Revenue Engineering: Catch the Wave or Be Left on the Shore

It’s not uncommon for B2B companies to actively invest in purchasing and supply chain systems and lean processes to reduce or eliminate costs in their products or services. “Cost engineering”, or removing non-value creating expenditures, has become a standard practice rather than a special competitive advantage.

But what about “revenue engineering,” where companies can demand a higher price and capture more revenue by making strategic product or service investments to increase the value generated for customers? The average Fortune 1000 firm will realize two to four times greater profit gain by improving price realization one percent than by improving costs one percent.1

When it comes to strategic price management, many companies still make decisions based on gut feeling and incomplete (or worse, inaccurate) spreadsheets. The good news is that this mindset is changing. Within the past year, B2B companies are increasingly focused on margin growth opportunities from upgraded pricing strategies and tactics. According to the recent Market Scope for Price Optimization and Management for B2B, 2011 from Gartnerii:

“In 2010, more than one-quarter of the calls that Gartner received from clients and prospects were inquiries about the potential for price optimization in generating pricing guidance for sales forces. Confidence in achieving business objectives has been bolstered by a growing number of pricing software use cases, where enterprises successfully mitigated deterioration in revenue and margins for specific lines of businesses.”

These businesses are seeing tangible upside in consistency of deal evaluation, improved pricing/quoting response times and reduction in underperforming price outliers by equipping the organization to proactively manage inevitable price variations.

So how can your company catch the wave and not be left behind? Kalypso recommends these starting points:

1. Appoint a centralized pricing leader: Often at the Senior Director or VP level, this role serves as the rallying point for driving pricing change initiatives. Without a clear owner that has sufficient organizational clout, pricing improvement will be “someone else’s job”.
2. Conduct an objective assessment of pricing opportunities: Pricing tends to be an emotional topic, and it takes solid facts to overcome many functional biases. An outside expert or consultancy can accelerate efforts to drill into price and margin growth opportunities.
3. Develop specific action plans with discrete internal ownership: Once you’ve diagnosed and prioritized the opportunities, assign a clear action plan to specific individuals. Track the progress at least every 60 days with a VP or Senior VP of Marketing or Finance.
4. Evaluate the leading enterprise pricing software tools: Small, incremental wins from the actions above will breed the appetite for greater gains. But don’t wait until you’ve run out of low hanging fruit to evaluate enterprise pricing software that can support your process changes – do this in parallel. This will give you a chance to learn from successful client case studies how to institutionalize improved pricing decision making.

Regardless of your starting point, it’s critical to get intentional with your approach to revenue engineering. Even without complex data models and sophisticated pricing analytics software, you can begin by studying price variation within a similar set of customers and challenging the organization to justify low price points. Would the low price points be approved today if they were new customers? Have those customers seen a price increase in the past few years as your costs have increased? Are you really making money on your “best” customers?

Get the discussion flowing to naturally provoke an appetite for more, and begin your journey toward better revenue engineering.

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1 Marn, Michael V, Roegner, Eric V, and Zawada, Craig C. The Price Advantage, 2004

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