



# Price Management and Profit Optimization Solutions Are the Best-Kept Secrets in Enterprise Software

## Executive Summary

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|-------------------------|---|
| <b>Decision Point:</b>  | Optimizing Pricing and Order-Management Business Processes  |
| <b>The Bottom Line:</b> | 2006 is gearing up to be the year for pricing software with large-scale, company-wide deployments. However, only a handful of vendors are equipped to provide a PMPO solution and dominate this market. |
| <b>Who Should Read:</b> | CEO, CFO, CMO, CIO, VP of marketing, VP of sales, VP of business development, VP of finance, VP of product management, pricing analysts, pricing practitioners, retail category managers                |

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*Which enterprise software solution yields the highest potential ROI? Depending on who you ask, a typical response might be "my customer self-service solution," "my sourcing and procurement system" or "my employee portal." Although all of these IT investments are promising initiatives—trimming inefficiencies or improving customer service levels—very few will dare claim double-digit profit improvements. In contrast, enterprises have realized up to 20% profit improvements by using price management and profit optimization (PMPO) solutions. No other packaged software solution can deliver the same type of top-line benefits and address bottom-line inefficiencies.*

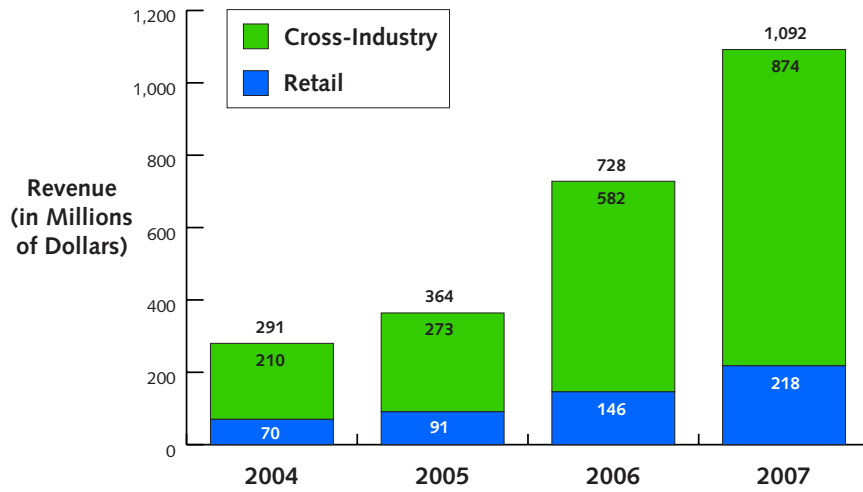
*PMPO is the best-kept secret in enterprise software. Many early adopters are reticent about their deployments because they provide a competitive advantage. Now the success stories are getting out, and the PMPO market is experiencing double-digit growth year-over-year (see Exhibit 1). 2006 is gearing up to be the year for pricing software with large-scale, company-wide deployments. However, only a handful of vendors are equipped to provide a PMPO solution and dominate this market.*

*This report examines the market momentum for PMPO, various types of PMPO solutions, ROI examples and a detailed vendor review highlighting market leaders and followers.*

**Exhibit 1.**

**Price Management and Profit Optimization Market Will Experience Double-Digit Growth Through 2007**

Source: Yankee Group, 2005



## Table of Contents

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|  |           |
|--|-----------|
| <b>I. Market Update</b> .....                                    | <b>3</b>  |
| The Year of Pricing: 2006 .....                                  | 3         |
| A Market Shift .....   | 4         |
| <b>II. Why Enterprises Shouldn't Wait to Invest</b> .....        | <b>5</b>  |
| PMPO Solutions Enable Visibility, Optimization and Control ..... | 5         |
| A High Return on Investment (ROI) .....                          | 5         |
| <b>III. Vendors to Watch</b> .....                               | <b>8</b>  |
| Market Leaders* .....  | 8         |
| Market Followers* .....  | 13        |
| Services Providers .....   | 15        |
| <b>IV. Market Predictions</b> .....                              | <b>16</b> |
| <b>V. Recommendations</b> .....                                  | <b>16</b> |
| Recommendations for Enterprises .....                            | 16        |
| Recommendations for Vendors .....                                | 17        |
| <b>VI. Further Reading</b> .....                                 | <b>17</b> |

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### I. Market Update

The pricing software market will experience exponential growth, with 60% average growth year-over-year through 2007.

#### The Year of Pricing: 2006

Now is the time for enterprises to invest in PMPO solutions. No other software delivers the same ROI: 10% to 20% profit improvement. In fact, the more broken and problematic your pricing processes are, the higher ROI you can expect. Leading companies that have already adopted PMPO solutions all have either met ROI expectations or—in many instances—exceeded them. Although pricing software offers the best demonstrated ROI compared to any other application software—beyond that of procurement, CRM or ERP—it has yet to gain the attention or exposure on the scale of supply chain applications. It's been the best-kept secret of early adopters, many of which demand that their PMPO solution providers not sell the software to their competitors. None want to attest to the amazing ROI stories from their implementations for fear of losing a unique competitive advantage.

The PMPO market is about to take off in a big way as success stories are garnering attention and turning heads. Today's PMPO market is worth \$364 million and is considered a niche software market. However, demand for PMPO is more than doubling year-over-year (see Exhibit 1) as companies leverage these solutions to increase revenue uplift, improve margin contributions, manage market volatility and supply imbalances, and outmaneuver competitors in price wars.

Although PMPO improves the top line, it also addresses pricing process inefficiencies. Pricing is the last key business process that companies haven't squeezed efficiencies out of. *Fortune 1000* companies continue to leave billions of dollars on the table each year by not appropriately managing pricing, because they lack the tools to do so.

PMPO can help ensure rigor in the pricing process while driving consistency and accuracy across all channels. For example, sales reps often offer quotes and accept deals that are unprofitable to the company, unwittingly violating centralized policies. Pricing analysts and executives spend weeks trying to understand current selling prices and make decisions on pricing strategies because they don't have the data at their fingertips to support these decisions. PMPO solutions are the tools that enable pricing stakeholders to quickly and effectively make optimal pricing decisions that make sense for their company.

## A Market Shift

Even today's leading enterprises routinely leave money on the table due to poorly structured deals and unprofitable pricing strategies. All of this is changing quickly as innovative companies use software to understand where price leaks occur and how to prevent them. These leading companies have developed a center of excellence around the pricing process and are leveraging solutions to deliver and execute on prices, recommend optimal prices, structure favorable contracts and analyze pricing policies. The market for PMPO solutions is quickly taking off with large-scale company-wide implementations led by C-level executives.

As the market gains momentum, several leading indicators signal that we are on the cusp of mass adoption:

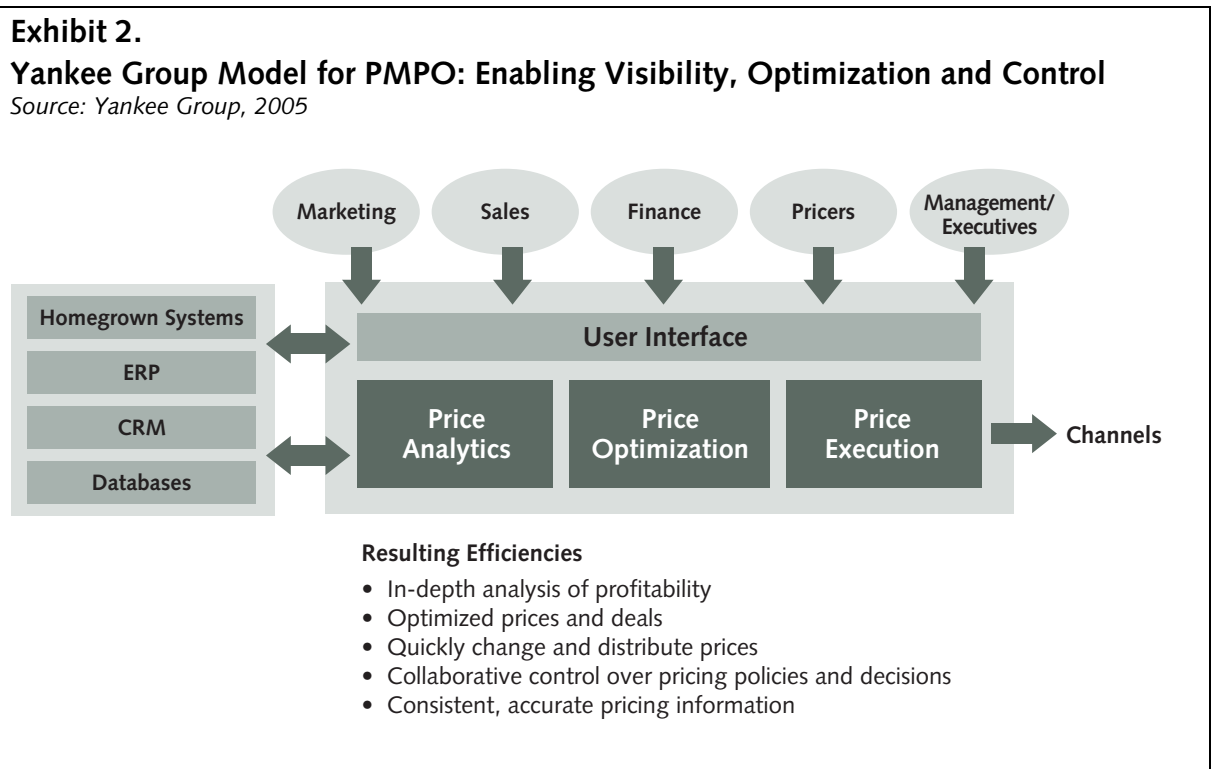
- Enterprises are budgeting \$1 million to \$5 million toward investing in one or more pricing solution capabilities.
- Pricing solutions are increasingly becoming enterprise-wide deployments, often large-scale global rollouts.
- Leading systems integrators and consulting firms (e.g., Accenture, Deloitte, Capgemini, IBM Global Services) are building practices to consult on PMPO projects from either an industry angle or a horizontal pricing process perspective.
- There is an increased number of educated and qualified RFPs, signaling a downstream pull for pricing solutions.
- C-level executives are refocusing on revenue and margin growth instead of cost cutting.

## II. Why Enterprises Shouldn't Wait to Invest

### PMPO Solutions Enable Visibility, Optimization and Control

Three years ago, Yankee Group defined the now-established product category definition for pricing solutions. There are three key types of PMPO software capabilities (see Exhibit 2):

- **Price optimization** solutions incorporate advanced statistics and algorithms that let companies optimize the price at which they sell under specific objectives and constraints, allowing users to understand the price elasticity of products. Price optimization enables companies to effectively segment customers, generate recommendations for price decreases and increases, and set negotiation guidelines.
- **Price execution** systems manage, distribute and enforce price rules. These systems enable deal-management workflows, exception handling and deal scoring. They also can embed business policies and rules for creating price lists and calculating offer prices at the transaction level. A price execution system typically integrates with the order-execution system in a company's infrastructure.
- **Price analytics** provide visibility into pricing practices through business intelligence reporting and analysis of a company's pricing practices, transactions and market realities (e.g., reports on the best customers or contracts, most profitable products, least profitable sales reps).



### A High Return on Investment (ROI)

Here are a few examples of ROI cases from companies that have invested in PMPO:

- A distributor has improved contribution margin dollars by as much as 16% (from a pre-implementation baseline) in one quarter by making better deal management decisions. The company more than exceeded its internal target of 2% improvement. The quarter before that, it saw a 9% contribution margin dollar increase.
- A technology manufacturer set its prices by reacting to its competition on a “competition-minus” basis. After deploying a pricing system, it can now set prices proactively using win/loss data, market response modeling and data identifying what the market is willing to pay. As a result, it has recognized a 13% margin lift versus a control group.
- A manufacturer set list prices on an annual basis using a manual process of collecting and analyzing sales and market data in spreadsheets and making a gut determination regarding price increases. In addition, it allowed independent sales reps to use their industry experience to set prices on each contract and order. With a pricing system, the company is now maximizing the profitability of each contract and order by setting deal envelope prices from pricing models developed with pricing science. The manufacturer expects to realize a 2% to 6% increase in gross revenue at the low end, with an upside of approximately 10%.
- A manufacturer set its prices by analyzing market-level pricing and cost increases. Of its 500,000 SKUs, only a fraction of the products had reference prices; the rest of the products were priced based on a “cost-plus” method. The company lacked an understanding of price/demand relationships and visibility into microsegmentation. It implemented a price system to utilize pricing models on microsegments to derive market-based prices. The system helped prove that a clear price/volume relationship exists, and a microsegmentation approach is appropriate for the business. Consequently, the manufacturer expects to derive \$9 million to \$17 million in yearly full-run rate benefits. More than 200 employees have access to the system, and almost 800 view the data and use it regularly.
- A communication service provider’s main challenge was maintaining control of its sales-discounting process. The company leveraged a contract and price optimization solution to capture additional profits from its communication products and services. After the implementation, it reaped a 5% to 8% profit lift and an 11% improvement in average revenue per unit.
- A multibillion-dollar distributor experienced profit leaks and severe pricing problems. The prices in the distributor’s order management systems did not reflect actual prices in the volatile market it served. Sales reps were quoting prices and erring on the low side to improve the probability of winning a deal. More than 50 different people were responsible for manually updating the price files based on gut feel. There was no clear definition of what the prices should reflect: target, walk-away or a point to start negotiation. The distributor implemented a PMPO solution to collect demand data, including orders, quotes, cost changes and inventory availability. The solution takes this data and applies sophisticated analytical techniques to produce benchmarks, including target price, minimum acceptable price and stretch price. Test results showed an average margin improvement of 25% without sacrificing market share or volume.
- A leading multinational developer and manufacturer of life-enhancing medical technologies needed a more integrated approach to managing the complex processes of pricing, contracts and distributor rebates. The company implemented a pricing system that manages the business policies for each of its divisions regarding pricing, contracts, compliance and settlements. It acts as the system of record for pricing, providing real-time updates to the company’s order management system while enhancing visibility

into customer pricing across contracts. Discrepancies dropped from 10% to less than 1%; the company eliminated \$600,000 per year in overpayments; and it increased distributor rebates of \$7 million to \$10 million without increasing headcount.

- A national specialty retailer with more than 300 stores had an overly aggressive markdown practice that contributed to margin loss. It also didn't understand the effectiveness of its promotions. Leveraging lifecycle pricing capabilities allowed the retailer to standardize markdown pricing practices while increasing adherence to markdown rules, which produced a 1% increase in both sales and profit.
- A national grocer with more than 500 retail stores achieved a 12-month ROI of more than 200% by standardizing its pricing rules, centralizing its base pricing process, improving its price index and increasing profits. The grocer used lifecycle pricing capabilities and demand forecasting to reverse declining sales and profit trends, and manage intense competitive pricing pressure.
- The distribution division of a *Fortune 50* company added 285 basis points of margin (\$6 million) to its bottom line. Because its parts catalog was so large (more than 150,000 parts), many of its products either were not priced or were poorly priced. By repricing the entire catalog, revenue jumped more than 20%. Automated tools also increased the efficiency of the price desk. It can now complete catalog pricing in 2 weeks rather than 3 months.
- A \$5 billion manufacturer needed help gaining control of off-invoice rebates and allowances. Its margin losses were accelerating because its salespeople were unaware of all the cumulative discounts and rebates the manufacturer offered. Increased visibility into transactions and historical customer profitability provided pricing intelligence that enabled the manufacturer to increase gross margins by 0.5% and to add eight figures of operating profits to its bottom line.
- A \$2 billion *Fortune 50* distributor of electrical components needed help setting the best prices for its extensive product catalog. After re-segmenting its customers and attaching market-based prices to its entire array of products, the distributor added 2% to its revenue and 132 basis points of margin to its bottom line.
- The industrial manufacturing division of a *Fortune 50* company was suffering from wide price variation across its product line—even for similar goods. It also had inconsistent processes for evaluating deals. By making deal evaluation and negotiation improvements, it increased win rates by 1.5%, with revenue jumping 9%. The company added more than 300 basis points of margin to its bottom line.
- A \$4 billion distributor was missing margin targets due to reactive, competitor-focused pricing. By adding pricing-driven segmentation variables, it could offer more accurate prices—which helped enhance margins by 60 basis points. This is a significant jump in an industry where profits are usually limited to only a few percentage points. More impressively, revenue grew by 15%, representing a multimillion-dollar jump in absolute value.
- A global chemical company faced two challenges. Feedstock and energy costs were fluctuating rapidly and affecting margins, yet it took the company 1 month to implement price changes—so it consistently missed pricing opportunities. Also, because customer pricing was based on very complex pricing formulas (e.g., price caps, price protection, and other terms that had to be manually updated on a monthly basis), the company made many pricing errors—resulting in lost revenue, margins, billing disputes and higher days sales outstanding (DSOs). After implementing price

management software across all its businesses worldwide, the company saw two immediate benefits: the time to respond to market changes shrank from more than a month to real time; and automatically calculating and uploading all of its updated prices to SAP brought the pricing error rate down to zero, adding more than \$5 million in annual margins to the bottom line.

- A global petrochemicals company knew that it was offering inconsistent pricing to its customers because it lacked visibility into the entire price waterfall during contract negotiations and it had no way to consistently enforce company policies. Within the first 3 months of deploying a price management solution, the company identified specific customer situations that were previously unnoticed, and that when addressed generated an ROI of more than 700% for the initiative.

### III. Vendors to Watch

There are two categories of PMPO vendors in the market: those that serve retailers and those that focus on non-retail or cross-industry pricing problems. These best-of-breed vendors differ greatly from SAP, Oracle and Siebel by providing differentiated functionality from basic ERP and CRM price list execution systems. Most specialist solution providers have core competencies in one or two of the solution capability areas we've defined: optimization, execution or analytics. Many of them are developing extended functionality into adjacent areas (see Exhibit 3).

#### Exhibit 3.

#### Price Management and Profit Optimization Vendor Capabilities

Source: Yankee Group, 2005

| Cross-Industry Vendors  | Price Optimization | Price Execution | Price Analysis | Retail Vendors       | Price Optimization | Price Execution | Price Analysis |
|-------------------------|--------------------|-----------------|----------------|----------------------|--------------------|-----------------|----------------|
| Manugistics             | High               | None            | None           | DemandTec            | High               | None            | None           |
| Metro                   | High               | None            | None           | Khimetrics           | High               | Medium          | None           |
| Model N                 | High               | None            | None           | ProfitLogic (Oracle) | High               | None            | None           |
| PROS Revenue Management | High               | None            | None           | i2                   | Medium             | None            | None           |
| Rapt                    | High               | None            | None           | Manugistics          | High               | None            | None           |
| Vendavo                 | Low                | None            | None           |                      |                    |                 |                |
| Zilliant                | High               | None            | None           |                      |                    |                 |                |
| Advanous                | None               | None            | Medium         |                      |                    |                 |                |
| Oracle                  | None               | Medium          | None           |                      |                    |                 |                |
| pVelocity               | None               | None            | Medium         |                      |                    |                 |                |
| Revenue Technologies    | Low                | None            | Medium         |                      |                    |                 |                |
| SAP                     | None               | Medium          | None           |                      |                    |                 |                |
| Selectica               | None               | Medium          | Medium         |                      |                    |                 |                |
| Servigistics            | High               | None            | Medium         |                      |                    |                 |                |
| Siebel                  | None               | Medium          | Medium         |                      |                    |                 |                |
| Vistaar                 | None               | Medium          | Medium         |                      |                    |                 |                |

High Functionality    
  Medium Functionality  
 Low Functionality    
  No Functionality  
 Vendors to Consider    
  Vendors to Watch

#### Market Leaders\*

\*Based on customer momentum and traction

## DemandTec

DemandTec is a price optimization vendor that dominates grocery and drug retailing with a total of 20 customers. The company has been expanding its focus to serve the hardlines sector as well as soft goods and apparel retailers. DemandTec's product is differentiated by its best-in-class rules-based pricing and optimization. Like its peers, DemandTec aims to broaden its reach and address various components of the price management lifecycle from assortment, price, promotions and markdown to shelf placement.

The company's recent release, DemandTec 5, is an upgraded version of its consumer demand management platform, which is a packaged application that has complete lifecycle pricing capabilities for both retailers and CPG companies. It will be interesting to see if DemandTec can grow mind share with CPG executives interested in trade promotions and marketing mix planning.

As for increasing its market penetration, a recently announced partnership with SAP is very promising. If DemandTec becomes the preferred provider for SAP customers that want price optimization, and can successfully deliver an integrated product, the company will make great strides in the market.

## Khimetrics

A price optimization leader in the grocery and drug retailing market, Khimetrics has about 20 retail customers. It began by creating price optimization solutions and then developed solutions for promotion management and markdown optimization. Khimetrics aims to cover the entire price management lifecycle by providing an integrated retail platform.

It recently purchased the layout and execution software assets from Flow Systems to offer a new solution: Intelligent Advertising Marketing & Planning (AMP). AMP is a promotions execution solution that automates the planning, creation, approval, production and repurposing of advertising for circulars and catalogs. The idea is to leverage a solution that determines which products and offers should appear in an ad, how many versions should run, where and in what format, and then translate that into the physical ad. This concept helps Khimetrics to differentiate its product strategy from others that just offer promotion optimization.

Khimetrics is also eyeing other vertical industries and has decided to target CPG and financial services companies. It's unknown whether the company will succeed in new territories, because CPG is still warming up to the idea of PMPO and financial services firms are only beginning to explore potential applications of PMPO.

## Manugistics

Manugistics is refocusing its pricing product development in two areas:

- Revenue management for the travel, transportation and hospitality (TT&H) verticals
- Pricing for CPG and retail

Although the company achieved several wins in media and telecommunications, it considers the opportunity to be primarily in TT&H and the CPG/retail supply chain. Manugistics wants to claim the leadership position in the retail space by offering integrated lifecycle pricing, from initial product introduction through growth pricing to end-of-life markdowns.

In the first quarter of 2005, Manugistics released a new version of its pricing solution that provides demand planning to automate demand forecasting and a business rules manager

that offers lifecycle pricing for promotions and markdowns. This is a significant step in offering a solution similar to its proven TT&H solution, but to the retail and CPG industries. The new version will help Manugistics penetrate these two new markets by seamlessly integrating demand planning with lifecycle pricing, enabling retail and CPG companies to conduct more accurate demand planning, promotions and markdowns.

Although Manugistics is commonly viewed in the market as a supply chain vendor with some revenue management capabilities, the company plans to make another strong marketing push around its pricing solutions. Having suffered reorganization woes, changes in product direction and slow growth in its core supply chain market, it's still committed to its Demand and Revenue Management solution. Manugistics plans to leverage its current salesforce to target CPG and retail companies, but it's also hiring additional sales reps to focus on selling into other verticals. Manugistics will continue to hone and push the concept of integrating pricing with supply chain management by tying together demand planning with pricing and promotions management.

## **Metreo**

Metreo is one of the few vendors that offers a full suite of pricing solutions, including optimization, execution and analytics. It has 15 large global customers in industrial manufacturing and distribution. Metreo is the leading pricing solutions vendor for industrial manufacturers and continues to gain traction with added product capabilities.

It recently launched a new pricing analytics solution called Vision that complements its Target (optimization) and Response (execution) products, which together constitute its Smart Pricing Suite. Vision's differentiation is its guided pricing analysis. It automatically identifies and interprets the problem areas causing margin decay and proactively recommends steps to users to reverse margin recession. For example, Vision enables enterprises to analyze and track profitability on an individual transaction basis (by product, customer or channel portfolios) and across entire markets. It then outputs specific data points and suggestions on how to best leverage the analysis.

Although Vision is relatively new, it's a strong entry. Metreo has taken the right step by broadening its product strategy. Now, it not only offers one of the industry's only end-to-end pricing suites, but it also offers a competitive analytics solution that is often the leading PMPO capability enterprises are seeking today. Aside from the product, Metreo offers a set of Solution Tracks, which is a service-based approach that helps end users familiarize themselves with product features, align processes and leverage best practices in process adjustment, data collection and rollout. This approach aids enterprises by shortening deployment times and risk associated with the project.

## **Model N**

Model N offers the leading PMPO pricing solution for the life sciences industry, specifically medical device and pharmaceutical companies that suffer from revenue leakage and regulatory non-compliance issues. Driven by an engine-based transaction pricing model, its solution aligns pricing, contract management and financial settlements to minimize the risks associated with these problems.

Model N's solution offers more than just pricing; it also automates the authorization process, performs gross margin analysis, overwrites overpays, tracks sales and stops the payment of duplicate rebates and incentives. The solution has been successfully deployed at about 11 client companies and continues to gain momentum within its core verticals. Although Model N plans to eventually expand into other industries and has architected its

platform to suit more than just one vertical, it's still focused on providing functionality that supports the end-to-end revenue management lifecycle for life sciences.

There's no question that Model N is a strong contender; it's a matter of where the company decides to focus its R&D dollars. Model N is investing in developing a solution called Deal Manager, which will be its version of a price optimization application. The company just signed an OEM deal with Cognos to provide more robust and flexible reporting capabilities, slated for the fourth quarter of 2005.

### **ProfitLogic (Oracle)**

ProfitLogic's recent acquisition by Oracle signals the aggressive strategy Oracle has to grab retail industry demand. Oracle will be successful in retail if it can quickly integrate ProfitLogic with its previously acquired capabilities from Retek, serving up integrated planning, optimization and execution on a single platform.

To date, ProfitLogic has succeeded by specializing in price optimization for the apparel market, helping retailers maximize sales while minimizing markdowns. With 20 retail customers across department stores, specialty-clothing shops, mass merchants and off-price retail shops, ProfitLogic is a clear leader in the category of markdown optimization. However, ProfitLogic doesn't cover the entire retail pricing process lifecycle. It's only now moving upstream to address areas such as promotion optimization and assortment execution.

ProfitLogic launched its Assortment Execution product in the first quarter of 2005. This solution is promising, because it helps the company expand its product breadth to cover more than just markdowns and fills the need for optimization of assortment and allocation decision-making. Most merchandising solutions, such as assortment and space-planning tools, cannot determine the best price because they aren't based on customer demand, but rather driven by purchasing volumes, supply constraints or the limitations of in-store processes. If Oracle can help ProfitLogic fill the gap here and offer an integrated solution, it will be in a great position.

### **PROS Revenue Management**

PROS has deployed more than 50 B2B pricing solutions within travel industries and 25 outside of the travel and transportation industry. In the last 2 years, the company targeted only non-travel industry pricing challenges. Therefore, it has made significant strides in gaining customer momentum by focusing on distribution, manufacturing, chemicals and other verticals.

Although PROS has the biggest market share for pricing solutions due to its expansive travel and hospitality client base, the larger opportunity is outside of revenue management for the airline industry and in addressing more complex pricing challenges within manufacturing and distribution companies. PROS has split its Revenue Management practice into two groups: PROS Revenue Management, which will focus almost entirely on its traditional airline business, and PROS Pricing Solutions, which will focus on developing solutions for B2B industries, led by dedicated industry experts.

PROS' core competency is its price optimization solution, but it also offers analytics and execution capabilities. It's currently adding architectural enhancements and coming to market with a new platform. The solution offers out-of-the-box functionality that was already tested across eight enterprises, all representing different verticals.

Due to previously weak marketing, PROS was subject to the perception that it was simply a revenue management provider for travel and hospitality. The company has come a long

way and has revamped its marketing strategy and reorganized its focus, targeting the PMPO opportunity with a packaged solution as well as a dedicated team of R&D and marketing staff.

## **Rapt**

Rapt offers a proven price optimization solution that fits well with high-tech and online media companies that require pricing capabilities to manage short product lifecycles, product or attribute configurations and inventory constraints. The company is taking steps to expand into other industries, including financial services, pharmaceuticals and life sciences.

The fact that Rapt's solution can be deployed with little customization for its target industries has helped the company deploy solutions quickly—going live with two large implementations in the first half of 2005. With the recent release and deployment of its new price analytics product, Business Director, Rapt has an opportunity to lead future engagements with this solution despite being late to market relative to its best-of-breed pricing analytics peers.

Having solved the complexities of optimization, Rapt is well positioned to handle analytics. However, Rapt has decided not to tackle the execution area, preferring to integrate with customers' existing order-management/price execution systems. In addition, the company developed professional services capabilities to deliver consulting to clients that need more than just technology.

Although Rapt experienced some growing pains, it's a strong contender and did a good job revamping its marketing efforts, which were previously nonexistent. It's becoming more visible lately and is gaining customer momentum with several key wins.

## **Vendavo**

With almost 20 large-scale customers representing more than 40 implementations, Vendavo is the clear PMPO leader dominating the chemicals industry. However, it also has large global customers in manufacturing, high-tech and distribution. Vendavo excels with its price execution capabilities and has the most mature price analytics solution. The company spent 5 years developing the execution and analytics platform, which shows in the solution's maturity in terms of feature set, configurability, upgradability and international support. This has figured into partnerships with SAP and Accenture for price management. However, Vendavo is looking to manage the entire deal lifecycle by approaching price optimization. Its solution can recommend optimal prices, score deals, set targets and determine dynamic deal envelopes by segmenting customers and products and applying statistical analyses and data-driven logic.

Vendavo's latest release of its analytics solution offers a glimpse into the next generation of pricing analytics products. The solution links policies to pricing actions, thereby creating enhanced analytics to build, enable and track pricing programs. With Vendavo's solution, users can link pricing analysis with different types of pricing policies. Next, Vendavo will develop pricing initiative templates for programs such as new product launches, margin improvements and inventory reductions. This is a differentiated approach for Vendavo; it is tying together price execution and analytics, thereby delivering value to different types of business users and broadening its reach. This is a promising strategy for Vendavo, which is already a leader in the PMPO market. It will expand on the value proposition of PMPO solutions and push the product direction for the entire category.

## Zilliant

Zilliant is one of only three vendors to offer a full suite of pricing solutions (optimization, execution and analytics). Zilliant provides the end-to-end suite of PMPO following its addition of price execution capabilities in the past year. With almost 20 clients, Zilliant successfully garnered key wins in the manufacturing, distribution and transportation industries. The company also made strides in several developing verticals, including advertising/media, e-commerce and financial services. Zilliant's strategy is to focus on vertical expansion while keeping its core product the same to create a consistent horizontal offering.

Zilliant's price execution offering, Deal Manager, was well received by customers looking for deal management, contract negotiation and enforcement capabilities. The product leverages company KPIs to score deals, enabling enterprises to make smarter pricing decisions before they sign contracts. Deal Manager has made Zilliant a more competitive contender in the PMPO market. Many of the industries it is targeting are better suited for price execution and analytics solutions than price optimization (these companies tend to be contract-based and negotiation-oriented businesses).

Existing customers and new prospects now have several options for starting points with Zilliant, as well as a road map to leverage the full range of pricing solutions. Zilliant's price analytics solution is differentiated by its architectural approach. By supporting industry-standard business intelligence (BI) platforms, Zilliant customers can leverage existing BI environments but conduct pricing analysis through Zilliant's user interface—thereby taking advantage of a scalable architecture without having to support an additional BI tool.

## Market Followers\*

*\*Based on customer momentum and traction*

### Advanous

A new entrant in PMPO, Advanous offers a price analytics tool that helps distributors manage margins and leverage historical sales data to get price recommendations. The company is working with several distribution companies on a consultative basis, and some are using its tools to perform advanced margin analytics and identify margin opportunities.

Advanous is an early stage company investing in R&D and looking to develop proof points. It will be challenging for Advanous to compete with other PMPO vendors that have proven deployments at distribution companies. The company must find a more concrete way to differentiate its product.

### pVelocity

A new PMPO entrant that focuses exclusively on process manufacturing excellence, pVelocity offers a price analytics dashboard that takes input from the plant floor to provide pricing guidance. The solution takes real-time information regarding capacity utilization, product cycle times and constraints to calculate the "profit velocity," or the generation of a number of dollars per unit of time. The product is currently deployed at a handful of chemicals and metals manufacturers that want to better manage production costs with an eye toward true profitability by product, customers, plant or sales reps. pVelocity offers a unique approach to PMPO and is a company to watch.

## Revenue Technologies

Revenue Technologies remained relatively quiet during the last 2 years, but it's starting to gain some momentum. Coming from a consulting background, the company needed to invest in productizing its solution. Revenue Technologies offers primarily price execution and price analysis with some price setting and planning.

Although the company is growing, its growth is primarily through add-on business across multiple divisions with existing clients. Revenue Technologies lacks a strong foothold in any one vertical industry—but it has several notable high-tech clients and is trying to grow its installed base here. It needs to show up more consistently on potential customers' short-lists. Better marketing and clarity around its product differentiation and industry expertise will go a long way.

## Selectica

Selectica offers a basic list-optimization and deal-evaluation solution that enables users to model optimal list prices, set prices and enforce policies for deals and contracts. Selectica doesn't offer an actual price optimization solution. Although it does offer price execution capabilities, the product is second to that of other PMPO vendors. The company is only now beginning to develop an analytics product, which is still several releases behind that of other comparable price analytics solutions. However, it's a good step for Selectica to take, because it needs to get on potential customers' short-lists more consistently.

With only seven clients, Selectica hasn't been able to successfully grow demand for its pricing solution. It remains to be seen whether its recent acquisition of contract management vendor Determine Software will help Selectica eventually provide an integrated contract and price management product.

## Servigistics

An emerging PMPO provider, Servigistics offers solutions for the service parts side of the business with a client base consisting primarily of automotive manufacturers. In the first quarter of 2005, Servigistics released a new pricing solution designed to optimize and manage the pricing of service parts. It's essentially a price optimization and analytics solution for service parts businesses that require unique modeling for pricing. The solution is a blend of pricing methods, including market adaptive pricing, intelligent cost-plus pricing and advanced price optimization.

It will be a challenge for Servigistics to bring pricing into the mainstream for companies with a focus on service parts management. With a handful of customers, Servigistics is still proving its product—but early reviews and ROI results are promising. The company is focusing on selling its pricing solution to existing automotive clients this year and wants to expand its scope to target aerospace and white goods. In addition to service parts management, Servigistics eventually will update its pricing solution to manage service parts deals as well as enforce service parts prices.

## Siebel

Siebel focused more than 80% of its recent major product release investment on its pricing and order management solution set. Siebel 7.8 offers a much improved solution for price execution and price analytics. Within price execution, capabilities include price enforcement of quote/order price rules, escalations and approval routing, and enforcement of deal envelopes. New functionality around price negotiation and contract-based pricing is promising.

Siebel excels at price administration. Siebel's differentiation is that it integrates its pricing with order management capabilities. The companies that benefit the most from this combined offering are existing Siebel customers. Because Siebel has a solid analytics solution for CRM, it should be able to build a competitive price analytics solution. However, the current analytics solution could be better integrated with its price enforcement/execution solution.

Although Siebel is still developing capabilities for both price execution and analytics, the company is taking a step in the right direction by investing in PMPO. Siebel's main challenge will be catching the wave of demand for PMPO when the market takes off.

### **Vistaar**

Vistaar offers a collaborative platform that automates the pricing decision process that runs across a company. It coordinates different pricing stakeholders involved in the pricing process—from marketing to finance to sales to product development. The solution is a cross between a price execution and analytics system that provides collaboration management and light reporting functionality. Vistaar supports processes such as market pricing, deal and contract pricing and channel pricing.

The company will be challenged by its lack of vertical focus and industry expertise. It will also be difficult for Vistaar to compete with its general collaboration platform when enterprises are looking for packaged, out-of-the-box solutions with full features and functionality.

## **Services Providers**

### **Accenture**

Accenture's approach to pricing is a holistic one, with seven pillars:

- Pricing analytics
- Strategy planning
- Pricing tactics
- Price governance
- Pricing tools
- Pricing process
- Price data architecture

Accenture is industry-driven and applies its pricing discipline to vertical practices. Like its peers, Accenture takes primarily an execution-centric approach and won't focus solely on strategy or technology, but the integration of the two with process. It believes that a robust change approach is needed to implement sustainable improvement. The company has partnerships with Vendavo and Model N.

### **Deloitte**

Deloitte's pricing practice consists of more than 80 practitioners delivering on engagements that span pricing strategy, operations and technology evaluation. The practice is quickly growing due to demand for large-scale end-to-end pricing deployments that include strategic planning, process alignment and technology evaluations and implementations.

Deloitte's approach to pricing focuses on execution, with the emphasis on improving the pricing process rather than just doing high-level strategy work. To focus on the process, Deloitte zeroes in on understanding price at the transaction level first to gain immediate visibility into margin erosion and cost to serve before setting the right price.

Deloitte nurtured key relationships with several PMPO vendors, including Metreo, Zilliant and Vendavo, emphasizing its vendor-agnostic approach to technology assessments.

### eClerx

This professional services firm specializes in data analytics and provides a combined services and technology solution for the pricing process. It focuses on data collection, process management, data mining and analysis with dedicated software development to support the pricing process. eClerx provides a customizable analytics solution and wraps services around it, including process re-engineering and data acquisition and validation.

The company has a handful of customers and differentiates itself in the pricing arena by focusing on rapid pricing process re-engineering so that enterprises can implement a new process paradigm within a few weeks, achieving more agility.

## IV. Market Predictions

2004 was the year for building out large-scale reference implementations. The ramp-up will continue in 2005. By the end of the year, pricing software will become a market worth more than \$360 million (see Exhibit 1). 2006 will be the year of pricing, with mass adoption taking off.

In the next 4 to 5 years, large suite vendors, such as SAP and Oracle, will target the PMPO opportunity but will have no functionality until then. These large suite vendors lack the pricing capabilities that are becoming more critical to the enterprises they serve. Systems integrators recommending large ERP deployment are becoming more aware of what best-of-breed vendors can do, and consequently, are turning to best-of-breed vendors for PMPO functionality. SAP is an example of a large suite provider that now recognizes price management as a strategic undertaking, and one that will become a service that interfaces with many different applications (e.g., CRM, ERP or other applications).

## V. Recommendations

### Recommendations for Enterprises

- **Evaluate price optimization and price execution solutions carefully to select the one that best suits your organization.** Depending on a company's business model, enterprises are naturally suited to leverage either a price optimization or price execution solution. Although price analytics is a tool that every enterprise can use, optimization and execution may be better suited for one type of company than another. For example, high-volume, SKU-based businesses with a need for frequent price changes more likely will require an optimization solution, while contract-based businesses with a need for quicker quoting and optimized negotiations will benefit more from execution. The decision to adopt an optimization or execution pricing solution also depends on the amount of data available to the enterprise as well as the type of data needed. A significantly greater amount of data is needed to effectively leverage a price optimization solution compared to a price execution solution. However, enterprises

should consider a price analytics solution first as a means of identifying new opportunities for revenue and margin uplift.

- **Consider price analytics as an entry point for investing in a PMPO solution.** Many enterprises first want to understand how they can improve their pricing plans before optimizing and executing them. As a result, offering an analytics solution has become crucial for any pricing solution vendor. However, enterprises want to futureproof their investment with the availability of add-on modules. Having a full suite of pricing capabilities will be important for this reason. Also, vendors are increasingly rolling out their solutions across multiple divisions with different types of business models to support.
- **Implement a price analytics solution now.** Price analytics products are evolving. Rather than offering a homogenous view of the pricing process to only pricing analysts and managers, role-based analytics products are creating views into pricing reports for marketing, sales, finance and executives. The next generation of pricing solutions will focus on dashboards and performance indicators to track pricing initiatives and how they perform over time. But in the meantime, enterprises should implement a price analysis solution right now. Starting with this software doesn't require a lot of integration or change management. It also causes little disruption and enables companies to identify the correct sources of pricing data.

## Recommendations for Vendors

- **Provide methodologies for implementation and use, and help different stakeholders collaborate and conduct training.** Vendors must help enterprises take a step back into the pricing process, hand-holding end users before, during and after the solution is rolled out. Enterprises might not have the internal resources to handle the pricing process change.
- **Broaden pricing capabilities by developing or acquiring additional pricing capabilities.** Companies that currently offer only one or two types of pricing solutions should expand their offerings to include all three. The goal should be to build out and sell an end-to-end pricing suite to proactively compete with rivals and respond to customers that want to expand into other areas.
- **Standardize and benchmark vertical ROI metrics across the different pricing modules: optimization, execution and analytics.** Vendors that are finding success are having difficulty conveying it to the market and prospective clients, because existing clients are hesitant to reveal the ROI they gained. In fact, pricing ROI metrics are ill-defined. Vendors must standardize and benchmark ROI metrics to gain customer and vertical momentum.
- **Benchmark benefits gained in different areas and also across different functions such as marketing, sales and finance.** Because different industries have different objectives, enterprises aren't always looking to improve profit. Their primary goal should be to improve sales operations efficiency.

## VI. Further Reading

### Yankee Group DecisionNotes

*Model N, SAP, and Consulting Partnerships Signal Growing Momentum for Price Management Solutions, June 2005*

*Rapt Goes to Market with New Pricing Analytics*, December 2004

**Yankee Group Report**

*Why Innovative Companies Are Investing in Price Optimization, Execution and Analysis Solutions*, March 2004

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