

Control Your Pricing through Revenue Planning

Making last-minute price concessions is not the way to meet revenue goals, say authors Mark Burton and Jason DePue. They show how companies can avoid the usual “end-of-quarter” frenzy to make numbers by use of Revenue Planning. Carefully applied, this process will ensure companies meet their projections, while maintaining the integrity of their pricing processes. Mark Burton is co-founder and Jason DePue is a project manager for Holden Advisors (www.holdenadvisors.com), a pricing consultancy and training firm. For more information you can reach them at: mburton@holdenadvisors.com and jdepue@holdenadvisors.com, respectively.

How many times have we heard the edict “we WILL hit the top-line revenue number” coming from executives? The urgency behind these statements only gets stronger as firms near the end of the quarter, and CEOs do everything in their power to live up to their targets.

Let’s face it. The pressure to meet Wall Street guidance is enormous. The pricing fire drill that occurs at the end of the quarter to make the revenue forecast destroys profits over the short-term and value over the long-term and becomes habit forming.

Customers, expecting this end-of-quarter desperation, begin to hold orders, waiting for the discounts that they know are coming. Price concessions given to make one quarter’s revenue goal cannot be taken back in the next. The result is a significant downward drag on profit as companies continually use price in a

never-ending quest to make the numbers.

The good news is that a number of firms have broken out of this death spiral by taking a systematic, data-driven approach to balancing financial, operational, and pricing objectives against the realities of supply and demand in their markets. The approach they use is called **Revenue Planning**. This process greatly reduces the need to “pull the pricing lever” to overcome shortfalls in business performance. This is accomplished by creating plans and performance measures to ensure that financial plans and likely supply, demand, and pricing dynamics are reconciled at the start of the quarter and monitored throughout.

The benefits of this approach are significant and long-lasting. One Fortune 500, high-technology company launched a Revenue Planning initiative after suffering the pains of missing Wall Street expectations one too many times. Through disciplined adherence to their plan, this company was able to decrease reactive discounting by approximately \$10 million per quarter.

This significant improvement was achievable, based on a foundation of incremental successes within the Revenue Plan-

ning process, as detailed below:

- Increased visibility to emerging issues that might endanger achieving key objectives
- Improved volume linearity throughout the quarter
- Improved baseline revenue forecast accuracy (by 40%)

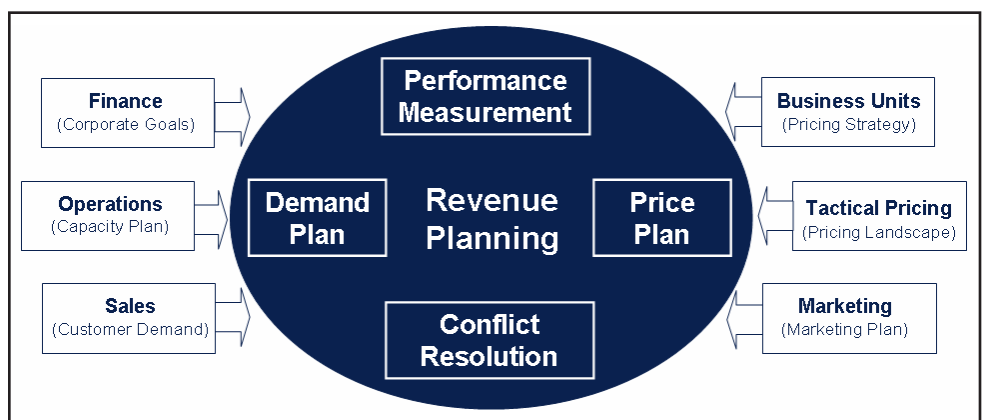
The Revenue Planning initiative added a single cost: that for the addition of one person to manage the process.

The Key Elements

The Revenue Planning process balances typical financial, operational, and pricing systems. The process is comprised of four main components (see Figure 1):

- **Demand Plan** – A forecast of product volume and mix, the demand plan is a reconciliation of “bottoms-up” demand data from the sales and marketing teams and “top-down” supply and operating performance data provided by operations and finance. The objective of the plan is to provide a means for reconciling supply with demand to meet the market’s needs, while maximizing inventory turns and linearity.
- **Price Plan** – This is a detailed forecast of the selling prices required to meet the demand plan. It should have sufficient

Figure 1: The Revenue Planning Process



granularity to ensure accountability and control.

- **Reconciliation and Conflict Resolution**

– **It can take several iterations to reconcile the demand and pricing plans with a firm’s financial objectives. Inevitably, this process will surface differing views on the viability of key elements of the plan.** For example, the price plan can be a lightning rod of controversy, given that different organizations (e.g. tactical pricing, business units, field sales, finance) often have conflicting primary goals and metrics. This type of open conflict is healthy and should be encouraged. However, strong executive leadership is needed to drive the team to reconciliation and to ensure buy-in.

- **Performance Measurement**

– Performance is reviewed through weekly and quarterly analyses of key elements in the plan (see next section on “Protecting the Plan” for explanation and examples). The measurement process is not a simple “how are we doing?” meeting. Rather, it is an active process where emerging drivers of deviation from the plan are identified, actions are given, and organizations are held accountable.

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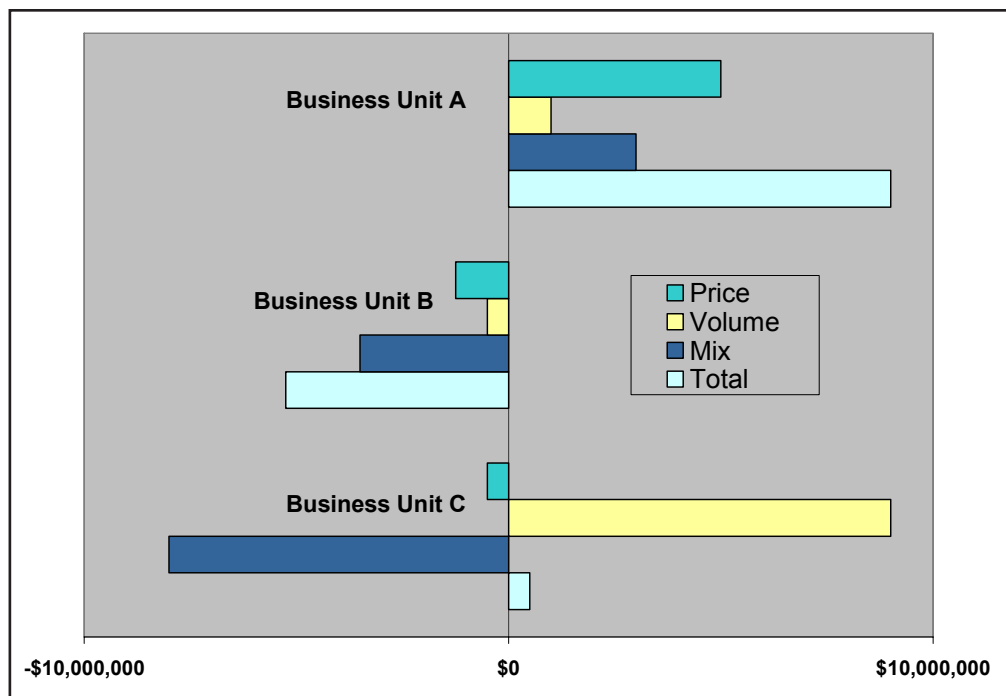
Protecting the Plan

Creating a revenue plan is only half the battle. Once created, a company needs to ensure that the appropriate functions are held accountable to achieve it. This is where regular weekly reporting and analytics comes into play. Traditional reporting, such as analysis of the quarter-to-date revenue number compared to

plan, is inadequate, because it does not provide the firm with the necessary level of information throughout the quarter to ensure it can achieve the plan goals.

Fortunately, there are simple analytics that can make it all actionable. By breaking down the plan into three components (price, volume, product mix), firms can begin to define the drivers of performance for any given quarter. The chart below shows a hypothetical PVM

Figure 2: PVM Analysis Identifies Drivers of Performance



(price, volume, product mix) analysis of the revenue plan compared to actuals.

This relatively straightforward calculation isolates each one of the components in order to determine what is driving the deviation. Notice that the unit of measure is dollars. For example, Business Unit C is \$9M ahead of plan in volume (e.g., actual volume shipments exceed forecasted shipments by \$9M). Yet, in total, it is only slightly ahead of plan because its sales volume has been skewed toward lower-end products (i.e., mix). From this chart an organization can also drill down into the underlying data and determine what product, region, or customer is driving the positive or negative

impact. Without these types of metrics, organizations are, in essence, running blind throughout the quarter.

Implementing Revenue Planning

Starting a Revenue Planning project may seem like a daunting task. However, if a firm uses a methodical approach, it is very achievable. Key ingredients for success include:

- An executive willing to drive the process and hold organizations accountable
- A cross-functional team empowered to make trade-offs between each element of the plan
- Clearly-defined and well-communicated goals and objectives
- Creation of baseline metrics for success (e.g., volume and price forecast accuracy)
- A willingness to start with whatever data is available and improve it through successive iterations of the process

Firms can also implement Revenue Planning in phases. For example, a Fortune 1000 firm found that it did not have an adequate process to create or control the price plan, which was costing it millions of dollars a quarter in lost profits. To address the immediate issue, management started a targeted project to address the price planning process.

Revenue Planning requires serious effort over a sustained period of time. But firms, which avoid this process, are literally flying blind and condemned to using price reactively to respond to quarterly pressures. With even a rudimentary process in place, pricing truly becomes a strategic weapon.