Bid Price Optimization

Frequently Asked Questions

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Which businesses can benefit from scientific approaches to bid/national account pricing?

Significant untapped opportunity likely exists in the bid/national account price management area if:

- The business operates in a high-transaction environment, serving diverse customers with many product types, and processing/managing **many (thousands or more) bid requests** and/or national account contract price file updates annually.
- There is significant unwarranted variability in quoted/contracted prices. For example:
  - If the same prospect were to call three different sales managers for the same bid throughout the year, would they be likely to receive three bids with significantly different prices quoted for the same market basket of items?
  - If management were to analyze pricing for the same product across different size contracted accounts with otherwise similar customer profiles, would they likely find instances where larger national accounts/bids are priced higher than some smaller ones?

We "hand-price" bids/national accounts, by conducting thorough (albeit non-statistical) analysis, including detailed reviews by sales managers most knowledgeable about the specific customers/bid opportunities. If we were to implement pricing science, would we need to abandon these processes?

There is no need to abandon current, effective pricing practices. Sales management often has deep relationships with national accounts. As a result, they may possess knowledge of key facts/circumstances regarding national account customers/bid opportunities, which are relevant to the pricing decision. **Sales managers should continue providing this relevant input.**

"The pricing-driven improvements were key to outperforming our financial plan for the year"

President, $350M MRO distributor

If statistical bid price optimization does not replace our current process, then what's the use? Will "science" really help?

Statistical optimization tools can be used as a decision-support mechanism, to generate **objective, fact-based guidance** on where available data suggests prices should be set. The pricing science can be configured to account for relevant factors (such as account size, industry, and other factors supplied by sales management), while **reducing "random" or unwarranted pricing variability** in bids/national accounts pricing. For example, objective, scientifically derived pricing guidance can help reduce price variation caused simply by varying levels of price risk tolerance/aversion, or product/market knowledge among sales managers.

How can the output of a bid price optimization analysis be practically integrated with current bid price management processes?

The typical output is a user-friendly analytical tool, which can be used by professionals with no significant background in statistics. These tools generate pricing recommendations, such as scientifically-derived price points, markups, discount levels, etc., in a format (frequently Excel or Access) that **easily "feeds into" existing toolsets and processes** for setting/managing prices for bids/national accounts, thereby rendering existing tools and processes more robust and effective.

At a high level, how do scientific, statistical bid price optimization techniques work?

Statistical bid price optimization involves developing customer/product segment-specific estimates of how win probabilities are affected by pricing decisions. The resulting "bid-response functions" can be leveraged to configure pricing recommendations that **optimally balance the risk of losing the bid on the one hand, with profitability objectives on the other hand**. Resulting price recommendations can help maximize "expected profits" ("expected profit" = "win probability percentage" times "projected profits assuming the bid is won"), or they can help maximize "expected revenues" within agreed-upon margin thresholds.

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In "plain English" what kinds of tangible benefits can these tools provide?

Fact-based, scientifically derived pricing recommendations for bids/national accounts can help:

- Avoid over-pricing, by helping the business systematically recognize instances (across all customer/item combinations in the bid) where granting just small incremental discounts can significantly improve win probabilities.
- Avoid under-pricing, by helping the business systematically recognize instances where further discounts/price cuts are not likely to greatly impact the probability of winning.
- Prioritize opportunities: Some businesses can benefit from de-prioritizing or foregoing bid development in situations (certain profile customers inquiring about market baskets with certain product families) where past data suggests the business has particularly low chances of winning at price points that meet minimum profitability thresholds.

Over time, as more bids/national account price updates are developed by leveraging guidance from data-driven scientific analysis, businesses can generate significant revenue and margin gains from **targeting the right opportunities with prices that are more sensitive to both win-rates as well as to leaving money on the table.**

"These improvements helped our organization meet or exceed margin targets while growing the top line"

Pricing Director, $500M wholesale distributor

The Innovative Pricing Group is a niche pricing consultancy delivering high-ROI price optimization and strategic price management solutions to distribution and manufacturing organizations.

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Can these statistical tools help price bids for custom-built solutions/projects?

Absolutely! When deployed to price bids for custom-configured solutions, the underlying analytics are often configured to identify whether/how certain bid characteristics (particular specifications or project elements) may be correlated with different levels of price sensitivity. When developing pricing recommendations for customized solutions especially, businesses often benefit from developing datasets that are complete with a heavier set of attributes related to market- and customer-value considerations (such as type of use, most likely competitor(s), etc.). Finally, developing cost data early in the bid development process can allow for more thorough, and thus more optimal pricing decisions for custom-built solutions.

How do we get started? What data is required for statistical bid optimization?

Above all, successful deployment of scientific price optimization tools requires a reliable, **statistically representative dataset**. This dataset should include detailed historical customer/item-level information on quoted prices, as well as on initially projected and actual usage volumes, **for both past wins as well as for past losses.** Models can be improved by using additional data fields, such as categories of primary causes for losing past bids or accounts, where this is known (losses are not always due to pricing), competitive and/or "target" prices for market basket items in particular, along with a set of typical segmentation attributes (customer size and industry classifications, incumbent vs. retained customer categorizations, product hierarchies, etc.).

Such detailed data is typically available for past wins, but similar datasets on past losses may be incomplete, or they may not be available at all without a certain level of data collection effort. For many organizations, the first step towards scientific bid price optimization is to start capturing detailed loss data, which often involves the development of a bid history database and a review of recent losses.