

Manufacturing Business Technology

PRICING MANAGEMENT

Vendors poised to help manufacturers regain pricing power

Every company has a system for setting prices, but few have a way of ensuring that they always get the best price for their products or services. That could soon change, however, as a group of mostly small vendors offering pricing optimization solutions intensify their marketing efforts.

Customer management license revenue and share by application segment					
Application	Revenue, 2003 (\$M)	Revenue, 2004 (\$M)	Revenue share 2003	Revenue share 2004	Growth rate, 2003-2004
Marketing automation	113	162	3%	4%	44%
Price management	45	61	1%	2%	35%
Order entry	300	283	8%	7%	-6%
Sales force automation (SFA)	638	647	17%	16%	1%
Online sales/e-commerce	225	243	6%	6%	8%
Customer service	781	910	21%	23%	17%
Contact-center infrastructure	751	768	20%	19%	2%
Web self-service applications	263	283	7%	7%	8%
Field service	225	243	6%	6%	8%
Channel management	75	101	2%	3%	35%
Marketing analytics	300	324	8%	8%	8%
Trade promotion	38	40	1%	1%	8%
Total	3755	4044	100%	100%	8%

Source: AMR Research

Benefits reported by early adopters are propelling sales of pricing optimization solutions.

These vendors say they are targeting manufacturers—and specifically those that sell to other businesses—because they view that sector as needing the most help in developing optimal pricing strategies.

"Our solution was built specifically to address the inherent complexities that manufacturers and distributors face in setting prices for their products," says Loren Williams, VP of pricing science at Zilliant. "We give them a way of replacing what are largely manual processes with automated, repeatable, and scalable processes that help them consistently get the right price for their products."

Another pricing vendor, Vendavo, bills its product as an antidote to the automated procurement and strategic sourcing solutions that have helped many businesses cut costs on the buying side.

"When we looked at the business-to-business space, we saw a lot of solutions for helping buyers—things like automated procurement and reverse-auction applications," says Rafael Gonzalez Caloni, VP of marketing with Vendavo. "But no one was helping the suppliers. Our product is a response to the power that

sellers have lost as buyers have adopted these automated solutions."

Pricing optimization solutions rely on technology similar to the in-memory planning engines that drive many supply chain management applications. Such engines are able to sort vast amounts of data and, using rules they have been programmed to follow, generate the best possible solution to a specific problem. In the supply chain space, the solution is typically an ideal production schedule or inventory level for a given set of circumstances. In the pricing arena, it is the ideal price—one that ensures the company of a profit—to offer a particular customer at a given time.

Williams says Zilliant's solution peruses multiple attributes related to each customer—such as the product they're buying, how the product will be used, and even their geographic location—to determine how they might react to various prices. "One of our customers in the commercial flooring business has learned that educational institutions are much more sensitive to prices than other commercial establishments."

Having such knowledge puts a company in a better position to negotiate prices for its products.

Boston-based AMR Research estimates that less than 3 percent of companies across all industries currently employ price optimization technology, but also believes the results reported by early adopters are creating momentum in the space.

AMR classifies pricing optimization solutions as customer management applications. It also notes that pricing optimization vendors enjoyed the second-highest rate of revenue growth, at 35 percent, in the customer management applications space in 2004, the last year for which figures are available.

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