (HL)		\$ MARGIN		
	BASE	SIMULATED	BASE	SIMULATED	REGULAR	SIMULATED	
TOTAL	—	—	6,916.14	1,617.14	8,351.05	6,570.25	
TOTAL COMPETITION	—	—	6,778.25	1,662.05	6,374.25	2,893.45	
			686.48	734.99	114,423	102,355	
PRODUCT ABC	16.50	16.50	64.84	40.99	15,998	11,000	OFF 100% 0% 0% 0% INCLUDE
PRODUCT XYZ	14.00	14.00	51.26	59.64	4,233	6,111	OFF 0% 90% 0% 0% INCLUDE
			844.55	855.26	170,179	109,007	
COMPETITOR 123	—	—	—	—	—	—	OFF 0% 0% 0% 0% EXCLUDE
COMPETITOR 789	23.50	23.50	34.26	61.19	6,959	3,808	OFF 100% 0% 0% 0% INCLUDE

## Our Firm

Our mission is to dramatically improve clients' profitability and market share through improved pricing. Pricing Solutions' four core services include Pricing Strategy & Management, Pricing Research & Analytics, Pricing Training and Pricing Tools & Systems. Known for our World Class Pricing™ methodology, we have grown to become one of the world's leading pricing consultancies with offices in North America, Europe, Asia Pacific and Latin America. Our global team of researchers, consultants and partners are recognized thought-leaders.

We deliver customized cross-functional solutions, helping our clients achieve a typical payback of 10:1 on their investment. Pricing Solutions' was jointly awarded the 2013 INFORMS Practice Prize for project work in this industry.

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