



Pricing is Simple, Right?

*Pricing often seems easy, and in the past, perhaps it was. Most companies historically undertook a periodic pricing study or implemented simple scenario tools. But **maintaining a pricing strategy that can effectively balance the multitude of business trade offs just isn't easy.** A long term solution to the pricing challenge needs to handle real world complexities and stay current to support ongoing business decisions.*



Portfolio Pricing Optimization

Pricing is among the riskiest, yet most strategically important decisions a company can make

- A major grocery manufacturer lost 1/3 of it's market cap and \$300MM in four months as a result of applying the recommendations of a pricing analysis
- Based on a McKinsey study of 2400 companies, a 1% increase in volume can result in a 3.3% increase in profits. But a 1% advance in price can boost profitability by 11%. However an across the board 1% price increase is not going to work. It needs to be the aggregated result of different price points across categories, brands, channels, accounts and geographies

Pricing decisions impact everything!

- **Portfolio Strategy** – Changing the price on even one item can alter demand for all of your products, your competitors' products and the category. Pricing decisions must be made collectively – product specific pricing is counterproductive.
- **Trade Strategy** – Price changes typically also change your promoted price points. You must determine whether to promote products as before, or establish new, potentially controversial, price points.
- **Marketing Mix** – Pricing changes the effectiveness of all other elements in your marketing mix. Look carefully at the impact of the price change on all P&L line items.

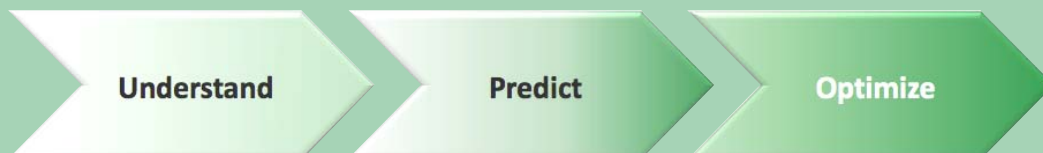
- Understand the elasticity of each promoted product by channel and over time
- Predict the impact of competitors' moves
- Optimize pricing strategy by product, brand, and location

External considerations have a major influence

Consumers choose what they buy based on your and your competitor's prices. Accordingly, good pricing decisions rigorously consider potential competitive responses - and not just the base price response but promotional price/activity response and new product entries as well (game theory at work!)

Pricing decisions are often driven by factors that can change quickly

The outside world doesn't wait for your pricing study. Today's economic environment - with volatile commodity costs (\$40-\$140-\$40/barrel oil) and changing consumer sentiment (60 point drop in consumer confidence) highlights how quickly consumers' response to price can change.



Pricing “studies” are interesting but typically too late for use in the real world

Traditional pricing studies are obsolete, not only because they are out-of-date and do not reflect the current marketing environment, but because they are rarely able to manage the complexity of real world inputs and trade offs. Pricing studies typically provide:

- A one-dimensional view – you get a price elasticity on individual products (perhaps with competitive cross-price elasticity) allowing you to address the question of “what would happen to my volume if I changed the price of product X and everything else stayed the same.”
- An incomplete, often distorted picture – Important outlets are ignored because of perceived limitations of available data. Price elasticities are also often estimated using data not appropriate for the decisions being made with it, providing inaccurate results.

Because they do not provide an accurate or complete assessment of the impacts of simultaneous changes in base and promoted price, trade activity or competitive price, these studies are often not suitable for making decisions in the real world.

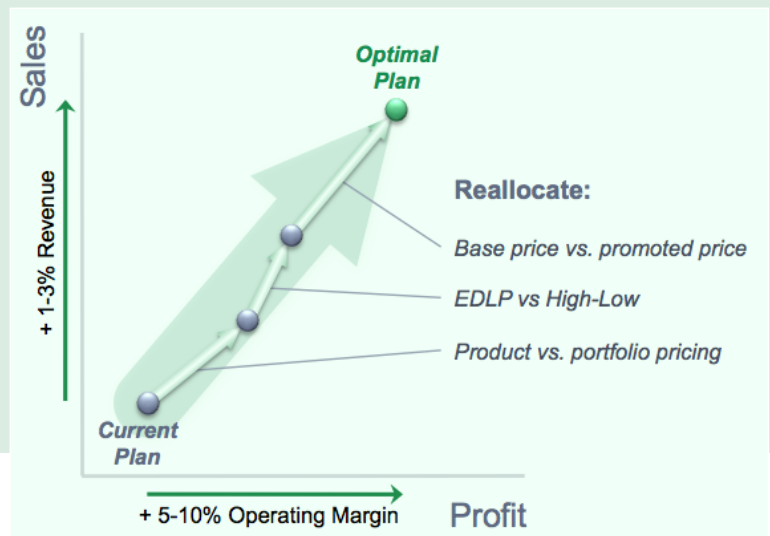
M-Factor’s P4 provides you with a complete environment for pricing strategy, not just an output of pricing analytics

M-Factor’s pragmatic approach makes a complex pricing decision easy to make. P4 allows you to optimize your profit and revenue across the entire portfolio, given a range of assumed competitive responses by providing:

- **Accurate demand model** - Using the best available data, models reflect complex interactions of base and promoted elasticity, competitive cross-price elasticity, and portfolio interaction effects in real-world pricing decisions.
- **Real-time “what-if” capability for the portfolio** - Unlimited, simultaneous, real-time simulations and optimizations, across the whole portfolio. Ad-hoc groupings of items (large sizes, blue packs, etc.) permits evaluation of differentiated strategy (e.g. large size price advance; deal back only small trial size items).
- **Comprehensive financial impacts** - A full financial model provides complete P&L performance metrics necessary to make an informed pricing decision – as well as the ability to evaluate the impact of input cost fluctuations.
- **Continuously up-to-date data and models** - Always reflect the current marketing environment.

Strategic Pricing including optimization can have dramatic benefits

M-Factor’s experience shows that the application of a best-in-class strategic pricing solution can have dramatic benefits. A conservative estimate of the potential benefit of an optimized pricing plan relative to a non-optimized pricing plan is **operating margin improvements in the 5% to 10% range and revenue improvement in the range of 1%-3%.**



About M-Factor

M-Factor provides dynamic profit and revenue optimization software services for leading consumer brands. M-Factor’s Marketing Investment Management, Trade Spending Effectiveness, and Portfolio Pricing Optimization solutions empower users to continuously analyze and optimize pricing, marketing investments, and trade spend. For more information on M-Factor’s solutions, please visit www.m-factor.com.

M-FACTOR[®]

www.m-factor.com

©2009 M-Factor, Inc. All rights reserved