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The B2B enterprise telco market: Selling integrated solutions requires a new data-driven approach to pricing

pwc

Large telecoms operators have grown through acquisitions and mergers, and often function much like an assembly of product-specific organisations, selling corporate buyers a variety of separate products and services, delivered and priced independently. But today's business customers are looking for broader solutions that address their business needs by integrating a range of products and services – connectivity, devices, tailored usage plans, and more – often on a flexible pay per usage or on-demand basis. As telcos shift to a customer centred approach, many are still hampered by legacy processes and systems designed for the old product-based world. And a key pinch-point is B2B pricing, an area where rising complexity and deal volumes are putting existing processes under increasing strain. The answer to improving process efficiency, and ultimately win rates, lies in reinventing and re-platforming B2B pricing by pairing data-driven, proactive and standardised deal pricing analyses with automated approval processes. In this article, we describe our perspectives and experience in helping global operators and other organisations with complex, configured product and service portfolios, take the leap to the future of pricing – thus delivering major benefits to the business.

Across many industries, the combination of advancing technology, ongoing commoditisation and rising customer demands and expectations is driving radical changes in sales processes. The overall trend is a migration away from the traditional focus on selling discrete products and towards selling broader integrated solutions, often in the form of packages with bundled service components. In prior years, each product would require its own contract, but an increasing focus on the customer has resulted in a push to harmonize and simplify contracting terms and structures. Nowhere is this shift more evident than in the business-to-business telecoms market – where the old approach of providing customers with complex configured products priced separately is giving way to one based on selling solutions such as bandwidth packages, network availability on demand, and broader offerings including third-party products.

The virtual private network (VPN) market is a prime example of this shift. Telcos used to be able to sell VPN access to corporates as a standalone product. However, as the VPN market has become increasingly mature and commoditised, providers have moved to reposition VPN to fit the context in which it's used in the customer's business. As a result, telcos are increasingly offering VPN services as part of a wider solution, the anchor product in a long-term, value-based bundle or supply contract. These increasingly complex offerings are being accompanied by a move to consumption and as-a-service pricing models, where customers pay only for the bandwidth and/or services they actually use.

The challenge: Legacy pricing processes under pressure

This profound shift in telcos' B2B sales and customer relationships is being further accelerated by developments such as the rise of network function virtualisation (NFV)-based services and fixed/mobile convergence. Telcos are facing a dynamic where both their offerings are expanding, and sales coverage models are changing – which in turn requires new approaches to pricing. The addition of new products and new pricing models is putting significant pressure on legacy internal processes and systems, designed and built for a world of siloed sales of discrete products rather than integrated solutions.

In this rapidly changing and competitive market environment, B2B telecom pricing organisations are challenged to efficiently respond to typical commercial questions and considerations that arise as deals are shaped and evaluated. Having the data readily available, on demand, to address these types of questions and considerations (see examples below) enables pricing organisations to work collaboratively with sales and customer account teams to ultimately drive an increase in win rates and profitability, improve sales performance and productivity, and enhance the customer's experience.

PwC is helping large communications operators, and companies from other sectors, transform their solution-to-quote processes for a world based not on products but on integrated solutions. The first step in these commercial transformation efforts is to evaluate the client's B2B pricing and contracting strategies, functions, tactics, people, processes and tools. Our experience across and beyond the communications industry enables us to go into these engagements with a strong point of view on "what good looks like," in pricing and quoting in order identify gaps between strategy and execution. We find that telcos' pricing processes and tools are lagging, and inhibiting the shift towards solution sales.

The complexity of getting B2B pricing right at a telecom provider is heightened by the sheer scale, diversity and volume of deals and contracts involved. Our experience includes working with companies that have tens of thousands of custom deals, spanning domestic and international footprints, with hundreds of complex configured products leading to millions of sellable items, complex negotiations including recurring and non-recurring revenue, construction costs, access costs, credits, promotions and services; layering in the need to comply with pricing related regulations such as eRate in the United States, and intensifying competitive pressure from non-telco entrants offering competing services.

Representative commercial questions addressed through a data-driven approach to pricing

- What is the price trend? How do I know the value of credits that were applied to deals in the past week?
- What customer/product/deal attributes correlate with wins? What is the price required to win in this segment? What was the price on similar deals?
- What is the market price of a specific product in a defined geography?
- What were the last 5 deals > $5MM that I lost to a specific competitor? How will competitors react to a price move?
- How profitable is the deal? How should we price this deal, given market dynamics?
- How do I compare credit effectiveness across deals/segments/ geographies?
- What is the right adjusted price on write-down/migration deals?
- Is this the right cost? Current, accurate, and informed by network utilization?
- How do I get asset utilization data, and how do I incorporate utilization into pricing decisions?
- How do I tell who approved this deal and why? What happens if I raise the price floor or tighten the pricing envelope?
- What cross sell, up-sell suggestions should I make to each segment?
- How will I price revenue share and partner deals as they become a bigger part of our business?

How do telcos address these challenges? The traditional approach is to integrate disparate legacy systems and wrap with an improved user interface and interaction layer. But increasingly, telcos are starting to look at pricing not from their legacy product perspective, but from their customers' viewpoint. This means working out what product and service components the customer actually needs, the context in which they want to use it, and the value they'll attach to it – thereby giving an indication of the price they will be willing to pay. As in every industry, the solution ultimately comes down to understanding customer needs and presenting the right solution with the right commercial offering, and removing friction in the pricing and quoting processes.

Lessons learned from helping clients transform pricing

Improving the efficiency and effectiveness of complex pricing processes is difficult. Step one is to isolate the challenges and issues faced by comparing current commercial processes, tools and organisation with leading practices in B2B pricing across industries. Our experience has surfaced five core challenges that confront B2B pricing organisations:

- ***Outdated technology***, with limited tools, analytics and support
- ***Inconsistent policies***, with every product having unique contract terms
- ***Inefficient communication*** and enforcement of pricing policy across the organisation globally
- ***Unrealised collaboration opportunities*** between sales, finance, product and operations
- ***Limited access to data***, with market, competitor, cost and utilisation, and pricing history largely unavailable or inaccessible
- ***Individual knowledge*** is the basis of pricing, rather than process, making it heavily reliant on employees' tenure and difficult to scale and quickly evolve to new and emerging integrated solutions

Figure 1: The 'lead-to-contract' or 'solution-to-quote' process in B2B telecoms

These challenges result in a B2B pricing organisation being challenged to efficiently evaluate, price and contract a rising number of large, complex deals – which increasingly included bandwidth packages, usage-based billing and distribution of third-party products. Also, pricing teams are generally being asked to work this growing volume of deals without adding headcount, resulting in long cycle times to evaluate and approve even the smallest of deals, as the data and process challenges overwhelm the available labour force.

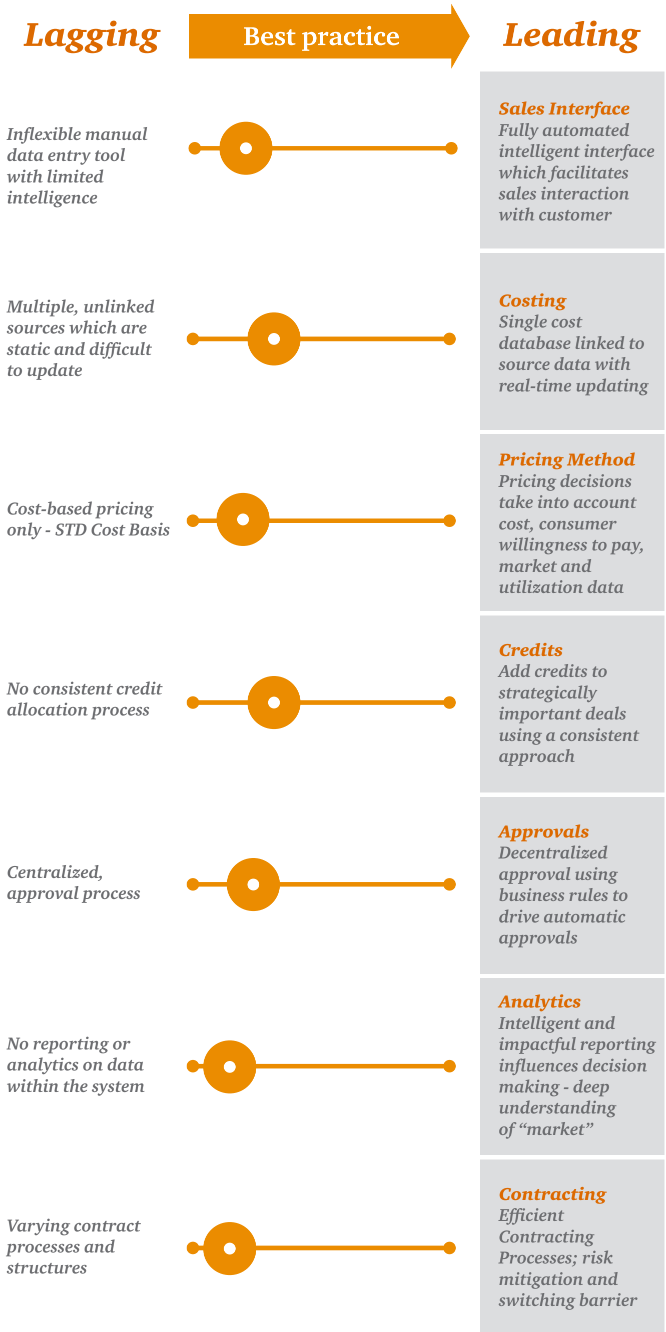
Pricing teams are being further hampered by the fact that current tools are designed for pricing approval but not analysis, and require significant time and investment to incorporate the company's accelerating introduction of new products. There are also generally two contracting flows, for standard and custom deals, dozens of outdated tools, and varying contracting policies for each product. While at the same time, organisations are aware that competitors have already started to invest in sophisticated tools for data-driven pricing and process automation. Process pain, lost deals and competitor activity add up to a burning platform to fundamentally improve the efficiency and effectiveness of pricing processes, tools and organisation structure and capacity.

Addressing the burning platform

Our experience tells us that organisations should begin their transformation journey by asserting a point of view on pricing processes. Instead of asking 'how does it work', we recommend starting with a vision of 'what good looks like' in pricing and contracting configured telecoms services. As Figure 1 illustrates, pricing is the monetisation stage within the end-to-end 'lead-to-contract' – or 'solution-to-quote' (STQ) – process in telecoms, and is comprised of five distinct activities with the outputs from each step as an input to the next. Pricing's pivotal commercial role in generating and maximising revenue makes it an element of the STQ process where the business case for investment in the right type of price realisation is compelling. Contracting, which follows successful deal negotiation, is also a critical process in B2B telecoms, and can be a significant source of process friction.

Starting with a vision of 'what good looks like' in pricing and contracting configured telecoms services we employ an 'outside-in' approach, comparing the client's current pricing processes, tools and organisational design against examples of best-in-class elsewhere. An outside-in analysis framework enables us to benchmark current state against cross-industry best practice (see Figure 2).

Figure 2: Summary analysis of existing STQ processes, tools and organisation against leading practices



Creating the business case for change

Our assessments have consistently shown that organisations need a data-driven, proactive deal pricing analysis and approval capability in order to identify and track 'market' pricing levels, along with introducing efficient, automated contracting processes. Our experience has also taught us that investing in a new STQ platform will increase the capacity and output of the pricing and contracting teams by automating routine tasks and increasing data quality and availability. This will also put data and tools in the hands of sales and pricing personnel to drive positive evolution of their roles, activities and responsibilities; thus, improving the employee experience.

Business cases for a pricing transformation, if scoped and structured properly, can be self-funding propositions. As a company's pricing capabilities are enhanced, price realization and win rates improve. This direct revenue impact is boosted still further over time by the positive effects on customer loyalty, acquisition, retention and churn resulting from the improvements in the customer experience driven by faster, better-informed pricing.

The proposed solution: a new STQ platform

Our experiences have enabled us to conclude that meeting the business' pricing and contracting needs requires nothing short of a radical transformation of the existing approach to B2B pricing, contracting and commercial processes. The fragmented way in which organisations historically handle large, complex opportunities has led to a proliferation of tools for different STQ-related activities, with different deals being validated in different ways by different people at different times.

We have worked with clients during design phases to create solutions that would remove these challenges, by taking a data-driven pricing approach enabled by new pricing processes and a platform with advanced analytics capabilities. The solution is designed to address both standard and custom, or individual case basis (ICB) deals, and incorporates deal shaping, historic deal analysis and a rules-driven approval process that integrates seamlessly with multiple CRM systems.

Our proposed solution for the pricing components of the client's new STQ platform is summarised in Figure 3. As the diagram shows, the design creates a clear and direct linkage between data-driven deal analysis and deal approval – with the data also being used to help set pricing rules that operate independently of product configuration. Equally important, the platform is supported by a data layer, bringing disparate data sources together for the purpose of informing commercial decisions.

Figure 3: PwC's proposed solution: the future pricing platform framework

Analytics engine (Deals)
- Leverage Deal History
- Predictive and descriptive analytics
- Segmentation

Deal management and approvals
- Deal analysis and collaboration
- Delegation of authority
- Guidance and suggestions
- Efficiency - single source of truth

Data management layer
- 'Gold copy' of data for pricing
- Deal repository
- Costs
- Products
- Strategies and rules

Rules engine
- Pricing rules
- Product line rules and tradeoffs
- Suggestions
- Ad-hoc rules
- NOT product configuration rules

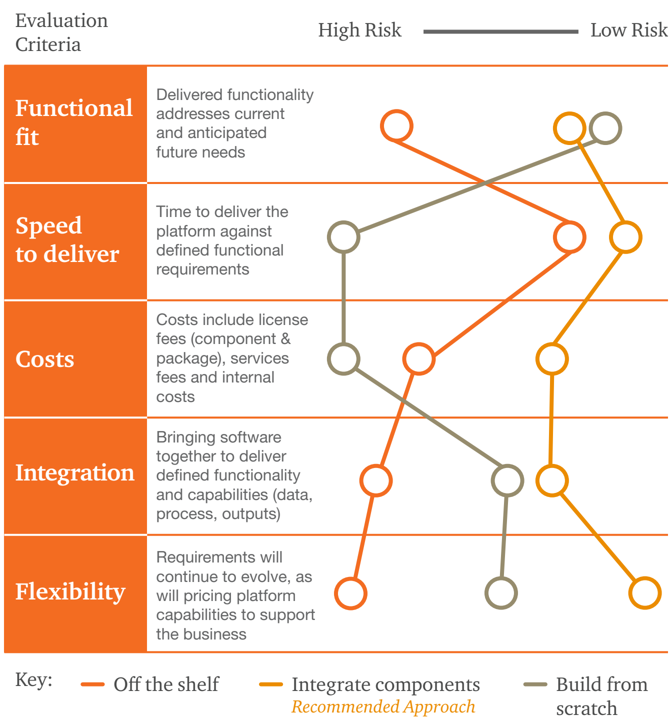
The key components of the design include:

- *Pricing process* – a data-driven pricing process where automated escalation and approval processes are informed by pricing rules; introducing auto-approval rules simultaneously reduces lead time and increases capacity.
- *Technology* – a new 'state-of-the-art' pricing platform that is architected to leverage and re-use "best of breed" software components to support the new process, ensuring scalability as the business grows and evolves while capturing all actions and decisions for historical purposes.
- *Organisation* – a redesigned organisational structure and enhanced deal shaping skills and capabilities within the pricing team to maximise the impact of the new tools and process.
- *Contracting process* – a redesigned contracting process, with harmonized contract terms and conditions, and a streamlined and automated contracting process integrated with the pricing flow.

Choosing the technology platform

With the design agreed and in place, the next step is to define the enabling technology to translate this design into reality. Informed by detailed functional requirements we conduct a comparative assessment of three potential approaches to selecting and deploying the enabling technology, which include: commercial off-the shelf, building from scratch, and integrating various cloud computing components. These three approaches are evaluated against the key criteria of functional fit, speed to deliver, cost, integration and flexibility. Figure 4 provides an illustrative example, for this unique set of requirements. When considering the scale, volumes and complexity of the telecom industry, in comparison, building from scratch was likely to be slow and expensive, while implementing and configuring commercial off-the-shelf tools have been in many cases ruled out because of the estimated cost of configuring multiple applications to support the complexity of the product catalogue, and the high volumes of quotes provided to business customers every year.

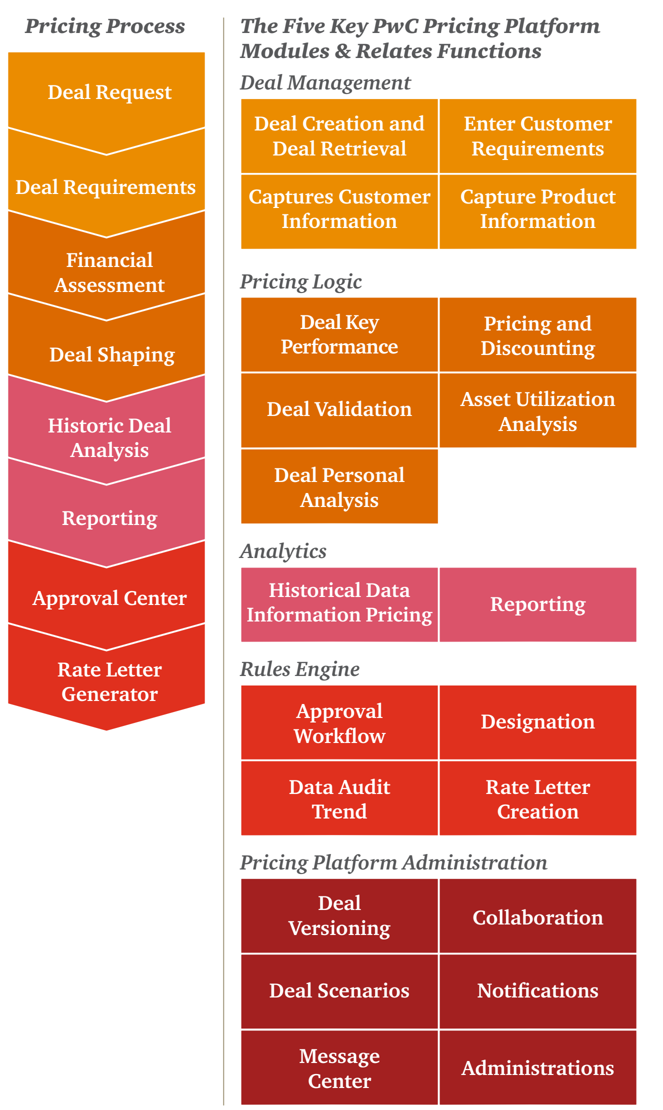
Figure 4: Our comparison of the three approaches to enabling technology



Considering the end-to-end STQ process as a whole, we have concluded that no single off-the-shelf software application, such as CPQ or CRM, can adequately support typical B2B telecom business requirements and needs. Rather, an integrated cloud component architecture delivers the most cost effective solution by leveraging leading software components that in many cases are already in use by our clients to maximize functional and technical fit.

The next step in architecting the technology solution is to identify the optimal applications and cloud components to support the new pricing processes. To do this, we map the various stages of the pricing processes to five key platform modules and related functions (see Figure 5). By selecting the best option or options for each module, and then integrating and automating the workflow between them, we create a technology platform capable of supporting a coherent, consistent, connected and data-driven end-to-end pricing process, at far lower cost and risk than would have been possible with either a new-build or off-the-shelf approach. In addition, this platform architecture ensures flexibility and scalability.

Figure 5: The new STQ platform aligns key functionality to each step of the pricing and contracting process



The fact that we can leverage cloud components in this way to build a business-critical pricing function for a client reflects the extent to which cloud solutions, platforms and technologies – including their security capabilities – have advanced rapidly in recent years. A few years ago, any three cloud applications would all probably have had their own distinct workflow, data model and access entitlement processes. But now they're engineered to work together seamlessly, enabling an integrated yet modular approach.

This type of approach is exemplified by the availability of sophisticated, standardised components in areas like search. It would simply not make sense for any company today to build its own search engine, when proven third-party technologies are readily available in the cloud. This same principle has now extended to many other areas of technology, enabling specific technology components to be selected and integrated for a vast range of specific roles. This modular platform approach also enables components to be swapped in and out if better options emerge or new needs arise. A more detailed comparison in Figure 6 illustrates that an approach based on cloud components has a clear edge over the other two alternatives in the telecom environment of highly customized, configured products.

Figure 6: A technology approach that minimises risk while providing best business fit

Criteria	*Off the Shelf Packaged Software*
Functional Fit	Individual, point solutions lacking comprehensive fit
Speed to Deliver	Accelerated, but not 'plug and play'
Cost	Standalone pricing without bundle or scale.
Integration	Requires customized efforts for integration between packaged Applications
Flexibility	Limited to upgrades within solution scope
Summary	Enables a rapid delivery but lacks comprehensive functionality and flexibility

	Custom Build
Functional Fit	Premium fit to current requirements
Speed to Deliver	Slow. Starting from scratch with limited component experience
Cost	Building design and capabilities w/o taking into account overruns
Integration	Designed to integrate with existing systems, challenges will still occur
Flexibility	Requires continual evolution of component capabilities
Summary	Steep learning curve increases cost and development

	Component Integration
Functional Fit	Designed to fit with leading solutions
Speed to Deliver	Turnkey solutions integrated into architecture
Cost	Negotiated pricing with focused development
Integration	Approved vendors validates initial integration
Flexibility	Vendor upgrade and custom development
Summary	Combines a tailored design with individual solution capablities

Delivering the vision…

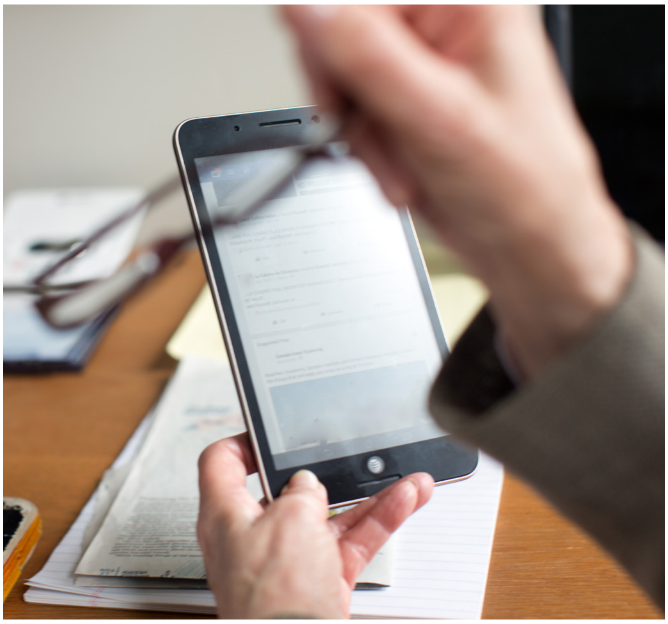
Once the transformation vision is articulated and accepted, the business requirements and outcomes are defined, and the technology platform approach and components are decided, we recommend three phases to deliver.

1. Build the foundation – replace the current tools with the core modules needed to create and operate a data-driven pricing platform.
2. Leverage the foundation – layer-in additional desired functionality and products on top of this foundation.
3. Extend the foundation – augment the new pricing processes with advanced capabilities such as predictive analytics and deal suggestion engines, continuing to use an approach based on plugging in and integrating cloud-based components.

Such a large-scale transformation requires senior executive support. Such support can be obtained when the "art of the possible" is demonstrated to the executives. Demonstrating the vision and future capabilities through a working proof of concept allows executives to see what could be done and how. This generates significant buy-in from client executives, and gives them a voice and role in the process of designing the future of pricing with an eye toward the sale, delivery and support of evolving custom, configured solutions.

…requires not just technology – but also business, cultural and commercial insights

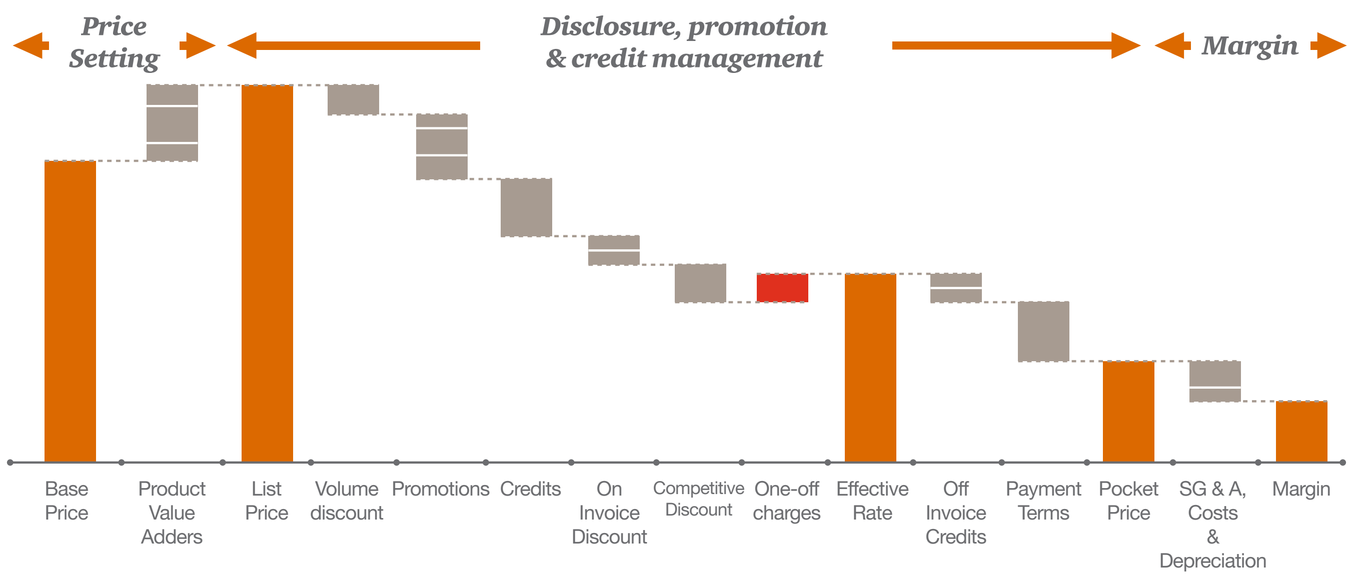
Above and beyond an understanding of the relevant technologies, the implementation of the new B2B STQ process also demands much more, including insights and suggestions around pricing strategies, organisational culture and commercial best practices and the changing role of B2B pricing. Indeed, constructing an effective and efficient data-driven pricing platform is much more than



an "IT project." In addition to working with the client's technical teams, collaborating closely on organisational change management and adoption support, maximises the value and minimises the risk of disruptive business impacts from the new approach and support technology platform.

Equally importantly, we apply our commercial expertise alongside our technology insights to ensure the new pricing platform follows leading pricing practices. A key outcome of this approach is that the platform applies a "price waterfall" approach, as illustrated in Figure 7. Starting from the Base Price and List Price, this approach allows for rules to be applied at any waterfall element, enabling margins to always be kept in view when adjusting the price for various criteria. This price waterfall is a key enabling framework for the pricing platform and in essence operationalizes an organisation's pricing strategy.

Figure 7: The new STQ platform's "price waterfall" approach



Substantial and pervasive benefits

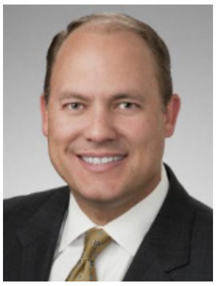
Organisations that take the journey to transform pricing increase win rates for deals through reduced lead time on quotes, combined with reductions in discounting as a result of better decision-making.

Our clients benefit from a far more efficient and effective end-to-end pricing capability, and much higher productivity from pricing personnel. The implementation of a professional and standardised pricing approach has helped to increase throughput and also is enabling personnel resources to focus more effort and attention on the deals that really matter.

Further benefits are flowing to clients from having a pricing process that's more manageable, scalable and auditable than ever before. The new platform and process have simultaneously reduced the amount of time required to approve deals, and increased the confidence of senior executives about the prices that are put out into the market.

In PwC's view, the message is clear. As telecoms operators advance from the old world of selling standalone products to the new world of selling customer-focused integrated solutions, data-driven B2B pricing is rapidly becoming a commercial and competitive imperative. Given the proven results it delivers, the business case stacks up. And PwC's experience underlines that a cloud STQ platform is now a replicable and scalable proposition for telecoms operators, cable companies, and indeed any other industry that requires a state-of-the-art pricing solution. The B2B STQ platform of the future is here today, and it's time for all operators to seize the opportunity – or risk losing out in the race to win, retain and monetise tomorrow's business customers.

About the authors



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