

SOFTWARE

## If price is right

### **Austin software firm Zilliant knows how to match tags to market.**

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Airlines and hotels figured out long ago that they can charge customers different prices for the same thing.

But that's still a novel concept for most manufacturers. Once they stamp a price on a product — from bolt to boxcar — it rarely changes, regardless of who's buying.

Zilliant Inc. is out to change that. The seven-year-old Austin company is a leader in the fast-growing market for software that manages pricing and promotions.

Its software uses sophisticated mathematical models to help sellers decide how much to charge and how to structure deals, depending on variables such as the size of a customer's purchasing power or how frequently it makes a purchase.

It hasn't been an easy sell to old-school companies that tend to be skeptical of new technology, says CEO Greg Peters, who joined Zilliant in 2003 after running Vignette Corp. for four years.

"When I got here, talking about price-optimization software to these guys was like introducing nuclear fusion to cavemen," Peters says. "It was just so far out."

But as manufacturers search for new ways to increase their profit margins and become more efficient, pricing is an obvious starting point, says Deena Cherenza, an analyst with the Yankee Group in Boston.

"It's a very young market and it's just starting to get attention," she says. "But once you get the ear of these big enterprises that are dealing with several thousand products, and you show them the huge return on investment, they want it."

Zilliant says its software improves gross profit margins — or the difference between what a company pays for its product and what it charges the customer — by 10 percent to 25 percent.

Companies who adopt varied pricing are reluctant to discuss it for fear of alienating customers.

"It's not something they necessarily want customers to know about," Peters says. "It's really tough to get the message out. It's the best-kept secret."

Last year, Zilliant signed 27 new contracts, ranging from \$500,000 to \$2 million. Customers include technology provider Insight Enterprises Inc. and Lithonia Lighting, an industrial-lighting company that uses Zilliant to analyze sales trends and pricing.

Zilliant, which has raised \$40 million in venture capital from investors, including Austin Ventures and J.P. Morgan Partners, doesn't publish its financial information.

But it says revenue grew 400 percent in 2005 from a year earlier.

CherENZA considers Zilliant "one of the major players" in the price-optimization space, but it hardly has the field to itself.

"This marketplace is very cluttered with a lot of small companies," she says.

Rivals include Vendavo Inc. of Palo Alto, Calif., Rapt Inc. of San Francisco and Acorn Systems Inc. of Houston.

But the list is expected to shrink.

"You can't have 20 players in this space, which is what it's like now," CherENZA says. "You're going to see mergers and acquisitions. And you're going to see them soon."

Zilliant intends to be a survivor.

The 100-employee company has yet to make money, but Peters says it's close to breaking even on cash flow, with enough sales to cover operating costs.

Zilliant was born during the peak of the dot-com boom, with its eye on Internet retailers.

It was founded by entrepreneur Peter Zandan, whose previous venture was technology market-research firm Intelli-Quest Information Group, which was sold to WPP Group in 1999.

Zilliant began as a Web-only consulting firm.

Its aim was to surf the Web on behalf of online customers, pulling competitive pricing information that they could use to evaluate their own prices.

But with the implosion of online retailing in 2000, that mission was short-lived.

When Peters was recruited three years later, "it was time for a restart," he says. The idea was to move off-line and focus on pricing for big companies — manufacturing and distribution for starters — that had money to spend and problems to fix.

With Peters on board, Zilliant raised a new round of venture capital — \$14.5 million — and went to

work.

"The first 12 months was spent asking, 'Is this stuff really going to work? Is there really a market here?' " Peters recalls.

As it turned out, the timing for creating complex analytic software was perfect, says Loren Williams, vice president of Zilliant's pricing science team.

Manufacturers and distributors invested heavily in business software during the tech boom, and now the industry was pumping out incredibly detailed data.

The next step was making use of that data. Pricing remained an archaic process — "a mega-Excel spreadsheet sitting in the head on one person, reacting to competitors' moves," as Lori Piening, Zilliant's director of marketing communications, puts it.

With reams of data, Zilliant's team of mathematicians and economists cranked out algorithms for setting prices, discounting, in-depth price analysis, deal management and promotions strategies.

Small changes in price can make huge gains in profitability, says Sheryl Kingstone, another Yankee Group analyst. That's because when you raise your price but the cost of the product doesn't change, it translates into pure profit.

"The financial benefits that early adopters have reaped from applications like Zilliant are attracting many new customers to the market," Kingstone says.

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