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REIMAGINE COMMERCE: REAL-TIME MARKET PRICING FOR INDUSTRIAL MANUFACTURERS

How Zilliant and SAP are Enabling Profitable Growth

WHITEPAPER

SAP Silver Partner

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EXECUTIVE SUMMARY

The business, data, channel and product complexities manufacturers face make it difficult to meet customer expectations for a seamless eCommerce experience, especially as more business shifts to digital channels. This pain is particularly acute as manufacturers aim to provide dynamic, real-time, market-aligned prices through eCommerce channels.

Manufacturers may already struggle to set, manage and execute pricing strategies that simultaneously meet P&L objectives and win deals. Pricing is by far the most effective profit lever available to any company. However, many manufacturers often set pricing in terms of overly broad target margin percentages, cost-plus rules or list-minus targets, and ultimately relegate final pricing decisions to the field. While well-intended, this approach results in lost margin and is largely unsustainable as margins are increasingly squeezed and digital channels become the norm. In fact, the majority of manufacturers are missing out on an achievable 100 to 300 basis points in incremental margin as a function of poor pricing.

Furthermore, inconsistent pricing compromises the customer experience. Manufacturers must provide real-time, consistent, personalized pricing to compete in today's marketplace. To do that, issues that have built up over time, across each of the price types that exist in manufacturing, must be systematically addressed.

The ideal solution holistically addresses price setting, optimization and management challenges while seamlessly integrating with commerce solutions, tying pricing strategy to execution and results.

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THE CASE FOR CHANGE

The average B2B manufacturer is losing 0.5% to 8.4% of profit each year due to misaligned market pricing and 1.2% to 6.6% because of inconsistent pricing practices, based on benchmark data collected by Zilliant.

Misaligned pricing refers to transacting business at prices that fail to align rationally to customer size, order size, product value (good-better-best) and other key value dimensions. For example, a small customer may receive a better price than a large customer for the same product, all else being equal. It also includes pricing that does not quickly and accurately account for cost changes. Risk exposure to the latter is only increasing as cost changes occur more frequently and unpredictably in a global recessionary environment.

Inconsistent pricing means that prices are transacted below a minimum margin threshold, showing exceedingly wide variances under similar selling circumstances. Price grooving is also a common source of margin leakage, creating inconsistent prices where prices are rounded to the nearest dollar or offered at only discrete margins, such as 30%, where perhaps a margin of 33.5% would have been sufficient to win the deal.

No one sets out to make these kinds of pricing mistakes. So why do they occur? Pricing in manufacturing is difficult due to the acceleration of external pricing triggers in modern business coupled with outmoded internal processes that can't scale to meet the moment. Pricing teams are constantly in a reactive position – trying to pass through increasingly volatile raw material costs, setting a pricing strategy that sales reps will honor, dealing with channel conflict, responding to new competitors, or keeping up with the omnichannel demands of customers. Pricing decisions are often decentralized and subjective, which makes it incredibly difficult to deliver a relevant price to customers in eCommerce channels. Without the technology toolset and ability to analyze data and collaborate within a single source of pricing truth, manufacturers find themselves unable to adapt to new digital buying norms - leaking margin, and likely volume, all the while.

COMMON PRICING CHALLENGES IN INDUSTRIAL MANUFACTURING

Pricing structures and their inherent challenges vary depending on type of products manufactured.

Discrete products:
Costing can be simpler in this mode of production, since you know what components you need from the Bill-of-Materials and can plan ahead accordingly. Unfortunately, this also means that cost-plus pricing tends to become the go-to strategy. While it's easy to markup cost across the board to target a certain margin goal, overly broad cost-plus approaches don't allow for any consideration of customer willingness to pay. Customers are unique, so selling to them in a uniform way leaves profit on the table.

It's imperative to separate customers and products into price segments and measure price elasticity for each segment. With that information in the hands of the pricing team, prices can be raised where feasible, or lowered where needed, maintaining volume and share. Additionally, precise segmentation gives pricing teams the ammunition needed to drop customers into a profitable matrix system. These matrix prices can be effectively used in eCommerce systems, especially for products a customer may not have previously purchased. For negotiations, pricing can be delivered to sales reps in a CPQ tool as a Start/Target/Floor deal envelope that is highly relevant for each selling circumstance. In customer-specific pricing scenarios, manufacturers should consider a deal management solution to actively maintain the health of customer price agreements and efficiently manage approvals. Systematically maintaining customer-specific prices can enable manufacturers to tailor and personalize prices for customers in digital channels as well.

Configured products:
Many of the custom engineered parts, products or equipment produced are only made that one time, so therefore each pricing decision is unique. There are two complications these manufacturers run up against: (1) how do you price something that you've never made, let alone sold, before?; and (2) you're not dealing with a single SKU, but rather parts and pieces that get configured into a final product. Thus, it has to be designed and costed before you can even consider price.

Once that work is done, you must determine how much pricing power you have (i.e. how differentiated you are) versus your competitors and drive a price accordingly. Most will gather all the built-upon costs and add a markup. But how rigorous is the decision-making for said markup? Is it a guessing game based

totally on gut-feel or what you consider a rule-of-thumb fair margin? For those that haven't transformed their pricing, the answer is usually yes. This means there's almost certainly money left on the table, and in some cases overpricing, which results in lost sales and customer dissatisfaction.

There are better ways to arrive at a markup if you get scientific. You can (1) build up to a cost and apply price optimization to determine the optimal markup based on the product configuration and selling circumstance; or (2) build up to a cost, apply a markup to a list price and then optimize for discount guidance. Either tactic brings real transaction data and customer/product price elasticity into the decision, delivering sizable growth to the bottom line.

Aftermarket Parts:
One of the decisions manufacturers make is how best to engineer and price products upfront to ensure they get the downstream aftermarket business. The original product price serves as a guideline for the aftermarket price of its component parts. There's a danger in pricing it too high upfront and shooting yourself in the foot down the road.

Combining that with the highly variable nature of who you're selling to in the aftermarket creates a classic price optimization scenario. How do you produce a competitive list price with so many buying personas to account for? How to purposefully assign customers to a matrix that produces market-aligned prices? What kind of discount guardrails can you provide to sales reps to help them negotiate customer-specific agreements or spot transactions? If selling online, how do you enable automated negotiation functionality? The answers lie in the power of price optimization.

AN INTEGRATED PRICING SOLUTION IS NECESSARY

Industrial manufacturers create and sell products in very different ways with different costs to wildly different customer segments. Whether you fit into one of the above types or some combination of the three, it's a struggle to arrive consistently at the best price using outmoded tools and processes. Solving this puzzle requires data science, advanced price management and deeper customer/product segmentation capabilities.

Digital transformation is here, and the ones to succeed in modern manufacturing will be those who put pricing at the forefront of their evolution.

Pricing teams need intelligent tools and reliable data to efficiently and effectively set, optimize, manage, execute and deliver prices in all go-to-market channels. Only then can price be used as a strategic lever to improve financial performance. Sales reps need market-aligned price guidance to make the best possible commercial decisions. Finally, customers expect price transparency and consistency, regardless of the sales channel.

There is cloud-native technology available that accomplishes each of these use cases and more. Read on to learn how best-in-class manufacturers approach pricing, seamlessly integrated with the SAP Customer Experience Portfolio, including SAP Commerce Cloud and SAP Sales Cloud.

A REIMAGINED APPROACH TO ADDRESSING MANUFACTURING PRICING CHALLENGES

As outlined above, manufacturers are met with unpredictable pricing triggers at increasing speed and struggle to orchestrate the comprehensive pricing processes to overcome those obstacles. Zilliant's cloud-native price optimization and management solutions are up to the task of addressing these obstacles with precision and scale.

One of the major hindrances to tackling a pricing project built on a data science model is the common fear among manufacturers that their underlying data is faulty. In reality, B2B companies have more readily usable data than they realize. The transaction, customer and product master data residing in an ERP system is just waiting to be mined by an intelligent pricing system. This is typically the cleanest and most reliable source of data and becomes the foundation of a price optimization and/or price management model.

Data inputs can be integrated from an unlimited number of sources to a price optimization and management system via a flat file batch process or through a high-availability REST API.

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Pricing outputs from the pricing system can be integrated via batch process or a real-time integration that do not require data uploads to ERP systems. As an example, real-time API calls can be made from SAP S/4HANA® to Zilliant to return the right price condition value. This eliminates the technical challenges of mass-uploading to an ERP, allows companies to optimize prices at a more granular level and modify guidance at the speed of the digital world.

It's incumbent upon manufacturers to take a smarter approach to pricing to fully realize the enormous potential of investments in CPQ, ERP systems and eCommerce solutions. Connecting these solutions via REST API to a true cloud-native price optimization and management platform enhances a manufacturer's pricing function by:

- Allowing pricing teams to set optimized, market-aligned prices that are contextually relevant for every selling circumstance
- Addressing all price types or modes, including list, matrix, negotiated, into stock, override, customer-specific, project and configured pricing
- Empowering pricing what-if scenarios to determine the predicted revenue and margin impacts of different pricing strategies and decisions
- Enabling pricing teams to intelligently respond to dynamic changes in market conditions, better meet customers' expectations, and publish prices in real-time directly into CPQ, commerce or ERP systems
- Accurately measuring the impact of pricing strategies on business performance
- Scaling to support large product assortments in highly dynamic pricing environments

Manufacturers who have taken this approach are more responsive to customers with relevant prices and give their sales teams the upper hand in negotiations. When reps receive guidance that shows them the logic and business impact behind each product price, along with warnings if they are approaching the price floor, approval workflows are drastically reduced. Armed with the most competitive, market-aligned prices directly in their quoting system, sellers walk into deals with confidence.

Pricing teams benefit from a far superior 1-2 punch of price administration and price execution. Price management is fundamentally a business process challenge because many stakeholders exist across the enterprise who each have their own perception of what price should be and have developed unique methods to support their functional silo. A centralized price management system supported by a rules engine gives stakeholders across the business visibility into what each price is, why it was set, how costs are passed through and how price varies depending on volume/customer/region/etc. When used in concert with a price optimization solution that can consume and analyze vast swaths of pricing data and account for all the factors that influence price, companies report near-immediate ROI.

According to the IDC MarketScape: Worldwide B2B-Focused Price Optimization Applications 2018 Vendor Assessment, the value from price optimization applications is demonstrable and the payback is short, with many companies reporting payback in less than 12 months, and some in as few as three months.

Terreal, a manufacturer of clay building materials, realized sustained margin and pricing improvement from deploying price optimization. "We've managed to increase our margin by 0.3 points per year for the past three years, we've managed to perform better than our industry by 0.4 points in terms of price, and we've managed to continue to gain market share 0.5 points per year in the past four years," said Jean-Baptiste Fayet, VP of Sales and Marketing at Terreal. View the Terreal story here.

An additional benefit to this connected system is the full picture of data that emerges when powerful cloud-based systems talk to each other. The pricing platform can collect win/loss data from CPQ and ingest data collected from eCommerce solutions, such as cart abandonment data, to enhance its elasticity measurements.

ENABLE SMARTER PRICING, FASTER

Once a price optimization and management solution is in place, ensuring the market-aligned prices it produces are acted on in the field and presented to customers under the right selling circumstances is key to realizing financial benefit. In most manufacturing businesses, that happens through a combination of a configure price quote (CPQ) tool, eCommerce channel, and/or ERP system for direct order entry.

The CPQ market has come-of-age in the past half-decade as more and more B2B companies invest in efficient selling processes. However, to get the full value of CPQ, companies must also focus on providing high-quality price guidance within the CPQ solution, which is no small task given the complexity of the price setting and management process for most manufacturers. When pricing guidance is market-aligned and delivered within CPQ, manufacturers are better able to:

- Improve the speed and effectiveness of pricing decisions within the quoting process
- Ensure price guidance in CPQ reflects up-to-date pricing strategies and market and cost changes
- Increase sales confidence by providing contextual analytics, including historical prices paid by other customers in the same pricing segment, and scoring price quality
- Simplify a complex quoting process by dynamically optimizing line-item pricing with order-level targets
- Accelerate quote turnaround time with real-time approval guidance

Manufacturers without a CPQ tool can still benefit from optimized prices. With slight modifications to the order entry screen, optimized negotiation guidance, in the form of start, target and floor prices, can be displayed for sales and customer service reps to use at the time of order.

Online-only competitors are quickly disrupting the status quo. As a result, manufacturers are making significant investments in eCommerce solutions to remain competitive. Pricing strategy is often an afterthought in many manufacturers' digital strategies, yet it is also the biggest stumbling block. It can make or break the customer experience, as modern B2B buyers are online-savvy and expect a B2C-style experience and competitive, market-aligned prices. In a world where most manufacturers allow salespeople to set the price for the customer, this presents a huge challenge.

Integrating SAP Commerce Cloud® with an advanced pricing optimization and management solution allows for dynamic, real-time price updates, price consistency with offline channels, and price personalization based on each unique customer's relationship with the manufacturer, as well as intelligent automated negotiation functionality.

ONE INTEGRATED PRICING SOLUTION

How do all these concepts come together to create one dynamic system of commercial excellence? Zilliant has teamed up with SAP to provide SAP Customer Experience Portfolio (including SAP CPQ and Commerce Cloud) customers easy access to Zilliant's market-leading price optimization and management solutions, including:

- Zilliant Price Manager, which allows users to set, manage and update prices for all price types using a rules-based approach; make mass updates to price lists and customer-specific price agreements; execute and publish pricing initiatives to sales reps; and build statistically and strategically relevant segmentation structures.
- Zilliant Price IQ™, which is a data science-driven price optimization application that accounts for all statistically significant factors that drive price response, rationally aligns price/customer/order/product relationships and measures price elasticity with win-only data to set profit-maximizing or revenue-maximizing prices, based on a company's P&L goals. It uses constraint-based optimization to simultaneously enforce business rules, includes a Strategy Interface to run predictive what-if scenarios, and produces optimized price guidance for all the different way price is expressed in a business.

Zilliant's cloud-native SaaS platform uses high-availability REST APIs to infuse SAP solutions with intelligent pricing, enabling companies to make better pricing decisions, faster.

With Zilliant's pricing solutions seamlessly integrated, manufacturers are able to maximize their SAP technology investment while quickly strengthening commercial performance in a tumultuous marketplace. For more information, visit us on the SAP App Center.