



Pricing Analytics

The three-minute guide



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What is pricing analytics?

Where it all comes together

Advanced analytics aimed at customer and business outcomes are at the core of modern pricing and profitability management, price leveraging, and trade spend effectiveness.

In fact, analytics software can handle massive data sets, churning through potentially millions of variables and billions of cases. These new applications can analyze unstructured data, such as text, emails, tweets, images, and audio and video files, and receive real-time updates to the information. They can also perform exploratory analysis—without having an outcome in mind—to find relevant patterns, trends, and anomalies in data.

Why it matters now

Pricing is one of the most powerful levers for improving profitability

Research shows that price management initiatives can increase a company's margins by 2 to 7 percent in 12 months—yielding an ROI between 200 and 350 percent.¹ But many companies aren't able to unlock this potential, often because they're building on a poor foundation in analytics and don't have the appropriate level of visibility into the true profitability of their complex channels, product portfolios, and customers.

As a result, they frequently revert to gut instincts and more traditional guidelines for critical decision making that can lead to missed opportunities, exposure to unnecessary risk, and falling margins.

1. Source: *Getting pricing right. The value of a multifaceted approach*. Larry Montan, Terry Kuester, and Julie Meehan.

Why pricing analytics?

Analytics can lead the way on pricing and customer profitability

Facing growing complexity and a multi-channel business environment, companies need to be able to answer fundamental business questions—such as “Who is my most profitable customer?” and “What is my most profitable product or region?”

Combine pricing with analytics, and you can create a mechanism that functions as both a catalyst and a metrics engine for managing profitability.

Pricing analytics can also help executives more clearly understand both the internal and external factors affecting profitability at a granular level.

The potential benefits

Insight to drive decisions

- More effective business decisions on tightly defined issues, such as which customers to focus on and which products to rationalize, using hard data rather than gut instincts.
- Automation tools that enable informed decision-making—for example, sales team dashboards that show the impact of discounts on deal profitability.
- Improved agility in responding to a shifting competitive environment and market conditions.
- Clear feedback loops so pricing teams can assess effectiveness and adjust as needed.
- The ability to run advanced scenario modeling to avoid costly mistakes or missed opportunities—for example, the potential impact of a pricing change on demand and profitability.

What to do now

Assess your readiness

Leaders use a multi-faceted approach to pricing, integrating the six core pricing competencies: strategy, execution, governance, analytics, technology, and tax considerations. All are essential for capturing the full value of a pricing analytics investment.

Different steps should be taken based on the organization's pricing maturity. The first step is to build a prescriptive model and roadmap to shore up current capabilities and progress to the next desired state.

Dive into big data

Every organization understands the importance of data in making decisions, but many have not yet stepped up to the challenge of managing the enormous amounts of data needed to get pricing right. However, until you do step up, your business may not be able to capitalize on the full potential of pricing analytics.

When you're conducting your readiness assessment, be sure to focus on the full range of data sources—both internal and external—that have the potential to elevate your pricing insights.

Make the connections

A 2007 study found that of those surveyed, companies that combined business process architecture, organization and governance, and technology into their pricing improvement initiatives boosted their stock prices by an average of 66 percent—outperforming the S&P 500 index by an average of 40 percent.¹

And what's the glue that holds these different functions together? Analytics.

Analytics is crucial for understanding pricing and profit drivers, developing segmentation strategies, making the best use of price, and test driving scenarios.

1. Source: *Getting pricing right. The value of a multifaceted approach*. Larry Montan, Terry Kuester, and Julie Meehan.

Time's up



A commitment to pricing improvement is easy to make—but challenging to execute. Even the most passionate companies can find themselves coming up with a whole range of excuses to delay, defer, and deny.

Achieving long-lasting, high-quality performance requires companies to cope with dramatic changes in their competitive context. That's where pricing agility can help them stay ahead of the curve and sustain performance.

To learn more about how to get your pricing analytics effort off to a smart start, please contact:

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