



Forward-thinking companies are harnessing pricing software to boost revenues and profits. Doug Bartholomew reports.

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Many executives assume pricing software simply helps companies set prices for their products at the most profitable level. It's no secret that some products are more profitable than others, and the ability to adjust prices up or down for both high-volume and custom products can boost sales and profits.

But pricing systems are much more sophisticated, capable of doing more than just finding the best price. "Our objective was to use the software to track sales opportunities and leads in the field," said George Stelling, vice president of operations in the sales and marketing group at ON Semiconductor in Phoenix. Formerly a division of Motorola, the manufacturer of computer chips for electronic devices is using software from Azerity called ProChannel.

### Consistent pricing

Rather than price optimization, Stelling said ON Semiconductor depends on ProChannel for more accurate price execution. "We use it as our global price quoting system," Stelling said. "It enables us to drive more consistent delivery of prices out to our customers."

Deals that potentially exceed certain limits get flagged early. "For a quote that is more than \$1 million, I automatically get an e-mail message, and we move into tactical mode to close that deal," Stelling explained.

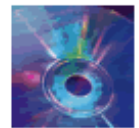
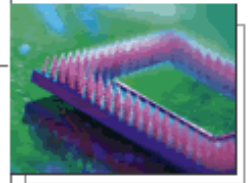
He sees the real business benefit of pricing software as enabling the company to achieve faster turnaround on requests for price quotes and greater visibility of all the potential deals in the pipeline. "Having visibility into those orders helps improve our booking effectiveness," Stelling said. "We are able to price better and mark things to market better than we did before, and the number of quotes we're able to make has increased."

And more quotes translates into more sales. "We've seen a substantial increase in our ability to convert quotes to tangible orders," Stelling said. "We are more likely to convert a quote to real revenue. We have the ability to react much faster."

The system is so helpful for On Semiconductor's sales force that the company has extended its use to its distributor community, enabling

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them to get their own price quotes and place their own orders. “That’s been helpful because a significant chunk of our business goes through distribution,” said Stelling.

### **Effective quoting**

Wire and cable manufacturer Essex Electric is trying out software from Metreo as a means to improve the effectiveness of its price-quoting process. Based in Fort Wayne, Ind., Essex, which deals in commodity products in a market beset by fierce competition, is experimenting with the software to see if it can identify opportunities to improve margins. “We are always looking for help from a pricing standpoint because our margins are extremely tight,” said Brad Thomas, vice president of sales.

“We don’t expect to get a premium for our product, but we suspect we may be leaving money on the table now,” Thomas said. “The way we price today is a very manual, people-intensive process.”

The company is looking for a more systematic, disciplined approach to pricing its products. Essex literally responds with a price quote to every potential offer it receives. Even so, the typical customer for cable and wire gets several price quotes from different suppliers. “Price is a deciding factor in the customer’s decision to buy,” Thomas said.

He believes the software package will come into play by helping Essex identify opportunities where it could achieve higher prices than it’s currently receiving. “Metro’s people feel there is a fairly significant opportunity to achieve better pricing and margins,” Thomas said. “The idea is to identify opportunities in certain market segments where we can produce a higher margin.”

The ability to automatically spot market trends and, specifically, trends within certain market segments could enable the company to adjust its price quotes accordingly. “We may be able to use that information in our daily or even hourly price quoting,” said Gary Baumgartner, director of logistics. “The key is the segmentation, and we believe Metro is good at getting information from your data and finding opportunities to segment the business.”

“We are trying to bring in the most profitable business we can get, based on inventory, pricing, and size of order,” said Thomas. He expects the company will realize some immediate gains from the software once it’s fully installed and operating. “We expect that with this system we will see a 1% improvement in margin annually, which is a significant amount of money.” Essex has annual revenues in the \$300 million-plus range, he said.

Similar to ON Semiconductor’s experience, Essex also anticipates a benefit from the ability to respond faster to price quote requests. “We will be able to respond much quicker to a customer’s request for a quote,” Thomas said. “Instead of taking three or four hours, we will be able to respond with a quote in two to three minutes.”

### **Catching on**

Most companies that are using pricing software have achieved

positive gains in sales, profits, or both. “Companies that have put a strategic focus on how prices are set, negotiated, and managed have seen up to 10% increase in incremental revenue,” said Kevin Scott, senior research analyst at AMR Research. That’s not too surprising, considering that an improvement of 1% in price can translate into a revenue boost of about 11%.

In general, companies using pricing software tend to be more the exception than the rule. Scott said most companies continue to use historical figures and competitors’ pricing, with salespeople and other staff depending on spreadsheets to come up with optimum prices.

“But price optimization is rapidly gaining acceptance and adoption due to its demonstrable return on investment and direct impact to a company’s bottom line,” said Scott. AMR predicts sales of pricing software could reach \$900 million by 2007.

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