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A case for proactive pricing
Predictive analytics unlocks untapped value

Abstract

Fierce competition, volatility in commodity prices, and ever-demanding requirements from retailers were among the challenges facing a multinational food and beverage company seeking to overhaul its pricing capability. Deloitte helped the company develop and implement an enterprise-wide strategic pricing framework designed to bolster the value and impact of product pricing for the company and its key partners — the retailers. The framework is on course to deliver incremental annual revenue and profit of 1.5% and 3%, respectively.

Challenge — To lead, not follow

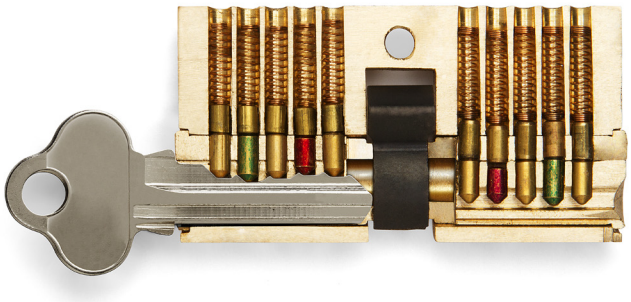
Despite its market leadership in several product categories, a multinational food and beverage company was acting as a "price follower", making reactive changes based on fluctuations in commodity prices, competitors' price shifts, or pressure applied by its retailer partners. This approach inevitably led to a chaotic pricing architecture across products that failed to unlock the value of the company's broad portfolio.

Although the company had sophisticated data warehousing and analytics capabilities, it lacked a holistic strategic pricing methodology and framework to leverage these assets. Much of the problem stemmed from its segmented operational structure, which meant that business units or product lines often made pricing decisions independently, sometimes resulting in cannibalization within the portfolio. The company not only looked to solve its pricing challenges, but also to achieve a competitive advantage by managing price and trade with more agility, control, and precision.

Approach — Pursue proactive pricing

The company turned to Deloitte to help analyze its current pricing capabilities, develop an overarching strategic pricing framework, and integrate technology and processes to operationalize the framework across the enterprise.

The first step was to develop a demand model by conducting a regression analysis of all price increases and decreases in the marketplace from either the company or its competitors in recent years. Demand was analyzed for each brand to determine the consumers' sensitivity to price shifts. These findings were then fed into an optimization model to determine the right pricing actions for the company going forward, taking into account various scenarios that could happen in the marketplace.



Analytics Applied.

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This analysis revealed a number of key findings. Among them was the realization that the company was leaving millions of dollars in revenue and profit on the table — and that predictive analytics, using econometric modeling, could enable proactive pricing decisions that could capture this untapped value. The optimization model incorporated the potential impact of any pricing changes on retailers and each category as a whole.

Results — Revenue, profit gains

An integral component of the new framework was Polaris, Deloitte's pricing, promotions and profitability analytics solution, which helped the company improve its results through analytics tailored to pricing decisions. For example, in one grocery category, a Polaris-driven pilot of the strategic pricing initiative re-aligned consumer purchases in a manner that improved profitability while also increasing overall sales volume by 9%. While the average product price within the category was relatively unchanged, the new approach leveraged the relative price points for each brand in the portfolio according to its specific elasticity, with the price shifts propelling top and bottom-line improvements.

This new approach presented benefits for the retailers too, as the pricing framework grew the overall prize for the value chain and the product category — a stated primary goal of the company's retailer partners.

The company continues to realize the benefits from its now-holistic pricing capabilities, processes, and tools. The Polaris analytics solution is in use across all major business units, and the company anticipates annual incremental revenue growth of approximately 1.5% of sales, and annual profit improvement of nearly 3 percentage points.

Contact us

If you think your organization can benefit from similar strategies, we should talk. Please reach out to any of us to get the conversation started:

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