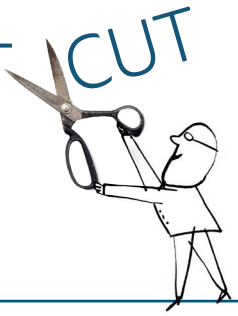
SHORT CUT



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STRATEGY I M&A I TRANSFORMATION

# WORTH THE PRICE

## Dynamic pricing and revenue management for B2B companies

Production buildings, machinery and established supply chains all generate high set-up and fixed costs, which can be a problem if this expensive production capacity isn't utilized 24/7. This unfavorable scenario is quite a frequent one, even in the mechanical and plant engineering segments and the process industry, where last-minute orders from B2B customers are no rarity. A potential solution to this problem, and one that the B2B sector has made little use of to date, is revenue management.

The systematic application of dynamic pricing methods can help manufacturers achieve optimal utilization of their production capacities – and thus generate the highest possible revenues.

The principle behind this practice is particularly familiar from the travel industry: customers who can plan long term or are highly flexible can get real bargains. But those who need to book a flight, train ticket, rental car or hotel room at short notice for a particular date pay substantially more.

### Dynamic, detailed, differentiated

This approach promises enormous advantages in the B2B segment as well, with systematic revenue management enabling gains of three to eight percent.[1] It's every boss's dream. Still, most B2B companies are only just beginning to adapt their prices or capacities in response to fluctuating demand.[2]

Genuine revenue management goes beyond such minor adjustments, combining dynamic pricing and capacity planning to create a sophisticated pricing strategy for each customer segment. Findings regarding customers' ability to pay at particular times, information on capacity and resource planning, and supply chain data are all factored into the pricing scheme.

While very few B2B companies already apply such a comprehensive system, things are changing.

### Clear differences between industries

The pharmaceutical, oil and steel sectors as well as paper and glass manufacturers have already made good progress.

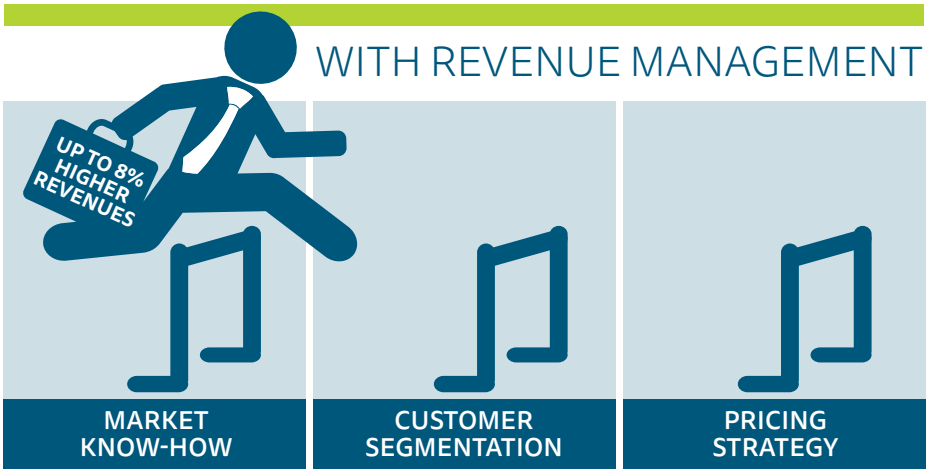
The hesitant response of other industries may have to do with the fact that revenue management is not something that can be implemented overnight. It calls for extensive know-how, thorough groundwork and skilled personnel. It is no accident that global airlines have been honing their revenue management systems for more than four decades, becoming ever more efficient in the process.

> *Systematic revenue management can enhance revenues by three to eight percent. That's an attractive goal for B2B companies, too.*

**DR. DANILO ZATTA**
Partner, goetzpartners

## WINNING THE RACE

WITH REVENUE MANAGEMENT




1 Kolisch, Rainer and Zatta, Danilo: Profit impact of revenue management in the process industry, Journal of Revenue and Pricing Management, April 2014
2 Kolisch, Rainer and Zatta, Danilo: Implementation of revenue management in the process industry of North America and Europe, Journal of Revenue and Pricing Management, February 2011

# 3 STEPS TO THE PERFECT PRICE

Before getting into revenue management in earnest, corporate decision-makers should ensure their companies have the necessary insights and knowledge in three key areas:

**MARKET KNOW-HOW**

1 The company has to know exactly which customers need what and when. How urgently do they need it and what are they prepared to pay?

**CUSTOMER SEGMENTATION**

2 This market know-how can be used to create meaningful market segments that are geared to capacity planning. One example: a portion of a manufacturer's capacity is reserved for customers with urgent requirements, another for customers that order well in advance but need a certain delivery date. A third portion can be set aside for flexible customers.

**PRICING STRATEGY**

3 Now the company needs a pricing strategy that is fine-tuned to each customer segment.

That includes a clear communication strategy: after all, customers who are in a hurry should not be pushed toward a special offer, nor should more flexible customers be frightened off with expensive 24-hour-turnaround prices. It has been shown that customers are generally accepting of fluctuating prices – provided they know those prices are part of a dynamic system that is ultimately to their benefit.

### Securing a good starting position

Revenue management is especially attractive to industries in which production is closely tailored to individual customers' current requirements, as these are industries in which manufacturers cannot simply stockpile their goods. What is more, the advantages of revenue management are particularly noticeable in areas where fluctuations in demand cannot quickly be compensated for by adjusting capacity. A higher utilization rate, even one achieved at the cost of price cuts, enhances cost recovery – above all when fixed costs are high.

*No B2B company can afford to ignore the potential increases in revenue. Well, not for long anyway, given that the race between companies to achieve the best revenue management strategy is set to get going in the next three to five years.*

The window of opportunity is closing. But those who act now will have a competitive edge. ||

## REVENUE MANAGEMENT IN PRACTICE

Initial examples of systematic revenue management in the manufacturing industry clearly highlight its potential.

For instance, ThyssenKrupp VDM (now: VDM Metals) relies on revenue management. The company produces high-performance nickel and cobalt alloys as well as special grades of stainless steel, using them to make metallic materials. Dynamic pricing has enabled the company to enhance its capacity utilization, consequently increasing its production output by eight percent and its contribution margin by 13 percent.

In the automotive sector, Ford Motor Company developed a revenue management program and implemented it in five of its 18 sales regions across the United States. The regions deploying revenue management exceeded their profit targets by one billion U.S. dollars, whereas the other 13 regions undershot theirs by 250 million U.S. dollars.