



High performance. Delivered.

Value Creation through Tactical Pricing

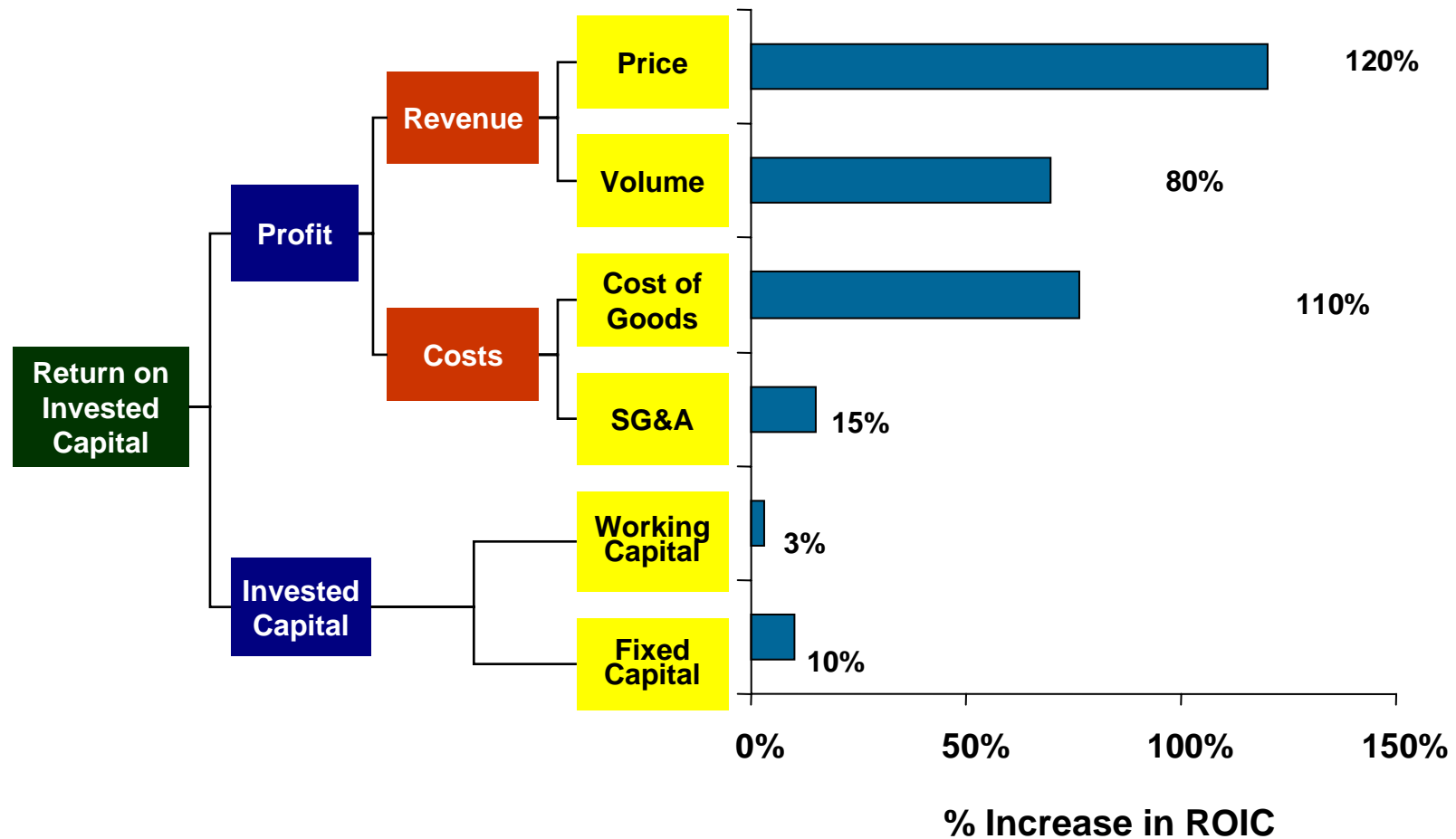
PIMA Conference

New Orleans, LA

Pricing improvement have a dramatic impact on ROIC.

Illustrative

Impact of a 5% Improvement in Drivers of Return on Invested Capital



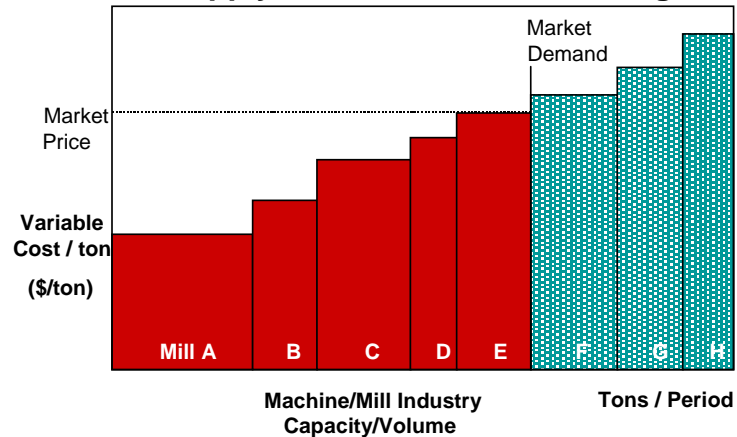
Pricing is classified into two categories.

PRICING

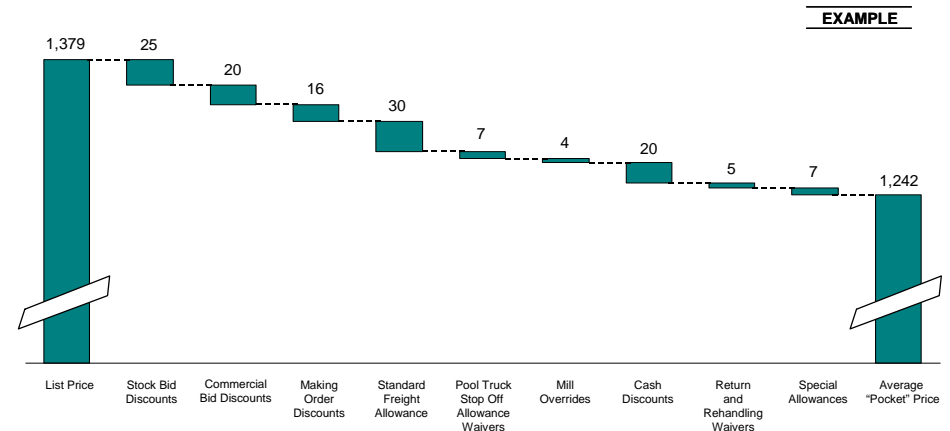
Strategic Pricing: The Markets

Tactical Pricing: The Customers

Supply/Demand Effect on Pricing



Pocket Price Calculation



- Understand and exploit the market dynamics and competitive behaviors that drive industry price levels
 - Understanding and managing the balance of supply and demand
 - Avoiding price wars
 - Leveraging dominant market forces (e.g. switching costs, product life-cycles)

- Negotiate pricing for a single product at a single account (spot or contract)
- Understand all costs associated with products and services
- Define and utilize a rigorous pricing process
- Collect and leverage critical account information in pricing decisions

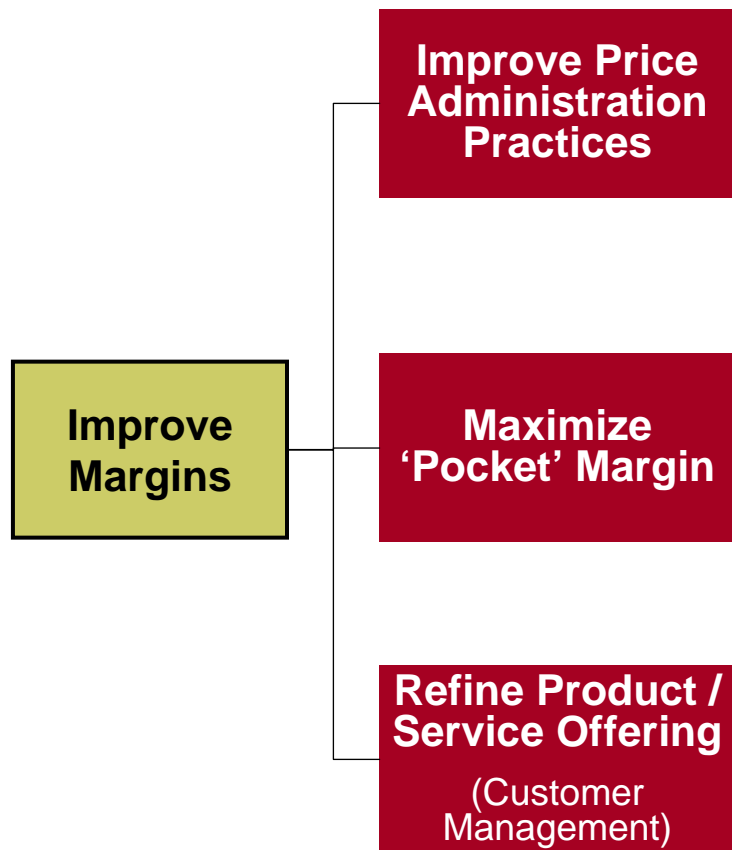
Tactical Pricing & Cost-to-serve identifies areas of margin leakage between gross price and operating margin.

What is Tactical Pricing and Cost-to-serve Analysis?

- **Tactical Pricing** – process of identifying leakage on a customer by customer basis due to freight, discounting, rebating, special packaging, pallet charges, expediting, complaints, etc.
- **Cost-to-serve** – quantify cost-to-serve by customer and utilize this information to either negotiate higher prices for incremental costs and value add services or to take back costly services that the customer is unwilling to pay for in the current market.

Based on our experience we have developed a framework to identify margin opportunities.

Pricing Diagnostic Framework



Listing of Typical Improvement Opportunities

- Measure invoice accuracy against a centralized, electronic, price book
- Automate and standardize price approval and price change processes
- Develop electronic audit trails to monitor adherence to pricing processes
- Incorporate price leakage concepts into customer profitability measures
- Utilize contract management tools
- Track and monitor deviations from “list” prices
- Use price bands and waterfalls to monitor and adapt to the product / customer lifecycle
- Implement differentiated service levels based on customer segmentation
- Optimize channel mix

Is pricing and cost-to-serve an opportunity for you?

- **Unclear impact of price management practices on profit**
 - Complex pricing structures, involving large number of pricing conditions
 - Large variety of discounts being offered
 - Rise in “free” services offered to customers
 - Large variability in quoted “unit” price for the same product
 - Lack of management visibility to “off-list” pricing activity
 - Lack of visibility to cost-to-serve leading to retention of low margin customers
- **Sub-optimal pricing strategy**
 - No formal process for market tracking and price adjustments
 - Lack of ability to sustain price adjustments
 - Unclear strategic pricing plan between customer segments
 - Difficulty in capturing and retaining high-paying / value-driven customers
- **Cumbersome, manually intensive pricing administration process**
 - Major administrative burden to support price quoting and competitive price responses
 - Large number of invoices disputed by customers
 - Cumbersome (or non-existent) pricing management support tools

In our experience, pricing diagnostics can identify improvement opportunities which can capture benefits equal to 2 – 7% of revenues.



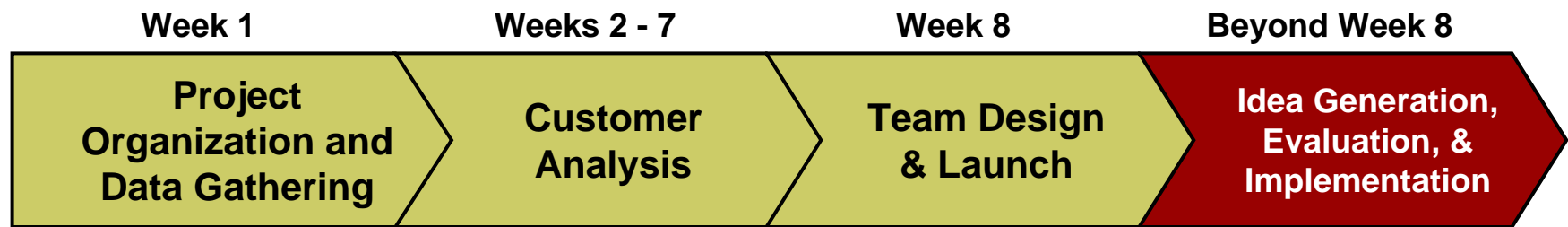
* Average realized savings (measured in gross margin points) achieved in previous engagements
 © 2004 Accenture

Additionally, Margin leakage and cost-to-serve analysis can set the direction for future strategic activities.

- Identification of actionable steps to reduce margin leakage
- Business process redesign to streamline costs
 - Pricing
 - Supply Chain
 - Integration and standardization
- Fact-based negotiation with customers
- Customer segmentation by profitability setting up deep buyer-attribute analysis
 - Blue Flame
 - Conjoint Analysis
- Identification of cost-reduction opportunities by channel, customer, or product
 - Link to manufacturing Step-change Performance Improvement
 - Future channels to serve

Diagnostics provide the analysis and insights which drive the improvement goal and organizing teams to capture the value.

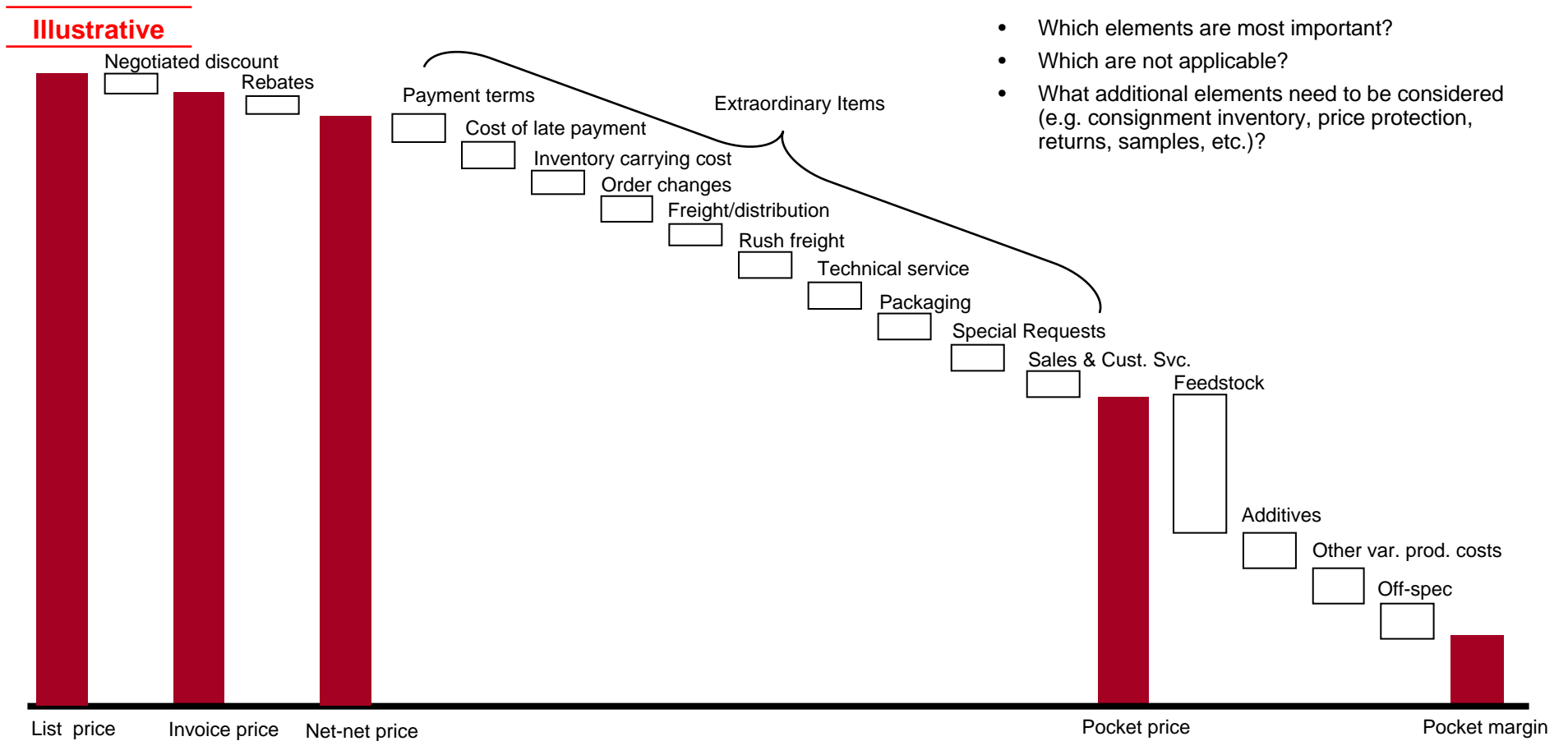
Typical Diagnostic Approach



Outputs

- Team organization
- Workplan
- Interview schedule
- Summarized data for products and customers
- Process maps and insights
- Segment/channel insights
- Tools insights
- Action team organization
- Initial idea list
- Quick Hits
- Team training
- Ideas summary and details
- Implementation plans
- Quick hit status
- \$\$\$ and capabilities
- Tracking reports
- Automated tool

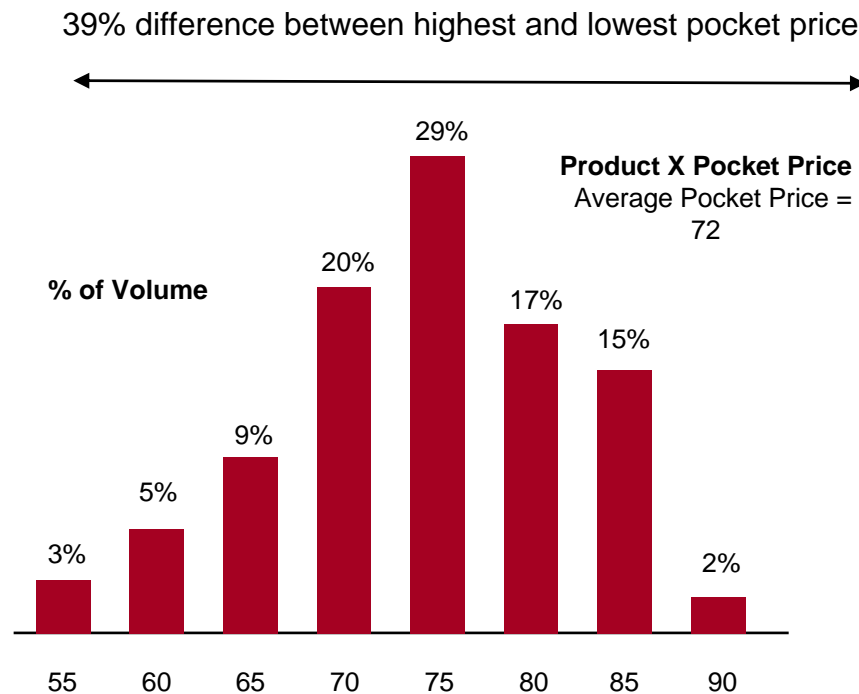
A Price Waterfall chart provides insight into where margin leakage occurs.



Price Band Analysis also provides key insights into the breadth of price and margin variation for the same products or customers.

Illustrative

Product X Price Bands



Objectives

- Assess the variability of transaction prices and the underlying drivers
- Understand customers at the extremes of the band
- Adjust and manage the band to reduce width and drive up average pocket price

Q&A



John Poisson

Partner

5221 North O'Connor Blvd

Suite 1400

Irving, TX 75039

Tel: (469) 665-6185

Fax: (469) 665-3185

john.p.poisson@accenture.com