The PRICING ADVISOR

The Pricing Advisor™ is published monthly by the Professional Pricing Society
3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com
Kevin Mitchell, Publisher

A Professional Pricing Society Publication

February 2015

Despite the rapid entrance of numerous players, both large and small, into the German payments market, the German public is still slow to adopt new payment technologies. In this article, the authors identify reasons for slow market adaption and outline strategies necessary for anyone looking to succeed in this unique market segment. Jens Baumgarten is a Partner with Simon-Kucher & Partners in Frankfurt and New York and responsible for payments innovations. His consulting work focuses primarily on Value Management, Strategic Pricing and Sales Optimization. Harald Ziegler is a Consultant in the competence center Banking & Financial Services at Simon-Kucher. They can both be reached via www2.simon-kucher.com.

Mobile Payments in Germany: Warming Up for Round Two

It looks like things are finally taking off in the German payments market: small, nimble start-ups and global giants such as Google, Apple and PayPal are successfully pushing innovative mobile payments solutions into the German market, changing the way customers make payments. For example, PayPal has already acquired some 15 million customers in Germany, including more than many large established German banks such as Germany's Commerzbank. Moreover, more than 20 percent of German online sales are already paid for via PayPal. **Considering these numbers, one has to wonder if the newcomers have finally won the battle on payment methods against the traditional German banks, or as developments suggest, if mobile payments and Germany still don't mesh well.**

Too many players

There are numerous reasons for the slow market adaption. First, it is often claimed that simply too many players are trying to impose their own products and services on the market, and as a consequence there is no common standard. Credit card companies like Visa and MasterCard have joined forces with telecom operators such as T-Mobile and Vodafone to put their cards on NFC chips integrated into smartphones. PayPal is working on mobile payment solutions and has started a cooperation with the German DKB bank – also in order to enhance the reputation of its products. Of course high-tech giants such as Google and Apple are extending their reach into mobile payments, but also the established German banks want to play a

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major role in this area; they're just struggling to get things moving.

Cash is king

Second, it is not only the absence of a mobile payment standard that hampers the broad adoption of this alternative payment method among German consumers. There are several market-specific particularities that do not support the usage of mobile payments. Cash is still king for German customers.

In 2013, 54 percent of all retail purchases were still paid for in cash. This Germany-specific nostalgia for cash is also reflected in the relatively low credit card penetration rates compared to other highly developed countries. Only one in three Germans owns a credit card. Yet, credit cards are key components in many mobile payment solutions and are thus important in making such a breakthrough.

Use of debit cards

Third, mobile payment services such as M-Pesa have been particularly relevant and successful in countries with large rural areas with few banks or ATMs, i.e. countries where many people don't have access to traditional banking services. In such countries mobile payments make it possible for people to use their mobile phone to send and receive money and pay bills. Yet, the German market is characterized by an excellent infrastructure regarding ATMs and alternative cashless payment methods. With the debit card (called EC card in Germany), for example, a standard for cashless payments is already in place that is equally accepted by customers and retailers. Most of these debit cards are even equipped with NFC chips that support contactless payments just like mobile payment methods. However, only sales of 118 million EUR were paid for this way in 2013.

Clients show low interest

In summary, it seems like even with NFC technology emerging as a technical standard, the German public still does not appear to be hugely interested in mobile payment technology. As a result, retailers are only reluctantly providing the required point of sale infrastructure, which in return does not help increase the attractiveness of mobile payments for customers; a classic vicious circle.

Despite all these barriers outlined above, with increasingly more mobile services being introduced, the German mobile payments market will continue to grow in the upcoming years – albeit fairly slowly. The key question will be who is going to win the race for winning new clients by offering the best services that are appealing and are offering a real alternative for customers?

Customized packages are key

To win this race, banks and non-banks need to understand quickly which (mobile) services customers really want and how these services can be packaged into attractive offerings. They need to understand which factors hamper and trigger adoption, including what drives customer value and willingness to pay. In the end, investments into mobile payments need to pay off, either through direct revenues or longer term benefits in the form of increased customer loyalty and relationship breadth and depth.

Chance not (yet) taken

All in all it seems natural that the established German banks should have a legitimate claim on the mobile payment market. Especially the two retail giants, the Sparkassen and Volks-/Raiffeisenbanken associations should be able to leverage their close relationships with customers to integrate mobile payment services into their broad payments and banking product portfolio. Together they account for about 75 percent of the German retail banking market, therefore, they should be able to leverage their brand recognition as stable, reliable institutions for introducing new mobile services that align with German consumers' needs on secure, safe payments with real value add. Yet, thus far even they seem to lack the innovation, skills and initiative to successfully develop and implement their own mobile payment services – despite international best practices like the Canadian Interac Association which has successfully shown that financial institutions can team up with and set up an integrated banking network while minimizing dependencies on third parties.

This Germany-specific nostalgia for cash is also reflected in the relatively low credit card penetration rates compared to other highly developed countries.

Time to play along

Now is the time to act, before companies like Apple, Google or PayPal finally succeed in grabbing massive payment volume and client relationships from established German banks. Once these presumably younger, tech savvy and active clients are lost on the payments side, it will be extremely hard to reach them with other margin-stronger retail products such as mortgages or investments. In short: Don't leave the field to other players, develop mobile payments now, or risk losing your future customer base.

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Delivering Value Pricing Through B2B Sales Teams

In this article, the author explores what B2B pricing and sales teams can do to effectively price and communicate the value of their products, and reviews the "7 Challenges" and "5Cs" of value. Mike Wilkinson is Co-founder and Director of Axia Value Solutions, where he helps businesses defend and grow their revenues and margins by understanding the things their customers truly value. He has over 25 years of world-wide training and consultancy experience and was the 2013 Training Journal award winner for best sales programming. He can be reached via www.axiavalue.com. This article was originally printed on LeveragePoint's Value Strategies Blog.

A salesperson in a room full of Global Pricing Directors, Strategic Pricing Managers, Value Analysts and the like, surely feels a little nervous. But in the presence of a sales rep, so should all the pricing executives. When pricing teams have spent hours with spreadsheets and sophisticated software systems coming up with detailed calculations to arrive at the most appropriate cost-based, competition-based or value-based price, salespeople are the ones that take that price out to the customer — and discount it.

If only sales people did as they were told and stopped arguing, then B2B enterprises would be able to achieve targeted prices much more easily, right? Well, the problem that sales reps have and many pricers don't have on a regular basis is that they have to meet the customer. As one sales manager recently told me, "pricing is like planning the perfect final play in the comfort of the locker room, but not having to actually go out and run it, and not providing the players with the information needed to play either!"

The Pricing and Sales Teams Must Work Together

In order to coordinate the play effectively you need intelligence from the front line. This is where the sales role as a key communication focus becomes critical. Sales is the hub. They are the link for information coming into the business — the kind of information that helps the company really understand:

- The customer and their value drivers
- The things that are important to them
- The issues they face
- The opportunities they are seeking to address

This allows B2B enterprises to then develop a differentiated solution for the salesperson to take back out to the customer to present, sell, and achieve the pricing team's sophisticatedly calculated, value-based price. Only, all too often, they don't. The question is, "why not?"

The 7 Challenges of Value

Think of price management, and think two key components: The price setting component, where the pricing team comes in, and the price getting component, where the sales team generally comes in. Usually they seem to be two disconnected activities, but both should focus on making sure that the sales team is properly equipped to do the price getting job.

"Value is a mystery… We do not define value. Our customers define value. Our job as a business and as a sales team is to solve the value mystery."

To make matters a little more difficult, there is the question of value. All too frequently salespeople appear to have very little, if any, understanding of value outside of features and benefits, and little skill or support in monetizing and presenting that value to customers effectively. To overcome this, pricing and sales teams need to address the 7 challenges of value.

1. Understand just what value is
If sales and pricing reps are unable to understand what their company's value is amongst their colleagues, how will they be able to communicate an offering's value to the customer? Putting themselves in the shoes of the customer will help in understanding just what an offering's value is.

"Value is a mystery… We do not define value. Our customers define value. Our job as a business and as a sales team is to solve the value mystery."

2. Recognize that value perceptions are constantly changing
Once an offering's value is discovered, B2B professionals must recognize that value and value perceptions are constantly changing. In our ever-changing markets, a customer's value perception today may drastically change tomorrow. It's necessary to constantly reevaluate what

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an offering's value is, for the answer is unstable.

3. Identify people who care about value
Even though some customers' value perception is always evolving, some never think value in the first place. Identifying people who care about value is the third challenge. It's impossible to sell value to people who don't care about it. Aim to talk to the people in the customer's business that will benefit the most from the value that is being delivered. Value is worth, worth is money, and money is time. Sales reps should not waste your money talking value with someone who isn't worth their time.

4. Differentiate in ways that matter
After establishing the right contacts, it's imperative to be able to differentiate value in ways that matter. Differentiation isn't just being different from competitors. It is being different in ways that customers value.

5. Communicate value
Communicating those differences is a challenge in and of itself. If you don't have a value proposition already, make one. Relating value propositions effectively to customers is a direct line to the customer's purchase.

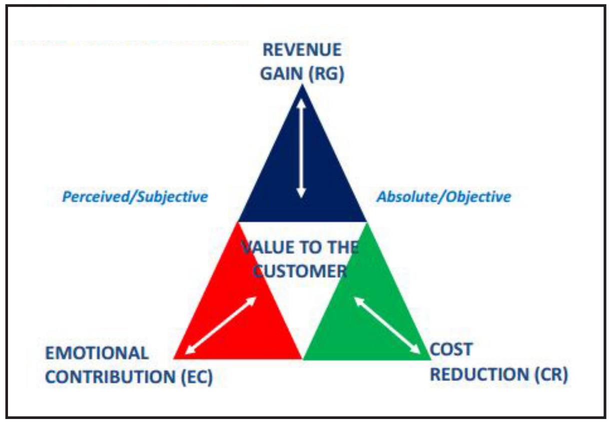
6. Capture value through price
That purchase can't be complete without a purchase price. There's really not a lot of point in going through one to five if you don't then share in some of the value that you deliver. Value pricing is not about over-charging. Value pricing is about negotiating an equitable share of the additional value that can be delivered over and above alternative solutions. Capturing value through price ties it all together.

7. Deliver the value promised
Challenges one through six provide a value promise. Challenge seven is delivering the value promised. Putting value measures in place that both you and your customer understand will help you to stay on track with providing the value you guaranteed.

Understanding Value from the Customer's Perspective Using the Value Triad

Sure, value is a mystery, but that doesn't really help when it comes to defining what value actually means from a customer perspective. For that, B2B enterprises need a more practical understanding of the components of value, and for that, the Value Triad was developed. This breaks value down into three key component elements (see figure 1).

Figure 1



1. Revenue Gain
The first element of the triad is revenue gain, or performance gain. This element answers the question, "How does your solution help your customers improve their revenue or performance?"

2. Cost Reduction
Cost reduction must answer, "How does your solution help your customer reduce their costs?" Cost reduction and revenue gain are measurable absolutes. Enterprises should be able to monetize the value of the revenue addition and the value of the cost reduction capabilities for the customer — it may not be easy, but it's possible.

3. Emotional Contribution
Emotional contribution is much less objective than revenue gain and cost reduction. This subjective element spotlights generating customer trust and confidence, communicating the value of the brand, reducing risk, and making it easy for customers to do business with you. In a world of increasing commoditization sometimes this emotional contribution can be the big differentiator.

Every B2B purchase decision is a mix of each of these of varying amounts as the situation dictates. The key is to monetize the Value Triad elements as much as is possible. To do that, use a simple Value Triad analysis, asking for each value component – Revenue Gain, Cost Reduction and Emotional Contribution – the factors that impact on the customers' business. This has to be done from the customer's point of view – after all, it's customers who ultimately define value, not the seller. Enterprises can do this in a variety of ways, but for most businesses the logical way is to do so through the people who are in constant touch with customers: the sales team.

The 5 C's of Value

As previously mentioned, many salespeople have a very rudimentary understanding of value. As a result the means for winning business is not a demonstration of value, but the application of the "discount default" — where the salesperson gives an inevitable discount in order to close the deal.

Customers will always tell sales that their product or service is too expensive even after hearing the features and benefits of it. Without the understanding of the value they provide, the salesperson is cornered into deciding between making the sale at a discount, or not making the sale at all.

"Why don't customers buy? Frequently the reason they don't buy is because they do not understand or appreciate the value that we can deliver to them."

In order to understand, differentiate, communicate and price their offering on the basis of value delivered, the seller must understand the 5 C's of value.

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1. Comprehend the things the customer values

Enterprises should begin differentiating their company from competitors by understanding customers' needs better than the customers do. If they grasp what value means to the customer and what they're trying to achieve then it will be much easier to differentiate and communicate the value that they are able to provide them.

2. Create value for the customer (differentiate the offering)

Define and design a differentiated offering that addresses the customers' requirements more effectively than competitors' solutions can.

3. Communicate the value

Put together powerful, persuasive value propositions that distinctly communicate value to the customer. Make them recognize that you have taken the time to understand their needs, and create the value that they require.

4. Convince customers that your value is worth paying for

Confidence, the sixth sense of the 5 C's, is vital in order to convince the customer that the price is right. When the customer inevitably says that the offering is too expensive, instead of immediately giving them a discount, salespeople should be confident and reply, "Well look, when you think about the value that we deliver I would actually go as far as to say not only aren't we expensive, we're probably not charging quite enough."

> "Why don't customers buy? Frequently the reason they don't buy is because they do not understand or appreciate the value that we can deliver to them."

5. Capture value through effective pricing

Create prices that accurately depict the value of a product by using knowledge of the product, and its value to the customer.

Conclusion

So why don't customer's buy? Because they don't, or won't, understand your value. Maybe that's because salespeople fail to understand and communicate value effectively, or maybe it's because businesses are sending their salespeople out ill-prepared. Either way recognize that you have to get started. Sales and pricing need to work together to understand value from the customer's perspective and to then price and communicate their value effectively.

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Optimize Profitability Through Discount Management

A Tool for Managing Discounts, Breakpoints and Margin

How do your company's actual transactional performance and profitability compare to your published or internal list price schedule? Is your sales force adhering to price lists or providing customers with unauthorized discounts? This article illustrates through an actual case history how an Interactive Discount Optimization Tool can answer key pricing questions and yield improved profitability by providing instant analysis of various combinations of discounts and unit volume breakpoints. Dick Sobel is Managing Director at The Pricing Analytic Group. He can be reached at richard.sobel@pricing-analytic.com. Ralph Zuponcic is President of PricePoint Partners. He can be reached at rzuponcic@pricepointpartners.com.

Many businesses develop list price and discount schedules to optimize sales and profitability. Customers, markets, segments, sales channels, products and value propositions generally determine the list price targets, breakpoints and discounts.

Discounts are applied to incremental or unit volume breakpoint purchases, dependent on the overall business environment and competitive climate.

This article will illustrate through an actual case history how an Interactive Discount Optimization Tool can answer the following questions and yield improved profitability.

- How do your company's actual transactional performance and profitability compare to your published or internal list price schedule?
- Has your pricing become one of "by exception" or ad hoc relative to your pricing schedules?
- Can your business realize improved margins from real time interactive "what if" scenarios, with changes in volume breakpoints and discounts associated with rigorous segmentation?

The following case history features an Interactive Discount Optimization Tool that helped a manufacturer realize margin improvements higher than 5% return on sales (ROS).

Case History

A manufacturer with over 1,400 customers and 600 SKUs was updating their existing enterprise system and looking to simplify their discount and breakpoint price lists. They also wanted to identify optimal price points – the points at which they would maximize profitability and minimize ad hoc pricing actions.

An Interactive Discount Optimization Tool was developed to measure changes in profitability and discount effectiveness by examining:

- Current financial performance against published discount schedules
- Profitability impact due to changes in unit quantity breakpoints
- Gross margin dollar impact due to changes in discount schedules
- Profitability impact when analyzing by product, market or segment

The manufacturer's assumption was that prices paid by their customers were not adhering to existing pricing policies. However, they were surprised to discover that their sales dollars were 11% lower than expected, resulting in an 11% drop in gross margin dollars (unit volume and cost constant).

The expected overall cumulative discount based on the existing pricing policy was 17.9% from list, but the actual discount awarded to the customer was 27.4% from list (see figure 1). This 9.5% discount difference was lost price due to ad hoc, sales force and field initiated discounting practices.

In addition to the published discount schedule, customers were receiving discounts beyond the unit volume breakpoint guidelines. For example: If no discount is given for a purchase of 1 - 9 units, and the next breakpoint of 10 - 29 units allows a 20% discount, then a customer should expect to receive discounts according to that schedule. In this case history, however, customers were receiving the 20% discount for purchases less than 10 units and, in some cases, *not* receiving discounts for purchases greater

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Figure 1

	Current Sales	Published Schedule	Change Impact
Total Sales($000)	$8,876	$9,678	$802
$GM	$7,417	$8,219	$802
%GM	83.6%	85.0%	1.4%
Avg. Discount →	27.4%	17.9%	-9.5%

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than 9 units.

Analysis of the manufacturer's database revealed some high-volume customers' receiving discounts almost double the published rates. These customers were removed from impact totals since they had received special volume discounts.

The manufacturer will review these customers' rates on a case-by-case basis to determine if the added discounting is warranted and should be continued.

Figure 2

Product Line "A"

	Current	Change	Impact
Total Sales ($000)	$5,489	$6,226	$737
$GM	$4,714	$5,451	$737
%GM	85.9%	87.6%	1.8%
Avg. Discount	29.7%	15.2%	-14.5%

Data Entry by Transaction (A)

Breakpoints	Discount
1	0.0%
9	0.0%
10	15.0%
19	15.0%
20	20.0%
49	20.0%
50	25.0%
-	-

Product Line "B"

	Current	Change	Impact
Total Sales ($000)	$3,387	$3,452	$66
$GM	$2,702	$2,769	$66
%GM	79.8%	80.2%	0.4%
Avg. Discount	23.8%	22.3%	-1.5%

Data Entry by Transaction (B)

Breakpoints	Discount
1	0.0%
9	0.0%
10	20.0%
49	20.0%
50	33.0%
-	-
-	-
-	-

Combined Results (C)

	Current	Change	Impact
Total Sales ($000)	$8,876	$9,679	$803
$GM	$7,417	$8,220	$803
%GM	83.6%	84.9%	1.4%
Avg. Discount	27.4%	17.9%	-9.5%

On the other hand, some customers were receiving a discount that was lower than the published rates. Although included in the impact totals, these customers provide incremental margin opportunity when new discount schedules are developed.

Optimization Tool

The Interactive Discount Optimization Tool developed for this company enabled interactive "what if" analyses of the manufacturer's transactional database. The database included customer information, line item unit shipments, material cost, gross margin, price, total sales and other segmentation data to make more granular analysis possible. In addition, list prices were included by line item obtained from existing price lists and invoices.

This tool includes a dashboard for current performance, data entry, results and overall margin impact on the business (see figure 2).

The manufacturer has two major product categories (A and B), with different quantity breakpoints and different discount schedules. The combined results are shown in box C. The complete database for each product category resides in a separate worksheet.

> The Interactive Discount Optimization Tool enables the user to change breakpoints and discounts in both box A and B in any combination and add additional breakpoints and discounts if necessary with immediate impact results.

The Interactive Discount Optimization Tool enables the user to change breakpoints and discounts in both box A and B in any combination and add additional breakpoints and discounts if necessary with immediate impact results. All supporting databases are updated simultaneously.

In figure 3, the discount and breakpoints are based on the major product lines within specific industries or markets. As before, changing breakpoints and discounts for various product lines and markets produces an immediate impact result for margin gain or loss, changes in gross margin dollars, gross market percent and aggregate discount from list. As before, all supporting databases are updated simultaneously.

Figure 4 plots total sales (left axis) with the gross margin opportunity ($GM OP, right axis). Data for chart in figure 4 is obtained from Figure 2.

The "Current" bar represents current sales and the overall aggregate discount of 27.4% from list using actual sales.

The "Schedule" bar is the published list price schedule, breakpoints and discounts.

The "$GM @List" bar represents pricing all transactions at list price.

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Figure 3

MSK Results

	Current	Change	Impact
Total Sales ($000)	$5,489	$5,820	$331
$GM	$4,714	$5,045	$331
%GM	85.9%	86.8%	0.9%
Avg. Discount	29.7%	25.5%	-4.2%

Chemicals		Health Care	
Breakpoints	Discount	Breakpoints	Discount
1	0.0%	1	0.0%
9	0.0%	49	0.0%
10	15.0%	50	15.0%
49	15.0%	100	15.0%
50	20.0%	101	20.0%
100	20.0%	500	20.0%
101	25.0%	501	25.0%

Base Results

	Current	Change	Impact
Total Sales ($000)	$3,387	$3,579	$192
$GM	$2,702	$2,895	$192
%GM	79.8%	80.9%	1.1%
Avg. Discount	23.7%	19.4%	-4.3%

Chemicals		Health Care	
Breakpoints	Discount	Breakpoints	Discount
1	0.0%	1	0.0%
9	0.0%	49	0.0%
10	20.0%	50	20.0%
49	20.0%	100	20.0%
50	33.0%	101	33.0%
100	33.0%	500	33.0%
101	35.0%	501	35.0%

Combined Results

	Current	Change	Impact
Total Sales ($000)	$8,876	$9,399	$523
$GM	$7,417	$7,940	$523
%GM	83.6%	84.5%	0.9%
Avg. Discount	27.4%	23.2%	-4.2%

The graph illustrates that, if the published discount scheduled were in force, there would be an $800,000 ($0.8M) improvement in gross margin dollars. Note that the maximum gain – that is, selling every product at list – would be $2.4M.

Depending on whether the tool is looking at transactions, markets or products will determine the overall gross margin improvement. In practicality, the range of improvement in this case history is from $0 - $0.8M, or approximately 9% maximum of sales.

This tool can be optimized to block transactions of large customers who receive special discounts exceeding the published policy. The same can be said for those customers receiving a lower discount than the published list.

It is up to the user to look at overall business conditions, market and competitive conditions before deciding on a reasonable mix of breakpoints and discounts.

Execution:

A key aspect of improving margins through discount schedule management lies in the discipline and policies of the execution team members.

Users need to adhere to the existing pricing policy as an essential element for producing price realization going forward. If the policy is flawed or outdated, it should be reviewed and modified by the stakeholders.

Managing exceptions and ad hoc pricing actions are required via limits of discount authority guidelines. These actions are required to prevent margin leakage as a result of unauthorized discounting on a deal level basis. Limits of discount authority include sales channels, sales management, marketing and general management.

Educating the sales team in pricing execution at the point of sale and their stake in improving a company's profitability should be a business imperative. "The Power of 1%" shows that a 1% improvement in price realization results in a 10% improvement in operating profit dollars for companies with a 10% operating profit. These gains grow dramatically for businesses that operate at lower profit percentages.

Summary:

- Utilizing an Interactive Optimization Discount Tool provides instant analysis of various combinations of discounts and unit volume breakpoints.
- Changes in discount and breakpoint schedules can be segmented by product, market, transactions and customers.
- Margin improvement can exceed 5% of sales.

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- The key variable in implementing any discount structure is adherence to the model at the point of execution (sales), to maximize margin improvement.
- Exceptions to a discount structure for large accounts are a major source of margin leakage.
- Changing the discount structure will likely result in a margin loss for some accounts. These should be managed as exceptions and maintain the current structure.

Figure 4