This report takes a close look at one omni-channel-dependent industry vertical: B2B CPG manufacturers to show how leading companies use price optimization and other strategies across all channels to improve sales effectiveness, boost financial results, and foster customer loyalty.
Price Optimization in B2B Retail: Balancing Omni-Channel with Financial Success

What Keeps B2B CPG Firms Up at Night?

B2B consumer packaged goods providers face a unique set of challenges. They must maximize shareholder value by delivering strong financial results, while meeting the rapidly evolving buyer needs to create happy customers. Straddling both objectives is no easy feat; it requires companies to drive sales effectiveness and improve operational activities to reduce costs — all while ensuring consistency in customer conversations across multiple channels. Table 1 shows that these are indeed among the top objectives driving B2B firms’ activities.

Table 1: B2B CPG Firms Must Balance Financial Objectives with Customer Needs

<table>
<thead>
<tr>
<th>Percent of respondents (n=196)</th>
<th>B2B Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase company revenue</td>
<td>96%</td>
</tr>
<tr>
<td>Improve customer loyalty</td>
<td>96%</td>
</tr>
<tr>
<td>Improve customer lifetime value</td>
<td>77%</td>
</tr>
<tr>
<td>Reduce operational (e.g. labor, supply chain, and IT) costs</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, December 2015

Attaining the goals illustrated above requires companies to master certain skills. Among them is the ability to understand the precise needs of each buyer, which helps companies identify the most relevant products that meet unique buyer needs — at the right price point.

Attaining the aforementioned results also requires B2B CPG organizations to ensure the consistency of customer messages (including pricing) delivered across different channels. This capability is particularly crucial in elevating and maintaining the company brand while delivering superior customer experiences. A consumer goods provider that sells its products through
channel partners needs to ensure that each buyer receives a similar experience with the company products, regardless of which channel partner they purchased through. The lack of this capability would result in fragmented customer experiences, and thus, hurt the company brand.

B2B firms (e.g. food and beverage providers and consumer goods manufacturers) have myriad technology tools at their disposal when it comes to selling their products. But which unique technology enablers are most beneficial in helping them achieve the goals discussed thus far? To uncover the answer to this question, we analyzed the responses from 196 businesses that participated in our retail trends and best practices survey in 2015.

Is Price Optimization the Right Answer?

Analysis of our survey findings revealed that B2B CPG firms adding price optimization within their technology toolbox far outpace those without it, when it comes to improving performance year-over-year (Figure 1).

**Figure 1: Price Optimization Boosts Revenue Growth**

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<table>
<thead>
<tr>
<th>Category</th>
<th>Price Optimization Users</th>
<th>Non-users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from net-new customers</td>
<td>40.9%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Cross-sell and up-sell revenue</td>
<td>25.8%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Annual company revenue</td>
<td>24.6%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>
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Source: Aberdeen Group, November 2015

B2B CPG providers using price optimization drive substantially greater value to their shareholders, compared to those without it.
As depicted above, B2B companies that use price optimization technology when selling products such as food and beverage items to other businesses enjoy more than twice the year-over-year growth in annual revenue, compared to non-users (24.6% vs. 11.1%). Such growth in revenue is fueled by net-new customer acquisition and cross-sell and up-sell revenue generated through existing clientele. Indeed, Figure 1 shows that companies enabled with price optimization achieve far superior results in improving both metrics year-over-year, compared to those without it. Collectively, these findings validate the fact that complementing B2B CPG activities with price optimization and guided selling capabilities helps companies maximize sales effectiveness.

Figure 2 sheds more light on the impact of price optimization and how it helps B2B firms to streamline their selling activities. Specifically, it shows that sales teams in companies enabled with price optimization enjoy 93% greater quota attainment, compared to teams without this technology (14.1% vs. 7.3%).

**Figure 2: Drive Sales Effectiveness Through Price Optimization**

<table>
<thead>
<tr>
<th>Year-over-year percent change</th>
<th>Price Optimization Users</th>
<th>Non-users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall sales team attainment of annual quota</td>
<td>14.1%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Improvement in average sales cycle</td>
<td>10.8%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Net promoter score</td>
<td>9.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Average profit margin per customer</td>
<td>6.5%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, November 2015
Additional measures of sales effectiveness that indicate a B2B CPG firm’s success in moving their products to target buyers is shrinking the average sales cycle. This is especially important for organizations selling items such as food and beverages, as these products will spoil after a certain period of time. Lengthening the sales cycle for food and beverage items currently in stock means losses due to spoilage, and this impacts both top- and bottom-line results of the business. As price optimization helps B2B companies identify the optimal price for specific products and streamline the activities involved in the sales cycle, companies with this technology enjoy far greater annual improvement (decrease) in their average sales cycle, compared to those without it.

As noted earlier, B2B CPG providers are aiming to achieve two objectives simultaneously: maximize financial results and create happy customers. So far, we’ve observed that the use of price optimization helps companies achieve the former objective. The findings depicted in Figure 2 show that price optimization users also excel in creating happy customers — they attain far greater annual improvement in net promoter score (NPS — see sidebar), compared to non-users (9.5% vs. 3.5%).

Let’s now drill-down into the key capabilities that help B2B retailers maximize financial performance and create happy customers.

Building Blocks of Success

To drive success, B2B firms (and their channel partners) complement their use of price optimization with a wide variety of technology systems. Those include CRM, configure-price-
quote (CPQ — see sidebar above), ERP, e-commerce, and order management. Data captured through these systems feature insights such as the number of products sold during a certain time period, average prices, and the buyer profile. It’s vital that B2B organizations seamlessly integrate data within their internal systems, as it helps them establish a single view of their business activities. This in turn facilitates the ability to deliver personalized and consistent messages to target buyers — a practice known as omni-channel (see sidebar).

It’s also important for B2B CPG providers to build processes that help them establish timely and accurate insights into the relevant goods and customer data captured through their channel partners. To this point, findings from Aberdeen Group’s March 2015 *CEM Executive’s Agenda 2015: Leading the Customer Journey to Success* study revealed that only 40% of businesses have a formal program designed to deliver seamless customer experiences when selling through channel partners. Companies build this capability by integrating the relevant systems between the organization and its partners to gain a holistic and timely view of the overall business activities. Such visibility ultimately supports both the B2B provider and its channel partners in their pursuit to deliver omni-channel interactions (see sidebar).

Figure 3 shows that savvy B2B companies using price optimization are 66% more likely than non-users to integrate their internal technology systems with partners’ systems to establish a more accurate and timely view of collective business activities (66% vs. 40%).
Let’s use an example to put the importance of building a unified view of the customer into context. Let’s take a company that manufactures golf products, and assume that this company is working with third-party partners to sell its products. In this scenario, if the golf product manufacturer lacks integration between its own internal systems and that of its partners, then the company won’t be able to glean insights. These insights include which products sell more at certain geographies and the price sensitivity of buyers in different segments. In addition, the company would risk not knowing if a particular customer purchased a golf product, and might run the risk of targeting the same buyer with a personalized offer to purchase the same item. Hence, the lack of integration across company (and partner) systems disrupts organizations’ ability to deliver omni-channel interactions. This ultimately impacts the financial success of
both the golf product manufacturer and its partners. To this point, findings from Aberdeen’s December 2015 *Omni-Channel Customer Care: Best-in-Class Steps to Success* study show that businesses with omni-channel capabilities outperform those without them by 24% in year-over-year growth of annual company revenue.

Integrating disparate systems within the business, as well as those of partners, has additional benefits. It also helps B2B firms establish timely and accurate visibility into the trade promotion activities of channel partners. To this point, as highlighted in Figure 3, 100% of savvy businesses using price optimization indicate that they have detailed and timely visibility into the distribution and sales of specific goods through channel partners. In contrast, only 61% of businesses without price optimization have this capability.

Establishing detailed and timely views of trade promotion data through channel partners helps B2B CPG organizations maximize sales opportunities. Let’s continue observing our golf products manufacturer to discuss the importance of this capability. If a channel partner of this manufacturer runs a trade promotion, then that partner needs to have enough items in stock to address the demand generated through promotions. If the channel partner lacks data (and technology tools) to forecast demand, it increases the risk of not having enough product in stock; therefore, it will face lost sales opportunities. The golf products manufacturer will also be financially affected, as it benefits from a greater amount of goods sold through its partners. If, however, the channel partner works closely with the manufacturer, and the latter has visibility into the promotion plans, then both companies can collaborate to ensure that the
How do Companies Identify the Optimal Price?

Companies have numerous options at their disposal when aiming to identify the optimal price for certain products, such as food and beverages. Below is an overview of the most widely adopted approaches companies use to identify the ideal price that will help them meet buyer demand and maximize sales opportunities:

- **Historical pricing models** (models developed based on how a certain product is sold at different price points): 59%
- **Customer demand** (models based on price sensitivity of customers): 54%
- **Online competitor pricing** (models comparing how much competitors are pricing similar products and emulating that price): 46%
- **Distribution cost** (models factoring in the cost to produce or source a product to ensure that the company is able to drive the desired profit margins): 43%

The use of this process improves the productivity of the sales team in the B2B firm, reduces the effort for its customers, and ultimately streamlines the activities involved throughout the sales process. Aberdeen’s October 2014 *Configure-Price-Quote: Better, Faster Sales Deals Enabled* study shows that CPQ users enjoy 4.9% annual improvement (decrease) in errors made when generating proposals and contracts, compared to non-users. These businesses also enjoy a 4.5% greater delta in year-over-year improvements in customer renewal rates, compared to those without CPQ (3.9% vs. -0.6%).

While driving sales productivity is important to help companies achieve goals, it is also important for companies to ensure that they determine the optimal price for each of their products sold directly to businesses, as well as indirectly through channel partners. This is important, as price influences buyer demand — it’s one of the few factors that companies control, when it comes
to their ability to influence customer behavior. Figure 4 further explains how B2B CPG providers use price optimization to achieve success.

**Figure 4: Blend Price Optimization with Omni-Channel Activities**

Each business is unique, hence the ability to tailor reports and analysis is invaluable for businesses. Companies complementing price optimization with reporting and analytics are the ones that truly maximize their strengths and eliminate weaknesses.

The data depicted above shows that B2B providers utilizing price optimization are 82% more likely than non-users to create flexible analysis and reports (71% vs. 39%). These insights span a wide range of areas, including item distribution by channel partner, recurring sales at a particular region, and price sensitivity of buyers in a certain segment. The benefit of being able to adjust reporting and analysis is that companies are able to use these technology enablers to track and report the most relevant data points they need to manage their business. For example, a food and beverage provider might be tracking food spoilage percentage, while a consumer goods manufacturer might elect to track the average number of days in stock.

The insights gained through the use of reporting and analytics open additional doors for B2B companies. One of those is the ability to analyze whether or not the end customers of the
company's products are paying the same price when they purchase the same product through different channels (e.g. web, in-store, and live chat) and partners. Once B2B firms ensure seamless integration between their internal systems and that of their partners, then they are well-positioned to track the average prices that channel partners use to sell company goods. Businesses enabled with price optimization use this capability 33% more widely than others (72% vs. 54%).

Among other benefits provided by enhancing price optimization with reporting and analytics is the ability to use the power of predictive analytics to optimize item pricing. If our aforementioned golf products manufacturer doesn’t use reporting and analytics, then they won’t be able to analyze how end-customer demand changes at different price levels. As a result, the company wouldn’t be able to guide the selling activities of its own sales team and that of its channel partners with the prices they should use to attain their quota.

The use of predictive analytics, however, would help our golf products manufacturer predict customer demand based on different price levels, and even adjust these predictions based on various buyer segments. These insights would then help the company determine ideal prices to maximize sales opportunities both for the business and its channel partners. Data shows that savvy B2B companies using price optimization are far more likely to incorporate predictive modeling as part of their activities, compared to non-users (71% vs. 20%).

Use predictive analytics if you struggle with identifying the optimal price of your products for different buyer groups.
Don’t deploy price optimization as a siloed program. Make sure to align it with related technologies, such as CPQ, to achieve desired returns on investment.

Recommendations

B2B CPG organizations, such as food and beverage providers and consumer goods manufacturers, must master unique skills in order to succeed. These skills include fulfilling the unique needs of each buyer and maximizing the financial health of the company to deliver shareholder value. The ability to attain these objectives requires firms to use data to understand the individual needs of each buyer and deliver consistent and personalized interactions both directly and indirectly through the channel partners. This is where price optimization and supporting technology tools such as CPQ come in.

Incorporating price optimization and related technology and process enablers to support the activities noted in this report helps B2B companies more than double their annual company revenue compared to other firms. Sales organizations in those companies and their channel partners also enjoy sales effectiveness; they achieve greater year-over-year improvement in quota attainment than those without price optimization. While the use of technology helps B2B CPG firms create happy customers and enhance financial results, it’s important to note that the performance results highlighted are not just a byproduct of adopting a new technology. Rather, they’re a direct result of companies using best practices to reap maximum rewards from technology. As such, we highly recommend companies that are planning to invest in (or are currently using) price optimization and related enablers (such as CPQ) to adopt the following practices to drive top-notch results:

- **Incorporate omni-channel within your corporate DNA.**
  Customer experience can no longer be an afterthought for businesses looking to succeed in today’s marketplace. The power in buyer / seller relationships has shifted in
favor of customers, and as such, B2B companies must build the necessary capabilities to cater to the unique needs of each client. Omni-channel is among the most important capabilities helping companies delight customers through the ability to deliver consistent and personalized messages across multiple channels. If our golf products manufacturer lacked omni-channel capability it would mean that it risks delivering inconsistent messages to its end buyers due to lack of coordination with channel partners. If you currently lack omni-channel capability, we highly recommend you work with your IT team, as well as your channel partners, to identify the systems capturing customer and item data. Once you do, you should then continue this partnership to ensure data flows seamlessly across relevant systems to build a unified view of the customer journey. This will ensure that both your business and your partners are well-positioned to deliver omni-channel customer interactions.

➔ **Use reporting and analytics to maximize your performance.** The activities outlined in this report, such as segmenting the customer base and analyzing price sensitivity of buyers and item demand by region, are all supported through reporting and analytics technology enablers. You’re missing out on a world of insights if you’re not currently using tailored reporting tools to observe your business results through different perspectives. The use of these tools helps the golf products manufacturer understand which items are selling the most in certain regions and use this
intelligence to adjust pricing based on demand as well as deliver enough inventory to maximize sales opportunities. Lack of analytics (i.e. business intelligence and predictive analytics) means that you don’t have the vital information you need to balance your omni-channel activities with financial expectations. Those insights are invaluable, as they help savvy B2B CPG providers uncover their strengths and address weaknesses to drive continuous gains through price optimization.

For more information on this or other research topics, please visit www.aberdeen.com.

**Related Research**

- **Omni-Channel Customer Care: Best-in-Class Steps to Success**; December 2015
- **Next-Generation Retail: Blend the Power of Big Data & Omni-Channel**; November 2015
- **Customer Analytics: How to Make Best Use of Customer Data**; July 2015
- **Data-Driven Retail: The Path to Better Customer Experiences**; March 2015
- **Steps to Success in B2B E-Commerce**; February 2015
- **Best Practices in Sales Workflow: Yes, Virginia, There is a Better Way to Close**; December 2014
- **Automating Sales Quoting: CPQ to the Rescue!**; December 2014
- **Taming the Sales Quote Beast: How the Best-in-Class Streamline Sealing the Deal**; December 2014
- **Ready for CPQ? Five Core Competencies You Can’t Ignore**; October 2014

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