

B2B Price Management & Execution: The Experience at a Large, Diversified Global Manufacturer

Executive Summary

Pricing at global manufacturing companies involves multiple businesses, regions, channels and functions, including sales, pricing, finance, operations, marketing and executive management. List prices are only the starting point in the pricing execution process. The ongoing marketing and sales activities of the organization often revolve around discounts, promotions, channel discounts, rebates and other ways of motivating stocking and purchase. These discounts account for pricing waterfall or leakage.

With all this complexity, the process of setting, optimizing and enforcing pricing policies is usually unplanned and ill-documented. The result: millions of dollars of lost opportunity for organizations. Pricing often varies in a B2B scenario, depending upon the time of the deal, the negotiating power of customers, internal political clout of field sales staff and management intervention.

Pricing execution in diversified manufacturing companies poses additional challenges in terms of complex pricing rules. Managing price changes, price book generation and communication to clients are among the greatest obstacles. On the other hand, effective price management can improve gross margins, order-to-cash cycle and order-fulfillment processes.

The key to effective price management is providing a unified process, where business users can

drive informed and consistent pricing decisions. This paper highlights the above challenges, as well as solutions, as experienced in a diversified manufacturing environment for a large manufacturing/CG client in North America.¹

B2B Pricing Process Demystified

Pricing in the manufacturing industry is a complex marketing function. Operations are spread across the world, with a complex sales channel comprised of distributors, end customers and resellers. There are hundreds or thousands of sales people working across business units, providing quotes, contracts, special bids, etc. to customers. Product offerings range from standard SKUs, to configure-to-order, to custom-engineered products.

Pricing today is looked upon as a potential strategic opportunity. To understand pricing, we will first examine the pricing process.

There is a large volume of literature covering B2B pricing and its complexity. Specific pricing processes may vary across businesses, industries and functional areas (e.g., marketing, sales and finance) in large organizations, but the basic pricing process is the same across industries and selling channels. It revolves around establishing the optimal price, communicating the price to customers, negotiating, processing orders, rebate adjustments and promotions and analyzing the price opportunity for the next pricing cycle. The process breaks down as follows:

- **Determine:** This is the process of setting up the pricing guidelines after analyzing the market, based on business-specific policies. In a complex B2B setting, the price-setting rules and override processes are spread across functions, geographies and currencies. Available technology solutions range from simple rule management logic, to robust workflow engines for policy management.
- **Establish:** This is the process of setting up the list price with key inputs (customer, product and price attributes). For a complex manufacturing scenario, make-to-order and configure-to-order SKUs require engineering calculation-based pricing logic to be executed in the pricing systems.
- **Communicate:** This involves communicating prices to customers and distributors through price pages or price books. They contain the pricing information for each SKU, along with terms and conditions. They can be sent to customers either physically or electronically (EDI, CD or Web catalogs).
- **Deviation Management:** This involves negotiating prices through quotes, contracts and special bids with individual customers. Any deviation from the list price needs to have approval based on business policies. Solution complexities include integration with contract management systems, override workflows and near-real-time decision-making capabilities.
- **Refunds:** This process involves receiving and processing of customer/promotional rebates and adjusting payments to channel partners. Specific solution challenges include com-

plex promotion management systems that are based on cumulative order volumes, off-invoice discount execution, etc.

- **Analyze Price Opportunities:** This process involves understanding price leakage, determining the price opportunity and making necessary improvements by adjusting the pricing logic. This forms the basis for the next pricing cycle. Analyzing the waterfall can help improve decision making on the discounts offered to customers, as well as align the efforts of sales and marketing teams.

Understanding Price Waterfall

Price waterfall is a technical way of understanding the various pricing levers in a B2B scenario. It involves various elements of pricing that differ from the actual realized price (pocket price) for a given customer deal.

The price waterfall highlights the pricing process and the leakage components that occur, starting with list price. From this price, businesses may apply a number of “standard” discounts that result in the actual invoice price to the customer. After arriving at the invoice price, there may be additional discounts made available to customers that do not appear on the customer invoice. These include rebates, credit adjustments, product samples and promotional or merchandising allowances. The combination of on-invoice and off-invoice price discounts results in the “pocket price” – the actual price realized by the company.

Analyzing the waterfall will help companies understand what customers are really paying and where leakage is occurring, thus improving busi-

Elements of B2B Price Management



Figure 1

ness decisions in the future. Figure 2 depicts the components of a price waterfall.

Controlling the elements of the waterfall is crucial to effective price management. The various elements of the waterfall indicate the key levers on which a B2B organization should flex control. The sheer size of the number of SKUs, with complexities around geographies, selling channels and SKU variations, adds to the challenges involved in administering pricing.

Pricing in the Real World

The following covers some of the key challenges experienced by a current client organization and the implications for the pricing solution landscape.

The client is a diversified technology company with operations in about 45 countries, selling thousands of products and services. We determined that the foundational element of price management would be global price establishment. Some of the key components for this are product data and its hierarchies, recommendations from pricing optimization and inputs from pricing strategy.

The key challenges we observed for accomplishing global price establishment at the client included the following:

- **Poorly documented pricing policies:** In most cases, across various business units, process documentation was either missing or present only as best practices.

- **Data-reliant pricing:** List price was calculated based on product, customer and pricing data maintained in corporate systems.
- **Base pricing complexities:** Complexities arose from varied selling channels (retailer, distributor and end customer), product structures and review periods. Volume discount policies were further complicated by assortment rules, product attribute rules, etc.
- **Decentralized policies:** Division-specific policy management with varied degrees of sophistication introduced further complexities with respect to evolving unified rule management.
- **Need for deviation management:** Price parity decisions involved choosing between maintaining “global prices” and managing deviations by means of regional discounts vis-à-vis managing regional pricing policies that account for different “list processes” across regions. The decision was usually a tradeoff between showcasing a single price across the globe to the end-customer vs. increased workload on price deviation management. Most divisions tended toward uniform global prices that were only currency-adjusted across regions.

Communicate prices: Depending on divisional policy, both list prices and deviated prices at this client are communicated to customers through price pages.

- Nonstandard communication formats across channel systems pose challenges in data

Pricing Waterfall Components

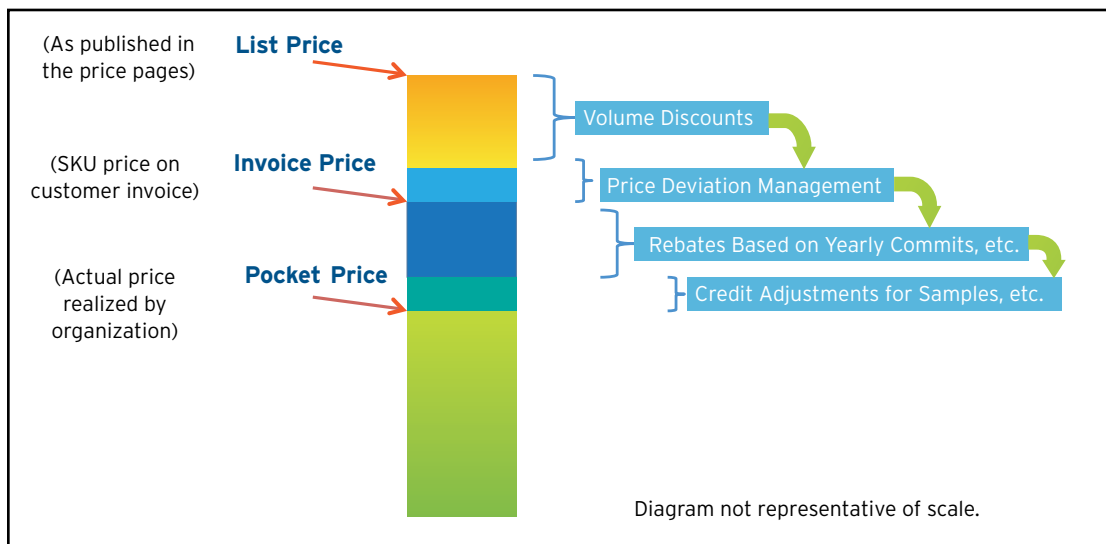


Figure 2

transmission. The use of EDI has addressed this challenge to an extent.

- Errors in updates for divisions having manual upload processes challenge data integrity and add additional audit work (at times manual in nature). The source of errors in many cases goes untraced, posing potential compliance issues. Enforcing price updates exclusively through rules management has addressed this challenge to a major extent.
- Single price response on client quotations is one of the key challenges, especially when multiple sales representatives pursue the same end customer. (At times the points of contact are different, as well.) Systematic audits on prices for the same SKUs across quotations has helped remediate a majority of these issues.

Managing price deviations: This is among the significant challenges manufacturers face in balancing workload with process efficiency and managerial control.

- While tight tolerance rules for approvals ensure less erratic pricing, they also increase the workload and further slow down the quotation-to-order lifecycle.
- Setting up the right thresholds for the floor, target and list prices is key to ensuring profitability is managed in tandem with key sales (e.g., excessive deviation approval can be managed by appropriately setting rules in quotation management). Analysis of forecasts/history is key to setting up optimal threshold values.
- Effectively reducing multi-level approvals is one of the best practices adopted in our current setup for reducing the quotation-to-order lifecycle.
- Involvement of cross-functional teams (finance, marketing, etc.) in pricing policy formulation helps create more rule-based management and reduce deviation workloads.

Administering off-invoice rebates ranges from simple rule-based discounts, through complex contract-based calculations:

- Integration into contract management systems is one of the key complexities observed.
- Adopting simple breakpoints for rebate administration has helped ease both customer communication and rebate administration.

Pricing optimization: In a B2B scenario, pricing optimization is still nascent in its practice across the industry:

- Change management poses a significant challenge, as adoption rates are significantly low.
- Compared with B2C, B2B deals are either a win or a loss. Hence, a normal price elasticity-based approach focused on “customer’s willingness to pay” is generally not successful in B2B markets.
- Even though there are many pricing tools in the market, most companies still manually price orders. Due to lack of pricing automation, businesses are experiencing negligible productivity gains and increased price leakage.
- Use of pricing analytics and decision-support systems is still in the scoping phase; it will take more time to evolve as a complete solution.

Complex supply chains: As buyers in the supply chain become powerful, businesses may be forced to provide competitive prices. Price-exception routing and approval processes will become a challenge, as approvers will not have enough information to make the right business decisions due to increased complexity of the supply chains.

Tracing on-invoice pricing errors: When an order is placed by the customer through a CSR, there can be an incorrect price quoted to the customer. If this happens, tracking the error back to the actual source pricing system is a challenge. There are many cases in which either a price is not returned or the wrong price is fetched by the CSR, etc. Powerful pricing systems with proper ordering system integration are key to avoiding such pricing errors. Meeting this challenge successfully can reduce the manual effort of pricing products.

Pricing generic stocks: Generic stocks are those that are priced at the time of the customer order. They are customized and configured based on customer-specific product dimensions and are normally make-to-order SKUs. Manual pricing of such generic products may lead to pricing errors and may impact price leakage.

Short-lived price cycles: In a competitive market environment, price changes can be as frequent as monthly. In such cases, developing price books and publishing them to customers in a timely fashion can be a challenge.

Typical Price Management Solution Landscape

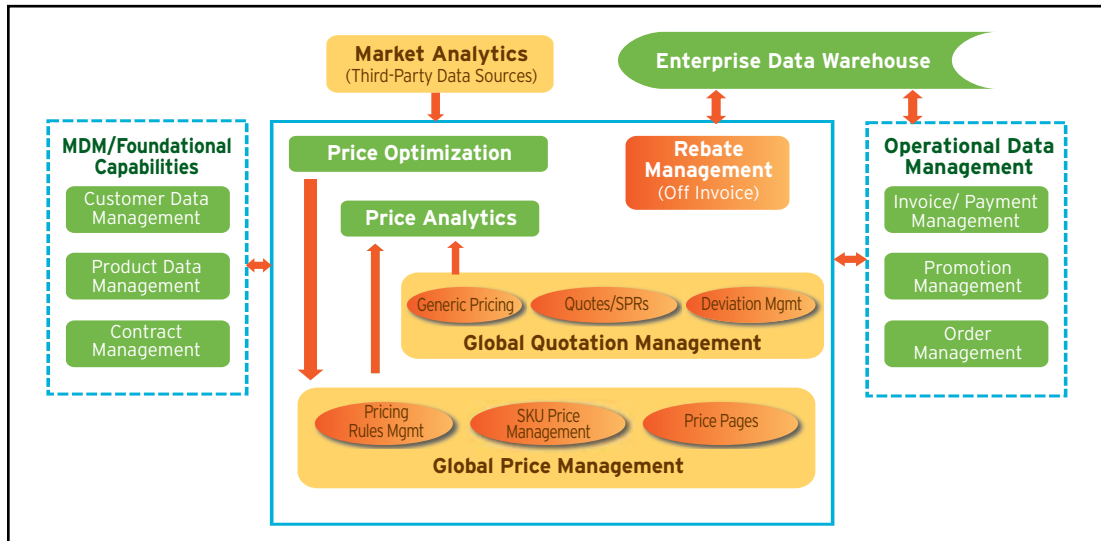


Figure 3

Mapping IT to Price Management Components

IT solutions can be designed to manage the pricing process. One of the most common elements of such a solution is legacy systems, according to research on B2B pricing. Because of a lack of popular packages, non-standard industry processes and other issues, most organizations in the 1990s chose to build custom components. Available CRM solutions have price management capabilities, as well. However, the market leaders are still best-of-breed solutions, according to research firms.

Within our current client organization, pricing management has been analyzed for potential rationalization and application of COTS solution components. Figure 3 depicts a typical blueprint of a price management solution in a B2B scenario.

Conclusion

While today's manufacturing organizations look for solutions in the IT space to address B2B pricing issues, a major part of the challenge is still within the realm of business process management and organizational change management. For global price management, we have chosen leading COTS modules to deploy at our client organization. Generic pricing is one area in which we made a choice to "build" components to accommodate variations in pricing logic.

As we share this experience, our journey is still moving forward toward architecting an integrated price management solution from a mix of COTS and custom-built components. A prioritized implementation plan has been charted with three of the business divisions, in the following order of business processes:

- **Pricing Analytics:** This provides immediate results to price waterfall health and delivers insights into low-hanging fruit for improvement (usually varies from six to eight months for realization of benefits).
- **Price Management:** This reduces the manual effort involved in handling day-to-day pricing decisions and SKU price management (usually varies from three to six months for value realization).
- **Quotation Management:** This reduces lead time in responding to RFQs from customers and ensures uniformity in responses (usually varies from three to six months for value realization).

From our experience with B2B price management, the most challenging and time-consuming part of the solution involves arriving at common process blueprints across various business segments. The choice of implementation priority makes a significant difference in proving the success of the pricing transformation program, so that realized value savings from the first phases contribute to the subsequent phases of the program.

Acronyms & Glossary of Terms

B2B: Business-to-business

B2C: Business-to-consumer

CD: Compact disc

COTS: Commercial off-the-shelf

CSR: Customer service representative

Contract: A formal agreement between company and customer for specific products and the price for the product.

Deviated pricing: Process of setting up customer-specific pricing.

EDI: Electronic Data Interchange, the structured transmission of data between organizations by electronic means.

LOOP: Light order online processing

Off-invoice rebates: Discounts applied to the invoiced amounts to the customer.

Quote: A price at which a company is willing to sell a product under contract conditions.

SKU: Stock-keeping unit

Standard Pricing: Process of setting up list price.

SPR: Special price requests

Terms: Contractual agreement on how payment will be made by the customer or distributor.

References

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Footnote

¹ The client referenced is a diversified technology company with operations in about 45 countries, selling thousands of products and services. It operates six key business units: Industrial and Transportation; Consumer Office; Safety and Security Systems; Healthcare; Display and Graphics; and Electronics and Communication.

About the Author

Deepa Challa is a Cognizant Business Analyst focused on detailed requirements and functional testing for pricing applications. As a team member, she has implemented pricing applications for food safety, automotive products, window film products and industrial minerals businesses. Deepa holds an engineering degree in electronics and telecommunications and has a master's degree in business administration in systems and finance. She can be reached at Deepa.Challa@cognizant.com.



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