B2B pricing solutions that drive competitive advantage

Introduction

With increasing competitive pressure from online, advances in digital technologies, and changes to the marketplace such as those associated with COVID-19, B2B companies are looking for advanced pricing solutions that can help them set and manage base and contract pricing to increase revenue and profit.

AI-enabled price optimization solutions can enable B2B companies to dynamically set and maintain customer segmented and localized pricing strategies, respond quickly and efficiently with deal quotes, and price newly sourced items. This ensures that competitive pricing and incentive bonuses are geared to the items customers value most and where the value of added services or product availability is captured.

This whitepaper prescribes a framework for implementing best-in-class AI-enabled price optimization solutions for B2B companies.

Current state and opportunities for price optimization

While the use of B2B price optimization software has grown steadily, large capability gaps still exist where many companies cite the lack of systems and processes to drive more sophisticated, dynamic pricing strategies. Using spreadsheets and manual processes to communicate list prices, discounts, and quotes greatly limits their ability to manage complex customer and product segmentation while providing little to no analytics on the impact of price changes.

Results of top performing B2B companies show that investing in best-in-class B2B pricing tools and techniques help harness improved efficiencies, automation, consistency, and dynamic quoting (see Figure 1).
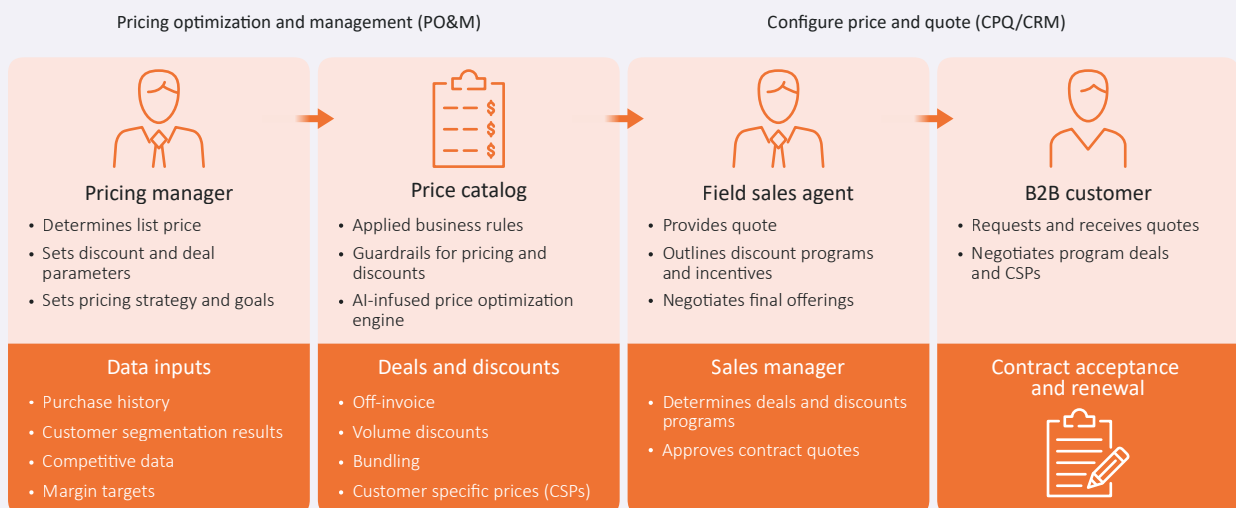
Pricing optimization and management (PO&M)   Configure price and quote (CPQ/CRM)

Pricing manager	Price catalog	Field sales agent	B2B customer
• Determines list price • Sets discount and deal parameters • Sets pricing strategy and goals	• Applied business rules • Guardrails for pricing and discounts • AI-infused price optimization engine	• Provides quote • Outlines discount programs and incentives • Negotiates final offerings	• Requests and receives quotes • Negotiates program deals and CSPs
Data inputs	**Deals and discounts**	**Sales manager**	**Contract acceptance and renewal**
• Purchase history • Customer segmentation results • Competitive data • Margin targets	• Off-invoice • Volume discounts • Bundling • Customer specific prices (CSPs)	• Determines deals and discounts programs • Approves contract quotes	

Figure 1: Opportunities for contract pricing optimization

Framework for establishing B2B pricing leadership

A coordinated, disciplined strategy with a system that self corrects via artificial intelligence/machine learning (AI/ML) technology represents the next wave of pricing solutions that B2B companies can explore. Additionally, the correct organizational design and change management approach will ensure the overall success of implementing a pricing software solution (see Figure 2).

Figure 2: Framework for establishing B2B pricing leadership

Pricing strategy

To increase agility in pricing decision, drive more accurate, customer-focused price, and capture more value, an effective B2B pricing strategy should:

- **Adopt differentiated pricing:** Limited by manual systems and tools, many B2B companies may set the list price with a cost-plus margin approach and let the sales field respond with competitive discounts/pricing. Consequently, there may be inconsistent variations in target margins with discount programs lacking strategic intent. Developing more sophisticated customer and product pricing segments require data-driven analytics, and the ability to flex dynamically based on customer attributes and performance. Segments should be reviewed periodically based on customer purchase behavior.

- **Enable dynamic pricing:** With the advent of e-commerce, pricing has become transparent and dynamic—fluctuating daily or even hourly. Customer procurement managers can easily shop online for key items or those items for which they have favorably contractually negotiated with customer specific prices (CSPs). Adopting an AI-enabled pricing platform allows B2B companies to respond to competitive price changes and also pre-empt competition. While rules manage basic guardrails for alignment with corporate goals and objectives, the data science engine helps determine how price sensitive an item is and which items drive overall baskets and revenue.

- **Rationalize discount structures:** Determining the right depth of discounts is a critical aspect to managing B2B revenues and profit. Without oversight and strategic control, the use of discounts and rebates can vary widely in the field, potentially rewarding under-performing customers. Additionally, discounts and rebates based on volume need to be validated and periodically reviewed for compliance purposes. Price waterfall reports can be useful in alerting the management about customers falling below net margin requirements.

  Harnessing data to recommend discounts for particular customer segments will drive increased revenues and margins. For the sales field, this means guidance on what the discount levels should be at the customer and product level. Additionally, the salesforce should be able to override the recommended discounts (within provided guardrails) and model what-if scenarios to forecast the financial impact and risk, guided by the overall grading score for the deal. Sales managers can be alerted about deals and line items that score low and warrant closer examination. Other reports such as the pocket price bands can be used by the sales field to identify customer deals or quotes that may be too aggressive and not warranted based on volume.

Systems and technology

Leveraging pricing technology and employing a best-in-class pricing solution can provide the foundation for effectively managing complex B2B pricing strategies throughout the organization.

- **Leverage analytics, AI, and automation:** Replace disparate, legacy-based IT systems and tools with software that provides advanced analytics and insights by leveraging algorithmic techniques for forecasting and determining optimal prices. Optimization solutions that provide balanced automation free up time for value-added activities such as the ability to experiment with different pricing strategies.

- **Leverage advanced feature engineering techniques:** Improve demand forecasting by tapping into new data sources. With the abundance of external data signals such as weather, social media, and local events coupled with the advancement in ML techniques, it is now possible to accurately forecast demand with advanced feature engineering. Even with only basic historical sales, it is possible to improve the accuracy of ML predictions by creating features such as day of week, week number, and quarter.

- **Take advantage of cloud infrastructure and microservices:** Implement solutions that leverage cloud and microservices architecture. By leveraging cloud in a platform-as-a-service (PaaS) or software-as-a-service (SaaS) mode, run costs can be effectively managed for demand peaks. Using a microservices architecture ensures that the IT investment is easy to integrate and deploy while providing the necessary scalability and reusability. This also allows for continuous delivery, thereby enabling quick upgrades that are in tune with business needs.

- **Integrate pricing systems with PO&M, CPQ, and CRM:** To optimize price, it is essential to know the cost elements of a given product and the information the salesforce needs to provide timely and accurate quotes. Select a pricing software such as price optimization and management (PO&M) that contains or integrates the price optimization functionality with the configure price and quote (CPQ) or customer relationship management (CRM) functionality. Effective B2B price optimization tools rely on information regarding contractual discounts, CSPs, and customer line-item win rates. This can either be software that offers both deal and pricing management as a package, or that can integrate with other tools.

- **Monitor performance to inform future pricing strategy:** Tracking pricing performance is critical to ensure that the pricing strategies evolve and are updated over time. This can be achieved through AI and automation, or manual data analytics. Critical components of the pricing strategy

such as customer and product segments and competitive positioning should be periodically reviewed. For example, dashboard exception reports can help prioritize such strategic re-alignment based on triggers when certain customers or categories may need review.

Organizational enablers

Critical to the successful adoption of a pricing software solution is having the right organizational design and change management plan. Understanding who is responsible for managing and executing pricing, having clear roles and responsibilities laid out, along with a plan that manages any change and communication is vital.

- **Ensure your pricing strategy is clear and well communicated:** Establish a cohesive pricing strategy communicated throughout the organization. A pricing strategy should consider many elements including market dynamics, strategic customers, customer acquisition, customer and product segmentations, portfolio management, incentives, and financial goals. If left to individual divisions, departments, or managers, pricing may lack a coordinated, rounded, and dynamic strategy. Organizations must also have the necessary infrastructure (pricing tools or platform) that communicates between the field and the merchants (or pricing team) and drives accurate execution of the pricing strategy. AI/ML infused technologies can drive dynamic price strategies that align with customer and product segmentations as well as competitive positioning, enabling efficient execution of robust strategies.

- **Align sales incentives with deal quality and value:** Equip the sales force with the necessary business intelligence to negotiate better prices/deals that are both competitive in the eyes of the customer and profitable for the company in the short or long term. Commissions, bonuses, and other forms of incentives should be aligned with how deals are graded and the overall economic benefit of the deal. Standardizing the process of approval to include scoring of line item prices as well as the overall quote will not only speed up the process but also ensure a disciplined approach that values long-term goals, rather than just meeting quotas.

- **Establish clear pricing ownership and workflows:** Establish clear ownership of pricing with a dedicated pricing team (or individual) tasked with setting the list prices, and creating and maintaining tactical pricing strategies—utilizing concepts such as customer and product differentiated pricing. The responsibilities of this person/team may include ownership of competitor intelligence, management of various software and pricing tools used throughout the organization, and training the workforce on the pricing workflows and procedures. It is also critical to involve the sales field with pricing. They need to believe they have the right pricing strategy and are partners in the pricing process.

- **Leverage change management expertise for executive and end-user buy-in:** Organizational change management (OCM) is a critical element for delivering a pricing system—with many components that need to be fully embraced to drive a successful implementation. From business impact assessment to communications planning, stakeholder management, and training, each component is a critical step to ensure successful implementation and realization of business benefits. Executives and senior management should be leveraged to support communication that describes the goals and objectives of the change, and why it is crucial for the success of the organization.

Summary

B2B companies are facing significant challenges to dynamically manage multiple customer and product segments with different discount and rebate programs, considering the vast amount of customer/SKU combinations. They need the ability to systemically identify and target key items (customer specific prices) and product category discounts to drive profitable customer growth.

Having a coordinated, disciplined strategy with a system that self corrects via AI/ML technology represents the next wave of pricing solutions that B2B companies can employ. Empowering merchants and the sales force with tools that bring more data into the decision process while adding efficiencies allows more focus on the pricing strategy. For the field, this translates into deals that are higher quality while standardizing and improving efficiencies in the approval process.

Leveraging pricing technology and employing a best-in-class pricing solution can provide the foundation for effectively managing complex B2B pricing strategies throughout the organization, and the opportunity to increase profits and revenue, and drive competitive advantage.

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