

## What if Companies Could Use Science to Align Prices to Market and Maximize Margins?

P.J. Jakovljevic - June 6, 2007

Almost all companies need to manage pricing and margins with the same precision and control that they use to manage manufacturing and procurement costs. While there are numerous pricing-related, statistical techniques and process models in the public domain and in academia, getting such systems to work in the real world is no small feat. Areas where this is especially true are the airline, hotel, retail, and *business-to-business* (B2B) markets. This opportunity has spawned a small group of successful price management vendors that have developed “proprietary” science tailored to the unique data types and selling dynamics found in different segments of B2B and *business-to-consumer* (B2C) industries.

### Enter Zilliant

**Zilliant**, an Austin, Texas (US)-based provider of data-driven price management software, is enabling its B2B manufacturing, distribution, high tech, and industrial service customers to better exploit their enterprise data in order to improve price analysis, setting, and execution. Greater price differentiation and price optimization have reportedly helped some of Zilliant's customers significantly increase profits (by 10 percent and more). The idea behind **Zilliant Precision Pricing Suite (ZPPS)** is to combine proprietary price segmentation and optimization science with relatively easy-to-use software applications to help business people determine and negotiate the best pricing possible for each and every sales transaction.

While the product offering will be delved into deeper later on, for now it suffices to say that ZPPS was designed to address the pricing challenges of complex, discretionary selling environments common in B2B environments, especially manufacturing and wholesale distribution. To that end, the vendor's proprietary, patent-pending pricing science extracts maximum insight from complex data, whereby ZPPS applications apply the resulting insights to inform and streamline all price analysis, setting, and execution activities. Via a data-driven approach to price analytics, optimization, price list management, quoting, negotiation, and enforcement, the product suite enables B2B companies to identify and optimize opportunities to tighten control of discounts, markups, and other financial terms, thereby improving overall margins. The approach embodied in ZPPS also fits well in B2B service industries and B2C upstream channels (so-called B2B2C environments), where the pricing dynamics are similar to those of manufacturers and distributors.

Founded in 1999, Zilliant is a privately held company, and has thus far attracted about \$42 million (USD) in venture capital. The company's investors include **Panorama Capital**, **Austin Ventures**, **Cardinal Ventures**, and **Trellis Partners**. To be fair, the first few years following the company's inception were marked by soul-searching in the dot-com era. Yet since 2003, the company has been on quite an upslope. It brought in a new *chief executive officer* (CEO), Greg Peters (former CEO of portal and content management vendor **Vignette**), and the vendor's once 30 employees has grown to over 130, in addition to the more than 30 offshore contractors.

### Where Pricing and Science Meet

During the last 2 years, revenue and bookings both grew in excess of 400 percent year over year. Zilliant attributes its strong momentum to two favorable trends: increasing market demand for pricing software and the company's apparent ability to lift profit margins for B2B companies. The vendor has also been pleased with the recent, favorable coverage in leading business, academic, and consulting circles that highlight how analytical math and science capabilities have become competitive necessities, as firms seek to optimize

business processes and decision making. Namely, in recent months, **BusinessWeek**, **Harvard Business Review**, and **McKinsey & Co.** have all published articles on this trend, citing examples of how innovative companies are marrying sophisticated analytical techniques with their enterprise data to realize untapped, significant opportunities for competitive and market advantages.

While the intersection of pricing operations and sales negotiations with math, science, and data is a new concept for many, it forms the core of Zilliant's value proposition. The vendor aims to help B2B companies improve aspects of pricing, namely, price segmentation, analysis, setting (optimization), and deal execution. Zilliant's offerings provide the marketing, sales, and price operations with the quantitative insights and guidance companies need to achieve the best pricing possible on every deal. To that end, Zilliant's applications leverage proprietary pricing science to provide two to three times more margin uplift than approaches not based on science. Some competitors may still claim that price segmentation and optimization (see [Know Thy Market Segment's Price Response](#)) are unnecessary or are too advanced for B2B companies. These vendors promote basic analytic price setting approaches as sufficient to reveal most price improvement opportunities. Yet this approach only serves to differentiate Zilliant's offerings.

A significant percentage of Zilliant's employees hold advanced degrees in mathematics, economics, or other decision sciences. The company employs a dozen advanced degree pricing scientists, several pricing architects and price consultants, and other experienced personnel throughout the design, development, and delivery departments—over 500 years of pricing domain experience in total. These scientists and domain experts have developed proprietary models, algorithms, and price segmentation techniques that synthesize the massive amounts of data within *enterprise resource planning* (ERP), *customer relationship management* (CRM), order management, and other transaction systems into a variety of formats to enable better pricing decisions.

The quantitative capabilities of this science form the foundation for Zilliant's pricing software, ZPPS, which helps customers better analyze, set, and execute prices that are finely tuned to differences in customer, market, product, and order characteristics. Zilliant has invested over seven years and \$18 million (USD) in developing its proprietary empirical science (as opposed to heuristic rules) and transforming it into enterprise software. These efforts have produced significant *intellectual property* (IP): **Precision Price Segmentation™**, **Price Band Optimization™** (patent pending), and **Dynamic Data Aggregation™** (patent pending). The combined capabilities of this IP and applications provide data-driven approaches that deliver better and more precise price analysis, optimization, price list management, quoting, and negotiation.

Consequently, Zilliant was recognized by the *Manufacturing Business Technology* (MBT) magazine as one of the top forty emerging software vendors in 2006. Featured in the publication's October 2006 issue, Zilliant was selected among a prestigious group of up-and-coming *information technology* (IT) vendors based on such factors as growth statistics, recent customer wins, product innovation, overall company direction, and editorial insight. This recognition came on the heels of other "fastest-growing" and "top" list announcements, like those of **Deloitte & Touche's** Texas Technology Fast 50 program and **Red Herring's** list of top 100, privately held companies in 2005. Furthermore, the vendor's customers have recently been profiled in *CIO Magazine*, *USA Today*, *Forbes*, and the *Wall Street Journal*.

In September 2006, the vendor opened its first European office, located in London, *United Kingdom* (UK). This expansion should allow Zilliant to provide local support and better quality of service to its global manufacturing and distribution clients with operations across Europe, as well as facilitate expanded sales activities in this region. Zilliant's European sales and service personnel are responsible for selling ZPPS, as well as for supporting Zilliant's global customer base, including **Insight Technologies**, **Schneider Electric**, and **Parker Hannifin**.

This is the part one of the series *What if Companies Could Use Science to Align Prices to Market and Maximize Margins?*, which takes an in-depth look at the price management software provider, Zilliant, and its enterprise pricing solutions. In the next part of this series, Zilliant's science-based foundation for data-

driven price analysis, setting, and execution—the vendor’s proprietary **Precision Price Segmentation™** and **Dynamic Data Aggregation™**—will be discussed in detail.

## How One Vendor Parlays Price Variation into Profit Improvement Opportunities

P.J. Jakovljevic - June 8, 2007

Zilliant is a data-driven price management software provider that aims to help *business-to-business* (B2B) companies maximize revenue and margins using advanced price segmentation, optimization, and execution capabilities. To learn more, please see part one of this series [\*What if Companies Could Use Science to Align Prices to Market and Maximize Margins?\*](#)

### The Pricing Challenges that B2B Participants Face

In narrowing down the key elements of its solution, Zilliant points out three main challenges that manufacturing and distributing customers face on the road to pricing excellence. These challenges can be parlayed into data-driven pricing management opportunities for such B2B environments:

1. The typical business environment of B2B companies creates massive customer-product-price combinations. The large numbers, coupled with dynamic and complex customer relationships, products, promotions, discounting practices, and channels, proliferate price rules and exceptions. When all pricing rules and policies are considered, the typical manufacturer has dozens of thousands of prices, while the typical distributor has even hundreds of thousands. The upside to this complexity, however, is that by definition, net prices are already differentiated (determined deal-by-deal) and are largely opaque (that is, not published to the market). In B2B environments with exception-based pricing, a smart and informed company can easily adopt a more sophisticated approach to price differentiation based on price segmentation to maximize margins.
2. Paralleling the product and price complexity and the number of combinations is the complexity of transactional processes and systems. The typical scenario usually includes a combination of standard transactions processed in multiple *enterprise resource planning* (ERP) and order management systems combined with a large number of ad hoc exceptions executed through spreadsheets, manual system overrides, and post-transaction credits and debits. The plethora of data that is produced is inconsistent, dirty, and complicated, and thus obscures segment-specific price responses. In many cases, the data makes it hard just to determine whether individual deals are profitable or not. Specifically, it is common for net prices to reflect as many as half a dozen inputs, including several manual and discretionary variables. On top of that, most manufacturing and distribution enterprise applications were designed and implemented with the "from the shop out and inside out" mindset rather than the "from the customer in and outside in" one. Meaning, these applications favor the old-time equation of product cost plus profit margin equals customer price, instead of allowing the customer and the market to determine prices. As a result, getting the right price, and determining whether or not the company made money after the fact (by calculating and tracking the net realized price and margin at the product level), are well beyond the vast majority of manufacturing and distribution companies' means. There again, on the positive side, firms that can effectively measure and analyze segment-specific price response and profitability should be able to leverage this insight to a competitive advantage.
3. Final prices are heavily influenced by the negotiation process, unlike the "take it or leave it" pricing common in B2C industries. The term *negotiated prices* here refers to variable price outcomes that result from discretionary decisions made by salespeople on discounts and other financial terms. Many of these companies have tenured salespeople who negotiate based more on habit and relationships than on verified market information and customer value. The good news here though, is that with better information and specific, actionable guidance, such behaviors can be modified, producing higher price points regardless of a salesperson's experience or preexisting bias. In other words, improving deal-level sales decision making should also considerably increase profit margins.

In B2B markets, it is crucial to get the best price possible on every deal in order to maximize margins. Yet most B2B companies do not perform a deep enough analysis of pricing data to recognize opportunities that can improve margins and revenues. The data that is generated from the countless combinations of products, customers, promotions, channels, and terms is too complex for an analysis based on manual techniques. The result of using manual techniques is price management decisions that are highly subjective, and therefore suboptimal. For more information, see [\*Advancing the Art of Pricing with Science\*](#).

## Data (Not Hunch) Should Be in Pricing's Driver Seat

Zilliant contends that there is a better way to price—a more analytical (scientific) and automated approach that it calls *data-driven price management*. This approach reportedly not only helps sales professionals to recognize and take advantage of opportunities that will improve margins (and likewise for marketing and pricing operations), but it also makes the pricing process more streamlined and efficient. Companies that have adopted a data-driven price management approach have not only improved gross margins, but they have also increased pricing agility and control.

With their greater use of *enterprise resource planning (ERP)*, *customer relationship management (CRM)*, and order management solutions in recent years, enterprises have amassed an enormous amount of transactional pricing data. This data can now be processed and combined using the latest innovations in pricing science to reveal where and how to improve price management. The science-based insights synthesized from this data, when paired with analytical, optimization, and process automation software, generates more accurate, effective pricing policies and guidance to increase revenues and profits.

To that end, Zilliant's offering, **Zilliant Precision Pricing Suite (ZPPS)**, is a broad solution for price segmentation, analysis, setting (including price optimization), and execution. ZPPS identifies the four steps to establishing a strategic pricing process:

1. price segmentation—understanding what factors affect price response, and using these criteria to filter, benchmark, and set optimized pricing with precise, transaction-level granularity
2. sensing (analysis)—the process of measuring and comparing how price response and margin performance varies across a company's customers, products, and programs
3. setting—the process of establishing list and target prices, discounts, promotions, negotiating guidance, and other policies
4. enforcing—the method a company uses to implement its pricing policies, guidelines, or targets inside of transactional processes and across sales channels

Every company, knowingly or not, goes through these steps when setting and negotiating pricing, although most companies do not do it as effectively as they could because they rely on rudimentary methods or flawed techniques.

Zilliant's roots and initial focus have long been on the sales decision-support side (price analysis and planning, optimization, and negotiations). Over the last two years, the vendor has added several applications on the operations side of the sales process that include price list administration, deal execution, and policy enforcement. As the segmentation model is based on measurable, deal-specific attributes, it can be applied to these operational activities as well, improving decisions and margins at every turn. This characteristic is what makes price segmentation the foundation for effective, data-driven price management, and is why all ZPPS applications have been designed and built with **Precision Price Segmentation™** as their scientific foundation.

## A Profit-Maximizing, Science-based Foundation—Precision Price Segmentation™

Precision Price Segmentation harnesses the power of variable price response by identifying, classifying, and organizing all customer, product, and order attributes that correlate with price sensitivity in a given market. To date, Zilliant's Precision Price Segmentation has catalogued over fifty customer, product, and order attributes that commonly drive price response for B2B companies. It is typical, though, that only about half a dozen of these attributes prove meaningful for any given deployment. For example, a company may learn that the combination of circumstances related to the end-customer's industry; the product's end-use; the product's category, group, and *stock-keeping unit* (SKU); order size; competitive intensity; and product mix are what drive price in their industry. Even with just five or six attributes, the combinations of their values can yield a massive (and therefore precise) number of unique price segments.

Two factors promote *precision* within Precision Price Segmentation. For one, while many companies already consider deal attributes when making pricing decisions, they typically do so in an arbitrary, qualitative fashion. For example, different orders may be eligible for different discounts depending upon whether the order is "small," "medium," or "large" according to subjective order size buckets. In contrast, Precision Price Segmentation quantifies and categorizes order breakpoints based on statistics that reflect the actual differences in market price response. Furthermore, Precision Price Segmentation augments these attributes with previously unconsidered attributes also proven to influence price outcomes, thereby increasing the overall precision and impact.

Given that each attribute may have up to several hundred discrete values (or even more, as in cases where the product attributes are characterized at the SKU level), the number of resultant precision price segments is usually in the thousands, or even tens of thousands, as shown in table 1. While the number of resultant actionable price segments may seem daunting, it certainly points out how "off the market" (imprecise) companies can be in their existing "broad brush" price policies and negotiation guidelines.

User Company Type	Qualitative Segment Considerations (pre-Zilliant)	Zilliant Precision Segmentation™ Attributes	Approximate Number of Actionable Pricing Segments
<b>High-tech distributor</b>	estimate of annual spend	annual spend, manufacturer's rebate, margin category, product segment	6,000
<b>Industrial manufacturer</b>	pricing group, job size, project type	pricing group, job size, project type, dominant product class, channel, market size, inventory	30,000
<b>Food distributor</b>	customer spend zone	customer spend zone, cuisine type, region type	300,000
<b>Construction equipment provider</b>	product-dealer	country, product-dealer, competitive region	9,000
<b>Medical devices manufacturer</b>	contract volume, product type	contract volume, product type, wallet share, customer type, product bundle	120,000

Table 1. Examples of Precision Price Segmentation (Zilliant, 2006)

To mitigate the impact of data sparsity (that is, setting prices where too little data exists), the second precision aspect concerns the concept of *actionable* price segments. While every possible combination of attribute values defines a unique price segment, Precision Price Segmentation automatically filters out any combinations that do not occur frequently enough to generate a statistically significant data set.

To that end, Zilliant's patent-pending **Dynamic Data Aggregation (DDA)** capability ensures that price-segment driven operations (benchmarking and optimization, for example) are carried out at the most granular (precise) level within the segmentation tree given the transaction velocities in each segment. In other words, DDA ensures that where little data exists (as is the case with slow-moving or new products), the area is pooled with the most appropriate segment (along with its parent product category, for example), which is determined by the hierarchy. As soon as sufficient history is accumulated, DDA automatically begins grouping the data into a more precise (lower-level) segment based exclusively on its individual transactions.

Ultimately, Zilliant sees price segments as the scientific foundation for data-driven price analysis, setting, and execution, since well-ascertained price segments enable companies to benchmark and optimize prices, thereby improving all facets of price decision making and driving significant increases in margins and profits. As explained in [\*The Rise of Price Management\*](#), a company has a choice of different pricing processes or software categories (price execution, price enforcement, price visibility, price optimization, pricing management, etc.) available to it depending on which exact pricing problem (or in which selling phase) it is trying to solve.

This is the part two of the series *What if Companies Could Use Science to Align Prices to Market and Maximize Margins?*, which takes an in-depth look at the price management software provider, Zilliant, and its enterprise pricing solutions.

In the next part of this series, Zilliant's ZPPS and its applications will be explored and explained in greater detail.



## How One Provider's Solution Covers the Bases of Price Optimization and Management

P.J. Jakovljevic - June 11, 2007

Zilliant, a data-driven price management software provider, has developed a pricing suite for enterprises based on the vendor's proprietary, science-based **Precision Price Segmentation™** and **Dynamic Data Aggregation™ (DDA)**. To learn more about Zilliant and its offerings, please see [What if Companies Could Use Science to Align Prices to Market and Maximize Margins?](#) and [How One Vendor Parlays Price Variation into Profit Improvement Opportunities](#).

**Zilliant Precision Pricing Suite (ZPPS)** combines proprietary pricing science with analytics and workflow automation to support the pricing process continuously throughout the four sales phases: price segmentation, price analysis or sensing, price setting and optimization, and price execution. Each application within ZPPS has been developed to address one or more aspects of the data-driven model. Although the applications are tightly integrated with one another, they are deployed one at a time, and in the sequence best suited for the particular needs and objectives of each customer.

ZPPS applications offer a variety of role-specific interfaces designed to support all key pricing decision makers, including executives and marketing, pricing operations, and sales personnel. Interactive pricing workbenches are provided to supply the necessary drilldown and ad hoc query capabilities combined with user-defined reports and integrated visualizations. In a "different strokes for different folks" (personalized) manner, targeted reports, analytics dashboards, and alerts are provided to keep management well-informed, while scorecards and flexible *hypertext markup language* (HTML) interfaces provide sales teams with clearer guidance, information, and deal review process support.

### Zilliant's Price Optimization and Management Applications

ZPPS science-based pricing applications for enterprises consist of **ZPPS Server**, **ZPPS Analytics**, **ZPPS Optimization**, **ZPPS Price Manager**, and **ZPPS Deal Manager**.

ZPPS Server acts as the suite's foundation, and this mandatory application collects data, organizes it, and allows it to be shared with the other applications. Given the need for extracting data from multiple transactional sources, ZPPS's *service-oriented architecture* (SOA) also enables an easier integration of pricing content directly into other enterprise systems. The relatively young age of the company and the product has had the benefit of being technologically modern, as it is based on **Java 2 Enterprise Edition (J2EE)** SOA concepts (see [Architecture Evolution: From Mainframes to Service-oriented Architecture](#)).

The suite is therefore modular in architecture to support the user enterprise as the user's pricing requirements and technical environment become more sophisticated. ZPPS's open standard technology is designed to work fairly seamlessly with the *enterprise resource planning* (ERP), *customer relationship management* (CRM), and database infrastructure the user company might already have in place to administer and calculate pricing.

To that end, ZPPS Server is the integration point for the application suite's incoming and outgoing data. Transactional and master data from CRM, ERP, and data warehouses are typical inputs. Outputs usually include price recommendations by way of price multipliers, policies, or pricing rules. These outputs are fed back into order management applications and pricing engines from, for example, **SAP**, **Oracle** (including **Siebel**), and others. The module propagates the resulting price segmentation model into all ZPPS applications, providing the applications with the more precise subset of market data relevant to operations, such as price indexing, peer grouping, *key performance indicator* (KPI) calculation, and price optimization.

ZPPS Analytics then drives pricing intelligence and decisions by providing insight through a series of template-based, customized views, and ad hoc querying to enable users (executives and managers) to

measure margin, revenue, profitability, sales channel effectiveness, and discounting. Users are also able to measure price waterfalls, price bands, customer scatter plots, and outlier reports.

ZPPS Analytics is a decision support application that yields deeper insight into all price-related performance measures. The application creates a system of record for detailed profit and margin analysis to provide more precise comparative metrics and to identify latent opportunities for enhanced profitability. Underlying ZPPS Analytics is the multi-dimensional *online analytical processing* (OLAP) engine that leverages **Microsoft Analytical Services** (sitting on either **Microsoft SQL Server** or **Oracle** databases), thus combining scalability and performance with strong data security.

Featuring role-specific interfaces, each tailored to the needs of different business users and situations, ZPPS Analytics enables sales, marketing, and finance personnel to understand buying and selling behavior in greater detail. In addition to being a "pocket margin" system of record (see [Know Thy Market Segment's Price Response](#)), the module is a cross-functional management tool for identifying and resolving the most pressing ("top 10") profit improvement opportunities.

For instance, pricing analysts and other power users will typically access an interactive *Analytical Workbench*. This is a collection of pricing-specific analytical views that combines needed drilldown and ad hoc query capabilities with user-defined reports and integrated visualizations (such as profit bands, margin scatter plots, and price waterfalls).

Detailed *Dashboards* provide senior managers with holistic views of margin and profit performance, whereby the views range from an individual customer's or product line's contribution margin all the way up to overall company profitability.

Then, configurable *Scorecards* deliver deal- and customer-specific information to sales teams—whether online or disconnected from the system—to provide them with the decision support they need directly at the point of negotiation. A scorecard here is defined as a strategic, measurement-based management system that a company can use as a way to align business activities to its business strategy, and to monitor performance against strategic goals, for specific customers and channels, and distinct product markets over time.

Last but not least, *Alerts* push information, such as margin exceptions, out to all pertinent decision makers in real time, enabling them to proactively manage changes in market dynamics and customer behavior.

The idea behind ZPPS Analytics is to equip all power users with profit-driving answers to the following, often wondered-about questions:

- Who are our most and least profitable customers for product mix and cost-to-serve after accounting?
- How much is noncompliance with our pricing policies (such as free freight and extended payment terms) truly costing us?
- Which accounts are not living up to their purchase commitments?
- Which customer segments place the greatest value on our offerings?
- Where did our sales force discount below the price floors last month? How did this affect overall margins?

## Pricing Optimization at the Core

The core and *raison d'être* (purpose) of ZPPS has always been price optimization, even when the product was originally aimed at web-based pricing. The former **Zilliant Pricing Suite (ZPS) Test and Monitor** module helps measure market responsiveness to pricing, discounts, and promotions. As a monitor, it taps into transactional systems to discern market reactions to price movements in real time, whereby tests can be conducted by forcing price movements to get statistically valid samples. The resulting data can be used to interpolate how the market or specific segments will respond, since the product can unobtrusively monitor price quotations and orders as they occur, and thus record both wins and losses at each price point and at each price segment. Zilliant can then use this data to create price sensitivity curves in near real time.

In addition to delivering pricing insights, price monitoring enables companies to gain insights into other areas of their businesses quickly. Rather than relying on monthly extracts from Excel or some other tool after the books have been closed (as many companies still do today), one can monitor market price response in near real time. This gives companies a much quicker read on changing buying trends, competitive moves, customer's contractual compliance, and other key issues.

Price testing infuses controlled price variation into the market. Variation is necessary to create price sensitivity curves, and these in turn measure customer buying behavior across multiple price points. Although the products of some companies have natural variations in price (such as airline tickets, for example), testing can often gauge market reactions to targeted price changes in a more precise and systematic fashion.

In-market testing tends to be more accurate than focus groups and other traditional ways of gathering price sensitivity. The results of this type of testing are based on real customers making real buying decisions. Tests can also be created, deployed, and analyzed in much faster time frames than with traditional, off-line methods. In addition to testing discount levels and list prices, testing can also assess the effectiveness of different promotions, which enables companies to then use ZPPS Analytics to evaluate competing promotions prior to rollout.

Bundled with price testing and monitoring was the former **ZPS Modeling** engine, which uses a mathematical model to represent the user's business with all the unique influences on price, purchase, and customer decisions. Modeling describes the statistical process of defining a market or segment mathematically, and uses that mathematical model to predict future outcomes. Typically, models are defined and constructed by applying *operational research* (OR), statistics, data grouping, and algorithmic expressions. Further, a model is a representation of a set of components of a process, system, or subject area, generally developed for understanding, analysis, improvement, or replacement of the process. It is a representation of information, activities, relationships, and constraints.

The model performs forward prediction to determine recommendations and guidance on effective price or discount movements that need to take place. Such recommendations can help achieve margin, revenue, or volume improvements. In 2005, ZPS Modeling was renamed **ZPPS Optimization** to reflect the focus on maximizing margins for B2B environments, and the ZPPS Test and Monitor product was offered separately.

Even prior to the repackaging, ZPPS Optimization had evolved into an application that is well-suited for the discretionary negotiating environment that is prevalent throughout B2B manufacturing, distribution, and industrial services. Precision Price Segmentation and ZPPS Optimization work in concert to discern segment-specific price response patterns from price outcome data. These two applications then synthesize price recommendation guidelines (that is, the starting, target, and floor prices) for sales and marketing people that, when applied to negotiations, should maximize margins within and across all the different segments.

In other words, the ZPPS Optimization application enables companies to identify all possible differences in price response discernable from transactional and market data, and uses this insight to optimize prices. Such optimized prices, in turn, typically improve profits through two mechanisms: by setting price targets that more accurately align with each segment's demonstrated price sensitivity, and by translating these targets into precise, actionable negotiation guidelines that drive more profitable pricing decisions on each transaction.

### **Price Band Optimization Gets to the (Price) Point**

ZPPS Optimization is designed to address many of the complexities of B2B price setting, including massive product portfolios, transactional data scarcity, *build-to-order* (BTO) product configuration, negotiation dynamics, long-term contracts, and a lack of detailed competitive market data. Zilliant's patent-pending **Price Band Optimization** approach determines the most precise prices possible based on available data. The application was devised to effectively set prices even with sparse, "win only" data from sales quotations or order systems (a common limitation in B2B), while continuously refining price recommendations as more data becomes available. The approach also has the additional benefit of being relatively easy to visualize, thereby empowering price analysts with the conceptual understanding they need to interpret results and take full advantage of the system.

To illustrate, ZPPS Optimization provides the optimized price recommendations as a *deal envelope* for each price segment, which is a set of three prices that provides comprehensive negotiation guidance. The envelope's upper bound is the *start* price, used as a rational stretch goal at the beginning a negotiation. Conversely, the lower bound, or *floor* price, represents the maximum discount that should be offered on a given transaction. Between these two is the *target* price, which reflects the optimal end point of the negotiation.

Providing price recommendations in the form of a deal envelope has been proven intuitive for sales people, and it supplies an appropriate balance of negotiation leeway and price discipline. Also, recommendations from ZPPS Optimization are produced in a format that is easy to integrate with transactional order management applications. Not only does this simplify technical deployment, but it also minimizes change management issues by supplying sales teams with optimized price recommendations within their existing and familiar quote-and-order applications.

Price policy and tactics are explicitly reflected in price recommendations, as the module exploits integer and goal-programming methods to determine the optimal balance between the user company's business objectives and external market forces. To that end, ZPPS Optimization can be configured to allow price managers to control the optimization model with goal-oriented business rules. In other words, administrative tools provide control over price policies and business rules that constrain the optimization model. These controls allow pricing managers to set policies and rules at the level of individual price segments.

In-line analytics and KPIs reveal the impact of new prices and policies upon margins and profits, and highlight specific price outputs that warrant additional review. The product also features dashboards that permit business users to review and adjust prices before deploying them into production. Managerial dashboards summarize the price recommendations and results produced by ZPPS Optimization, since these dashboards facilitate management review by showing the aggregate impact of price recommendations and sales negotiation compliance, and offer drill-through capabilities to underlying details.

The net effect of sales people complying with the optimized price recommendations is the tightening of the range of prices within each segment, and the shift of the overall distribution (for example, average price) to a higher level. That is how additional profits ultimately fall to the bottom line—a little at a time on every line item of every deal, as a tacit and invisible money machine. Having a well-designed price range in place for each transaction provides a user company with the ability to monitor and enforce price compliance at the actual point of negotiation (that is, within the sales representative's quoting and the sales execution system itself).

For example, a company may put a policy into place whereby sales representatives understand that discounting a product below the floor price requires additional approval from a manager or pricing analyst before the deal can be processed in the order management system. Likewise, sales representatives may be rewarded with additional commission for maintaining an average sales price at or above the target price. Conversely, sales representatives may be prevented from (or at least discouraged) from opening with prices above of the start price, as the transactional data has already shown that very few sales actually occur, and thus may put undue risk into the first round of negotiation.

To put this into perspective, a distributor user company now uses Zilliant to optimize over 10,000 quotes per day, with an average of 3 line items per quote. This means that over 30,000 prices per day are calculated and optimized throughout the full, end-to-end quoting and order management system with the help of ZPPS. This user now reportedly has over 6,000 identified price segments and associated deal envelopes, and the company credits ZPPS Optimization with its more than 15 percent margin profit increase. This user company's sales force has achieved an impressive compliance with recommended floor prices for over 80 percent of deals.

Prior to working with Zilliant, this distributor user company's approach to setting deal markups was highly discretionary. Sales representatives typically would only consider each customer's projected annual purchase amount when deciding what pricing to offer. In some cases, though, they would also consider product line margin targets, but these had minimal effects on final price outcomes due to the arbitrary determination of these targets.

In any case, if, for example, a user's sales organization already uses **SAP** or **Oracle** (including **PeopleSoft** or **Siebel**), Zilliant can integrate with these transactional systems, allowing the user company to incorporate advanced pricing guidance and analytics within existing systems, which will accelerate adoption by the user's sales folks. Most companies have deployed packaged quote and order management applications from vendors such as SAP or Oracle. Although these investments have improved the integrity and scalability of pricing administration, they have done little to enhance pricing intelligence and profitability. That is why many customers might want to integrate ZPPS with their order management applications: to create a holistic, data-driven system for price setting, execution, and fulfillment that unleashes the full power of pricing.

## Pricing Optimization—Ultimately for Sales Forces to Strike the Best Deal

All of this optimization output can be, and has been, tied into a number of different interfaces, of which Zilliant's own **ZPPS Deal Manager** application is one option. ZPPS Deal Manager aims at helping sales personnel make better decisions on the spot by making it easier for them to distinguish a "good deal" from a "bad deal." The application empowers sales teams and pricing analysts with segment-specific KPIs, scenario comparison tools, in-line analytics, and optimized price recommendations. These features help sales teams to negotiate more profitable orders, agreements, and contracts.

By providing features for deal quoting, review, workflow, analysis, scoring, and enforcement, ZPPS Deal Manager also streamlines the deal review and approval processes, ensuring that each deal receives the appropriate amount of scrutiny. ZPPS Deal Manager also includes a set of rule-based features that enable the consistent use of pricing policies and business rules. This feature can be leveraged for the creation of price lists or to calculate prices at the time of quote or transaction.

Built to work with a wide range of agreement or contract types as well as to handle transaction and pricing exceptions, the Deal Manager module can (and it is often best to) work hand in hand with the other ZPPS applications, such as Optimization and Analytics, to achieve optimized pricing out in the field. Scoring KPIs not only take into account such margin drivers as discounts and other pricing variables, but also non-price factors such as freight, payment terms, product availability, and historical contract compliance. Ultimately, the sales representatives and pricing analysts can evaluate deals (at the line-item and overall level) in absolute terms, such as net and pocket margin, and also relative to each line item's peer group, as determined by price segmentation. One benefit is that bad deals no longer slip through unnoticed. Another is that more effective quoting and negotiations that will increase the margins of good deals, all while improving the efficiency and consistency of the associated processes, are encouraged. Finally, ZPPS Deal Manager enhances the customer relationship life cycle beyond initial negotiations via agreement compliance monitoring to follow-on orders and contract renewal support.

Like its brethren modules, ZPPS Deal Manager also leverages Zilliant's proprietary Precision Price Segmentation to score each deal against a micro-market of transactions within the same price segment. These "traffic light" KPIs and peer group price indices guide sales teams when pricing each quote. They also enable the module to recommend substitute products as an alternative to price concessions, as well as to cross-sell and up-sell items that should further improve deal profitability.

The available integration with ZPPS Optimization further refines ZPPS Deal Manager's pricing insight by leveraging Zilliant's proprietary Price Band Optimization to recommend the deal-specific negotiation envelopes comprising floor, target, and aspiration prices. Armed with this negotiation guidance and insight into associated commissions, sales teams should have the confidence and motivation to hold the line on prices and terms, thereby maximizing value capture on every deal. Sales and pricing managers can, in turn, rigorously evaluate proposed economics using detailed KPIs and analytics, such as price waterfalls and margin indexing. These managers can create and compare multiple deal scenarios to determine the best overall mix of products, prices, and terms. Furthermore, visibility into additional profit drivers such as rebates, payment terms, and shipping costs helps to highlight opportunities to maximize overall deal profitability.

In short, ZPPS Deal Manager empowers companies to maximize the profitability of every type of negotiated sales deal, including spot transactions, agreement orders, and long-term contracts, by supplying sales teams and pricing analysts with data-driven measures of deal attractiveness, real-time discount policy enforcement, agreement management, and automated deal-routing. The application's pricing guidance aims at enabling sales teams to spend less time researching discount guidelines and contractual commitments

(often by manually shuffling piles of paper), and to spend more time selling value, and capturing it through effective negotiations. In addition, pricing analysts can more readily evaluate each quote against pricing policies without having to manually sort and plow through multiple spreadsheets or unwieldy price books.

Furthermore, ZPPS Deal Manager's intelligent deal queuing and routing (based on rules triggered by KPI scores) enable deal reviewers to focus on high-value deals that have the greatest impact on profitability. Automated approval for compliant deals decreases order-processing time and errors, and thereby improves customer responsiveness and decreases *daily sales outstanding* (DSO). Throughout this process, the application automatically creates a comprehensive audit trail that supports subsequent analysis and compliance reporting.

As an example, one Zilliant user once had 100 quote analysts to handle 30,000 quotes per month—worth over \$300 million (USD). Today, 20 percent of these quotes are automatically approved via the ZPPS Deal Manager and ZPPS Optimization bundle, and the user company reports a whopping 96 percent price recommendation acceptance by customers. The product is used to handle price segmentation attributes both at the deal header and line level, with over \$10 million (USD) of targeted profit impact for 2006, and with significantly improved average quote turnaround time too.

The most recent addition to the suite (and thus likely to have much room for improvement), **ZPPS Price Manager**, aims at helping pricing analysts and administrators to more wisely manage price lists and policies. With its integrated pricing analytics, planning tools, and scenario simulation capabilities, the application facilitates the alignment of prices with business goals, contractual constraints, cost factors, and other market dynamics. The idea here is to provide decision makers with a clearer, more comprehensive picture of the financial impact of pricing policy changes, thus enabling them to make more informed pricing decisions.

Important to note again is that all ZPPS applications were designed and built with Precision Price Segmentation as their scientific foundation. ZPPS Optimization leverages segment-level demand models; ZPPS Analytics leverages segment-level indexing and analysis; ZPPS Deal Manager works with segment-level KPIs and analysis; and ZPPS Price Manager works with segment-level price lists and policies.

This is the part three of the series *What if Companies Could Use Science to Align Prices to Market and Maximize Margins?*, which takes an in-depth look at the price management software provider, Zilliant, and its enterprise pricing solutions.

In the next part of this series, new developments in Zilliant's line of pricing solutions will be examined.

## Recent Developments in One Price Management Provider's Business

P.J. Jakovljevic - June 13, 2007

**Zilliant**, a data-driven price management software provider that focuses on *business-to-business* (B2B) enterprises, continues to take its science-based enterprise pricing solutions to higher levels. To learn more about Zilliant and its offerings, please see [What if Companies Could Use Science to Align Prices to Market and Maximize Margins?](#), [How One Vendor Parlays Price Variation into Profit Improvement Opportunities](#), and [How One Provider's Solution Covers the Bases of Price Optimization and Management](#).

### A New and Improved Zilliant Precision Pricing Suite

In October 2006 and in April 2007, Zilliant announced general releases of its pricing software **ZPPS 6.0** and **ZPPS 6.1**. This application suite provides significant enhancements across all four of the vendor's earlier pricing applications, to which Zilliant added a fifth. In addition to increased product functionality and platform support, this latest suite improves usability, making it easier for pricing stakeholders to make smarter, data-driven pricing decisions. ZPPS 6.0 and 6.1 include enhancements for the following:

- **ZPPS Optimization**, with improved *graphical user interface* (GUI) to enhance visibility into the market dynamics and the business rules that drive price recommendations
- **ZPPS Price Manager**, with new decision support capabilities to allow companies to assess the impact of cost, price, and discount changes on future financial performance
- **ZPPS Deal Manager**, with enhanced capabilities to manage and analyze complex price agreements, as well as usability improvements, including comparative impact summaries and scenario development
- **ZPPS Deal Manager for Agreements**, a similar set of capabilities as Deal Manager, but tailored for negotiating profitable agreements and contracts. Zilliant packaged these capabilities separately as of release 6.1, at which time it introduced a robust set of enhancements in this area.
- **ZPPS Analytics**, with new subscription-based capabilities to provide users with easy access to relevant pricing information and insights

In early 2006, Zilliant announced the general availability of **ZPPS 5.4**, which delivered numerous enhancements to the pricing applications of ZPPS Deal Manager and ZPPS Analytics. ZPPS 5.4 further extended the ability of these two products to improve sales effectiveness and deal execution. Highlights of ZPPS 5.4 included the following:

- Enhanced scenario comparison and analysis views, allowing users to more efficiently create and evaluate an unlimited number of alternate deal pricing and term alternatives in real time. These capabilities helped with determining the optimal product mix and pricing terms for each deal.
- Usability and scalability improvements, permitting users to more efficiently review and refine complex sales deals containing thousands of component line items. The enhancements were meant to increase the productivity of a company's deal price approval process, which is a frequent sales bottleneck in large, global companies that have significant field sales organizations.
- Additional industry-specific features, addressing the complex requirements of manufacturers and distributors, whose businesses span multiple industry sectors, channel models, and geographies.

At about the same time, Zilliant announced the general availability of its **Price Integration Framework 5.4** to enable ZPPS to accept and publish pricing rules from leading enterprise order management applications. A component of ZPPS 5.4, Price Integration Framework provides easy, upgradable integration support between Zilliant's price setting and execution applications, and transaction-oriented order management systems from leading *enterprise resource planning* (ERP) and *customer relationship management* (CRM) vendors. The component extracts transaction, product, and customer data from the order management application; uses the data to produce optimized price recommendations; and then feeds pricing rules and conditions back into the application in the native format of its pricing engine.

Price Integration Framework supports **SAP's Java Connector (SAP JCo)** to connect directly to pricing-related *remote functional call* (RFC) and *business application programming interface* (BAPI) interfaces. This "price engine ready" feature (one that can be used by simpler formulas in ERP systems) enables Zilliant's many customers that run SAP to integrate Zilliant's price recommendations directly into SAP's pricing module. This integration approach is aimed at accelerating deployment, increasing adoption, and maximizing business benefits for these customers without introducing risk or complexity to their order management processes.

Given that more than 30 percent of Zilliant customers are also SAP users, in mid-2006, Zilliant announced that ZPPS 5.4 had successfully completed formal integration certification testing with the **SAP NetWeaver** platform (see [Multipurpose SAP NetWeaver](#)). Closely following the release of Zilliant's Price Integration Framework, the *Powered by SAP NetWeaver* qualification further underscores Zilliant's commitment to tightly integrating its pricing applications with **mySAP ERP** and **mySAP CRM** applications.

The extensive customer, order, and product data at the heart of SAP's applications allows **Zilliant Precision Pricing Suite (ZPPS)** to engineer precise price recommendations for every sales transaction across all channels. ZPPS's comprehensive workflow and process integration with SAP's transactional applications then ensures that SAP customers are able to fully execute upon this pricing guidance. With the formal integration certification of ZPPS, Zilliant customers that currently integrate ZPPS with SAP applications using SAP JCo, **IDocs**, and BAPIs can now leverage ZPPS's integration certification with the **SAP NetWeaver Application Server** and **SAP Enterprise Portal** to achieve more seamless integration with SAP applications on every level.

### Being Partner-friendly

This brings us to Zilliant's culture of striking partnerships with leading strategy and implementation firms (such as **Deloitte Consulting** and **Hitachi Consulting**) and enterprise application vendors, even though some of these might occasionally be competitors. To that end, in mid-2005, Zilliant announced a partnership with **Acorn Systems**, a costing and *enterprise performance measurement* (EPM) solution provider (albeit with some price optimization capabilities as well), to integrate each vendors' best-of-breed applications and further improve customer margins. The integration of products and services was aimed at providing corporate decision makers, possibly for the first time, full and accurate ability to determine and maximize true customer profitability.

Acorn's value proposition is a solution centered on cost-control, and it is verifiably accurate, auditable, and actionable, especially for a user company with complex costing issues that obscure margin leakage. Cost to serve is a financial measurement that typically reflects a roll up of all costs associated with selling and servicing a specific customer, including overhead, other indirect costs, and sometimes non-allocated costs. For instance, the solution has enabled a large, US grocery retailer to analyze detailed route and warehouse costs that can be quickly and easily aggregated by store, distribution center, or customer segment for executive level decision making.

Thus, the integration of Acorn's and Zilliant's technologies should give companies a 360-degree view of profitability, combining costs to serve, cost allocation, market price response, and profit analysis at the internal business process level with an external analysis of customer segments and their elasticity to price, discount, and promotional changes.

Most Zilliant customers have either already figured out a way to allocate costs, or they use the basic cost allocation engine to manage this aspect of profitability. Thus, although some customers would benefit from integrating both Zilliant and Acorn offerings for a combination of demand-side price optimization and supply-side price analysis with full visibility for their pricing decisions, and ultimately for a more profitable business, the alliance is yet to bear fruit in earnest.

## Challenges

This brings us to some of the challenges Zilliant faces, as well as the inevitable question: where is Zilliant and its market headed? Price management is an expanding and strategic market, in large part because it has delivered significant, measurable *return on investment* (ROI) for early-adopter customers (whereas counterpart cost containment initiatives are reaching a point of diminishing returns). However, it remains to be seen whether advanced pricing applications will become established as a stand-alone application space in the long term. Time will only tell whether rapidly increasing market awareness and references will be enough to propel the price management and optimization marketplace into mainstream adoption and engender the accelerated growth of the best vendors into strong, sizable market-leaders. The current market still has some clutter and noise from (too many) vendors preaching different value propositions and pricing approaches that are perhaps confusing prospective customers more than educating them.

Fragmentation in the price management space has occurred mostly along vertical industry boundaries, which both helps and hurts market evolution. This fragmentation makes it easy for prospects to narrow their vendor selections to a few vendors with track records in their markets, but it may also limit the size and scale that these vendors can ultimately achieve. Furthermore, cumbersome (yet widespread) administrative price list and discount management functionality from ERP and CRM players, along with their copycat claims about price optimization, have clouded the space. The ultimate question is whether the pure-play pricing management vendors that focus on different niche areas or industries will survive, thrive, or be consolidated into a single vendor delivering an integrated, business-process-oriented pricing solution (that is, one that covers all the price life cycle bases of optimization, execution, and enforcement of prices); or will these vendors be acquired by one of the ERP or CRM behemoths like SAP or Oracle.

Despite the need for and benefits of pricing solutions that can become value multipliers for both front- and back-office applications, there has not been a real boom in the pricing optimization and management market yet. That said, Zilliant and several other pricing vendors are growing rapidly, and they claim to see even sales ahead based on their pipeline. But the estimated number of total customers in B2B is probably only around 100 companies.

There are several reasons why pricing remains a nascent market. For one, even the companies that have implemented pricing solutions successfully, and that have reaped tangible benefits, have been somewhat secretive about leveraging these, both for competitive reasons (not wanting to give their "best kept secret" away) and for fear of alienating (or even angering) customers. Customers might feel they have been taken advantage of.

There are also questions and concerns about product maturity, data availability, the risk involved, cultural and change management conflicts, etc., but these seem to be fading as vendors have improved their capabilities through successful deployments at very large user companies. Another issue is the possible skepticism of sales forces (if not outright sabotage by them) if they fear "big brother" is controlling them and taking away their autonomy in pricing. Again, results from initial deployments indicate this is manageable.

After all, how can salespeople argue with pricing that is based on actual data of what has been achieved in the market? Despite these signs that indicate the market is heating up, the status quo (that is, doing nothing) remains a bigger challenge than direct competition for companies like Zilliant.

Because the upper-range pricing management solutions are designed to support large, complex businesses (those with 10,000 to 100,000 *stock-keeping units* [SKUs], 1,000 to 100,000 customers, hundreds of sales people, etc.), these enterprise-class pricing solutions require considerable investments in software, integration, and change management. Implementing pricing management solutions can range from a few hundred thousand dollars to more than one million dollars in license fees. A company also needs to consider the supporting technology, since most large pricing deployments require the customer to purchase a scalable, back-end database server, hardware, and a reporting tool to support it. Then, there is the customary software maintenance and support agreement, which typically adds an additional 15% to 25 percent to the software and hardware expenses, depending on the vendor.

Some pundits suggest that companies should, in principle, consider upper-end solutions only when they have the financial assets and requirements for a solution capable of handling the multitude of sales complexities needed to go to market. And of course, there are hard and soft costs associated with business process improvement and change management education about the space, critical success factors to deploying pricing technologies. The combination of all these factors is, for the time being, deterring the most risk-averse purse string holders, leaving them working off of hunch, manual spreadsheets, and multiple silos of data indefinitely. But for the rest of the potential market (early adopters and mainstream), the cost of status quo (leaving millions of dollars on the table) and the compelling ROI of the first movers seem to be breaking the inertia.

Zilliant offers a full range of services to its customers, including professional services, maintenance and technical support services, and educational services to deal with these technical and cultural obstacles. With regards to professional services specifically, the vendor provides its **Zilliant Solutions Group (ZSG)**, a professional services team that plays a direct role in project implementations. By focusing on both short- and long-term value drivers, these experts aim at helping companies achieve their strategic pricing goals. These drivers are capable of (a) customizing the solution to solve customers' unique business challenges; (b) ensuring user adoption through change management; (c) incorporating long-term pricing improvement strategy; and (d) reducing costs and risk by planning out the entire solution road map.

The ZSG team is a direct extension of the user company's project team. Price (profit) optimization is the "holy grail" (ultimate goal) of pricing, and the team's job is to take the user company's ever-evolving data and, using algorithms and models, turn it into actionable price recommendations, rules, and policies that deliver margin lift. Changing the mentality and practice of pricing is an evolution that impacts the entire organization, especially when the "cost plus" mentality is deeply ingrained. Zilliant's change management experts work with key stakeholders to build internal, strategic pricing best practices that lead to long-term, repeatable, thought-out pricing decisions.

Zilliant's own financial performance has dramatically improved over the last twelve months, though it is yet to become profitable on a *generally accepted accounting principles* (GAAP) revenue accounting basis. However, the vendor has had two consecutive blow-out years and has been cash flow positive the last two quarters. Given that Zilliant has been reinvesting to continue this rapid growth in 2007, it remains to be seen what their longer-term profitability trend will be.

Continued growth is imperative, and one way for expansion would be to attract small and midsize enterprises. But in order to do that, every pricing vendor has to make its offering and underlying principles understandable and affordable to smaller businesses having limited internal pricing expertise. To that end, Zilliant has been investing heavily in out-of-the-box configurations that are vertical and industry-specific. In this way, the vendor hopes to further reduce the cost of deploying the software to make it more palatable to smaller companies. The vendor should also explore the possibility of offering a subscription model, which is

already well established in some segments, and is often suitable for smaller companies with variability in demand and limited *information technology* (IT) bandwidth (see [Software as a Service Is Gaining Ground](#)).

While the vendor touts some traction with **Deloitte** on deployments and marketing (with the most recent press announcement of a truly strategic relationship in February 2007), Zilliant should try to nurture similar relationships with the likes of **Accenture** and **McKinsey**. However, this might be difficult due to both parties competing for the same opportunities in pricing strategy and impact analysis engagements (before the pricing software is even deployed). Official partnership and integration programs beyond those with SAP (for example, with vendors such as **Oracle**, **Infor**, **Lawson**, **Epicor**, or **Microsoft Dynamics**) would also seem prudent.

A blessing and a curse always comes from a cooperative relationship with SAP. On the one hand, recent moves by SAP might jumpstart a more comprehensive and pervasive adoption of price management solutions, providing a marketing awareness boost and investments for all vendors. On the other hand, what's unclear is how Zilliant will fare in SAP's installed base given SAP's ongoing, close relationship with fierce competitor **Vendavo** (under the name of **SAP's Industry Value Network [IVN]**), a vendor that offers a more comprehensive solution for price and margin management. SAP is reselling Vendavo's price management software suite to its customers within the manufacturing industries, such as chemicals, high-tech, and oil and gas.

The SAP-Vendavo joint solution, which is also certified as *Powered by SAP NetWeaver*, has been complementing and enhancing the price execution capabilities of **mySAP ERP** and **mySAP CRM** with real-time, sophisticated pricing analytics, which is a framework for price setting and policy management. Sold under the name **SAP Price and Margin Management (SAP PMM)** by Vendavo, the solution has been available for over a year. SAP is initially targeting it at the above mentioned three industries, but it anticipates it will address a much broader set of industries in future release cycles. For more information, see [Applications Giants Bolster Their Pricing Management Capabilities](#).

Zilliant still has some opportunity within the huge SAP install base, since its science-based pricing approach can supposedly deliver up to three times the margin lift of a non-science-based approach that relies solely on process control and analysis to eliminate obvious pricing mistakes (the current approach of Vendavo). This is the basis for Zilliant's promise to customers—to help them "achieve the best (most profitable) pricing possible on every deal." Zilliant's competitive wins at such SAP accounts as **Insight Enterprises**, **Schneider Electric**, and **Smith & Nephew** validate that this difference matters to some customers. However, immediate short-term gain is almost always achievable when preventing counterproductive sales processes (granting a huge discount for an unprofitable customer, for example). To this end, Vendavo offers some degree of profit lift too, and combined with its SAP relationship, Vendavo's offerings may be sufficient for some SAP "house" accounts.

Vendavo often claims that segmentation and optimization are not necessary, and that the basic analytic approach reveals all actionable price improvement opportunities. Given that long-term benefits come from the incremental gains of pricing segmentation and optimization to drive margin impact, SAP and Vendavo have recently announced that they will offer these capabilities at some point in the future. But the competition is not going to sit still and wait for Vendavo and SAP to deliver algorithmic price optimization capabilities, especially in manufacturing and distribution verticals, where Zilliant is currently strong.

Lastly, Zilliant and the SAP-Vendavo combination still have competitors. These competitors claim to have credible customers in the B2B industries and offer price management solutions that cover many of the same areas as Zilliant and Vendavo. Such providers include **PROS Pricing Solutions**, **pVelocity**, **Maxager**, **Metreo**, and **Rapt**. **Acorn** is also an alternative in some parts of the market, owing to its appetizing price tag. It is always tricky for the customer to discern which of the above players offers a not-too-simplified or one-dimensional approach.

Some of these players do have the ability to make optimization work and deliver margin uplift. But these capabilities should not be delivered in the form of ad hoc consulting and subsequent customization of software endeavors. Rather, they should be delivered with an instantiated, repeatable approach to the problem in terms of configurable, out-of-the-box products.

### **User Recommendations**

In short, Zilliant does not view price optimization and management as a generic market. The vendor is focused on and serves a range of vertical industries that have specific needs and drivers for success. Therefore, prospective user companies within industrial manufacturing, high-tech, medical device, distribution, advertising and media, transportation, and B2B e-commerce businesses should evaluate Zilliant's offerings. However, consumer retailers and the travel and hospitality segments, all of which are not characterized by major negotiation processes with consumers, are not good prospects for Zilliant, except perhaps in terms of the Test and Monitor application. Zilliant's solutions seem to fit especially well with companies that have a range of price-sensitive and value-driven products and customers that result in meaningful variations in price response—a fertile environment for price segmentation and price optimization to produce the most profitable pricing on every transaction.

For more in-depth information on the specifics of pricing and its strategies, please see [\*Know Thy Market Segment's Price Response\*](#), [\*Advancing the Art of Pricing with Science\*](#), [\*Business-to-business Price Segmentation—Outlined and Explained\*](#), and [\*So What's the Bottom Line on Price Segmentation?\*](#)

This is the last part of the series *What if Companies Could Use Science to Align Prices to Market and Maximize Margins?*