

# Developing the Business Case for Pricing Initiatives: How to Get Started

*In this article, the author explains how successful pricing projects come from developing a comprehensive business case that can be embraced by the senior management team, based on the specific value they outline, and provides tips for pricers seeking to pursue pricing projects within their organizations. Hans-Peter Klug is a strategic consultant with PROS, where he specializes in delivering big data, sales and pricing solutions to prospective customers. Klug earned a degree from Germany's University of Bayreuth in sports and economics, focusing on finance and IT. He can be reached at hklug@pros.com.*

There's no question that the biggest lever for improving profitability is through a successful pricing initiative. In case after case, companies report substantial gains. These improvements offer a far more profound impact to bottom-line success than any other improvements made on fixed or variable costs or volume.

I have talked with a number of forward-thinking prospects who are looking to pursue pricing projects. What I've found is that their success has come through developing a comprehensive business case that can be embraced by the senior management team, based on the specific value they outline.

**I'd like to offer some suggestions on how to get started, along with the specifics to help you meet your goals:**

**Calculate the project cost:** For the internal cost, it's important to estimate the project's timeframe and the number of internal people it will take to complete the project. In making your assumptions, multiply the total with a default or calculated internal daily rate. For external support, which may include consulting services or the cost for a state-of-the-art pricing solution, reach out for estimates from reputable external parties.

It takes a bit more effort than simply calculating the project costs. Your scope should take into account a pricing project's bottom-line benefits to your business. Here are a few examples of various methods I've seen used to effectively build your case.

**Leverage research from best-in-class companies:** Research from external consultancies or analysts including Gartner, McKinsey, Deloitte and Simon-Kutcher are good sources. Results vary by industry and specific situations, ranging from approximately 3% – 8%+ return on profitability. I've found it's quite valuable to

have statements from pricing specialists that support your pricing initiative, and finding this research is fairly easy.

**Benchmark your goals:** Define key goals and objectives you plan to implement in your project plan.

**Examine those goals and value the returns:**

- Is your goal to win more deals due to faster quote turnaround times? Take the average number of quotes and the typical revenue per quote, and use the current and expected future win rates to calculate the expected benefit for your pricing solution. You can also show margin impact by adding average gross margin.
- If your pricing initiative goal is to enforce pricing strategy and discipline, use annual revenue to ensure you include only the revenue from the business you are able to influence — for example, only the negotiated business. Calculate the expected margin uplift — for example, the current margin for this business — and the expected margin lift once you've implemented and enforced your pricing strategy.

*"By 2015, best-in-industry enterprises will **increase revenue by up to three percent** and profits by up to 15 percent, due to improvements made using price optimization technologies."*

— Gartner

*"... implementing pricing solutions helped companies improve profit margins by 50 percent and **top-line results by two to three percent.**"*

— Forrester Research

*"The initial benefits to price management are huge: 200-350% ROI in 12 months and **2-7% margin increase.**"*

— AMR Research

- Is your pricing initiative goal to improve efficiency by reducing the time spent to recalculate prices? Use the average loaded cost per employee and calculate the time required for a specific activity. For example, it may be a pricing increase prior to your project and after. *Currently it takes four employees three months to perform the changes, and after implementing my pricing project, I estimate it will reduce the manpower and time to three employees and one week to perform the same calculations.*
- It's optimal if there are multiple elements of your pricing project that will help your company. In this case, you can certainly add value to those different elements. Just be cautious not to double count! Don't be surprised if you calculate big benefits with this exercise – pricing projects typically deliver huge results, no matter what your business. While I encourage you to be creative, it's far more important to be credible when modeling the value of your project.

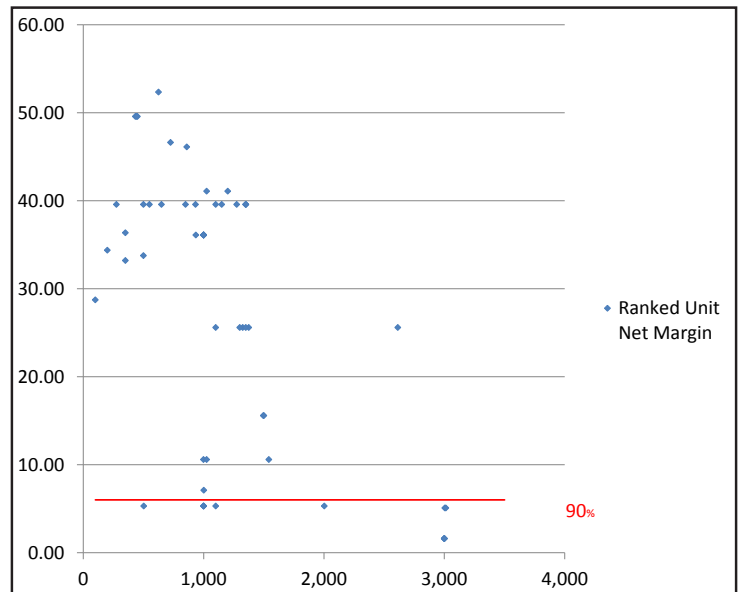
**Use customer case studies:** If you are working with an external company, they can make available a broad range of industries and comparable companies, along with the associated expected ben-

efits and numbers for making your business case. For example, if you are a specialty chemicals company in Europe, and your external partner has helped to achieve a revenue uplift of 2.5% by solving similar issues with another EU chemicals company, you might want to use this number as an estimated outcome.

**Perform a price variance analysis:** A great way of calculating the benefit for the business case is to use your data and perform a price variance analysis, which is a good proxy for the value of your pricing initiative. The bigger the variance in your data, the more benefit you are likely to achieve. The upside for your improved pricing equals the value of bringing the bottom 10-15% transactions in line with the remaining 85-90%.

To put the icing on the cake for a suc-

Figure 1



cessful business case, calculate the benefit in various ways, ideally using at least three different approaches:

1. Validate your data with the price variance analysis.
2. Benchmark the expected benefits with peers.
3. Engineer value for your solutions.