

# Collaborative Marketing to Supercharge Profitable Growth Summit

TPM-TPO  
and Advanced  
Analytics  
are Bigger  
in Dallas!

November 4-6, 2015



## Forgotten Areas of Revenue Management

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**flintfox**

Revenue Management Delivered

What is the definition  
of the term *Revenue  
Management*?

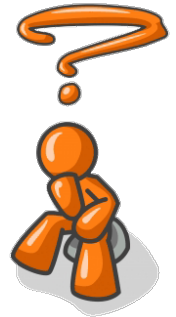
Selling the right room to the right client at the right moment  
at the right price.

Selling the right seat to the right customer at the right time for the  
right price.

Art and science of maximizing revenue under variable conditions.

Ability to manipulate pricing for various channels in order to manage  
inventory demand.

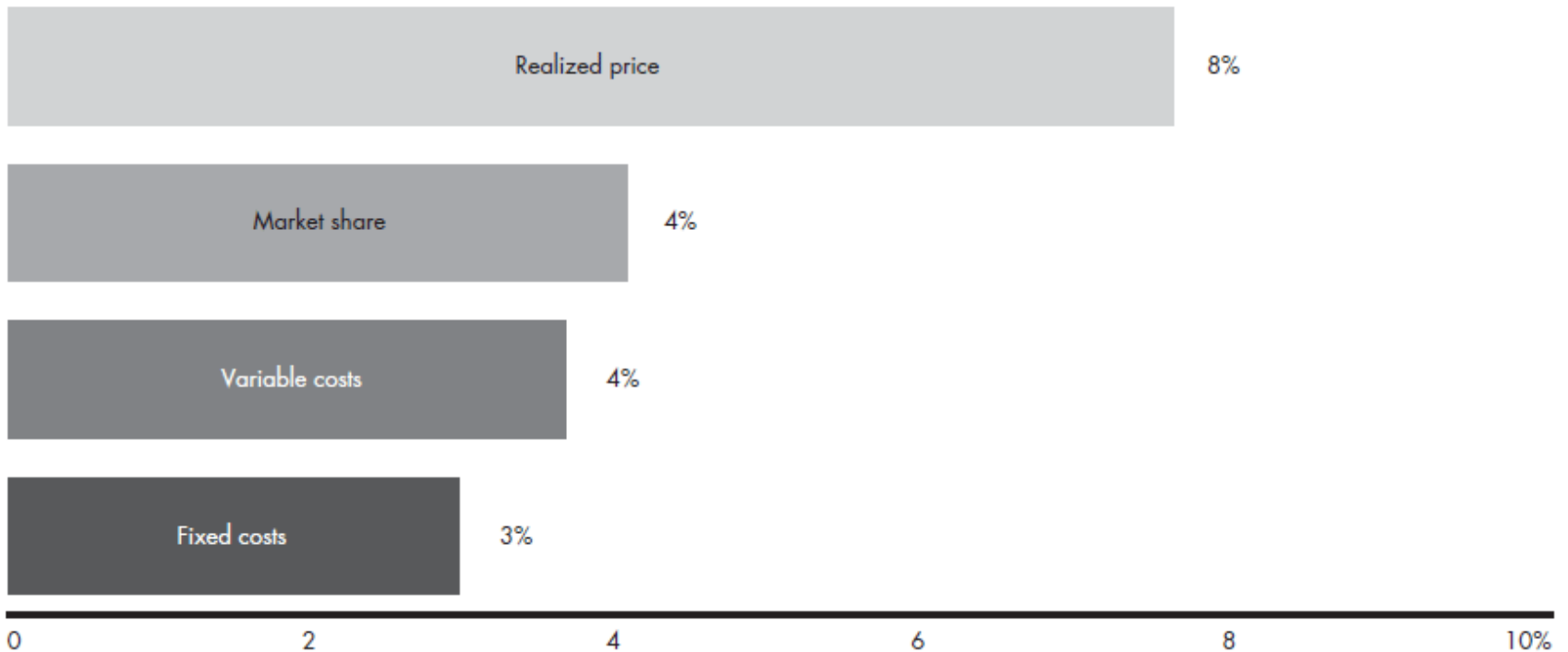
**Flintfox Definition: Detailed management and execution of all upfront  
pricing and retrospective or back-end programs to drive *profitable  
growth*.**



# Why Focus on Pricing?

Figure 1: Pricing affects profits more than any other lever

For each variable, percentage increase in EBIT for every 1% of improvement



Note: Average impact measured across B2B industries.  
Source: Bain analysis

# Why Focus on Pricing?

“Recognizing that one does, in fact, have pricing flexibility opens huge opportunities for improving profitable growth.... Bain & Company analysis of dozens of B2B companies across a wide range of sectors shows that **companies earn an 8% increase in operating profit for every 1% of improvement in realized price.** That’s roughly twice the benefit as a 1% improvement in market share, variable costs or fixed-cost utilization.” (Mewborn, Murphy, Williams (2014). ‘Clearing the roadblocks to better B2B pricing’. Bain.com)

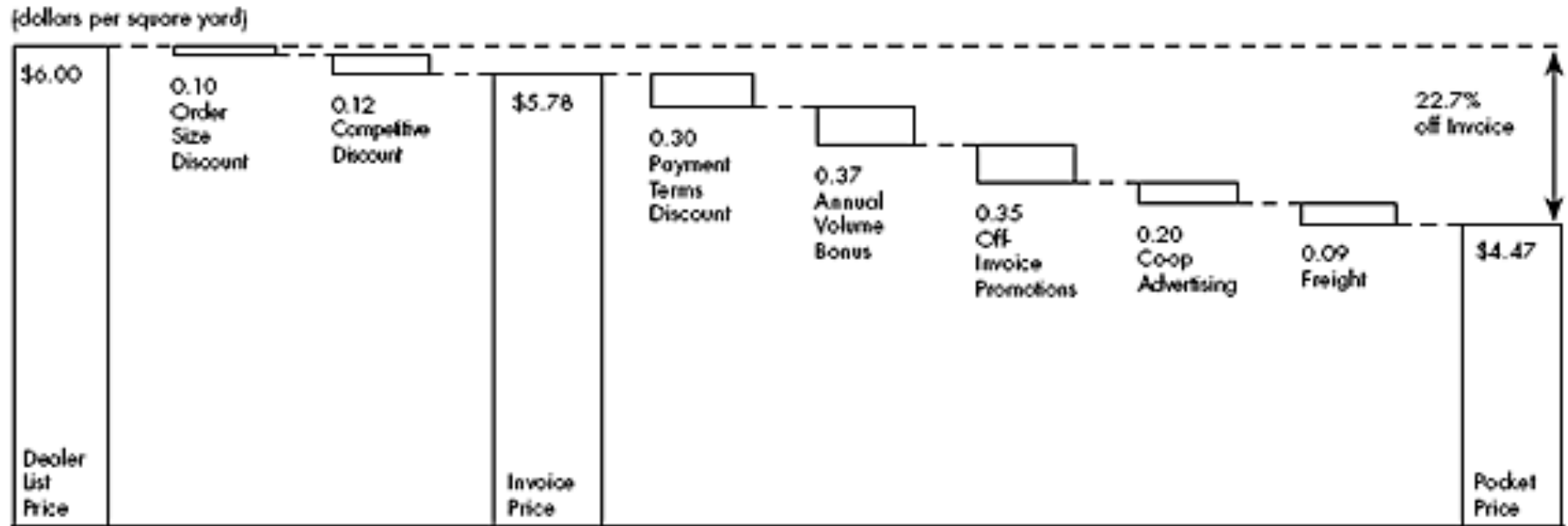
“**A 1% point increase in average price of goods leads to an 8.7% increase in operating profits** for the typical Global 1200 company.” (Baker, Marn, and Zawada (2010). ‘Building a better pricing infrastructure’ McKinsey & Company)

“The leverage and payoff of improved pricing are high. Compare, for example, the profit implications of a 1% increase in volume and a 1% increase in price. For a company with average economics, improving unit volume by 1% yields a 3.3% increase in operating profit, assuming no decrease in price. But, as Exhibit 1 shows, **a 1% improvement in price, assuming no loss of volume, increases operating profit by 11.1%.** Improvements in price typically have three to four times the effect on profitability as proportionate increases in volume.” (Marn and Rosiello (1992). ‘Managing Price, Gaining Profit’. Harvard Business Review)



# Why Focus on Pricing?

**Exhibit 2. In the Pocket Price Waterfall, each Element Represents a Revenue Leak**



“The Pocket Price Waterfall. Many companies fail to manage the full range of components that contribute to the final transaction price....Managers often fail to focus on pocket price because **accounting systems do not collect many of the off-invoice discounts on a customer/transaction basis.**” (Marr, Rosiello. (1992).

‘Managing Price, Gaining Profit’. Harvard Business Review).



# Traditional Trade and Revenue Management Focus Areas for TPM/TPO Solutions

- Develop and Track Trade Spending Budgets
- Develop and Plan Promotional Strategies
- Control Promotion Approval and Execution
- Manage Outstanding Deductions and Claims
- Provide Pre and Post Promotional Evaluation and ROI
- Account Promotional Planning using Forecasts, ERP data (price, COGS), and POS/syndicated data
- Scenario Planning and “what if” Analysis
- Joint Business and Collaborative Planning across tiered supply chains

# Forgotten Areas of Revenue Management



Pricing Management: Transactional Flexibility



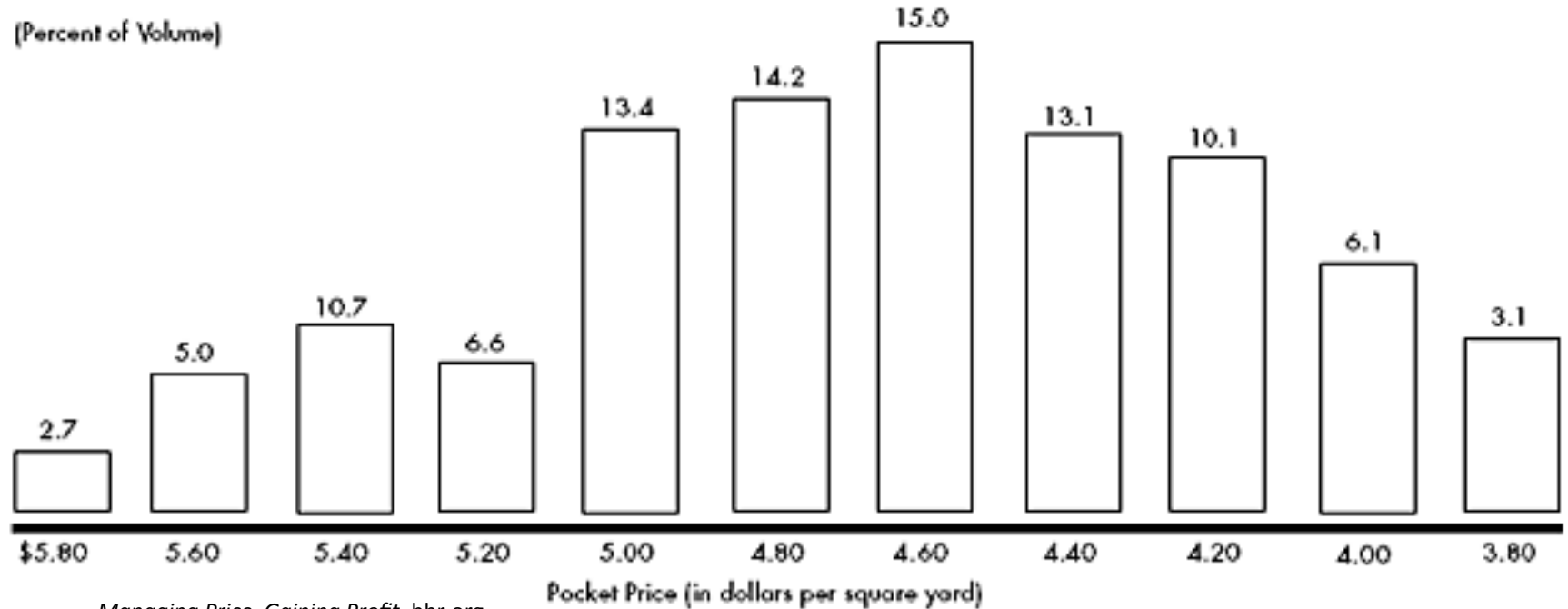
Pricing Efficiency: Omni-channel and Real-time Pricing Performance



After the Invoice: Micro Manage the Accruals

# Forgotten Areas of Revenue Management

**Exhibit 3. The Elements of a Pocket Price Band Reveal Profit Opportunities**



*Managing Price, Gaining Profit. hbr.org*



**“Understanding the variations in pocket price bands is critical to realizing a company’s best transaction pricing opportunities.** If a manager can identify a wide pocket price band and comprehend the underlying causes of the band’s width, then he or she can manipulate that band to the company’s benefit...by understanding customers at the extremes of the bands” (Marn, Rosiello. (1992). ‘Managing Price, Gaining Profit’. Harvard Business Review).



# Pricing Management: Transactional Flexibility

## The Three Levels of Price Management

1. Industry Supply and Demand – Basic Laws of Economics; changes in supply, demand, and costs and effects on pricing.
2. Product Market Strategy – Understanding of what factors of product/service/package and competition are important to the market in determining price
3. **Transactions** – At this last level of price management, the critical issue is **understanding how to manage the exact price charged for each transaction**. — That is, what base price to use, and what terms, discounts, allowances, rebates, incentives, and bonuses to apply. Where concern at other price management levels is directed more toward the broad, strategic positioning of products in the marketplace, **focus at the transaction level of price management is microscopic** — customer by customer, transaction by transaction, deal by deal.

(Marr, Rosiello. (1992). Managing Price, Gaining Profit. Harvard Business Review).

# Pricing Management: Transactional Flexibility

- Rules based pricing vs. table driven
- Mixture of customer, vendor, product, and transactional attributes with inclusion and exclusion capabilities
- Price model to support best/priority pricing and configurable discounting methodologies (additive/cascading/distinct)
  - Additive:  $\$100/\text{case}$  with 3 discounts (10% + 6% + 4%) =  $\$80.00$
  - Cascading:  $\$100 - 10\% = 90 - 6\% = 84.6 - 4\% = \$81.22$
  - Distinct:  $\$100 - 10\% = \$90.00$

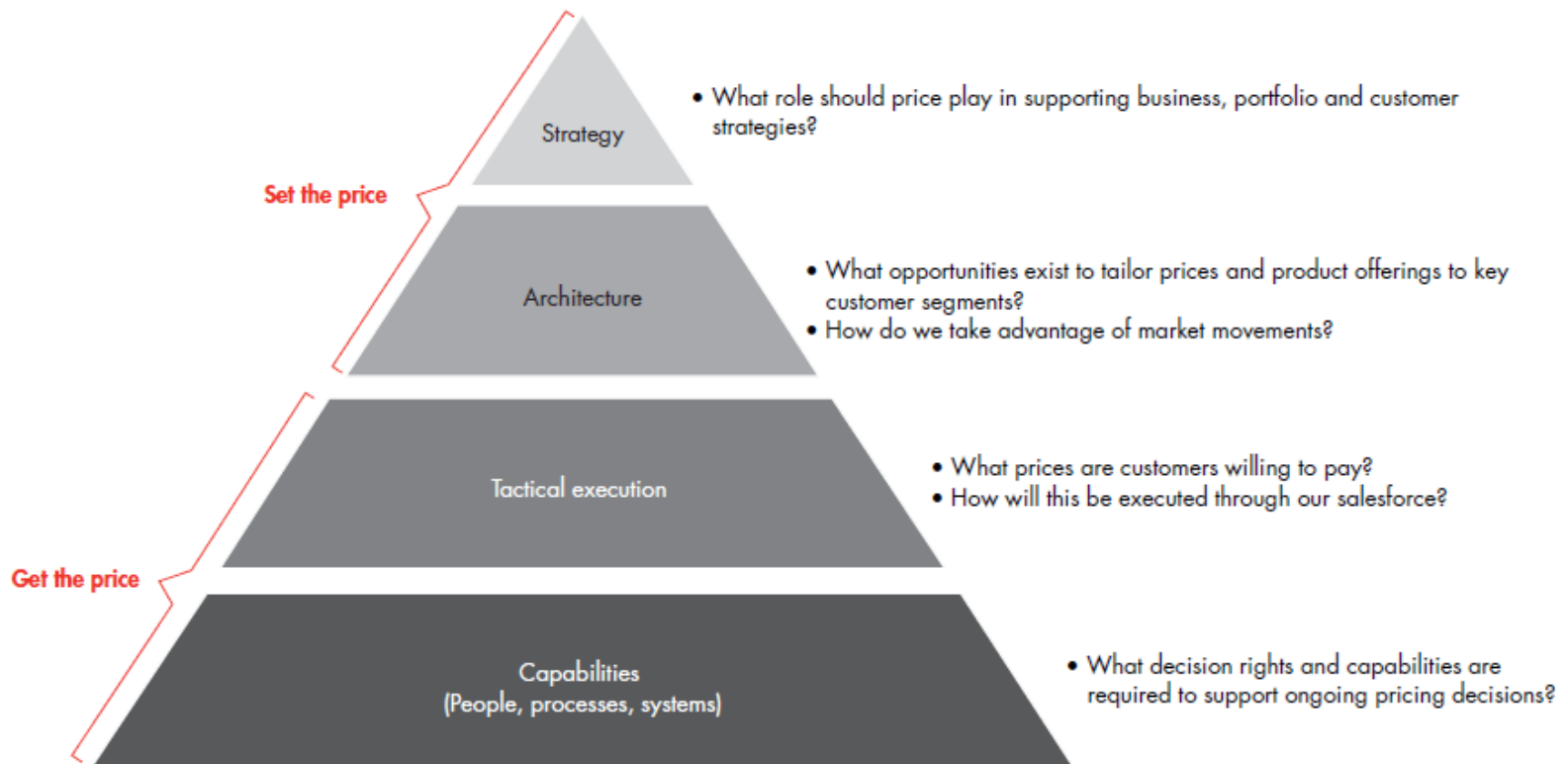


# Pricing Management: Transactional Flexibility

- Utilize mix and match, free goods, volume incentives, and cross-sell and up-sell abilities for appropriate channels and situations to drive additional purchases
- Capture and report upcharges to income accounts in certain transactional situations (mod pallets; special services or packaging; broken case/low UOM's; pickup vs. delivery; payment method)
- Capture pricing waterfall from list to net (as well as above list and below net) on every order

# Pricing Efficiency: Omni-channel, Real-time Pricing Performance

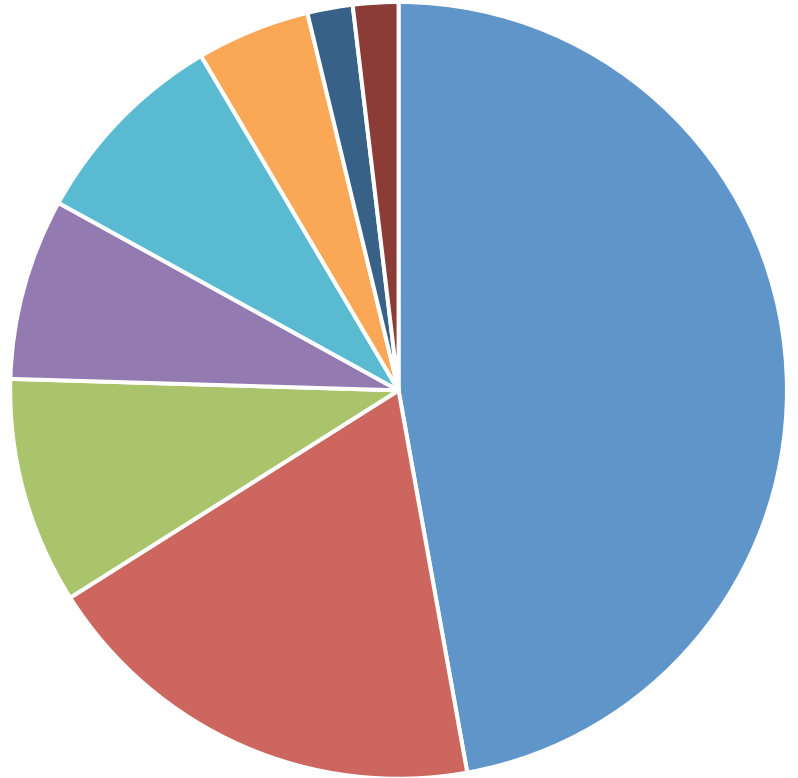
Figure 2: A holistic approach addresses key questions for setting and getting the right price



Source: Bain & Company

# Pricing Efficiency: Omni-channel, Real-time Pricing Performance

Source of Price Request



- ERP Order Entry
- E-commerce
- EDI Request
- Online Catalog
- Mobile Device
- Online Portal
- Physical Store
- Kiosk



# Pricing Efficiency: Omni-channel, Real-time Pricing Performance

## Key Components of Pricing Efficiency

- Single source of the truth for pricing accuracy and continuity
- Must be ERP agnostic. May even extend the pricing life of aging ERP's.
- Must be agnostic as to the source of the price request. - (ERP order entry; EDI; catalog generation tool; e-commerce; mobile devices)
- Every price must be dynamic (real-time and calculated, not table driven); This ensures accuracy and allows for instant reaction to market conditions.
- Must perform. **Scalability must be measured in sub-milliseconds** regardless of source of the request; number of simultaneous requests; number of orders; or order size.



# Pricing Efficiency: Omni-channel, Real-time Pricing Performance

- “For consumer packaged goods (CPG), a category that has seen little growth over the past few years—total CPG dollar sales increased just 1.5% last year according to IRI—the potential for e-commerce to drive incremental sales seems great... a recent report from the Boston Consulting Group and the Grocery Manufacturers Association puts CPG penetration into the digital channel at only 1% currently, it forecasts growth to 5% by 2018 and to 10% shortly after that. **The GMA expects that online sales will represent half of all CPG growth over the next 10 years**” (Golden, Tom. (2014). ‘How e-commerce changes the strategies of consumer packaged goods companies’. Internetretailer.com)

“The total cost of abandoned shopping carts for online retailers has been estimated to be over **\$18 billion a year.**” (2014, CDNetworks)

“A site that loads in 3 seconds or more yields **22% fewer conversions** than a site that loads in one second.” (2014, CDNetworks)

“Reducing load time by 3 seconds **increases revenue by 7-12%**” (2014, CDNetworks)

“If an e-commerce site is making \$100,000 per day, a 1 second delay in the average site load time could potentially cost the site owner **\$2.5 million in annual lost sales**” (2014, CDNetworks)





# After the Invoice: Micro Manage the Accruals

- Efficiently manage any and all retrospective accruals and settlements
- Reduce net sale amounts by back end payment requests or other accrual amounts prior to settling commissions or customer rebates
- Offer distributors, retailers, internal salespeople, and brokers growth-based incentives and tiered rates
- Manage all other fees and allowances due to distribution networks, buying groups or GPO's, and customer rebates
- Accrue and settle based on any data set: ERP purchases, sales, volume data from distributors or retailer scan data
- Accrue and expense at the customer/vendor/transaction line level to ***ensure transactional level profitability encompasses all aspects of spend***





# What are the *Actionable Insights*?

- With the proper recognition of expense and income generated or earned as a result of the purchase, sale, or distributor/retailer sale (i.e., discounts/rebates/commissions/royalties/fees/billback promotions recognized at the customer/transaction level), companies can:
  - ❑ Create selling programs based on a true understanding of all costs.
  - ❑ Analyze transactional elements (such as freight, ordering method, UOM) of the pocket price waterfall to determine where adjustments can be made without negatively affecting volume.
  - ❑ Analyze where certain distributors/customers reside on the pocket price band and make necessary adjustments such as re-negotiating low volume customers that are underpriced.
  - ❑ Drive more volume to higher profit channels.
- More efficiently manage alternate revenue streams with advanced pricing complexity and performance capabilities
  - ❑ Leverage any and all channels for sales due to removal of limits on pricing flexibility and performance.
  - ❑ Gain market share and drive additional sales volumes with tiered or incentive based programs for customers/distributors/brokers/salespeople.
  - ❑ Efficiently manage the settlement of all retrospective programs with deductions matching, manual claims, or auto-payment facilities.

Collaborative Marketing to Supercharge  
Profitable Growth Summit

The graphic features a green silhouette of the state of Texas. Inside the outline, a word cloud contains various marketing-related terms such as 'RETAILERS', 'MARKETING', 'COLLABORATION', 'OPTIMIZATIONS', 'PROMOTIONS', 'MERCHANDISING', 'ANALYTICS', 'RELEVANCE', 'CUSTOMER', 'WELL-BEING', 'PROFITING', 'ROTI', 'PROFITABILITY', 'PRACTICES', 'LOYALTY', 'DATA', 'TRADE', and 'L.P.I.'. To the left of the Texas map is the POI logo, which consists of a stylized 'P' and 'O' with a gear-like element, followed by the text 'POI' and 'PROMOTION OPTIMIZATION INSTITUTE' below it.

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# Questions?

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