SunTec®

Enhance Your Enterprise's Pricing Maturity for Superior Value Realization, Differentiation, and Growth

Whitepaper

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Introduction

The price at which customers buy your products and services is really the only “P” of Marketing that generates revenue and profits for your company. This applies as much to market leaders with strong brands as it does to new kids on the block with disruptive offerings. Duh - blindingly obvious! What’s the big deal?

This paper sets out the context to why pricing is becoming a key competency for business enterprises. It also introduces our pricing maturity model, a framework to help leaders assess how evolved their pricing function is and therefore, how aligned it is to what customers are increasingly beginning to demand- and make purchase decisions on the basis of. Our maturity model is akin in intent to those developed over the last 30 years to assess the maturity of other business functions such as software engineering, risk management, HR or quality.

Why There Is Urgent Need for Enterprises to Change Their Pricing Capabilities

As a result of the powerful combination of entrepreneurship and innovation, customers can now choose from a wider choice of competing products and services in almost every category. At the same time, there is a more forcefully articulated demand by customers for "transparency" and "trust" vis-à-vis providers. There is also a higher level of personalization expected by customers, as well as greater concern for the degree to which brands care for the environment and follow socially acceptable business practices.

In an increasingly omnichannel world, customers have greater freedom to select the channel they use (physical, digital or hybrid) for engaging with providers of goods and services. As digital channels become more popular, and enterprises work with expanding business ecosystems, there is also a proliferation in the number of touchpoints through which customers can buy products and services. The sum total effect of the above trends is that across most industries, there is a perceptibly upward shift in the bargaining power of customers. As a result, the definition of the "right" price varies with each individual customer for the same underlying product or service.

This means that business enterprises must consistently present the "right" price to every customer at each touchpoint; indeed, the ability to do so becomes critical for the following reasons:

- To ensure that your brand builds and maintains trust with customers, prices need to be consistent across channels; where there are variations, there must be transparency so that customers appreciate the underlying reasons for differentiated pricing (loyalty, use of a certain payment solution, seasonal discount etc.).
- Enterprises must be capable of making quick and easy adjustments to prices to reflect the real-time dynamics of demand and supply (which are gathered from predictive customer persona or other analytics run by the enterprise or e-commerce platform) as well as competitor actions (e.g., sudden price cuts or promotions).
- For every product or service, the price must optimize value for the enterprise, and not just maximize revenue for one business unit. If this does not happen, cross-selling, up-selling and bundling will deliver limited benefits; also, parameters such as frequency of purchase and margins vary across offerings, so enterprises must look at maintaining the fine balance between sales on the one hand and profits/cashflows on the other for every individual sale. Maximizing revenue does not always lead to maximum profitability.

Thus, the "right" price that is presented to each individual customer has a lot more to it than a number that covers costs and overheads and delivers unit profitability. Although the importance of ensuring that prospects and customers are consistently presented with the relevant "right" price, most enterprises across industries find it difficult to do so. This is due to several reasons:

- Product-centric systems mean that pricing data reside in disparate systems; integrating them in real-time for every customer-channel combination is thus not easy. Line-of-business silos (and associated performance/governance metrics) impede the ability to focus on enterprise level value optimization. After all, why would any business group or individual voluntarily give up its revenues/margins (and hence, managerial compensation) for the "larger good"?
- As businesses become part of ecosystems with other players, bundled offers and pricing is the norm, as this creates "win-win" opportunities for all participating ecosystem members. In such situations, individual pricing engines of each member must be able to seamlessly exchange the relevant data in real time- in the context of every individual customer. Executing and managing agile changes to present the "right" price across the multiple touchpoints offered by the ecosystem is a complex task without the right tools.
- Predictive customer personas are good guides, but are trumped by the actual choices a customer makes at the time of making their purchase decision. Customer preferences and their expectations of value can change at short notice, and while product design, features and specifications play a role (and are more difficult to change at short notice), pricing, if quickly adjusted, may help the enterprise make the customer "an offer they cannot refuse".

A Framework to Assess an Enterprise's Pricing Maturity

Maturity models have, over the past three decades or so, been developed to assess capabilities around a number of functional areas in a business enterprise. Although originally developed in the context of Software Engineering, maturity models have since been developed and used in Human Resources, Financial Management, Risk Management, Digital Transformation, etc. Indeed, there are pricing maturity models as well. We at SunTec have developed our own version, to better reflect the pricing challenges that enterprises face (and are likely to face) in the emerging environment.

Our model recognizes 6 levels of maturity, based on 5 criteria that collectively paint a picture of how mature an enterprise's pricing capabilities are in the context of being able to consistently present the "right" price to prospects and customers across the various engagement channels. In many ways, our model seeks to differentiate enterprises on the basis of how much money they leave on the table only because of their relative inability to present the "right price" to every customer every single time.

Our maturity model too does not just assess "current state"; it provides business leaders with a clear indication of what the "next level" means for them in terms of their pricing capabilities. In turn, this is useful to develop a roadmap for the enterprise to move forward on the path to achieving higher levels of pricing maturity over a period of time.

The Pricing Maturity Model

Maturity Level	1	2	3	4	5	6
Coverage/ pricing approach	Early-stage, developing, Regional or local	Standardized, Corporate, Global			Highly Optimized, Global	
Type	Basic pricing	Market-based pricing	Differential pricing	Real-time pricing	Analytics-based pricing	Predictive pricing [Prescriptive pricing]
Technology Feature	Basic computational software	Advanced features in basic software	Embedded custom built product/ engine	Advanced pricing engine, Could be Open API driven	AI based pricing tools, Open API driven	Advanced AI tools, Emerging technologies, Gamified
Character	Unpredictable, no control, Organization focused	Highly reactive, Driven by the organization	Sporadic, seasonal and need based	Proactive and responsive, Customer driven	Real-time and ecosystem, connected, personalized	Forecast based, highly analytical, multiple data sources – advisory, Customer centric [individual product pricing done based on business objectives]
Periodicity	Random, need based	Programmatic, Rigid	Periodically Reviewed, need based	Market driven and dynamic	Context driven	Real-time, dynamic
Focus	Product-led, Revenue Management			Market or Customer¯led, Enterprise Value Chain Management		

As may be seen from the above graphic, our pricing maturity model uses the following six sets of criteria to assess business enterprises:

- Typical coverage/ pricing approach
- Sophistication of technology that supports pricing
- Dominant organizational character in terms of pricing
- Periodicity of pricing changes affected by the enterprise
- Primary focus of pricing

Based on their "maturity" in each of the above-mentioned six criteria, individual enterprises are assessed on a scale from Level 1 (least mature) to Level 5 (highest maturity). Each maturity level has typical business behaviours and technology characteristics associated with it. From an evolution standpoint, we believe that enterprises assessed at pricing maturity level 1 and levels 5/6 are clearly outliers at either end of the scale. Enterprises assessed at levels 2, 3 and 4 are closer to one another and hence, tightly clustered. For ease of comprehension, we have classified enterprises into three categories:

- Early-stage/Developing local/regional (Level 1);
- Standardized corporate/global (Levels 2, 3 & 4); and
- Optimized/global (Levels 5 & 6).

The dominant characteristic traits of enterprises in each of the three above-mentioned categories are explained below.

Early-stage/Developing Local/Regional

Companies with Level 1 maturity tend to have basic competencies in the domain of pricing. They rely on basic computational tools- typically spreadsheets worked on by individuals. The focus is on revenue maximization for each product line. Pricing changes are made based on needs perceived by managers, and there are no well-defined triggers or standard periodicity for pricing reviews (other than perhaps monthly or quarterly sales performance reviews). From an organizational perspective, there is limited control on pricing, as a result of which the outcomes are quite unpredictable in terms of revenues and margins. It is fair to say that the businesses that fall into this category are typically start-ups or have local/regional presence.

Standardized Corporate/Global

We believe that a majority of large and medium enterprises globally will fall into this category. These are businesses that, according to our pricing maturity model, would be typically assessed at Levels 2, 3 and 4. Purely from the standpoint of their ability to present the “right” price to customers across channels, companies in this category are more evolved than those at Level 1. They will usually have more advanced software capabilities to determine and present prices. These may either be bespoke/custom-developed solutions or third-party software. Level 4 companies will have the most advanced software in the form of pricing engines, possibly with API based capabilities for data exchange.

Their pricing strategy will by and large be based on following market trends, making some allowances for how differentiated their offerings really are. These companies are typically not likely to be the ones that set prices in the marketplace. A direct consequence is that they will usually be forced to adjust their prices just because competitors do so, and not because their products and services are inherently better/poorer. Level 2 companies will typically have rigid pricing review schedules, while Level 3 companies will appreciate the need to make more frequent (if ad hoc) changes to pricing. Those at Level 4 will be exceptions to this, as they will have begun to use data from a variety of sources to gauge customer response and proactively make necessary price adjustments. Although this is close to dynamic, market-driven pricing, the basic approach to pricing is still reactive, relying as it does on analysing the large number of data points the enterprise tracks. While Level 2 enterprises are still focused on maximizing product revenues, Level 3 and Level 4 enterprises have made the transition to revenue management- although this competency is still nascent.

Optimized/Global

In terms of pricing capabilities, there is a big shift between enterprises at Level 4 and those at Levels 5 and 6. This relates to the fact that for enterprises at the highest maturity levels, dynamic pricing is driven by customer context- which in turn, is constructed on the basis of multiple data points about individual customers. Pricing decisions are automated (with necessary governance safeguards), and are made with the objective of maximizing enterprise value. This may create short-term imbalances between product teams or lines of business- but the two foci are always individual customers and pricing bundles. The clear objective of adjusting prices is to optimize revenues, margins and value for the entire enterprise. Pricing is determined using predictive analytics and becomes prescriptive. Naturally, cutting-edge underlying technologies and tools are the norm: pricing engines in these enterprises use AI and ML algorithms, with gamified modelling of pricing scenarios determining real-time adjustments in prices for individual customers.

The pricing engines of such enterprises are even more tightly integrated with those of other members of their ecosystems. This allows these enterprises significantly higher levels of flexibility and agility when it comes to offering bundled offerings (including elements fulfilled by external partners) and pricing them. This also gives such enterprises the benefit of the combined marketing and go-to-market power of the ecosystem members. Perhaps the most important business impact of taking pricing capabilities to these new levels is that it eliminates the need for business managers to periodically review pricing changes. This real-time, automated price adjustment also eliminates the latency associated with ensuring that updated pricing is communicated to various channels and touchpoints.

Ensuring that the "right" price is seamlessly and instantaneously presented to every individual customer not only enhances the customer's omnichannel experience, but also helps in strengthening mutual trust between customer and enterprise based on higher levels of experienced transparency. This also means that the business is able to more efficiently convert cross-sell and up-sell opportunities for every individual customer. The net result is that the enterprise is able to optimize its revenue and margins, while delivering superior, personalized and differentiated experiences to customers, with evidence of transparency in action.

Conclusion

Pricing is becoming an increasingly business critical competency in the emerging business landscape for a number of reasons. The "right" price needs to be presented to prospects and customers across channels. This "right" price is one that not only maximizes chances of the customer purchasing a bundle of offerings (given their unique relationship with provider ecosystems) but also contributes to optimizing enterprise value for the individual participating businesses.

Our pricing maturity model provides business and technology leaders a structured but intuitive approach to objectively assess pricing maturity of their enterprises. Further, it enables leaders to plan their trajectory of evolution so that the enterprise gets closer to the holy grail of dynamic, real-time, context-driven, prescriptive pricing. Such a forward shift will not only maximize enterprise value but also serve to enhance transparency and trust with customers in an era where new pricing models emerge and new governance requirements are needed. Progress on the journey of pricing maturity will equip organizations with advanced decision-making tools that drive better alignment of pricing objectives with business strategy, and hence superior value realization and differentiation.

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About SunTec

SunTec is the world's No. 1 pricing and billing company that creates value for enterprises through its Cloud-based products. More than 130 clients in 45+ countries rely on SunTec to provide hyper-personalized products, offers, pricing, loyalty programs, and billing for over 400 million end-customers. SunTec products are based on our cloud-native and cloud-agnostic, API first, micro-services-based proprietary platform, Xelerate and are delivered on-premise, on private cloud and as SaaS. SunTec has global operations including the USA, UK, Germany, UAE, Singapore, Canada, Australia and India. For more information, please visit us at www.suntecgroup.com or email us at marketing@suntecgroup.com