The True Value of Pricing
From pricing strategy to sales excellence
The challenge of value in price management

The world’s current political, economic and social scenario poses major challenges, including the political uncertainties brought by the intensification of nationalist speeches and the increase of barriers to foreign trade. On the business side, the economic recession has affected organizations which, in order to continue to optimize earnings, need to take into consideration drivers such as Gross Domestic Product unpredictability, high inflation, interest hikes and fiscal adjustments, besides unemployment growth, and the customers’ higher indebtedness and reduced income resulting from that.

At the same time, the integration of the digital world into the business environment contributes to producing a new consumer profile: more connected, mature and informed about their own habits. These changes create new opportunities for the companies to develop a more agile and customized communication with their clients.

In this context, price management becomes a powerful advantage to guide organizations throughout the changes, to boost their performance and to maximize their earnings. With regard to strategic alignment, the concept of Pricing is particularly relevant in the business world as it consolidates itself as a charging practice intended to capture the highest value from each customer by addressing issues from strategy to sales excellence, and aimed to maximizing profitability.

“The True Value of Pricing – From pricing strategy to sales excellence” presents data about how companies from different areas manage and position their prices in the current economic scenario. The study also shares an analysis based on Deloitte’s experience to strengthen the importance of pricing strategy and help companies to meet market demands with more efficiency.

In order to define a pricing strategy aligned with the organization’s goals, the Pricing function must take into consideration not only economic trends but also product differences and specificities in consumer habits in each region. This is the case of the end-of-the-month discount policy, quite common in the Brazilian market, and that has a direct impact on the pricing and the margin of each product.

Even though many organizations see Pricing as a back office function, there is a trend in Brazil to boost its importance and its reach from a strategic point of view, while differing customer segments. In other words, this approach goes beyond the traditional cost and competition analyses.

The concept of Pricing is particularly relevant in the business world as it consolidates itself as a charging practice intended to capture the highest value from each customer by addressing issues from strategy to sales excellence, and aimed to maximizing profitability.
Among the main strategies, pricing based on the customer perceived value for a product or a service is gaining more attention from global organizations’ executives in recent years. However, our analysis shows that this trade isn’t largely disseminated in the Brazilian market yet. Most of the organizations operating in Brazil set their prices based on their fixed costs, their margin and the competition’s price. While intuitive and easy to apply, this practice does not take into consideration that the same product or service brings different benefits for each type of customer.

The economic and monetary stability that Brazil has acquired over the past two decades not only created opportunities for more strategic pricing policies in corporations – as it was no longer necessary to adjust prices according to the fast growing inflation rate each month – but it also contributed to the development of a new consumer.

In this sense, by taking into consideration a customer’s value perception and offering a product or service that contemplates the needs of each profile, good Pricing practices open the door for the right price to the right customer strategy. On the other hand, this reality requires a more customized approach from organizations, which, in order to keep up with the business transformations and grow sustainably at the same time, must look into what customers want and adjust their segmentations to expand their profits.

Survey sample

The analyses presented herein were prepared based on the market experience of Deloitte’s Pricing practice professionals and quantitative interviews with 58 organizations operating in Brazil from the most different sizes and segments. The organizations participated via an electronic questionnaire that was available from November 2016 to February 2017.
What is Pricing?

The concept of Pricing, which is still rather shy in the Brazilian market, is becoming more relevant in the business world as it consolidates itself as a price execution and charging practice intended to capture the highest possible value from each customer segment.

Six key pillars structure this function, comprising from strategy to sales excellence, in order to seek the highest profitability:

- **Pricing Strategy**
  An efficient strategy reflects an integrated pricing structure that supports business goals by capturing the value of an offer compared to the competition and to customer demands, and by targeting the organizations’ internal drive and its communication to the market.

- **Price execution**
  The processes based on which a company sets and charges its prices and discounts. A correct execution ensures the consistency of Pricing actions thus collaborating to the dissemination of clear price communication, execution, analysis and adjustment policies.

- **Advanced analyses and pricing**
  Performing advanced analyses allows organizations to revisit past transactions to understand and optimize the prices charged, thus improving profitability.

- **Corporate governance and alignment**
  Well-structured governance, integrated with all company functions and aligned with the organization’s strategic goals, ensures a more effective and continual price management.

- **Technology and data management**
  Technology contributes to analysis automation and prices performance execution and optimization. Organizations are increasingly seeking ways to integrate these tools into their technologic infrastructure to ensure that the upgrades implemented by the management are sustainable in the long run.

- **Tax and regulatory effectiveness**
  Tax laws can influence the way an organization conducts its business in different ways, including how information is captured in an invoice, where goods’ ownership is transferred to customers and how contracts are negotiated and performed.
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An integrated approach to supporting good Pricing practices

Understanding the market dynamics, based on the analysis of customer profiles, product nature and distribution strategies, is the key to designing a framework for the Pricing function that can be organized into several levels, from a fully centralized model to a fully decentralized model.

### Pricing operation models

Price management provides a structure to support business goals by capturing the value of an offer compared to competitive alternatives and customer demands.

**Operation**

- The Pricing function sets the prices for all products, as well as the policies that the sales and business functions must apply – in alignment with the whole company.
- The Pricing function makes analyses and recommendations, supporting the sales and business areas, which remain responsible for setting the final price based on each unit’s reality.
- There is no Pricing function; the sales and business areas have their own representatives to manage pricing and to develop sales policies.

**Implications**

- Fewer resources;
- More executive and leadership support;
- Centralization of resources for all business units;
- Unified methods, language, and revenue management in the entire company;
- Less autonomy for sales and business functions.
- Access to resources established by the core Pricing functions (e.g.: statistics);
- Unified language and revenue management throughout the company;
- Need for additional resources;
- Potential for non-unified methods.
- Total autonomy for the sales and business functions;
- Need for more resources;
- Less alignment between the sales function and the business function Methods, language and revenue management are not unified.

### Maturity

<table>
<thead>
<tr>
<th>Fundamentals</th>
<th>Price execution</th>
<th>Sustainability</th>
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<tr>
<td>Pricing strategy</td>
<td>Corporate governance and alignment</td>
<td>Tax and regulatory effectiveness</td>
</tr>
<tr>
<td>Advanced analyses and pricing</td>
<td>Technology and data management</td>
<td>Profitability</td>
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- Decision-making
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Organizations’ structure

The challenge
In Brazil, due to the market’s maturity level and the organizations’ lean structure, the company’s Pricing functions are commonly linked to the sales, finance and marketing areas. This could contribute to corporations aiming a sales increase based on volume and sales targets rather than on profitability. Furthermore, a process that is not widely disseminated by an organization can result in failing to follow through with decisions made by the team in charge of pricing management.

Good Pricing practices
An efficient pricing strategy suggests more control and more agility in the decision-making and in fighting competition through the alignment of the main stakeholders. Having a function responsible for prices, integrated with other functions such as sales, finance and marketing, and aligned with the company’s strategic goals, is the first step to establishing a management framework capable of maximizing profit from goods or services.

The costumer perceived value

The challenge
As a way of optimizing results, the Pricing strategy is key to making the connection between a company’s long-term goals and the tactical plan put into practice by the sales force. However, many organizations operating in Brazil still strive to structure this function and to align it with its business goals. Despite the growing importance of the consumer’s role for the Pricing strategy, the survey conducted by Deloitte with organizations operating in Brazil indicated that competitors’ prices are still the main factor analyzed when making pricing decisions. This behavior of prioritizing the competition can trigger guerrilla strategies in the market, drifting away a consumer-focused practice.

Most analyzed market data for Pricing decision-making (among the survey’s respondents)

<table>
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<tr>
<th>Source: Survey conducted by Deloitte (2017)</th>
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<tbody>
<tr>
<td>Competition price</td>
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<tr>
<td>Prices are differentiated by... (among the survey’s respondents)</td>
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<tr>
<td>➢ Product lines</td>
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<tr>
<td>➢ Markets/Geographies</td>
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<tr>
<td>➢ Sales/Distribution channels</td>
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<tr>
<td>➢ Types of customer/Segmentation</td>
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Good Pricing practices
Cost, profitability and competition are major factors for a strategic price analysis; however, the concept of value is the key to defining the consumer’s tendency to buy a product or a service for the stipulated price. Organizations can still improve product differentiation practices using customers or sales channels segmentation. When a company acknowledges that a same product or service can bring different benefits to different customers, it perceives the supply and demand curve in a broader sense and thus enhances the potential of its profitability.
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The right price for the right customer

The challenge
Although usual among survey respondents, the pricing approach focused on cost, margin and competition is no longer consistent with the social and economic transformations that have taken place in the last few years. The Brazilian market still shows remnants of a period when inflation and fast price changes pressured organizations to resort to immediate pricing – based on costs – in order to avoid the depreciation of their products and services. It is possible, however, to identify a slow transition towards Pricing maturity, with the gradual inclusion of the customer perceived value in their price management strategy.

Good Pricing practices
The global scenario and the consequent changes in consumer profiles, coupled with the growing technologic innovations, have contributed to an increasingly segmented vision, focused on the individual expectations of each customer, and to a strategy consistent with corporate goals and guidelines.

Price segmentation

The challenge
Price segmentation per type of sales and distribution channel is a widely disseminated practice within the organizations operating in Brazil. It is necessary, however, to avoid conflicts between the channels, i.e., incorrectly set lower or higher prices.

Good Pricing practices
To minimize the impact of possible conflicts in prices segmentation between the distribution channels it is necessary to take into consideration the costs associated to each medium, including the service costs. The organizations that create intelligence based on transactional quantitative data manage to value their margins for each one of the customers, geography and product levels. As a result, they have a better price management, great agility to adapt to the market, and a more accurate identification of customers that cooperate to increasing or decreasing their profits.

Quantitative methods most commonly used to set prices (among the survey’s respondents)

1. Profitability analysis (per SKU and customers)
2. Price band
3. Elasticity
4. Customer Pareto
5. Promotion efficiency analysis
6. Waterfall
7. Product Pareto

Source: Survey conducted by Deloitte (2017)
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Pricing practices and experiences

The challenge
Among the organizations approached to respond Deloitte's survey, the practice of segmentation per volume is the most common, which points to a market that can still develop its pricing practices based on a deeper analysis of concrete data that reveal the sales potential and the profitability of each product or service.

Good Pricing practices
Segmentation based only on volume can conceal the true value and importance of each customer. In this sense, good Pricing management practices take into consideration sales potential and profitability to increase earnings.

Sales force remuneration

The challenge
The compensation and incentive actions and the conduct of performance evaluations are directly related to the sales team’s performance. Variable remuneration is the most common method used by the organizations that took part in Deloitte's survey. The principle mostly used by these organizations to calculate variable compensation is sales volume. The fact that variable compensation is influenced by volume over profitability could lead to a drop in product margins, because the sales force would be more focused on increasing its variable remuneration than on the corrosion of the product’s profitability.

Good Pricing practices
The variable compensation method should emphasize profitability and it should be aligned with the volume and with the strategic initiatives aimed by the organization. Adopting profitability as a segmentation criterion is consistent with the global trend of applying detailed analyses from the contribution of each customer and each product in an organization’s portfolio. Accordingly, setting targets based on the profit margin of each sale could contribute to a more important engagement of the sales team in the Pricing practices.
Pricing policies documentation

The challenge
We have identified in our survey that a significant portion of the interviewed organizations has a documented sales policy that seeks to reflect their pricing strategy. However, only a small portion of these organizations fully enforces such policy.

Good Pricing practices
An integrated, periodically reviewed sales policy reflects a more effective price management plan. An active and coordinated communication process and the enforcement of the existing policies are the most appropriate paths to achieve the goals set by an organization.

Source: Survey conducted by Deloitte (2017)

61% of the surveyed organizations has a documented sales policy that seeks to reflect their pricing strategy

Price management in the digital world

The challenge
The adoption of technology in price management enables the creation of new types of interaction between the organization’s different business areas and its customers, and contributes to the continuous improvement of the organization itself. The use of technologies on a daily basis takes organizations to a new level of efficiency in the design of strategies aimed to setting, analyzing and monitoring prices.

Good Pricing practices
Big data is a powerful foundation for organizations that wish to keep up with the global trend of having a Pricing strategy focused on the value perceived by each customer. Besides allowing the analysis of data on the consumers’ relationship with the goods or services offered by the organization, this technology can collect data on the behavior and the expectations of potential customers.
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Pricing trends

The challenge
In the Brazilian market, good sales and price management practices are constantly evolving. The strategies targeting Pricing reflect a structure that is growing, maturing, and creating an identity for itself, while being tied to the organizations’ sales, finance and marketing departments. The full cost of serving is still poorly exploited in the pricing strategy, which results in the real profit margin being unknown and not being efficiently acted on, resulting in a Pricing segmentation strategy steered away from the organization’s strategic goals. This scenario contributes to the lack of stability of price execution and to an increased dependence of each organization on the sales negotiations conducted by its sales team. By analyzing the key pricing challenges existing in the Brazilian market, we could see that there is more of willingness to design an efficient pricing strategy than the need for a system solution.

Good Pricing practices
In order to both keep up with global trends and assure their growth, organizations must align themselves not only with social and economic changes but also with the consequent change in consumer behavior as part of the digital era. Technologies such as big data and customer and product portfolio analysis are very powerful tools to reach price management excellence, while maximizing profitability by optimizing prices and analyzing market data.

<table>
<thead>
<tr>
<th>Main difficulties faced by the Pricing function</th>
<th>Competitive advantages of a good Pricing management</th>
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<tbody>
<tr>
<td>Competitors’ prices are not captured</td>
<td>Brand strengthening and correct and structured product positioning in the market</td>
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<tr>
<td>It does not have systems to set, analyze or monitor prices</td>
<td>Enhancement of customer, product and market segmentation</td>
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<tr>
<td>Costing or apportionment problems may impair or lead to an incorrect pricing strategy</td>
<td>Allocation of the correct cost and a clearer pricing policy per customer; a more structured process with appropriate outcome monitoring</td>
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<tr>
<td>Price management-related processes are neither standardized nor followed</td>
<td>Alignment of the corporate strategy with the sales and marketing strategy, increasing decision-making agility</td>
</tr>
<tr>
<td>It has customer segmentation but without differentiating service level and discounts</td>
<td>A more appropriate Pricing strategy for the different sales channels and customers that optimizes value capture</td>
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