

Using Win-Loss Analysis to Better Align Price Settings with Market Realities

Despite its high value, many manufacturers of medical technology equipment do not have clear information on market price levels for competitor products, or even their own products' prices and, as a result, pricing decisions in this industry are frequently disconnected from market realities. This article discusses how using a win-loss analysis of company sales successes and failures can bridge the gap between pricing decisions and market conditions. Author Dr. Frank Rautenberg is a Director at Simon Kucher & Partners. He can be reached at frank.rautenberg@simon-kucher.com.

Information on market price levels is essential both for price setting of new products and for price adaptations of existing products. This information provides valuable feedback to decision makers from marketing and sales, who can then use the information in defining pricing and value positioning strategies.

Despite its high value, many manufacturers of medical technology equipment do not have clear information on market price levels for competitor products, or even their own products' prices. This is due to the equipment being sold in different configurations (base systems that can be customized with many different options). When reporting prices, these differences are often not taken into consideration. The lack of pricing knowledge creates a situation in which discussions on market price levels are driven

by anecdotal experience and speculation rather than by objective measurement, frequently leading to pricing decisions that are disconnected from market realities. Consequently, wrong price setting decisions are made and can only be corrected through either costly discounting or significant efforts to increase price levels.

A useful approach to understanding market price levels and differentials for refining price strategy is to conduct a win-loss analysis, a systematic review of won and lost deals to better understand customer purchase drivers and willingness to pay. This analysis helps to track market prices for different systems sold, allows comparison of prices for won and lost deals, and enables price/value mapping analysis (a comparison of the performances of the company's and competitors' systems).

Several levers can be used to collect powerful win-loss analysis data and to prepare targeted reports.

Utilizing the knowledge and expertise of the sales force

The sales force itself is one of the most important levers for win-loss analysis, as it is the most knowledgeable source of information on market price levels. Long negotiations on equipment deals with the purchaser provide the sales force with insights on customer price expectations and realistic price ranges. Even if the purchaser has a strong interest in over-emphasizing the role of price and downplaying competitor offer prices, any sales rep with some experience should still have a fairly good understanding of the competitor products and prices.

Ensure data collection with a sales force survey

Another factor involved in the win-loss

analysis is the systematic collection of data. This can be ensured by embedding a win-loss survey in the offer management or Customer Relationship Management (CRM) tool. Experience shows that the survey should not take longer than 5-8 minutes per deal. For practical reasons, the number of competitors that are included in a survey should be limited to 2-3 main competitors per deal. Compliance with data collection targets can be ensured by tying the rate of completed surveys to a salary incentive.

Asking the right questions

Sales force surveys pertaining to won deals should report the realized deal price vs. the targeted price and capture the prices at which major competitors lost the deal (if available). Sales force surveys regarding lost deals should still attempt to capture the estimated competitor deal prices, including relevant competitors and the last offered price the company provided to the customer. This last offered price can easily be automatically retrieved from a quoting tool or other internal databases.

It is also important to capture why a deal was won or lost. A pragmatic approach is recommended, such as one that provides a list of 8-10 criteria from which to select. Optional reasons may include superior technology, promotions, brand loyalty, price, etc.

Customer surveys to reconcile sales force bias

Since a sales person may take a very personal view on the reasons for why a deal was won or lost, bias in the survey may occur. Therefore, to estimate bias level and to better calibrate the collected information on market price levels, telephone-based customer surveys should also be carried out on a regular basis. Selected customers should be asked about their perception on the market develop-

ments with regards to manufacturer of-
fers and price levels.

Designing a manageable survey

A good win-loss survey should also strike a balance between capturing differences in configurations and keeping the survey manageable for the respondent. It is therefore helpful to provide a drop-down list in which the most frequently sold competitor systems are pre-defined and stored. In addition, the survey should list the most important features of available products so that the sales person can pick the options that were included in the offers.

Using targeted reports

The outcomes of win-loss analysis should be used as an input in pricing decisions. However, manufacturers should avoid using the outcomes of this analysis as the only decision input for adapting the price levels of their products, as it may overlook certain details. For example, a deal may be lost because price levels are too ambitious, or because

expensive, unwanted options are included. An automated price reduction carries the risk of not taking these differences into account.

Consistent reports need to be used and analyzed before making a price setting decision. Market price tracking reports are a simple yet powerful way of displaying the evolution of prices over time for won deals by the company and by competitors (see figure 1). This is useful for understanding competitive price reactions and evaluating the effectiveness of the company's price reaction strategies towards competitor price moves.

Opportunity market share reports are another way to easily display market share development (see figure 2 on next page). By simply tracking the shares of won deals for the company and competitors, market share developments can be tracked for certain systems. This is a great way to determine if certain price strategies lead to the desired market share targets or if the company is in a situation

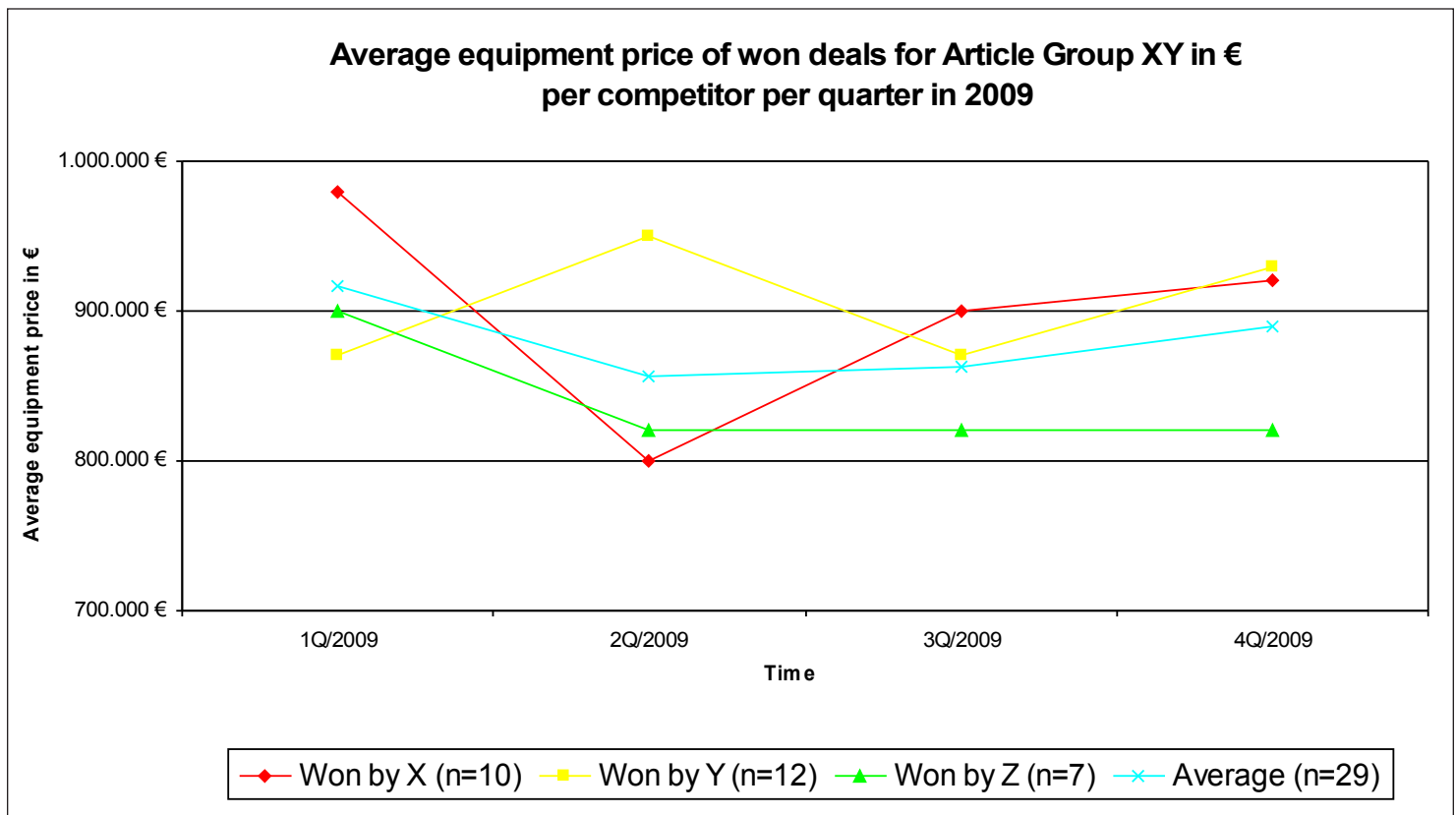
where market shares remain stable because all competitors reduced their prices at the same pace.

Further analysis can then reveal underlying root causes of lost deals and can help to identify gaps in the offer structure such as over-configuration or lack of attractive service contracts. Performance reports combine the price tracking analysis for won and lost deals with an analysis on configuration type (see figure 3 on next page). Using these reports allows a manufacturer to identify patterns, such as the types of configurations that are typically lost when a competitor offers a product in a lower configuration at a lower price.

Drawing the right conclusions

Win-loss data is an excellent source of information for price decision makers. **Effective use of win-loss data requires commitment from these pricing decision makers to include the outcomes of the win-loss analysis in their price decisions.**

Figure 1: Market Price Tracking Example



It is therefore essential that top management clearly commits to incorporating this source of information in their decisions. Decision makers should also demonstrate the importance of the win-loss surveys to

the sales force by clearly showing how outcomes of these reports are used.

If manufacturers use analysis based on comprehensive win-loss data to make

their pricing decisions rather than solely basing them on anecdotal feedback or looking into only selected deals, they will be able to greatly improve their ability to align prices with the market's will-

ingness to pay. Leading players from the medical technology industry are improving competitive intelligence and enhancing commercial effectiveness using these tactics, including design and implementation of win-loss surveys, training the sales force in using this method, and enhancing the skills of price decision makers on interpreting and using the outcomes of this valuable source of competitive information.

Figure 2: Opportunity Market Share Reports

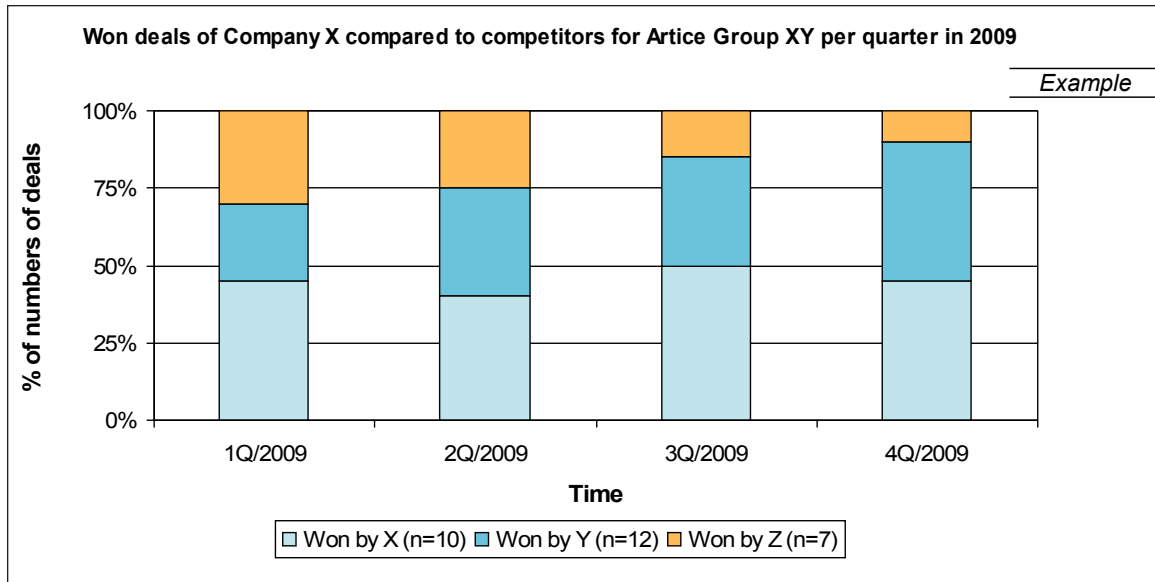


Figure 3: Performance Reports

