SELECTING A PRICING SOFTWARE SOLUTION

The pricing strategy domain has matured since 1980 when the first edition of the classic, *The Strategy and Tactics of Pricing* was published. Today, B2B companies aspiring to improve profitability through pricing can seek expertise from one of several consultancies as well as more than a half-dozen software solutions. Or, they may decide to build in-house capability by hiring certified pricing professionals from the Professional Pricing Society.

In October, LeveragePoint hosted a webinar talk titled, “Selecting a Pricing Software Solution,” facilitated by Jay Manson and Ed Arnold. Jay is currently LeveragePoint’s Vice President of Sales and had previously held senior positions at Vendavo and the Strategic Pricing Group. Ed is currently Vice President of Products and has worked in various consultancies including the Monitor Group and Diamond.

WEBINAR Q&A

Q: Gartner estimates the price management software market to be $180 million. That pales in comparison with the $2.1 billion procurement software market. Why is there such a huge discrepancy?

It shows that many companies have prioritized supply chain management and have invested heavily in systems to squeeze out cost. Increased global competition has certainly been a driver. Technology has also been a factor – procurement solutions were the first major B2B application on the web and are a natural extension of supply chain optimization tools. So, the procurement software space is well established with multiple large players. It’s a maturing space.

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In comparison, the price management software space is still in an early phase. There are relatively fewer, smaller players and most solutions focus on just one part of the price waterfall, managing prices and discounts. It’s interesting to note that in the current recession, these software vendors’ growth has stalled. Why? Because many companies are just focused on surviving the economic downturn and the current price management solutions are expensive and difficult to implement. Our view is that the price management software space will expand significantly once there are broader solutions available. That’s the opportunity we see for LeveragePoint.
Q: What do you mean by a “broader” pricing management solution?

It means you can actively manage and model price AND value. In other words, manage both the strategic and tactical sides. One of our pricing colleagues did a study recently that showed that companies that executed a value-based strategy outperformed their rivals by 11-24% measured by operating profit. (Source: Building a World Class Pricing Capability, Dr. John Hogan, 2008 [http://home.leveragepoint.com/download_world_class](http://home.leveragepoint.com/download_world_class))

Price management is a tactic. The analytics, though very complex and sophisticated, are aimed at a relatively straightforward problem: how do you reduce price leakage? These solutions take in a large volume of internal data across an organization to statistically analyze all of your pricing transactions to eliminate outliers and set control levels. Price management solutions can be expensive and time-intensive to implement, so only larger ($+1 billion) companies can afford to take this on.

Value-based pricing strategy addresses a more compelling problem: how to link price and value for our customers so that we can maximize market share and price capture? It involves decisions about value-based market segmentation and positioning, product development prioritization and especially sales effectiveness. The difference is an external market perspective versus an internal transaction perspective. This is the traditional turf of consultancies.

However, there is a new generation of innovative B2B software applications emerging, like LeveragePoint, focused on value strategy issues, providing a common platform for the different departments inside a company to build and collaborate on a common definition of value. Most importantly such applications allow you to accurately capture the customers’ perception of value, allowing companies to truly gain an external perspective on the link between price and value and to communicate this in the sales negotiation.

Q: Talk about the technology tradeoffs between, on-premise enterprise software and SaaS (software as a service) solutions?

Actually, in practice many companies choose a third option: home-grown spreadsheet based models. Often such spreadsheets are built by consultancies or by internal experts. There use is widespread because virtually no investment in software is required. On the other hand, they usually have limited impact on business results. According to the research study (mentioned above) companies who adopt this approach are “well intentioned,” yet suffer from a lack of support from the business to actually change strategies, processes and tactics.
This is because the business was not involved in the creation of these models and these models do not reflect the realities of the customers. In our opinion, this is not a viable choice.

Getting back to the original question, the real decision is whether to go with an on-premise enterprise solution or SaaS. Certainly, enterprise software is more established and considered less risky by many in corporate IT. But as mentioned earlier, these systems have a high TCO and a prolonged time-to-benefit (TTB).

We feel SaaS provides definite advantages because of lower TCO and faster TTB. Since SaaS solutions live outside of the company network, the demands on corporate IT department are very low and they can be made available to users in almost no time.

**Q: What are the specific challenges in implementing a value-based pricing strategy?**

A big one is the disconnect between various parts of the company – departments feel they are actually working at cross purposes. For example, salespeople jokingly refer to pricing as “the sales prevention team” and have long since dismissed marketing efforts as irrelevant due to a lack of key customer data. For their part, pricing and marketing (not to mention product development) tend to believe that while the sales organization may possess key information, they are hard pressed to use the anecdotal information that comes from sales to improve their product and messaging.

In the B2B pricing community today, a common refrain is: “Our pricing isn’t wrong, but salespeople are ignoring our list prices and handing out discounts left and right!” In other words, the problem is the sales team. This mentality is unhealthy and prevents organizations from addressing problems which are actually cross-functional; not only do pricing and sales need to work together to implement value-based pricing, but product development and marketing need to be engaged as well.

**Q: What does LeveragePoint offer?**

LeveragePoint is the only software solution with a comprehensive approach to value-based pricing which enables entire organizations to collaborate on value-based pricing and to help sales win.

The LeveragePoint approach is based on getting the entire organization aligned around how you create value for customers. What are the two or three things you can identify and quantify that allow you to beat your competition in the sale and win the negotiation on price?
Once these advantages are understood internally—including how they are quantified—this information must be successfully communicated not just to your customers, but to the procurement departments to which they are beholden. Finally, LeveragePoint is a SaaS-based solution, so it can be deployed rapidly to deliver quantifiable business results.
ABOUT LEVERAGEPOINT

The LeveragePoint platform enables your organization to collaborate on the economic value delivered to your customer’s bottom line – quantifying what truly differentiates you in the market. LeveragePoint helps product development and pricing set value-based prices; and helps marketing and sales communicate a value story that wins the price negotiation, shortens sales cycles, and captures wider margins.

And, as a SaaS (Software-as-a-Service) solution, LeveragePoint can be deployed quickly to deliver measurable business impacts within weeks.

CONTACT US

Sales Information
Jay Manson, VP of Sales
jmanson@leveragepoint.com
(781) 727 – 5977

Office
2 Canal Park
Cambridge, MA 02141
(617) 252 – 2876
info@leveragepoint.com | www.leveragepoint.com