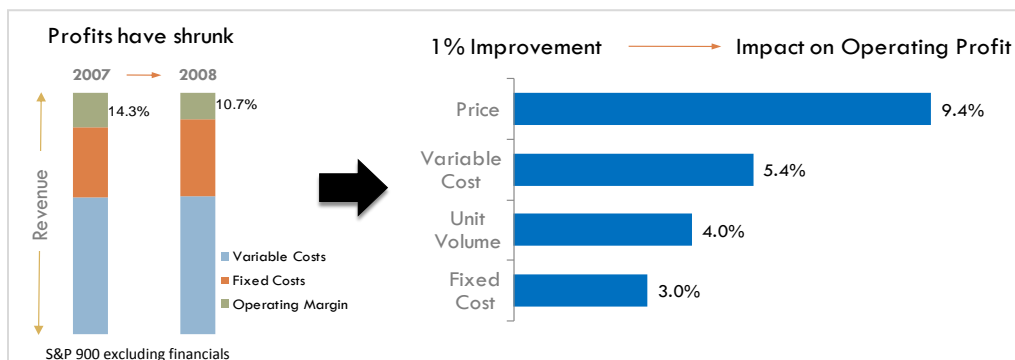




Improving Profitability

To improve profitability, business leaders have traditionally focused most of their attention on reducing costs. Reducing costs will improve profitability, but this approach often ignores a more potent path to higher profits – price.

While improvements in price, volume or costs can improve profitability, price is, by far, the most potent lever available. *A 1% improvement in price can deliver more profits than any other driver.* It also happens to be hardest lever to pull, but it does not have to be so.



Acquiring Profitability Management Capabilities

Making good decisions to manage profitability requires a very detailed knowledge of the underlying business. This detailed ‘owner’s perspective’ is a key requisite for anybody who owns all or some of the responsibility for the P&L - business unit leaders, product managers, entrepreneurs, business owners or senior executives.

Owners at small businesses with few clients more easily understand and manage profitability very well. When these businesses grow, in the form of more customers, more products, more decision makers, and/or more transactions, it is much more difficult to maintain this perspective. At Advanced Analytical Consulting Group (AACG), our consulting approach to pricing and profitability management is focused on restoring this ‘owner’s perspective’ with tools and techniques that will provide you with superior capabilities to improve profitability.

AACG has assisted numerous clients to advance on the pricing and profitability management maturity curve by deploying a 3-step process.

Step One: Measure *What cannot be measured cannot be improved*

The first step focuses on giving owners a very thorough understanding of how and where money is made and spent in the business. The key aspect of this step is the level of detail at which we measure. By understanding the revenues, associated costs and resulting profit *for each transaction*, we can aggregate information to provide many, powerful views of business activities and health. Income statements are, after all, an aggregation of

OUR 3-STEP APPROACH

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 - › Determine how your business makes and spends its money
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 - › Improve existing business profitability
 - › Align and shape your customer product mix
 - › Understand price elasticity and set optimal prices
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 - › Deploy a sustainable process
 - › Ensure that projected revenue and margins end up on the income statement

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PRICING AND PROFITABILITY OPTIMIZATION

line items on the invoice. To obtain this level of understanding requires ready access to clean, historical, invoice level, line item data.

Step Two: Improve *Quick and immediate opportunities to increase profits*

In this two-phase step, phase one focuses on analyzing the wealth of information created during the measurement step and identifying opportunities that could immediately improve the bottom line. These opportunities surface when there is a disconnect between the margin and the associated costs for a set of transactions. *Savings identified typically equal 2% to 3% of revenue and cover the entire value chain – sales, marketing, supply chain, discounting, finance, shipping and purchasing, among others.*

Phase two focuses on determining the right price to charge each customer for each order by developing and utilizing advanced analytical models. AACG's models help managers understand customers' willingness to absorb higher prices, to use promotions and loyalty initiatives to alter demand behavior, and eventually to determine optimal pricing and incentives for every customer and every transaction. This fact-based, scientific approach can stem and reverse margin losses and, in some cases, enable price increases.

Step Three: Sustain *Implement a quick, repeatable process with company-wide buy-in*

Determining optimal prices is the analytically challenging, critical first step. Passing on these prices to customers requires enterprise-wide buy-in, especially from the field sales force. A repeatable, technology-driven solution with appropriate discounting approval processes, price floors, and timely reporting will ensure that anticipated revenue and profits make their way to the income statement without dilution.

In the end it is about achieving the objectives of your organization. If you are passionate about driving your business objectives with pricing and profitability management, we would like to help you.

Our Experience

Professionals at Advanced Analytical Consulting Group have helped numerous clients enhance their pricing and profitability management capability, which has led to identified savings worth over \$300 million. We have developed and deployed econometric models for quality control, performance measurement, and profit maximization at major corporations in the US and internationally.

About Advanced Analytical Consulting Group, Inc.

Founded by former Senior Managers and national leadership of the Economics and Statistical Consulting Group of Deloitte's Financial Advisory Services in 2009, AACG provides economic, statistical and computing consulting for business decisions and litigation. AACG staff have over 25 years of experience assisting business clients with strategic and operational consulting based on in-depth quantitative analysis of corporate data and the client's position in the market. AACG also provides expert testimony, support for academic experts, and advice and assistance in identifying the right expert from academic and business settings. From offices in Boston and San Francisco, AACG serves clients in Canada, Mexico, the UAE, the U.K. and the U.S.



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