

Point of View

Optimize B2B Pricing through AI

Why Artificial Intelligence-based pricing will strengthen your sales force

Anna van Keßel
Ineke K. Wessendorf

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As pricing pressure intensifies in particularly dynamic markets, setting the right price is becoming more and more important. To achieve this, companies increasingly employ software and algorithms to support their pricing decisions and determine the optimal price¹. Here the use of artificial intelligence (AI) software is on the rise². Such tools process vast amounts of historical and real-time data, giving almost superhuman insight into market and customer dynamics. Data enables the prediction of customers' and competitors' reactions to price changes in different scenarios. As a result, pricing tactics can be suggested based on defined targets³. Studies show that AI-based pricing can increase sales by up to five percent in less than nine months. While many B2C companies are already using AI technology to optimize pricing, B2B pricing is significantly less mature in terms of data driven approaches, as there is still a lack of suitable solutions. Therefore, we want to highlight which challenges remain in B2B pricing, and how they are addressed by our AI-based pricing tool Artelligence®.

Trends in B2B Pricing

A majority of high-performing sales organizations (57 percent) are already relying on AI-based methods to improve internal processes, customer experience and their commercial excellence. Whereas AI is not yet as prevalent in sales as in marketing (where 84 percent use it), its adoption in sales has shot up in recent years and increased by 76 percent within only two years⁴. This tendency is likely to continue, but studies show that only 15 percent of companies have effective tools and dashboards to set and monitor prices. 25 percent of B2B companies still use static, one-size-fits-all pricing based on little actual data and only irregular updates. Since this pricing approach allows little or no differentiation, the different willingness to pay of customers can only be inadequately reflected, resulting in either lost margins or lost transactions. In accordance with this, 85 percent of B2B management teams confirm that their pricing needs to be improved. Looking into the future, AI-based pricing is the most reliable way to set prices in progressively more dynamic markets. Therefore, decisions will increasingly be based on data, analytics, and AI, and not entirely on individual intuition and the experience of sellers^{5,6}.

Challenges in B2B Pricing

While B2C pricing has embraced data-driven approaches, B2B pricing is still lagging behind and faces multifaceted challenges.

High effort

Since pricing in the B2B environment often lacks software support, initial price settings and discounts are frequently calculated manually without automated consideration of available data or historical performance, resulting in time-consuming administrative work and high error proneness. Furthermore, if pricing is mostly based on the experience of individuals, reliable knowledge transfer is essential. This is especially difficult and effortful in large companies.

No transparency

Manually calculated prices are often based on roughly defined or no pricing principles. Therefore, transparency about which factors were considered in order to set prices, recommend products, or calculate discounts is missing. This means that there is no subsequent traceability of a price calculation. Thus, sales managers lack the information necessary to make sound commercial decisions in price negotiations and during cooperation with customers.

Low financial benefit

Due to the lack of data usage in price setting, the cost-plus approach still dominates in B2B pricing, thereby ignoring customers' willingness to pay and competitors' prices. Discounts are a common tool to adjust prices for different customers and thus skim off the willingness to pay of individual customers (groups). However, when discounts are determined based on the judgment of individual sales reps, structural errors can occur. Typically, internal discount caps are set according to various factors (employee hierarchy level, customer revenue, customer volume, etc.). Studies show, however, that sales employees tend to exhaust these discount caps and give the maximum discounts more often than usual. This, in turn, reduces margins and lowers profits. Moreover, price differentiation or regular price updates are difficult or even impossible due to the high efforts involved in manual price setting. Thus, it is hardly feasible to react to the dynamic changes in the market.

¹ Brown Z., MacKay A.; Competition in pricing algorithms (2021)

² Calvano E., Calzolari G., Denicolò V., Pastorello S.; Artificial Intelligence, Algorithmic Pricing, and Collusion (2020)

³ Schechner S.; Why Do Gas Station Prices Constantly Change? Blame the Algorithm (2017)

⁴ Salesforce Research; State of Marketing (2020)

⁵ Gartner; The Future of Sales in 2025: A Gartner Trend Insight Report (2020)

⁶ Columbus L.; 10 Ways AI Improves Pricing And Revenue Management (2020) Forbes

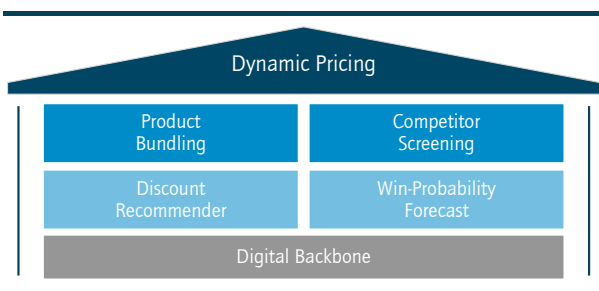
Unclear risks

As the calculation of prices and discounts is only based on available data to a limited extent, the effectiveness of discounting for a given transaction is hard to predict. In most cases the win probability is just a rough estimate or is based on gut feeling instead of on an accurate calculation. Therefore, sales employees do not know where they risk losing a customer or where they are wasting potential for better margins. Furthermore, as decisions are not estimated based on reliable data, the optimal product bundles to improve cross- or upselling are hard to predict.

Features of our AI-based Pricing Tool Artelligence®

These challenges can be tackled by using our Artelligence® pricing tool to support sales managers in price and discount setting. The tool, an AI engine developed by Horváth, calculates the optimum price or discount for products and services based on individual, previously defined objectives. As the software can be individually adapted to different market situations and the special challenges of a company, it is possible to define which objectives (e.g. profit maximization, sales increase) are to be pursued in pricing. Based on this, the optimal price and discounts are calculated at the level of an individual customer transaction.

Depending on customer needs, individual building blocks can be used to ensure an optimal Artelligence® fit.



Building blocks of the Artelligence® Pricing Tool

The digital backbone forms the basis and the interface for the AI platform. It represents all technical core components that are required to build, integrate, and connect the modularized solutions, enabling a standardized and scalable integration of new algorithms, solutions, and data sources. The **discount recommender** suggests the optimal discount for each transaction and calculates the total price effect for the suggested discount based on the available AI data. The visual presentation in the tool provides a quick overview of all relevant information. The effect of each driver is shown and visualized, so that the total aggregated effect is com-

prehensible. An additional optional building block of the tool is the **win-probability forecast** which enables the calculation of the probability that the transaction will take place, based on won and lost offer data. The algorithm learns the decisive factors and how they interlink for an offer to be accepted. Factors to be considered are the offer itself (e.g. price, conditions) as well as customer-related, product-related and even sales employee-related information. The result is an accurate win probability with an explanation of the influencing factors. Another optional building block of the tool is the **product bundling** which recommends optimized product bundles based on available data. The **competitor screening** enables an automated real-time collection and analysis of competitors' offers and pricing. The combination of all building blocks enables a **dynamic pricing** approach and automatic discounting within the tool. For all building blocks, the features of Artelligence® cover the full data value chain from import, to cleansing, to analytics.

Benefits of AI-based Pricing

The Artelligence® pricing tool helps to overcome the current pricing challenges in the B2B environment, optimize your pricing, and identify untapped potential.

Less effort

Automatic import and processing of data from various internal and external sources eliminates the need for manual calculation of prices and discounts. The transaction-specific recommendations based on this information help sales managers and save the time and effort of input and calculation of prices and discounts compared to the manual calculation. In addition, the visual representation of price effects ensures a modern and intuitive use of the tool.

Improved transparency

Furthermore, the visual presentation of each driver influencing the total price effect per transaction, with comparison of base price, recommended price and competitor price, provides transparency over all effects. This ensures traceability of the price and discount setting, and enables a factually-based price discussion.

Higher margins

Each customer segment has a different price they are willing to pay for a given product or service. AI applications can be used to predict, based on a range of relevant data, the price a customer (or segment) is most willing to pay for a given product or service in an individual transaction, thereby ensuring optimal margins.

Better forecasts

Accurate calculation of the win probability allows a better estimation of revenue in the coming months. With the expected win probability, sales employees can optimize their offers and learn where they are close to losing a client, and where they can push for higher margins. The win-probability forecast can be combined with the price/discount recommender to achieve optimal margins without losing clients.

Are you still facing challenges in your B2B price and discount setting?

In times of increasingly dynamic markets, the Artelligence® tool makes B2B pricing and discounting data-driven, effortless, reliable, profitable, and predictive. We recommend starting the roll-out of the tool with a pilot to demonstrate the benefits of the solution and to strengthen the sales team's confidence in the tool. Based on this, the tool can then be continually further developed together with the customer in various releases, and thus adapted to the company's individual needs. We would be happy to share our experience and tool knowledge with you and jointly discuss an individual application of the Artelligence® pricing tool. You will then know which concrete steps can be taken to improve price and discount setting in your company.

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Imprint/ Contact

Horváth & Partner GmbH
Rotebühlstraße 100
70178 Stuttgart, Germany

Phone: +49 711 66919-0
info@horvath-partners.com

About Horváth

Horváth is an international, independent management consultancy firm with over 1,000 employees in locations in Germany, Austria, Switzerland, Hungary, Romania, the USA, Saudi Arabia, and the United Arab Emirates. We represent in-depth knowledge across different industries and top-level subject matter expertise in all company functions – with a focus on performance management and transformation. We carry out projects for our international customers around the world. In this context, we provide precise knowledge of, and take into account, the local conditions thanks to the cooperation with our partners in the consultancy alliance "Cordence Worldwide".

Our specialists support companies and top executives with extensive competence in business models, organizational structures, processes and systems to successfully align their organizations for the future. We combine passion and effective implementation to turn change into success across whole companies, in individual business areas or in functions such as sales, operations, procurement, controlling & finance, HR and IT. Horváth stands for project results which create sustainable benefits and value. That is why our consultants accompany their customers from the business management concept and anchoring in processes and systems through to change management and training of managers and employees.



Marcus Demmelmair
Principal
Competence Center Sales,
Marketing & Pricing

MDemmelmair@horvath-partners.com



Ineke Wessendorf
Sales, Marketing & Pricing

IWessendorf@horvath-partners.com



Anna van Kessel
Sales, Marketing & Pricing

AvanKessel@horvath-partners.com