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Set-up and Automation of a "Winning" Pricing Strategy

Executive Overview

Setting up a consistent and agile pricing strategy and empowering the business into understanding and managing their pricing and discounting policies in a fully transparent way drives sustainable margins uplifts and greatly improves the customer experience.

The big challenge that many companies are facing all over the world is finding the right way of putting in place a consistent and agile pricing strategy which spans tailored pricing based on both the transactional reality and the product value, customer importance, market & competitive position and other determinant elements. Most often pricing strategies, methodologies and processes are closed books to organizations and require lots of manual hard work from both Business and IT areas. Setting up or adapting a comprehensive pricing solution requires in many cases a significant investment, a long time to market, and often causes operational issues and increased risk at execution level.

The questions many companies ask themselves are:

- How can it be done in a much more efficient and risk-free way?

- How to leverage the potential that *"Pricing Excellence"* brings to an organization?

- How to generate the substantial increase of margin, higher close rates and better customer experience that *"Pricing Excellence"* brings to an organization?

> "The single most important decision in **evaluating a business** is **pricing power**. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. If you have to have a prayer session before raising the prices, then you've got a terrible business"
>
> Source: Warren Buffet

A combination of Pricing Solutions' deep Pricing Expertise and the use of Oracle Policy Automation as a tool for modeling underlying pricing and discounting rules in natural local language allow organizations setting up their tailored pricing strategies, methodologies and processes seamlessly.

This effective combination enables companies to leverage all of the operational benefits that *"Pricing Excellence"* generates and engenders demonstrable increases in bottom line profitability for the organization that no other leaver can achieve, including the standard and often depressing cost cutting activities.

Main benefits achieved by the use of Oracle Policy Automation (non-exhaustive list):

- Seamless translation of the Corporate Objectives and Strategies into Pricing and Commercial Strategies, which, in turn allow for easy to create and maintain master price lists which consistently cascade down into all necessary local lists

- Automation of all Pricing Rules and Discount & Rebate Policies for all products and services ranges across all customer segments and micro-segments, geographies, etc.

- Rapid transformation of existing and new complex pricing logic into executable rules traditionally maintained in Microsoft Word and Excel

- Recording of a complete audit trail of how and why pricing decisions are made

- Management, adherence tracking and enforcement of all operational Pricing and Discounting Policies to ensure governance and compliance

- Significant reduction of the time, cost and risk otherwise required to implement system wide modifications resulting from changes to operational Pricing Policies

- Powerful pricing-specific analytics to monitor the execution, compliance and profitability (including win-loss analysis) and modelling tools to forecast and assess the impact of proposed Pricing Policy changes

- Empowerment of business users and pricing experts to create and amend pricing policy rules which control the core administration system without the need for lengthy IT development cycles

- Elimination of inconsistencies, bottlenecks and human errors

- Support of multiple language capabilities

- Many more situation-specific benefits…

Setting up the Pricing Strategy

What looks like a simple and easy to handle task is one of the most complex processes in many organizations, as multiple departments and people within have to get involved just to define the right pricing approach. Putting in place a tailored pricing strategy requires a phased approach, including tools, strategy, methodologies and processes which culminate when the organization reaches the level of real *"Pricing Excellence".*

The first step of putting in place a proper, executable pricing strategy is about understanding the current situation. Leveraging the existing knowledge about markets, customers and products enables an organization to get actionable insights into what works well and what needs to be improved. Transforming data into pricing intelligence allows companies to make informed decisions and identify both gaps and areas of opportunity to improve their profitability.

Successful organizations are using analytical solutions like Oracle OBIEE for analyzing their transactional data and obtain actionable insights for pricing in specific markets or customer segments.

To keep on top of changes within markets, competition and customers, these analysis have to be done on a regular basis – not just once a year. Keeping track frequently of the constant transactional evolutions allows to spot (and therefore correct) inconsistencies and deviations.

The application of clearly defined Pricing Strategies implemented with Oracle Policy Automation ensures that Best Practices will always be applied throughout the pricing lifecycle in any given situation.

This makes horror stories such as one large client getting a 1% discount for 100 unit orders, while a smaller client gets a 3% discount for 50 unit orders, a thing of the past.

> "Pricing is the **most important lever for profit in an Organization.** For most of the Companies, 1% improvement in Price means "around" 10% increase in Bottom Line"
> Source: Jean-Gabriel Gaultier, GE Pricing Operations Leader
> During a conference for leading European Organizations
> (Organized by Oracle & Pricing Solutions)

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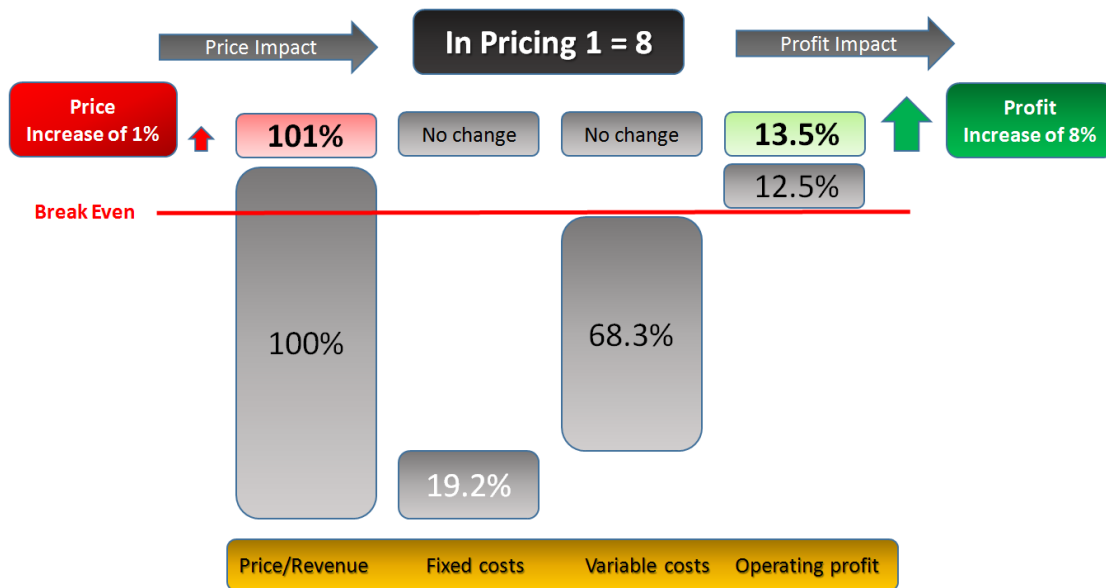
Source: Compustat – McKinsey Analysis of 1500 top S&P companies

Graphic: High Level Price to Profit Impact Calculation

Formulas which cover the ideal pricing approach per market, region and even customer micro-segment have to be identified and implemented to generate dynamic price lists that can be adapted to the many variables present in the field.

Additionally functionalities, such as exception handling or approval processes, have to be put in place, both in full compliance with the company policies, and also fully auditable and fully actionable with all relevant information present at the moment of execution.

"Pricing Excellence" needs to follow internal policies and company's strategies to achieve the overall companies' objectives of growth, market share, margin and ROI.

SKU XYZ for the same Customer Segment
X: Contribution Margin
Y: Net Sales
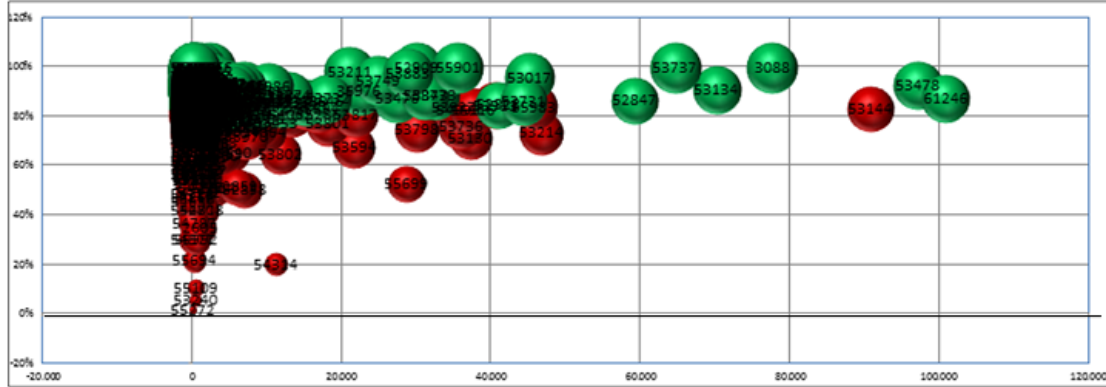
Green: In the Pricing Policy Corridor
Red: Below the Pricing Policy Corridor
Calculated Opportunity: 3,7% Contribution Margin Improvement

Graphic: Sample Pricing Impact Calculation

"By 2015, best-in-industry enterprises will **increase revenue by up to 3%** and **profits by up to 15%,** due to improvements made using price optimization"

Source: Gartner

Enablement vs Dependency

Companies struggling with pricing or facing heavy pricing competition – either in B2B, B2C, B2B2B or B2B2C markets – understand very fast that engaging an external pricing consultancy is a wise move to solve their challenges.

The initiative may originate in the Business areas or in the IT department, depending on where the pains are most strongly felt, but the pricing lifecycle obligatorily involves both.

So, how do you get Business and IT together? How do you bridge the gap existing between both organizations? How do you avoid complex, long time to market implementation of new or changed pricing policies and rules?

The answer to these questions is simple.

On the one hand you need a team of experienced pricing consultants which helps and enables your internal business team responsible for pricing strategies, methodologies and processes across departmental borders. This team of consultants helps your organization defining the applicable *"Best Practices"* which will lead to deploying a consistent, sustainable and agile pricing strategy reflected within the given IT landscape, based on proven methodologies successfully implemented in many pricing projects.

On the other hand you need a set of tools for analyzing and implementing the resulting pricing strategy within your IT-Systems. Key part of this is implementing and adapting the policies and rules, which are at the core of any pricing solution. To do so, a company needs to have a flexible, reliable and user-friendly set of tools to swiftly implement pricing policy changes.

> "The average **Payback** period for a pricing initiative investment is **12 months** - much shorter than most other implementations"
>
> Source: AMR Research

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How to Implement Pricing Policies and Rules

Challenges:

- multiple pricing and discounting policies which need to be enforced

- many customer touch points and channels given

- numerous systems being part of the process

In addition to heavy auditing requirements (especially for exception management) enforced by the internal compliance organization the question is, how to provide and maintain a flexible, easy to use pricing solution.
The idea is to get a standardized, consistent and automated process across system. In these times of limited IT budget availability, this seems to be like the squaring of the circle. But in the end the answer addressing the given challenges is as simple as proven. It's about giving business users the control of their pricing policies and underlying processes. It's about enablement of business users managing their own logic with no or limited IT involvement.
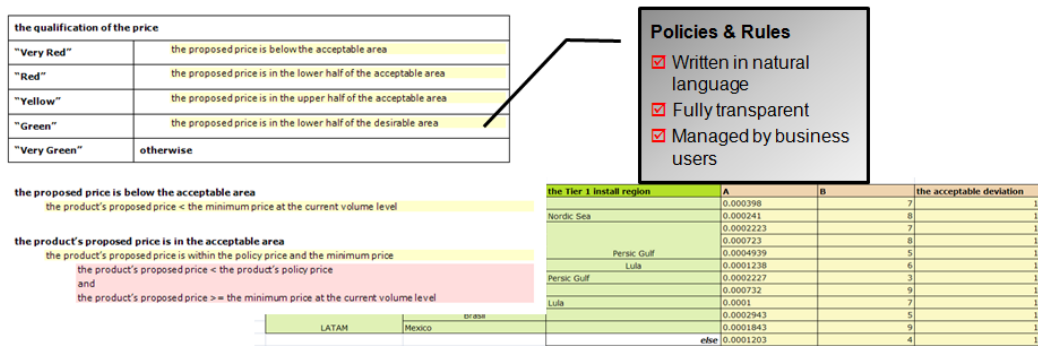
Graphic: Natural language policies modeled in Oracle Policy Automation

Enabling business users in designing and automating their own pricing rules, policies and related validations in a fully transparent way is just the starting point. Full audit capabilities as well as easy business user access of reading and adapting these policies helps reducing the complexity and related costs of implementation and maintenance significantly.

This is especially true when rules get automatically transformed into guided dialogues, which then can be distributed across systems and channels to ensure consistency and simplify operations.
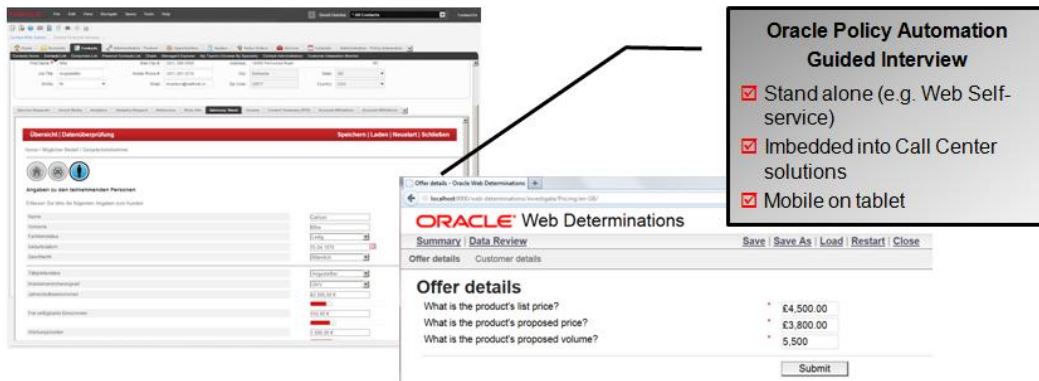

Graphic: Guided interactive dialogues built in Oracle Policy Automation

A further step down the road is the integration into core order capture systems like Sales Force Automation Systems, ATG or Big Machines.

Integration in this case has to cover the following parts:

- Integration of guided dialogues for interactive and intuitive navigation of sales and customers through the whole Pricing questionnaire

- Early integration of rules and policy logic into pricing methods (i.e. discounting) which come into play at a later stage but need to be intertwined in the overall process.

- Policy enforcement in case of existing core applications handling the data entry user interface. Decoupled policies guarantee consistent, homogenous execution of tailored customer pricing independently of sales channel and underlying IT-systems.
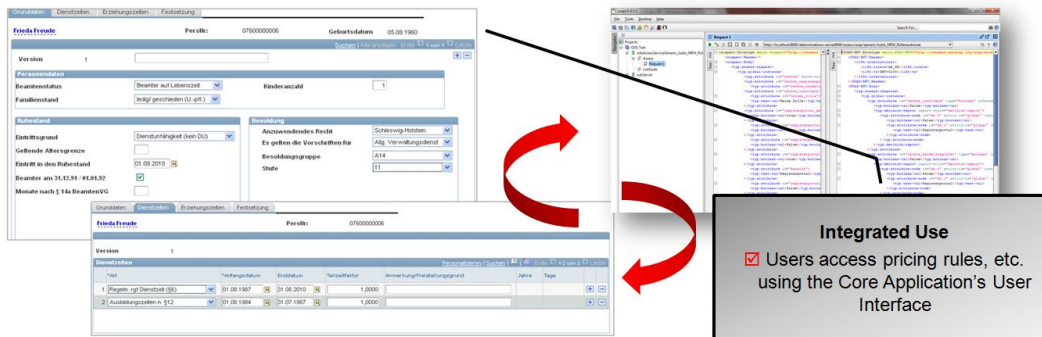
Graphic: Oracle Policy Automation – Integration into Core solutions

Oracle Policy Automation - The Tool of Choice

Oracle Policy Automation is the solution that enables organizations around the world to effectively manage and automate business policies and comply with new laws, rules and regulations, as well as internal policies. New pricing rules can be modeled as executable business rules using a complete natural language in a rule-authoring and execution environment leveraging Microsoft Word or Excel.

Oracle Policy Automation efficiently handles complex pricing determinations and provides auditable decision reporting including the inputs, the steps of how a determination has been reached and the decision itself.

Key pressures driving investment in policy automation solutions (% respondents)

Pressure	%
Achieve compliance with regulations	61%
Better risk management	48%
Improve operational performance	44%
Improve accountability	41%
Align strategies to improve results	26%

Benefits of implementing policy automation

Area	Without OPA	With OPA	% Benefit
Business Rule Capture	200 days	20 days	90%
Logic Updates	90 days	3 days	97%
Business Logic Implementation	$ 1 Mn	$ 200K	80%

Source: GRC Strategic Agenda The Value Proposition of Governance, Risk and Compliance – Aberdeen, Oracle Research

Graphic: Benefits of using Oracle Policy Automation

The Oracle Policy Automation platform equips organizations to:

- **Manage complex and ever-changing pricing and discounting** process. Oracle Policy Automation makes it possible to easily implement policies and manage changes occurring over time.

- **Multi-channel support.** Oracle Policy Automation provides consistent guided interactive dialogues and enforces pricing policies across channels and touch points.

- **Mobile devices support.** Organizations getting more and more mobile, get pricing support by Oracle Policy Automation's mobile on- and offline solution, available on Laptops and tablet PCs.

- **Improve speed and accuracy of decisions.** Oracle Policy Automation provides the functionality required for new models and procedures to be quickly modeled and deployed to keep up to date with the latest pricing strategy and required changes.

- **Increase transparency and accountability.** Detailed audit reports — automatically generated with references to the executed policies and the documented exceptions — allow companies to view, document, and justify each step of the decision process.

- **Reduced cost through integration with Order Capture Systems.** Oracle Policy Automation supports a broad range of platforms and has a flexible SOA-compliant architecture that makes it simple to integrate with existing Standard and Custom build solutions.

- **Empower business users.** Oracle Policy Automation's unique natural-language authoring capabilities allow organizations to use their own Subject Matter Experts to develop pricing rules directly from internal requirements and policy documents using Microsoft Word and Microsoft Excel. These pricing experts can construct the rules without any IT pre-configuration or database setup. This reduces both the amount of training required and reliance on specialized technical staff because no scripting or programming is needed; the rules are written and maintained using familiar business software.

- **Assess impact of pricing policy changes.** Oracle Policy Automation contains comprehensive testing and policy simulation capabilities to enable pricing experts to pinpoint the impact of proposed pricing and discounting policies. By enabling what-if analysis of proposed amendments, you can analyze the impact of a pricing change before it gets enforced.

- **Meet demanding performance standards.** Oracle Policy Automation uses a fast and high scalable determination engine that delivers the performance required by the largest organizations. This is due to a patented linear inferencing execution algorithm that maximizes the use of large processor memory caches.

- **Reuse pricing rules.** Organizations can easily reuse written policy rules within multiple applications and across different communication channels.

How to Implement Pricing Policies and Rules

Successful implementations of pricing policies and discounting rules require a combination of domain expertise, execution model and easy to implement, use and adapt tools.

A joint solution of Oracle Policy Automation enabling transparent modeling and automation of pricing policies and discounting rules, and of the Pricing Solutions domain expertise drives demonstrable short, mid and long term sustainable success with regards to an organization's pricing strategy and its impact on the company's bottom line profits.
Pricing Solutions is one of the world's leading consultants in setting up and implementing tailored, company specific pricing strategies, methodologies and processes in the B2B, B2B2B, B2B2C and B2C arenas.

> "Price optimization is one of the few investment areas that can have **impact on profitability,** while at the same time helping to **build and protect the customer relationship**"
>
> Source: Innovation Insight

The combination of Oracle Policy Automation's natural local language policy modeling and automation capabilities and the business user enablement model of Pricing Solutions avoid long term dependencies. Our joint strategy for setting up a valid and easy to adapt pricing solution is to help organizations implementing their individual, best in class pricing strategy while empowering business users to take control in parallel. Maintenance of changes of the pricing strategy and the underlying pricing solution over time will be done by business users in a fully autonomous way.

"Pricing at its best" - Your success is our benefit.

Improve your Customer Experience with High
Quality Information
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