

Profitably managing differentiated product portfolios

Worldwide, the Animal Health industry is a hundred billion dollar sector and one that is expected to continue growing. It is comprised of a diverse product & service mix; products including medical devices and nutritional supplements to veterinary and related services.

Certain markets in this sector are dominated by a small number of large buyers. In these regions, a business' global pricing strategy for the product portfolio may not keep the organization competitive. One international company partnered with Pricing Solutions to execute a Pricing Research & Analytics project that uncovered millions in revenue and margin improvements and helped the business maintain its market positioning.

1.5%

Growth in Annual Revenue

2%

Increase in Margins

The Challenge

Growth in profitability was levelling off in one of the client's businesses. The organization knew short-term ploys including heavy discounting of the portfolio were not an option. Discounting's addictive nature, combined with the company's premium positioning in the marketplace meant the client needed a more innovative solution.

The company's pricing challenges included:

- Identifying the main products driving revenue and growth
- Assessing price sensitivity of these products
- Identifying pricing opportunities within the client's current portfolio
- Designing new approaches to leverage the portfolio into new bundles, creating a competitive advantage

Building a Solution That Fits

Pricing Solutions designed a research & analytics study entailing five key stages (see Chart A). Over the course of the 3-month project Pricing Solutions:

- Gathered key insights into the business, pricing strategy and sales environment by conducting internal interviews with members

of the organization's pricing team, including Sales, Marketing and Product Managers.

- Analyzed the client's purchase data over a two-year period at the invoice level to establish segments based on price and quantity purchased across all SKUs, customer demographics and purchasing behaviours.
- Completed a Market Basket Analysis to identify items purchased most and least frequently, including combinations of items. For example, Pricing Solutions could determine if a customer purchased Product A and Product B how likely they were to buy Product C, or not buy Product D.
- Using this methodology, Pricing Solutions began to determine which products could profitably be bundled or discounted, which items should not be discounted and where there were opportunities for cross-selling or up-selling.
- Next, a Regression Model was needed to measure price elasticity for all products across the portfolio.
- Using this measure of elasticity along with the Market Basket Analysis, Pricing Solutions custom built a simulation tool.



The Portfolio Pricing tool could simulate what impact a price change on Product A would have on the sales of Product B.

- It was important to understand these interactions to avoid heavy discounting of the portfolio down the road. Using the tool, the client could continue to make data-driven pricing decisions and conduct scenario planning on an on-going basis.
- Pricing Solutions made final recommendations regarding product bundles based on outputs from the tool.

The Result?

Using the client’s own transactional data and pricing analytics, Pricing Solutions provided the client with upfront estimates of the financial impact of the project. Recommended product bundles would in fact:

- Grow revenue & margins, translating into an opportunity of +1.5% in annual revenue
- Achieve +2% increase in margins through cross-selling, up-selling and greater purchase volumes
- Avoid diluting the brand’s premium positioning

What’s the Pricing Solutions Difference?

Pricing Solutions has a strong implementation focus whereby we deliver actionable strategies and easy-to-use pricing tools that clients can implement and use immediately. In this case, that meant adapting a common methodology for the retail space – Market Basket Analysis – to suit the client’s specific pricing needs. When a business has a complex, differentiated portfolio similar to the client in this example, we ensure our solutions are not restricted to just the traditional research approaches for any given sector.

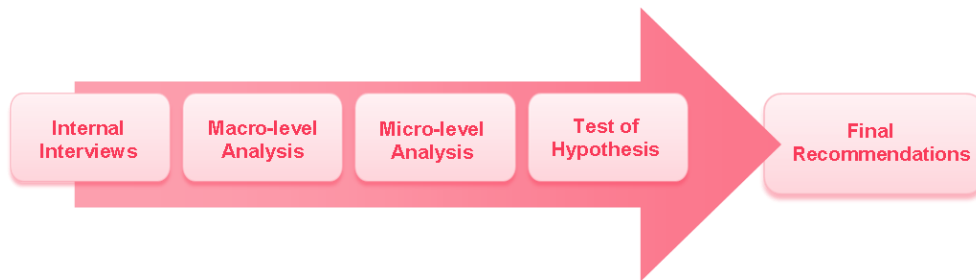


Chart A: Based on the client’s needs and objectives, Pricing Solutions outlined a 5-step pricing project.

Our Firm

Our mission is to dramatically improve clients’ profitability and market share through improved pricing. Pricing Solutions’ four core services include Pricing Strategy, Pricing Analytics, Pricing Research and Pricing Training. 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.

Global Headquarters

106 Front St. East, Suite 300
Toronto, ON Canada M5A 1E1
Tel: 1.416.943.0505
Fax: 1.416.943.0507

UK Headquarters

10 Queen St Place
London EC4R 1BE United Kingdom
Tel: +44.7323.5059