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THE IMPORTANCE OF SMARTER, FASTER PRICING IN CPQ

WHITEPAPER

salesforce

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Salesforce CPQ is a critical tool for B2B companies to close deals faster by streamlining the configuration, price quote process. However, companies inadvertently miss an opportunity to optimize price guidance – and do so in real time – to ensure sales reps are making the best possible pricing decisions.

Consider this quote from Gartner Senior Director Analyst Mark Lewis, "For a majority of B2B companies, the pricing function in particular has become wildly complex due to the speed and unpredictability of external pricing triggers, coupled with insufficient internal resources to orchestrate a strategic price response. Often, the pricing persona within a B2B company is underserved by CPQ and ERP systems."

Certainly, the pricing persona is underserved by CPQ, but the impact of pricing reaches well beyond the pricing persona alone. Pricing's influence and importance is wide, impacting sales reps, back office teams, executives, customers, and the wider market itself.

In this whitepaper, we'll delve in to the status quo of pricing in B2B, make the case for pricing change, demonstrate the importance of optimized pricing within CPQ, and share how a combination of Zilliant and Salesforce CPQ can deliver granular, market-aligned and optimized price guidance that positively impacts margin.

SETTING THE STAGE OF PRICING STATUS QUO IN B2B

B2B companies, whether distribution, manufacturing, or service providers, face massive complexity within their businesses. A combination of the proliferation of product and customer counts, hundreds of sales reps, volatile costs and constantly evolving competitive dynamics, including increasing threats from non-traditional online competitors, each have contributed the tipping point of unmanageable complexity. As result, they often struggle to set, manage and execute pricing strategies that simultaneously meet P&L objectives and enable sales representatives to win deals.

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Pricing is by far the most effective profit lever available to any company. However, many B2B companies often set pricing in terms of overly broad target margin percentages, cost-plus rules or list-minus targets, and ultimately relegate final pricing decisions to the field. While well-intended, this approach results in lost margin and is largely unsustainable as margins are increasingly squeezed. In fact, the majority of companies are missing out on an achievable 100 to 300 basis points in incremental margin as a function of poor pricing.

Furthermore, inconsistent pricing compromises the customer experience. When pricing is misaligned to actual market conditions, customers must request pricing exceptions from their sales reps. Sales reps, in turn, must navigate internal pricing approval processes and negotiations. In the highly-manual environment in which most companies operate, the turnaround time for pricing exceptions can take multiple days and sometimes a week plus before a price is agreed upon. These companies must provide real-time, consistent, personalized pricing to compete in today's marketplace.

The ideal solution holistically addresses price setting, optimization and management challenges while seamlessly integrating with CPQ, tying pricing strategy to execution and results.

THE CASE FOR PRICING CHANGE

The average B2B company is losing 0.6% to 5.2% of profit each year due to misaligned market pricing and 1.4% to 6.5% because of inconsistent pricing practices, based on benchmark data.

Misaligned pricing refers to transacting business at prices that fail to align rationally to customer size, order size, product value (good-better-best) and other key value dimensions. For example, a small customer may receive a better price than a large customer for the same product, all else being equal.

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It also includes pricing that does not quickly and accurately account for cost changes. Risk exposure to the latter is only increasing as cost changes occur more frequently and unpredictably in a global recessionary environment.

Inconsistent pricing means that prices are transacted below a minimum margin threshold, showing exceedingly wide variances under similar selling circumstances. Price grooving is also a common source of margin leakage, creating inconsistent prices where prices are rounded to the nearest dollar or offered at only discrete margins, such as 30%, where perhaps a margin of 33.5% would have been sufficient to win the deal.

No one sets out to make these kinds of pricing mistakes. So why do they occur? Pricing is difficult due to the acceleration of external pricing triggers in modern business coupled with outmoded internal processes that can't scale to meet the moment. Pricing teams are constantly in a reactive position – trying to pass through increasingly frequent cost changes, setting a pricing strategy that sales reps will honor, making quick decisions based on inventory, or keeping up with the omnichannel demands of customers. In many companies, especially those that are branch-based, pricing is decentralized. They are not set up to learn from mistakes happening in far-flung field offices nor can they effectively set and govern a true holistic pricing strategy. Without the technology toolset and ability to analyze a massive volume of data and collaborate within a single source of pricing truth, distributors find themselves forever behind the market, leaking margin all the while.

Once a price optimization and management solution is in place, ensuring the market-aligned prices it produces are acted on in the field and presented to customers under the right selling circumstances is key to realizing financial benefit.

THE IMPORTANCE OF OPTIMIZED PRICING IN CPQ

The CPQ market has come of age in the past half-decade as more and more B2B companies invest in more efficient quoting processes. However, to get the full value of CPQ, companies must also focus on providing high-quality price guidance within the CPQ solution, which is no small task given the complexity of the price setting and management process for most B2B companies. When pricing guidance is market-aligned and delivered within CPQ, companies are better able to:

- Improve the speed and effectiveness of pricing decisions within the quoting process
- Ensure price guidance in CPQ reflects up-to-date pricing strategies and market and cost changes
- Increase sales confidence by providing contextual analytics, including historical prices paid by other customers in the same pricing segment, and scoring price quality
- Simplify a complex quoting process by dynamically optimizing line-item pricing with order-level targets
- Accelerate quote turnaround time with real-time approval guidance

For enterprise B2B companies with the commercial complexity we've discussed, Zilliant perfectly complements the price setting process. Let's look at the power of combining Zilliant and Salesforce CPQ.

HOW TO ENABLE SMARTER, FASTER PRICING IN SALESFORCE CPQ

Zilliant provides price management, price optimization and price analytics software that is specifically created for pricing professionals, enabling them to ensure the prices that salespeople see in CPQ are market-aligned and contextually relevant to each and every selling circumstance.

The Zilliant CPQ Connector provides a native integration between Salesforce CPQ and Zilliant's industry-leading pricing solutions, listed below, via the Zilliant Real-Time Pricing Engine™.

- Zilliant Price Manager™, which allows users to set, manage and update prices for all price modes using a rules-based approach; make mass updates to price lists; execute and publish pricing initiatives to sales reps; and build statistically and strategically relevant segmentation structures.
- Zilliant Price IQ™, which is a data science-driven price optimization application that accounts for all statistically significant factors that drive price response, rationally aligns price/customer/order/product relationships and measures price elasticity with win-only data to set profit-maximizing or revenue-maximizing prices, based on a company's P&L goals. It uses constraint-based optimization to simultaneously enforce business rules, includes a Strategy Interface to run predictive what-if scenarios, and produces optimized price guidance for all the different way price is expressed in a business.

Zilliant's cloud-native SaaS platform uses high-availability REST APIs to infuse Salesforce CPQ with intelligent pricing, enabling companies to make better pricing decisions, faster.

With Zilliant's pricing solutions seamlessly integrated, B2B companies are able to maximize their Salesforce CPQ investment while quickly strengthening commercial performance in a tumultuous marketplace.

For more information, visit Zilliant on the Salesforce AppExchange and explore the Zilliant CPQ Connector.