

PRICING ARCHITECTS

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Interviewed by Frederico Zornig

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PREFACE

Frederico Zornig

Pricing and Revenue Management have become top priorities for the biggest and best companies in the market. It is curious to think that fifteen years ago, when Quantiz was founded, the CEO of a large company discouraged us from pursuing consulting support for pricing determination, believing that the task was too simple.

While setting a mark-up over cost may suffice for a simplistic internal desired profitability point of view, it is not enough to guarantee the best results in an increasingly competitive, volatile, integrated, and dynamic business environment. The answer to whether this approach alone can provide optimal results is a resounding "no".

Currently, many companies recognize Pricing and Revenue Management as critical strategic areas for their organizations and have robust structures, personnel, and tools to ensure that these processes work and prices are optimized. In line with current market trends, the book "Pricing Architects" aims to highlight the field of Pricing and Revenue Management by sharing best practices, opportunities, and risks offered by the area.

The book features in-depth interviews with some of the most renowned professionals in the field who are shaping Pricing history in Brazil, hence the use of the word "Architects" in the title.

Of course, selecting twenty pricing professionals to be part of this project was a subjective activity, but we brought some objectivity to the selection by requiring interviewees to have a minimum of ten years of experience in the field and hold a managerial title (or a position above that). Even after filtering by these requirements, there were still many other great professionals that were left out of this book because we had to limit the list while still offering readers answers from a variety of different industries and sectors.

The questions that we asked in this book were chosen by me after an exercise we conducted with everyone at Quantiz. I started by making a list and then asked each consultant and manager to think about what they would like to ask the main Pricing/RM executives of each company. With all in hand, I selected the ones I considered most relevant, and they were used as a guide for the interviews.

Pricing and Revenue Management are disciplines that can take on a very holistic dimension, as you will notice in the interviewees' answers. Through this book, we wanted to bring readers a realistic and current perspective of what is being done in the market, in various sectors. We interviewed professionals from the banking sector, retail sector (food and construction), various manufacturing industries (food, pharmaceutical, etc.), hospitality, and the medical/laboratory services sector.

It was an extraordinary privilege to be able to meet and talk for a few hours with each one of these experienced and talented professionals. I hope you, the reader, will find assertive, intelligent, and articulate answers from people who, like me, are passionate about the Pricing and Revenue Management area. This book brings some conflicting answers, but it is necessary to respect everyone's opinion, especially in some controversial topics such as whether it is best to focus on the competition or the customer, or to make prices dynamic or not.

Pricing/Revenue Management will continue to be an open field, subject to a lot of innovation and new practices. New business models, increasingly available information, more demanding consumers and companies, will require new approaches from leading companies in their pricing. I hope that this book can serve as a contribution to this evolution. Finally, it was a lot of work for everyone who participated in this initiative, and I would like to express my gratitude for all the support I had throughout this project. Everyone involved in this project was a fantastic professional to work with, and it was a pleasure and an honor to be able to lead this new journey in this market, which resulted in this great work!

São Paulo, March 23, 2021

Frederico Zornig - CEO Quantiz Pricing Solutions

ADRIANA VIANA

Pricing Manager, Alliar Diagnostic Medicine, 18 years of experience

Frederico Zornig: Could you please tell us about your professional career and how you got into Pricing and/or Revenue Management?

Adriana Viana: I have spent 25 out of the 26 years of my career in the aviation industry. I worked for 11 years with VASP, 13 with TAM/LATAM, and a year and a half with Azul Brazilian Airlines. In 2018, I was invited to help implement the Pricing area at JCA, which holds six companies in the bus industry and is the largest in the segment. I also provided consultancy for Alliar Diagnostic Medicine until the end of 2020. After a year working at VASP, I was invited to join their RM area, and it has been 19 years of learning, applying, and challenging the variables of this science that I am so passionate about.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is the sales history still helpful in any decision-making process?

Adriana Viana: The main challenge is obvious but complex: having the right product on the shelf, for the right price, for the right customer, and at the right time to guarantee the client will purchase from us and not the competitor! This involves interconnected areas, including a strong Sales, Marketing, and Finance department. Working in aviation and medical diagnostics, I didn't come across sales history data that provided robust guidelines, so we compared data from the past with data from the pandemic to find assumptions that aligned when defining our strategy.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Adriana Viana: My foundation is connected to aviation, the birthplace of Pricing. But in Brazil, because there are very few players and the business itself is vulnerable (perishable, low margin, and high cost), the pricing strategies in aviation ultimately focus more on the reactive than the proactive. In 5 or 10 years, we will have even more accurate data and history that can help model and structure the forecast more assertively, predicting the demand and giving us a better chance of monetizing revenue opportunities. Perhaps we'll be closer to having something like Amazon's RM model (a dream!).

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Adriana Viana: I look for logical thinkers, curiosity, creativity, proactivity, risk-takers, and people who know how to measure risk. Their education needs to come from an analytical base (but not only Engineering, Statistics, Administration, or Economics). At TAM, we only hired Engineers and Statisticians, but candidates had to know more than numbers and show analytical skills and attentiveness to the market. A person focused only on numbers doesn't focus on the details of the market, which comes at a high cost. To develop my team's skill set, I need to provide robust data they can use. Daily briefings help the team exchange lessons learned, and briefings with directors and VPs also help build valuable skills. We also have meetings to discuss how, when, and who to attack in low and medium-yield markets to extract even more revenue.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Adriana Viana: My experience comes from aviation, the birthplace of Pricing, where the culture is consolidated. In the bus business and Diagnostic Medicine sector, the culture is not 100% ready to leave pricing decisions up to a department they don't know well yet. To implant a Pricing culture, we need to deliver value, purpose, and results, even in small doses. This will make all the difference when building trust.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Adriana Viana: Pricing professionals have latent risk in their DNA. Being able to take risks and test elasticity is great, but it is even more necessary to know how to measure and adjust very quickly and to have a lot of market knowledge to avoid taking strategies from A to B when B is closer to C.

Frederico Zornig: What technology do you consider essential for your activities today, and why? Is there any tool or solution you would like to use that doesn't exist yet, or you don't have access to? Please elaborate.

Adriana Viana: In aviation, we switch between AirMAX (Sabre) and PROS (Amadeus) for our optimization and forecast systems, but in a country like Brazil where the calendar varies a lot and the economy is completely unstable, both systems prioritize quick and reactive actions. To minimize the impact of this and reverse it quickly, it is necessary to create many business rules and have many overrides. The system took its time to understand the changes in behavior and had to be corrected manually. I would like to have a system that had a "magic button" that understood when a player left or entered, so that we could adjust the forecast in X% assertively and immediately. Furthermore, it is important to have systems that allow for synergy between a robust historical database and clear competitor analysis.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Adriana Viana: Success is defined by having access to lots and lots of information about the customer, including when, why, and where they buy, as well as having a high-performing team with autonomy and periodic meetings to develop intelligent strategies and market discourse with the Sales and Marketing areas.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Adriana Viana: The most important processes in a Pricing/Revenue Management area are online sales reports that include all channels, and data accuracy for consistent forecasts for quick decision making.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Adriana Viana: I could talk about the most recent ones, but my favorite career project was the Rio Olympics in 2016 where I was responsible for all air travel for Latam Airlines and had to build everything from Pricing to Purchase Policy, Fare Rules, and Sales Channels to the logistics from the Airports to the Arenas.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Adriana Viana: RASK, CASK, ASK, RPK, Yield, LF, Average Tariff, Revenue, EBITDA, and Margin. RASK (Revenue per Available Seat-Kilometer) is the main one because it measures the revenue achieved by each seat kilometer flown.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas to actively impact business results?

Adriana Viana: Managers hold daily briefings with each other. Managers and analysts meet weekly, and directors, managers, coordinators, and analysts meet fortnightly to ensure synergy and communication among all members.

Frederico Zornig: Is pricing based on the perceived value the best strategy? Why?

Adriana Viana: The point is: what perceived value do we have to challenge? Cost x Benefit will always be the customer's final decision. The point is what's behind it: who is this customer? Where do they buy? How do they buy? When do they buy? Why do they buy?

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Adriana Viana: Absolutely, because they are proven techniques that change purchasing decisions. When taking care of the route from Congonhas/Pampulha airports, it was considered high value for being an executive/corporate route to/from central airports. Our main competitor's ticket prices started at R\$290, and our offers started at R\$800 because we knew from the demand curve that the customer was willing to pay more for better in-flight service, new aircrafts, efficient staff, and a robust Loyalty Program. TAM held the largest market share in the market, and we seized the opportunity to monetize.

Frederico Zornig: Is it better to segment the market and capture the max from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Adriana Viana: It is better to segment the market and capture the maximum value from each segment with differentiated prices by Channel, but paying attention to the business/legislation.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Adriana Viana: Yes, trade policies should provide transparency to customers on how they can buy better or do better business with the company. This will help the customers make informed decisions and build trust with the company.

Adriana Viana: A code of conduct is crucial for any business, and policies must align with the company's strategy, meet customer expectations, and be competitive in the relevant market.

Frederico Zornig: How do you define "pricing strategy"?

Adriana Viana: Pricing strategy involves delivering the right price to the right customer at the right time. We need a consistent database that provides inputs to make informed pricing decisions. It's important to understand all the business variables, test elasticity, and recognize that in some markets, it may be necessary to sacrifice profit margins to maintain market share and ensure profitability in other products.

Frederico Zornig: Jeff Bezos believes that understanding customers is more important than monitoring competitors. What's your opinion on this? Should companies focus more on customers or competitors?

Adriana Viana: The two are interconnected, and both require attention. Customers are often shared between companies and are aware of competitors' offerings. The key is to price products/services in a way that offers customers value while maintaining competitiveness.

Frederico Zornig: Elasticity, in economics, refers to the impact of one variable (e.g., price) on another (e.g., demand). Different types of elasticity exist, such as cross-price and income elasticity. How do you use the concept of elasticity in your pricing decisions, and how important is it?

Adriana Viana: Elasticity is a crucial factor in determining price. In inelastic markets, pricing may not need to be the cheapest, but it's important to maintain revenue and customer loyalty. In elastic markets, more aggressive pricing strategies can be applied. However, elasticity is just one of many variables that must be considered.

Frederico Zornig: Dynamic pricing and shopping baskets are increasingly popular, especially in e-commerce. Has your company utilized pricing algorithms to implement these approaches?

Adriana Viana: Yes, our company invests heavily in technology and systems that support dynamic pricing and the use of shopping baskets.

Frederico Zornig: How would you define pricing and revenue management?

Adriana Viana: Pricing and revenue management involves setting the right price to optimize profits while considering factors such as elasticity, competition, and customer expectations. It also involves utilizing strategies such as dynamic pricing and shopping baskets to maximize revenue.

Frederico Zornig: What are some of the key qualities that a Revenue Management professional should possess?

Adriana Viana: It's about challenging yourself, taking risks, learning daily, being creative, having perception, handling pressure, and reinventing yourself at all times.

Frederico Zornig: What message would you like to convey to our readers?

Adriana Viana: Revenue Management professionals need to know more than just numbers. You need to be attentive in all segments, not just in your field, because this will bring inputs that will help you reinvent yourself and find new ways to monetize. I hope I have shared some of my knowledge in an easy and entertaining way, since you are already familiar with the subject.

ANA EFIGÊNIA DE SOUZA BARROS

Pricing & Revenue Executive Manager, Santher, 20 years of experience

Frederico Zornig: Could you tell us about your professional career and how you entered the Pricing and/or Revenue Management field?

Ana Efigênia de Souza Barros: I began my career as an intern, like most people. I'm proud to say that my first Pricing mentor, Wilson Ricoy, is still a friend and advisor to this day. I worked for almost 3 years at Parker Hannifin, an American company that exposed me to numerous pricing concepts through the head office and Wilson's initiatives. I then worked at Suzano Paper and Cellulose for 11 years, where I learned that every penny saved is a penny earned and gained expertise in B2B pricing. At Mondelez, I managed all pricing for all categories and channels, and at Nielsen, I gained consulting experience, broadening my methodological arsenal and market price dynamics knowledge. At Vigor, I learned a lot about short-shelf-life products and commodities, and currently, I am building the Pricing/Revenue area at an HPC company.

Frederico Zornig: In this turbulent pandemic moment, what is your primary challenge, and can sales history still aid any decision-making processes?

Ana Efigênia de Souza Barros: Dealing with numerous unstructured price increases without much rationale behind them is a challenge. While sales history establishes a baseline, it is not the sole basis of our decision-making. Qualitative information from the team and retail customers aid in building projections. For example, during the pandemic, we discovered that a portion of cake and dessert dough volume would shift to Self Service in the Food Service sector, allowing us to anticipate and direct those products towards this channel.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Ana Efigênia de Souza Barros: I see the pricing area maturing more and more. Some companies have invested in their pricing departments for some years now and are already transitioning to revenue management. But in this period of 5-10 years, I still see a steep learning curve in terms of analyses, routines, and processes for FMCG. I also see many other sectors outside of consumption starting their pricing/RM areas to support their growth. And in the future, I hope that the pricing area has more influence and turns into a decision-maker instead of being just an advisory support area.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Ana Efigênia de Souza Barros: I look for analytical people who like to mine numbers and seek answers. People who understand what each audience needs and build responses and support tools that are adherent to their realities. I develop these skills by giving them autonomy and providing a good environment that does not repress or cause fear of making mistakes. With regard to academic training, I like the profile of administrators and economists, people who have a more general view of the business and not just a technical and quantitative one.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Ana Efigênia de Souza Barros: No, there is not. I am currently facing the challenge of building this journey. I have a blank page in front of me, and I'm taking the liberty of writing it. I've been starting at the very beginning, and it's pretty hard. Everything must be didactically explained, and there is a need to make processes and routines tangible in a very structured way. Creating an area from scratch is harder than it looks. It's not just the technical factor that counts. The political factor and dispute of egos have shown their face. No one wants to lose power, no matter how small. But I understand that in this process, I need allies, and the natural ally is the commercial area, but sometimes they are also the biggest barrier to the implementation of culture.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Ana Efigênia de Souza Barros: I don't know if it was the biggest, but one of the most painful ones was making a mistake in a discount calculation with a big KA. It resulted in a financial impact big enough to make me consider leaving the area.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Ana Efigênia de Souza Barros: Today, it is essential to have good and fast market price tracking to make quick decisions and to allow analyses at the "channel/region" levels of detail. This supports tactical decisions. Understanding item elasticity is also important for strategic analyses and regular and promotional price placements. I miss end-to-end simulators, that is, those that bring a gross-to-net view of the company, but that have a connection to the chain's margins and price point. I wanted all of this in a matrix where I could see all the channels lined up in order to identify possible conflicts. Among the available tools for tracking the market, I like Scantech, which reliably reports data in D+2 and in analytics. And, maybe because I worked there, I also like what Nielsen does.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Ana Efigênia de Souza Barros: Success is when pricing/RM is seen as something that adds value to the company: monetary, conceptual and generating sustainable and lasting results.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Ana Efigênia de Souza Barros: Routine check of main indicators inherent to the area (but applicable and seen as linked to the business), routine commercial meetings/forums for strategic and tactical alignment, field visits to check how the strategies are being carried out and whether the concepts are actually being applied, reports on gains/savings for each area, and maintenance and surveillance of the commercial policy.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Ana Efigênia de Souza Barros: I restructured the commercial policies after exhaustive discussions between trade, commercial, and marketing teams; created a legacy of skill development in several areas through training; developed materials to support negotiations; trained and prepared team members to have decision autonomy and take on greater challenges in other areas/companies; and disseminated the importance and concepts of pricing in specialized forums.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Ana Efigênia de Souza Barros: Decreased price dispersion within the same channel and region, price increase capture rate, additional margin mass in pre-defined projects, price point strategy definition accuracy index.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Ana Efigênia de Souza Barros: Involving professionals from other areas in projects/topics in which they have some participation, even if it is just to inform them. Another way is to promote regular forums for the presentation of pricing results and the main projects carried out by the area, always seeking partnership and giving the relevant credits to each area that was involved. Another way is to promote workshops to disseminate practices, concepts and the importance of having good pricing.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Ana Efigênia de Souza Barros: It is necessary to have a lot of knowledge (through research and studies) of the value of the product, and knowledge of how much value each characteristic adds to the final price of the product. The vast majority of companies do not have the structure for this type of practice. Pricing only on perceived value can be a trap when you don't have the right tools and the proper internal structure to support pricing strategies based on perceived value.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Ana Efigênia de Souza Barros: Yes, I believe so. Anchoring is a powerful resource, but it needs to be well executed for it to have the desired effects. It is important to have control of this execution in order to measure the results and reap lessons from it.

Frederico Zornig: Is it better to segment the market and capture the max from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Ana Efigênia de Souza Barros: The first option, without a doubt.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Ana Efigênia de Souza Barros: Undoubtedly. A well-structured trade policy should address relativity between channels, incentive policies for higher volumes, different prices for the cost of serving, among others. And when the customer is aware of the commercial policy, they are assured that there are no unnecessary discounts and that all customers in that same region/channel have the same conditions.

Frederico Zornig: How do you define “pricing strategy”?

Ana Efigênia de Souza Barros: Finding a price for the consumer that has the best possible value equation and allows fair remuneration for the chain.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Ana Efigênia de Souza Barros: The customer, always. The competition must be monitored, but never the focus.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g.: price) has on another variable (e.g.: demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it and how do you use the concept of elasticity in your pricing decisions?

Ana Efigênia de Souza Barros: I believe this concept is fundamental. Today I only use total elasticities in price repositioning decisions when we're doing regular price increases/decreases.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Ana Efigênia de Souza Barros: We don't use it yet.

Frederico Zornig: What is pricing and/or revenue management to you?

Ana Efigênia de Souza Barros: It is a work culture that brings lasting results to companies through fundamental technical analyses that are clear and actionable for all teams that will have to use and/or make decisions with that information.

Frederico Zornig: What is your final message to those reading our conversation?

Ana Efigênia de Souza Barros: This area is a journey, full of ups and downs, but very rewarding. Seeking adequate tools for decision-making and supporting strategic and tactical teams is the reason for our existence. A pricing professional must be articulate, have several technical skills and know that pricing has a very strong psychological side. Never lose your grip on reality by getting too attached to spreadsheets. It's important to "go to the front field" frequently, talk to real customers and consumers, and always stay up to date.

ANDRÉ PLANA

RGM Director, Mondelez International, 15 years of experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

André Plana: Right after getting my degree in Civil Engineering, I went to work at Gerdau. After gaining experience in the manufacturing industry, I was invited to structure a competitive intelligence area for the distribution channel, where my first contact with Pricing began. The concept of Revenue Management as we know it today was just beginning to take shape back then. Later, while working at International Paper and Mondelez (Kraft Foods), I was introduced to the dimensions of Portfolio and Trade Spend, which expanded my portfolio of strategies and opportunities.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

André Plana: The pandemic has caused a "whiplash effect" in the vast majority of organizations, where looking to the past has become less relevant. I believe that some changes in consumption habits are irreversible. The challenge is to avoid falling into the trap of looking to the past to project the future and instead anticipate changes to capture opportunities.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the next five or ten years? How will these changes affect the work you do today?

André Plana: Digitization and personalization will be key. As the online sales channel becomes more and more relevant, the Point of Sale will become more intelligent, which will enable us to offer the right product at the right price at the right time. Customization of all levers, including price, assortment, and promotion, will become a reality. Preparing companies for this environment will undoubtedly enable the optimization of the value offer. In terms of professionals, it will be necessary to have an ever-increasing intellectual curiosity, to be a change leader, and to be able to convince and seek a network of allies to solve problems.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

André Plana: I believe that Revenue Growth Management (RGM) is the most collaborative role within an organization today, influencing all areas of the organization, breaking down silos, and integrating departments. Putting hard skills aside, such as analytical thinking, knowledge of the market, and distribution chain, I think the main soft skills required are intellectual curiosity, the ability to articulate, a company owner's mentality, and problem-solving skills. In many situations, RGM opportunities touch other areas, such as improving the sales mix through incentive plans or changing planograms, creating new packaging, differentiating by retail environment, and changing promotional levels. Our ability to articulate and manage these agendas elevates the RGM role to a more strategic level, breaking down barriers within the company. While academic background is not the most crucial factor, the person needs to have a fondness for numbers.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

André Plana: The process of developing a pricing culture has several stages. I have worked for companies where it was non-existent, where it existed but was not effective, and where the markets had different levels of maturity and influence on the strategy. I think RGM still has a lot of room to grow in this regard. It's important to note that I am talking about Revenue Growth Management, which encompasses more than just pricing. Pricing is one of the three levers of Revenue Growth Management, the others being Trade Spend and Portfolio. The depth and level of sophistication can vary greatly, and the more granular the analysis or recommendation, the greater the level of customizability. However, balancing this with the ability to execute can be a challenge. In my experience, the commercial area generally receives RGM with a little more skepticism since they manage the client, and when there is a change in the way of working, they will need to adapt. But after a process of gaining trust, the commercial area becomes a key area for implementation and a critical success factor. Marketing, in consumer goods companies, has been a great partner since they see value in the work that RGM does since it helps solve problems.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

André Plana: I believe that underestimating the company's culture and the complexity of implementation are errors that generate frustration. When the construction of the department involves many people, the weight of the responsibility of the recommendations and implementation is shared, allowing for the refinement of the theory and the adjustment and removal of barriers in the process of implementation. This, in turn, leads to faster returns due to greater acceptance and risk reduction.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or that you don't have access to? Please elaborate.

André Plana: I think most companies are still crawling when it comes to the potential for using internal data and internal research. There is a lot of potential to explore before expanding to the Big Data border. The market still has a lot of technology opportunity for RGM. Pricing is undoubtedly still the lever exploited by the power of its impact, but global solutions have limitations or a lack of understanding of the chaotic Brazilian tax burden. Trade Spend and Assortment are levers that could be more explored as opportunities for optimization and generating results.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

André Plana: There is no way to escape the financial impact. In the end, the responsibility of the area is to maximize returns in an intelligent way. However, success can also be measured by other factors such as culture change, a mindset intertwined in decision-making from the highest level to the day-to-day decision, and opportunities such as the creation of a SKU by Marketing, the execution of an investment by the Sales sector, or the design of a Trade Marketing strategy. Success can be present in every decision.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

André Plana: Not just an RGM process, but any process (to succeed) has no escape from the PDCA. PDCA aims to promote continuous improvement of processes in four steps: plan, do, check, and act. Without planning, execution cannot be good, and without control, there is no way to have action. RGM is nothing more than a process of management and optimization of various levers. It could not be any different.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

André Plana: I've seen RGM projects expanding to a much broader scope, influencing everything from manufacturing capacity to GTM decisions. McKinsey has an article that shows that as an industry benchmark, an RGM area can impact up to 8% of an organization's net sales, and I've seen business units going from negative net profit to positive profitability in a structural way. The benefit we bring is the improvement of the financial impact in a structured way.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

André Plana: It depends on what you want to measure; every initiative has to be measured for a real assessment of the initiative's incrementality. As an area manager, I think that net revenue realization, isolating the factors (volume, price, product mix, channels, and region) is the broadest and most effective way of measuring the area's success.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

André Plana: Our area is an ambiguous area by nature. In the end, a product strategy touches marketing, a portfolio optimization touches category management, a promotional activity optimization touches trade marketing, among many others. To be successful, especially in companies where the pricing mindset is not yet established, we go through a negotiation and influence process that touches on roles and responsibilities, and directly, on power.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

André Plana: Perception is reality, so knowing how much your consumers are willing to pay is key, but we can't just take that and be done with it. The cost structure, elasticity, anchoring, etc., are factors that form an equation, but without a doubt, the perceived value is an important lever.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

André Plana: I think it has to be done responsibly. It is still a tool within the Pack Price Architecture (PPA) and yes, it must be used correctly. Optimizing the incentive curve or promotional discount is a weapon that should always be available and used correctly.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

André Plana: The average is dumb, the future is far beyond simple channel or region segmentation, it's in personalization. If we think about it, each individual has their own needs and we don't fit into stereotypes, so the price or propensity to pay should reflect that. The challenge is in breaking the execution barrier, but today, this is already possible.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

André Plana: Undoubtedly, especially with the correct structuring of pay-per-performance programs. Trade discounts should reflect cross-channel relativity, but trade policy goes beyond that, and it must be used intelligently to motivate customers to exceed targets.

Frederico Zornig: How do you define “pricing strategy”?

André Plana: I like Thomas Nagle's definition on Pricing Strategies and Tactics, it was the first book I read on the subject, at the beginning of my career, a few years ago. He says pricing strategy is about delivering growth profitably, with better value communication, and an optimized revenue model.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

André Plana: It's hard to say which is more important, as is questioning one of the three richest men in the world. I think both are parts of an equation, and they cannot be looked at in isolation. If the customer is not happy, there is no way your product can compete fairly at the point of sale. I don't think it's a "zero sum" game and therefore we can't look at them in isolation.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g.: price) has on another variable (e.g.: demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it and how do you use the concept of elasticity in your pricing decisions?

André Plana: In a consumer goods industry, with an abundance of syndicated data, it is almost criminal not to consider a statistical analysis for prices and the elasticity itself or crossed elasticity, with volume, revenue and margin optimization modeling. This analysis is necessary in order to have a projection of the impacts that price movements can bring.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

André Plana: I still don't have experience with dynamic prices, I think that for the vast majority of companies, their own sales channel can be an interesting environment to learn and influence retailers in this form of optimization.

Frederico Zornig: What is pricing and/or revenue management to you?

André Plana: Revenue Management is more than a functional area, it is a mindset. This mindset is the ability to optimize and more importantly, to generate growth. Furthermore, the scope of the area allows us to question everything, but the counterpart is that we will always be questioned. It's intense, ambiguous and challenging, but that's what drives me every day.

Frederico Zornig: What is your final message to those reading our conversation?

André Plana: I wanted to leave a message for those who are starting their careers or are thinking of transitioning to this area. As I said a few times during this interview, this area is where dealing with ambiguity is a daily challenge, but few areas will bring an opportunity for problem solving, pragmatism and impact like this one. If that's what moves you, and you have the technical skills, you will succeed.

CAMILA FERNANDES

Senior Pricing Manager, C&C Casa & Construção, 10 years of experience

Frederico Zornig: Could you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Camila Fernandes: I was working in the market intelligence area at a renowned economic consulting firm when I was invited to participate in a selection process as a pricing intelligence analyst for a company in the food industry. It was love at first sight. At this company, I worked for four years in the pricing intelligence area, which generated all the information and analysis. After that, I worked directly with pricing. I left there when I received the opportunity to start a pricing area in a company in the away-from-home food sector (restaurants). After two years, we finished building the area and I went to retail, a “sister” area to pricing, which managed everything related to promotions. I developed a large team, we built new KPIs for the company, we restructured processes, and after three years, I moved to the home center sector, where I am today, and I'm back in pricing.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is the sales history still helpful in any decision-making process?

Camila Fernandes: That's a great point. Indeed, 2020 will not be a good “benchmark”. We still use our sales history, but many other market variables, such as raw material availability, the dollar, among others, have had an even more significant weight in the decision-making process. We've been focusing on the short-term when making pricing decisions. Concepts such as test & learn have been very useful in this uncertain scenario.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Camila Fernandes: I believe that the pricing area will gain more and more importance. I see a movement of many companies realizing the need to disentangle pricing from the commercial or financial team. It is an area that increasingly demands technology, especially when evaluating customer behavior. Abroad, I know of cases where the pricing of some companies is already done by robots. In Brazil, I see a trend towards price automation, although this scenario is a distant reality in many segments. In addition, I see that in retail, the pricing area should gain more space in price formatting, both in “permanent” and promotional prices (currently, the purchasing/commercial area is the one who makes these decisions).

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for, and how do you develop these skills in your team?

Camila Fernandes: The main characteristic I look for when recruiting people for pricing is being data-driven, accompanied by curiosity, simplicity, restlessness, and innovation. As for developing these skills in my team, I believe in leading by example and the "train, delegate, and monitor" approach. I constantly propose challenges and closely monitor progress, providing support when needed. In terms of academic background, I've found that administrators, economists, engineers, and statisticians are more skilled in this area, as long as they don't just focus on the numbers but also understand the market and other factors that may affect demand.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Camila Fernandes: Yes, there is a pricing culture in my company, but it is quite different from the industry. The pricing area acts more like a "command tower" where we study market movements in partnership with the commercial, marketing, and e-commerce teams. We also understand the company's needs with finance and supply, create strategies, and manage the tactical and operational side alongside the commercial team, especially in promotional prices. To create a pricing culture in a company, you need a lot of support, especially from the marketing and commercial areas, as they are direct "clients" of pricing strategies. However, the commercial team can also become a significant barrier to the implementation of the culture when they have goals linked only to sales.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): It's hard to talk about mistakes, but what was the biggest lesson you learned working with pricing and revenue management?

Camila Fernandes: The biggest lesson I learned working with pricing and revenue management is that wrong pricing has to be corrected immediately. I've seen a lot of things happen because of pricing errors, from animals being incinerated (impacting the industry chain) to a store manager being arrested during Black Friday, for example.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Camila Fernandes: The good old Office package (Excel and Access), and a pricing tool, preferably, or an ERP system that can manage prices. Where I work, we have the basics and a pricing tool, Profitmetrics, that we just rolled out across the company.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Camila Fernandes: I believe that "autonomy" can be one of the synonyms of "success" for the pricing area. And, obviously, the achievement of the company's goals, whatever they may be (share, margin, etc). A good measure is to see if the area has veto power in negotiations or situations that are not in accordance with the company's strategy. The pricing department needs to be the guardian of the company's strategy and results.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Camila Fernandes: The most important ones are competitor research, analysis of the impacts of prices on sales and margin, and evaluation of the best discount levels for items on sale. These three form what I consider a "Pricing Tripod". It is essential to monitor the company's positioning in relation to the market, always evaluating customer behavior, but without losing sight of the company's objectives. Attractiveness and profitability can occur concomitantly in promotional actions, depending on the quality of the offer made, avoiding "cannibalizing" effects and influencing the consumption basket.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Camila Fernandes: Organizing the company's prices (rounding, negative margins, adjusting price metrics for product families, redefining criteria for price research and building lists, etc.), evaluating profitability "output points", identifying white pricing spaces within the product mix, renegotiating costs with suppliers, etc. I can cite an example, in the past, of an opportunity found in the realignment of the production process timeline of a food brand, with the objective of minimizing the commercial practices of discounting at the end of the month. This product had a very short shelf life and the sales team waited for the end of the month to obtain advanced shelf life discounts to reduce prices and meet their targets. By postponing production by a few days so that the product was fresher at the end of the month, we were able to gain 20% on the net price without changing prices. The product simply lasted until the end of the month with a shelf life that did not require discounts.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Camila Fernandes: We use the internal price index (internal inflation), competitiveness index, price movement indicators, impacts on margins, discount levels, impacts on sales, offer margins, etc.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Camila Fernandes: We hold periodic meetings with all levels for strategic/tactical discussions, presentation of results, and performance indicators.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Camila Fernandes: It depends. I do not consider it appropriate, in pricing, to use superlative and absolute terms such as "always," "everything," "never," "nothing." Pricing by perceived value is not always the best way, especially if we deal with commoditized products or very strong brands that have a high cost because this may require a long time to work with very low margins (especially in retail), making it unsustainable. However, pricing by perceived value has a high degree of effectiveness in sales, but it may not be the most efficient method depending on the company's economic and financial standards.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Camila Fernandes: Yes, it is an important cognitive bias, especially for retail, both from a sell-in (trade/purchase) price point of view and from a sell-out price point of view. This makes it possible to improve the profitability of the customer's consumption basket by rotating secondary products, very expensive and/or luxury products, less relevant brands that have better margins, or even leveraging the sales of a good product of a good brand with a higher price, when compared to an inferior product that is similarly priced. Products like rice, tires, etc. have the opportunity to use this strategy to make it look like clients are getting a better price on one of the brands.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Camila Fernandes: This question would make for a great discussion! Retailers face this dilemma all the time. There is no correct answer, but in my view, a good strategy would contain a hybrid of the two. I think it's important to have more mass pricing for "massive" sales products: high consumption, high turnover, commodities... But personalization and segmentation are fundamental variants when it comes to margin gains and increased sales of low-turnover items. The first one will bring more people, but the second one will bring people who pay well or who will buy a more profitable product for the company. Everything will depend on the company's strategy, and it can constantly change over time.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Camila Fernandes: Yes, always. I believe in the power of transparency. Customers are increasingly looking for companies with well-defined purposes. All company decisions, commercial or not, need to be in accordance with these purposes and aligned with its positioning and strategy, in order to gain credibility in this current scenario, where customers have fast access to a lot of information.

Frederico Zornig: How do you define "pricing strategy"?

Camila Fernandes: A pricing strategy is a set of rules and decisions about the company's prices, which guarantee a specific objective, be it profitability, market share gain, disposal of obsolete stocks or short shelf-life, acceleration of sales of a certain category/product, etc.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Camila Fernandes: I believe in the expression “one eye on the cat and the other on the fish”. We all have an eye on the customer, directly or indirectly. Looking at the competition is an indirect way of perceiving the customer, in my opinion, and there’s value in doing that, especially when there are no mechanisms to directly assess customer behavior. Deep down, when looking at the market, the main focus is the customer."

Frederico Zornig: Elasticity, according to economic theory, refers to the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist, such as cross-price elasticity, income elasticity, and so on. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Camila Fernandes: It is essential to study the various elasticities when making pricing decisions, especially when dealing with promotional prices. Through this, we can estimate the impacts of gains/ losses of incremental profitability and incremental sales, whether directly on the product in question or on complementary products, substitutes, and so on. Remember that elasticity is not linear over time, nor at different price levels, and can have different behaviors. Be careful not to leave promotions on the air for too long, as this can cause them to become the normal price and lose the effect of their elasticity.

Frederico Zornig: Dynamic prices and shopping baskets are being increasingly used, especially in the e-commerce market. Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Camila Fernandes: We are still relatively new to this market, but we are accelerating our efforts.

Frederico Zornig: What is pricing and/or revenue management to you?

Camila Fernandes: Pricing and revenue management refer to optimized price management, from its strategic conception to its operational execution.

Frederico Zornig: What is your final message to those reading our conversation?

Camila Fernandes: Pricing is a separate world within a company, and it must be unbiased and data-driven. Technology is essential to support decisions and actions. The marketing, commercial, and financial areas are customers of the pricing area. To have autonomy and no bias, the pricing structure needs to be hierarchically separated from these areas. Companies that become aware of this sooner will have an advantage in their segments.

FÁTIMA FAGNANI

Marketing Governance Manager, Syngenta, 10 years experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Fátima Fagnani: I started my career in the pricing area after working as a business controller and in finance. I fell in love with the area and dedicated myself to the study of pricing, practicing it daily over the 10 years that I led the department. I worked on implementing strategy processes, commercial terms, execution, and monitoring.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

Fátima Fagnani: The biggest challenge is the recovery of the exchange rate (in prices that are in Brazilian reais). Agribusiness is one of the sectors that was least affected by the pandemic, but the chemical materials needed for this industry are highly impacted by the exchange rate as raw materials are imported. Sales history is only one component because projections of planted areas, technology adoption, and pest pressure are more relevant in this industry.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Fátima Fagnani: Companies are increasingly aware that the area is a powerful guardian of profitability and market share – “there are no arguments against facts”. In the future, pricing will be even more automated. Indicators and predicting trends through data will be powerful allies in the process of increasing agility in the decision-making process of companies, further reducing the time spent on operations, system maintenance, and price lists. Everything will be automated by systems or RPA (Robot Process Automation), freeing up staff time, allowing them to dedicate themselves to data analysis and dashboards. This will allow them to spend more time interpreting data that drive decision making, optimizing their company's profitability and market share.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Fátima Fagnani: I'm looking for professionals who have knowledge of the fundamentals of marketing such as product positioning, customer segmentation, and market access. They should also have experience in the commercial area, such as negotiation and argumentation, and be familiar with finance-related areas like revenue recognition, taxes, customer financing, and working capital. The ideal degree or academic background may vary, but I usually prefer candidates with degrees in administration, economics, engineering, mathematics, or other relevant fields. Being certified by the Professional Pricing Society is also an asset that I appreciate. Depending on the position, candidates with data science skills or experience with dashboard tools and database management are preferred. Additionally, understanding the SAP pricing module (which is the most used ERP) is a bonus. In terms of skills, candidates should be resilient, have the ability to influence, and be efficient in communication. Analytical capacity, conflict management skills, and business acumen are also crucial. While I don't have a preference in terms of academic education, I find that degrees with a more process-oriented education, such as engineering, economics, and administration, tend to be more suitable for pricing professionals. On the other hand, degrees such as advertising may not be as suitable for this role, and data scientists who lack relationship skills may have difficulty finding success in this field. To develop the team's skills, it is essential to identify each professional's strengths and development points. Investing in training such as Professional Pricing Society certification, database tools, communication courses, and change and conflict management courses can be helpful. Providing exposure to challenges that can develop skills of influence, resilience, stakeholder management, and more is also important. Finally, business immersion, which involves understanding the day-to-day life of the company's salespeople, product and/or service, and customers, can be an effective way to develop skills.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Fátima Fagnani: How can we identify if a company has a pricing culture? The answer is in this text I wrote: <https://bit.ly/3ryTbqZ> "*Pricing Function is Different from Pricing Culture*". Companies that are increasingly pressured to maximize profitability are convinced that pricing is the solution. The first step is to establish the department and hire a pricing professional and give them the challenge of delivering the expected results. But the leadership team often makes the mistake of assuming they've hired the "profitability superhero." As the saying goes, "one swallow doesn't make a summer." It is necessary to understand the difference between the responsibilities of one professional and the responsibilities of an entire organization. The responsibilities of the pricing professional are:

- Carry out an assessment (research) of the maturity of the strategy/definition processes, commercial terms, execution, and price monitoring, including platforms;
- Identify pain points (deficiencies);
- Establish the Price Steering Committee with the C-levels: CEO, Marketing, and Commercial directors;
- Propose an action plan, obtain approval and commitment from the Committee for the transformation;
- Support the implementation of actions, monitor results, and report the status of the transformation to the Committee on a monthly basis.

It is up to the committee and its members to support, act as an ambassador, set an example, demand behavior and actions from their leaders towards the transformation until pricing becomes a culture in the company. Walk the talk! Make it count! Therefore, a company that has a pricing culture acts in complete opposition to the saying: "everybody touches pricing, but no one owns it." It becomes a company where "everyone does pricing, and everyone is responsible for it." In conclusion, the finance area always embarks on pricing initiatives even in terms of seeking better profitability, the marketing area, which in principle already has responsibility for the 4Ps, tends to be a little more skeptical and needs to be conquered with facts and data. And finally, the commercial/sales area, which, without the right support from leadership, could end up becoming a major barrier to the implementation of new initiatives.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Fátima Fagnani: Believing that the global guideline (booklet) was enough to implement the area/process was a big mistake. Establishing a new structured and procedural way of working with pricing depends on engagement and strong sponsorship from top leadership, as well as convincing the entire organization. As it is a cross-functional process, a lot of stakeholder management is required to ensure the strategy for the new way of operating pricing permeates the entire organization until it is implemented by salespeople. This is mandatory for the leadership (C-level: CEO, CFO, COO) to act as sponsors and demand the practice of "walking the talk". After all, "everyone does pricing", and this is not limited to defining the correct price, as it encompasses careful and consistent management of a vast number of issues aimed at establishing and maintaining the pricing culture. When does it exist? It exists when the guidelines of the pillars of strategy and commercial terms are disciplinedly executed by the sellers in a constant monitoring process. As Peter Drucker pointed out, "culture swallows strategy for breakfast". For example, a culture of great autonomy for sellers to practice discounts in a disorderly manner is not in line with the pricing culture, which considers the balance between discount x volume x profitability. Pricing excellence does not always mean price gains, but the ability to capture market opportunities when they are favorable and to have the least impact when they are unfavorable.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or to which you don't have access? Please elaborate.

Fátima Fagnani: The indispensable technology is the availability of a powerful database management tool, analysis, and algorithms that can be developed to guide price positioning in the market, consumer profile, adequacy of segmentation, and detailed monitoring of price list execution. I miss a solution that accurately measures the discipline of implementing the suggested price to the distributor. The consumer dream is to see the need that is in the last paragraph of this text that I wrote <https://bit.ly/38eobVf>. When a company decides to price its products or services using "value-based" as a strategy, the industry invests resources in research to launch the product or in conjoint analysis (a statistical technique used in market research that helps to determine how people value the attributes that make up a product or service). So, does implementing the defined price depend only on the execution discipline of the industry sales force? Yes and no. Yes, if the industry accesses the end customer directly without using any intermediary. No, if distribution channels are used. In this case, the industry can suggest the price but cannot guarantee that it will be executed in the end customer where the value proposition is effectively realized. In Brazil (and in most countries), free competition prevails - law 12.529/11, which regulates "CADE" (Administrative Council for Economic Defense) which in article 36 characterizes an infraction to impose resale prices on trade, distributors, retailers, and representatives. It is therefore up to the distributor to decide whether or not to practice the price suggested by the industry. This leaves the industry looking for ways to monitor the adherence of the suggested price to the final consumer. With regard to tools, I would like to point out that pricing software is only effective when there is a consolidated process in place already. Much can still be done, we can optimize with tools that are available and accessible to all - in addition to the process automations possible through RPA.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Fátima Fagnani: I trust this definition of success: "We only succeed as pricers when our sales team succeeds as winners. If we want to outperform, then we need to help sales win more and win profitably." Unfortunately, I do not know the author of that quote. We are only successful when our sales force wins the negotiation. If we want to outperform the competition, then we have to help sellers sell more and profitably. More quantitatively, managing price dispersion can serve as an indicator of process improvement. By doing these analyses, we can demonstrate that we have brought in small customers that paid little for a price level that generates more margin, also providing greater consistency between the prices practiced in the market. That is, we treat the outliers.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Fátima Fagnani: All processes are important: strategy, the definition of business terms, execution, and monitoring. But if I had to choose the most important one, I would go with the discipline of execution. <https://bit.ly/3kNq6FD>. "Price is not luck, it is discipline." As in everything in life, be it personal, professional, or in a company, discipline is a must-have. Don't give up on it in any situation, activity, or venture, if you do not maintain discipline, you won't reach the goal. In a company, the discipline of execution is the behavior to be demanded of every professional, without exception. In particular, the discipline of executing the price list must be a KPI (key performance indicator) of the sales force combined with the traditional sales target (volume), as it is the fulfillment of the specific responsibilities of a seller. That's why the seller needs to have both objectives: volume and price. For the price metric, it is not necessary to have sophistication and complexity, it is enough to measure the deviation in the execution of the list. Define the discount target in the negotiation that the seller can use, always based on a percentage autonomy and scalable approval process. But connect this execution of the price list to the variable remuneration, after all, there is no "organ of the body" more sensitive than the pocket. After all, it is the price that pays for everything in a company, even your salary, which is why it is the most important discipline that brings profitability and guarantees the sustainability of the company and its employment.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Fátima Fagnani: A structured process that ensures market share gains with profitability.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Fátima Fagnani: The code of conduct of the company I work for does not allow me to answer this question, but I will answer with 2 texts in which I discuss indicators and analytics. <https://bit.ly/3v1w1vt> "Benefits of Implementing Pricing". Pricing often starts with a project that aims at financial benefits. After an assessment, an implementation plan is drawn up, and the gains that will be obtained after a certain period of time are quantified. Pricing involves billing, sales volume, market conditions, and economics. How to measure and isolate the benefits arising from the implementation of new processes and ways of operating? How can these variables be constant over a period of time? There is no magic formula, but some indicators can help.

- Discount level: The price list should be executed and any deviation should be considered a symptom, not a cause. Addressing the causes, such as implementing value-based pricing, emphasizing benefits in sales pitches, customer segmentation, and conditional discounts, will lead to a decrease in discounts and a benefit to the company.
- Pricing waterfall: Analyzing the investment (gross to net price) for each unit sold based on volume in different customer segments compared to another period will quantify the benefit.

- Price dispersion: Using customer segmentation and a discount policy will reduce price dispersion, improve price consistency in the market, reduce conflicts, and generate more sales. It's not easy, but it's possible and worth it! <https://bit.ly/3bkHQ84> "Pricing analytics: a journey" We are surrounded by data that enable a myriad of analyses, but are all of them really capable of being transformed into information? When dealing with Pricing analytics, we have to map and collect data, whose sources are spread across the areas of sales, finance, factory/production, marketing, market, and industry. Along the way, we must overcome some internal barriers: professionals who know how to handle data extraction safely and the commitment of the areas involved. With the data in hand, the next step is to deal with the challenge of harmonization, as datasets are often polluted, incomplete, unstructured, and inconsistent, in addition to difficulties with updating systems and interfaces, outdated and obsolete processes. Once these barriers have been overcome, some dimensions need to be considered to achieve data intelligence, which are: architecture (platform/system), data storage, data connections/relationship, assumptions, and hypotheses. Change-management... Against facts (data), there are no arguments; analysis/information will uncover a lot of inefficiency, which will generate many opportunities but also discomfort. Be ready!

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas to actively impact business results?

Fátima Fagnani: Through governance. <https://bit.ly/3eeAdBZ> "What differentiates a robust and sustainable price performance from a short-term fad? Governance! The unglamorous art of statecraft." Governance is a central and fundamental piece in achieving and sustaining Price Excellence when optimizing financial results with satisfied customers = market share with profitability. It is necessary to differentiate between what is fact and what is a rumor about governance. Its reputation is often associated with a bureaucratic, rigid, and overly controlled way of doing things, which is a reality when it is poorly defined. When it is well defined, it becomes a core facilitator of long-term pricing performance. In essence, governance aims to recover and guarantee the reliability of the pricing process for its stakeholders. It creates an efficient set of processes, mechanisms, incentives, and monitoring to ensure that the executors' behavior is aligned with the organization's pricing strategy. The absence or inefficiency in governance leads to a struggle for power, which undermines the trust and commitment of those involved in the process. Good governance, on the other hand, is an essential facilitator in the performance of pricing activities, which are cross-functional in nature and must converge in a disciplined commercial execution.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Fátima Fagnani: Yes, it is the smartest way to optimize profitability. I explain why in the text I wrote: <https://bit.ly/3qn37Cc> "Price is what you pay, value is what you get." This is the foundation of Value Based Pricing. Although references to pricing by value date back to the 1990s, there are records by archaeologists who say that an Egyptian farmer who lived ~7,200 years ago was transporting milk in a container made from the stomach of a herbivore. Due to the bacteria contained there, an "accident" occurred, and the milk turned into cheese. When stored like cheese, milk could last for months or years instead of just a few days. The raw ingredient (milk) remained essentially the same, but the Egyptian had found a way to drastically change its value in the minds of his customers. He was probably able to get a lot more in trade (barter) for his milk compared to what he would have otherwise. Curiosities aside, Value Based Pricing is a strategy that sets prices mainly, but not exclusively, according to the perceived value of a product or service to the customer, and not according to the cost of the product or historical prices. The approach implies basing the price on the benefits of the product perceived by the customer - what really matters to them and is valued. In general, when used successfully, it improves profitability by generating higher prices without greatly affecting sales volume. What is important to consider in your definition:

- Focus on a single segment*. The first thing to know about value-based pricing is that it always references a specific customer segment. For B2B products, this could be a single customer. For multiple customer segments, you should determine an appropriate value-based price for each. *<https://bit.ly/30kFekl>
- Compare with the next best alternative. This pricing method only works when the segment has a specific competing product that it can be compared with. The question must be asked: "What would this segment buy if my product was not available?" This "next best alternative" is the essential point of comparison for value-based pricing. For truly new, unmatched products, the pricing methodology based on value needs to be explored through research.
- Understand the differential. The next task is to find out which product features are unique, that is, differentiated from the competition.
- Assign a value to each differentiating item. The last, and arguably the most difficult, step is estimating the value of resources and features that differentiate the product. To carry out this step, it is normally supported by the use of conjoint analysis research - <https://bit.ly/3qlmFqS>
- In conclusion, the company that masters the art of pricing by value and has discipline in execution* has "the knife and the cheese in hand."

*<https://bit.ly/3uYobCy>

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Fátima Fagnani: It depends on the position of the company and its products and/or services compared to your competitors. The company that is a price leader does not delegate the pricing of its products to the definition of its competitor's prices, establishing a premium or discount compared to the reference product. It should be noted that the price list can serve as an anchor, working as a technique that benefits from the consumer's tendency to compare the communicated price to your ability to obtain a discount. <https://bit.ly/3eetCaM> "Price Leadership & Market Share Leader." The company that holds the price leadership in its market is the one that has the ability to influence a price adjustment movement (up or down) and has this behavior quickly copied by its competitors. This skill is more prevalent in the company that exercises market leadership; however, it is not a "sine qua non" condition. This leadership must be conquered for its consistency and coherence with the reasons why the price movement is necessary and effectively accepted by the final consumer. It is certainly a great responsibility of the market leader to be the price puller, since competitors and consumers are always attentive to their movements. However, here it is worth emphasizing once again that it is necessary to find a balance between market share and profitability. One cannot live without the other; they always need to be optimized/balanced. After all, a company cannot gain market share without growing volume, nor can it sustain itself without profitability. It is worth noting that profitability is not maximized just by increasing its price to the consumer, but rather by always analyzing whether there is a price leak from the outside door to the inside, through the careful management of the waterfall (Gross to Net).

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices, or follow a strategy with identical prices for all customers in all channels?

Fátima Fagnani: Segment. Without a doubt. I make the following analogy in the pillars of pricing processes: This "investment" in each customer is obtained by deducting from the price of the positioning/value proposition of the product or service the sum:

- discounts given in the order/invoice (on-invoice);
- discounts conditioned to behavior (rebates or off-invoice);
- product bonus;
- incentive given in the form of a non-financial service or benefit.

In this way, it is possible to identify whether the "reward"/customer loyalty structure is really being valued. This is checked by comparing the Pocket Price of each customer with what was expected/targeted for the segment to which the customer belongs and with other individual customers, taking into account the volume purchased. It is plotted on the x-axis: volume, y-axis: pocket price, and the size of each customer's bubble can be the percentage it represents of total profitability. It is very common to identify customers of low representation/relevance with a large investment (low net price)... that is, make sure that the customer does not pay for beer, and you treat him with champagne.

Frederico Zornig: How do you define “pricing strategy”?

Fátima Fagnani: Strategy is the brain of the entire pricing process. It consists of defining which pricing model will be used and what the company's ambition is in relation to market share versus profitability. This includes the definition of price dispersion using the discount scheme for market access and by geography* (if necessary due to the product having different deliveries by region). *Brazil has the dimensions of a continent, and it may happen that the product (specific in some markets, such as agribusiness) performs differently depending on soil and climate conditions in each region. If the strategy is not clearly defined, the company does not have a guideline on which path to pursue and ends up driven by volume, sacrificing profitability. <https://bit.ly/2PFcXCY> “Volume or price?” This week during a professional interaction, I was asked this question: “Volume or price? Answer quickly!” My answer: both! And quickly I was challenged, “Pick one! Volume or price?” My answer: volume! How does a company survive with great pricing but not enough volume? It doesn't survive! Where is the art of pricing? At the right price! Setting the price that reflects the value proposition and what the customer really values is a science. This science can be exact if the right elements are used in pricing: what does the customer value? Does the product or service deliver what it really proposes? What is the value proposition of the product? Does your salesperson know how to argue about the attributes that generated the value proposition? So make no mistake! The sales force's first response will always be: volume. Take care that the price list is correct, that the best methodology was used for pricing, that the commercial terms bring competitiveness, that the relationship program is attractive and valued, strive for disciplined execution, and of course, that the other 3 Ps (product, place, and promotion) support pricing. After all, no strategy has value if it is not executed, and... everything that is done in marketing has to be captured through the price!

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Fátima Fagnani: The focus of the company must be the customer. Knowing your customers, you have products and/or services that satisfy their needs, as well as knowing their behavior, you can customize attractive offers, extracting value from customer segmentation. The competition must not be forgotten, it must be monitored. Having the ability to know and satisfy the needs of its customers with products and/or services at fair prices, their level of satisfaction with the company, the competition's movements must be monitored for impact analysis: launch of a new product and/or service, price movements, campaigns, promotions. It's an “eye on the fish, eye on the cat” – the fish is the customer, the cat is the competition. But if your company doesn't catch the fish... it starves.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it and how do you use the concept of elasticity in your pricing decisions?

Fátima Fagnani: In my market, there is a certain predominance of "inelasticity" for non-commoditized products. We use elasticity more in the repositioning of the list price of commoditized products or those that already have many competitors that offer compatible deliveries, as well as whether the product is top-of-mind or not. It may happen that the product already has compatible competitors, but there is a loyalty acquired by the brand in which the fact of being top-of-mind has little impact on changing the price variable to obtain more market share.

Frederico Zornig: Are you or your company using pricing algorithms to apply price changes with these approaches, especially in the electronic market (e-commerce)?

Fátima Fagnani: I will answer with the text I wrote about Dynamic Pricing. As information in agribusiness, the concept of shopping baskets has long been explored in the acquisition of a product/solution package in which the price of each product is not discussed, but the exchange ratio for commodities - it is called Barter. The industry sells the inputs exchanging them for "x" quantity of commodity grains (corn, soy, etc.) per hectare of input. <https://bit.ly/30eFtNK> "Dynamic Pricing". We are in the age of data, artificial intelligence, and pricing has also evolved. It is the richest area of data in marketing with a myriad of numbers that can generate information, direct strategies, and decisions. Through sales data (waterfall), it is possible to identify behaviors and opportunities to direct dynamic and intelligent prices/discounts. After all, what is Dynamic Pricing? It is a dynamic pricing strategy in which flexible prices are defined for products or services based on current market and customer demands and an intelligence that directs the maximization of traded volume and price optimization. A tangible example of dynamic pricing comes from the pricing of airline tickets. There is an algorithm that modifies the price according to the demand and supply of seats, day and time of flight, optimizing profitability. But it is not essential to have software support to utilize the concept. Incorporating more intelligence in the offer of dynamic prices expands the options and changes the negotiation level, directing a quid pro quo relationship. How about thinking about volume discount ramps? Lowest price with little credit risk? Quantity of products purchased? Offer options and minimize the use of discretionary discounting.

Frederico Zornig: What is pricing and/or revenue management to you?

Fátima Fagnani: For me, they are synonyms, a mere fad to replace pricing with revenue management or even value creation. <https://bit.ly/3c7vZJz> "*Chief of Pricing, Value Creation and or Revenue Management Officer?*" What do they have in common? Value, income, and profitability, therefore: Pricing! The main profitability lever that monetizes every strategy and is affected by every perception of value of its products/services, brand, reputation, and recognition by its customers, employees, society, and investors. Value Creation's attributions are to ensure that the company creates value for its stakeholders, with customer satisfaction at the center of its priorities. It is the company that people are proud to work for, admired by society, correct in ethical values and generates value to its shareholders/investors.

Revenue management must maximize profitability while ensuring the impact on the bottom line. It guides and permeates decisions that affect the entire company, far beyond the traditional financial perspective of producing efficiently, reducing expenses, tax, and working capital optimization. Intangible values such as reputation, employee and customer satisfaction are elements of the company's economic and financial sustainability. And pricing? Any resemblance to the two points I mentioned is not coincidental. It's like an iceberg; most companies only see the small visible part.

Frederico Zornig: What is your final message to those reading our conversation?

Fátima Fagnani: Being a pricing professional is a rewarding challenge. It's like being the conductor of an orchestra, ensuring that processes are properly executed by different areas (musicians), with the right tools (instruments), at the right time (the time each one plays), so that the music (product) is top of mind and applauded by the audience that pays what it's worth (clients). So, study, dedicate yourself, earn qualifications. Your skills in the aspect of what (what you do) and how (how you do it) are important. Pricing is dynamic, alive, new things appear every day - you have to be attentive to everything that surrounds your company's universe of products and services because, in the end, the whole company's strategy is in its ability to translate it into the price of your product and to run it at the highest possible volume.

FELIPE PIRES

Pricing Coordinator, Scania Latin America, 11 years of experience

Frederico Zornig: Tell us about your professional career and how you got into Pricing and/or Revenue Management.

Felipe Pires: I started working in the pricing area by chance, in my early professional days. At the time, Pirelli Tires was setting up a pricing area to support sales managers. They hired me as an intern. At that time, the department was treated more as an area for monitoring costs and the evolution of competitors rather than a pricing department per se. After that, I went to Toyota & Lexus Latin America as the professional responsible for pricing the utility car line (Hilux, SW4), and sedans (Corolla). The main objective was to equate elasticity, demand, production, and marginal profit. Because the brand had a limited production of X thousand units of vehicles per year, this quantity had to be monetized in the best possible way. After these years, I received an invitation to start pricing activities at Scania América Latina, where I am currently working. Working with the price of a product with a focus on B2B is different from B2C. Passenger cars, most of the time, are an object of desire, a dream. They are often an irrational purchase. The customer wants a certain vehicle, and many times (almost always) they do not do the acquisition accounts or the Total Cost Operation. Customers looking for trucks and buses analyze the price in-depth and make many calculations to understand whether or not the purchase is justified. In these cases, the purchase motivation is not based on brand or status but on the benefit of the product.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is the sales history still helpful in any decision-making process?

Felipe Pires: Equating price/volume/demand and margin. This is undoubtedly the main challenge now, considering the number of variables that impact the automotive sector. In 2020, the market followed an irrational path, experiencing a sharp drop at the beginning of the year and then a rapid recovery but with numerous problems; such as the lack of parts, currency fluctuation of +40% (Dollar vs Real). Approximately 50% of a vehicle is made up of imported parts/components. I can say that throughout all these years, I have never seen such a fast price evolution, in such a high %; only to cover part of the costs.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Felipe Pires: I understand that companies have finally started to understand the concept better and to treat this area with more attention. With more data being used nowadays, activities are no longer operational. Today, the focus is strategic. A correct price position has a lot of impact on the sales success of a product. The area will continue to be heavily involved with technology. It will be increasingly necessary to work with data (lots of data). I imagine that in a short period of time (5 years), pricing will be a completely strategic department across all sectors.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Felipe Pires: I look for candidates with knowledge of macro and microeconomics, a global vision, strong analytical and data interpretation skills. The technical part is trainable, but the candidate must truly understand the concept. They must understand the impacts that adjusting the price of one commodity can have on the entire chain. Understanding economics and marketing (market value concept) and knowing how to apply this concept in practice is essential, no matter what they graduated in.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Felipe Pires: Not yet. For many years, the concept applied was the "product sells itself," when the market still had few players. However, with the evolution of recent years, all companies began to look at pricing with much more attention. Initially, it was seen only as an area of operations. However, it was possible to present real gains and added value in these operations, showing the others that often adjusting the price by 0.5% will generate R\$ X million more in revenue.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Felipe Pires: Never burst the price-demand elastic band. NEVER. Winning the client over a second time is a lot harder. Today, more than ever, everyone is equipped with information. The client knows the market, has a clear perception of value (with rare exceptions). If we go over their price barrier, the probability of this customer migrating to another brand is very high. What if they see that brand "B" meets their needs as well as brand "A"? For you to bring this client back, how much will it cost? How many incentives/campaigns/added costs will it take to bring them in? I hope I never make this mistake.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or that you don't have access to? Please elaborate.

Felipe Pires: A database in Business Intelligence (BI). More than ever, a large amount of information is needed in order to model the entire pricing structure. Big data software helps in all analyses and strategic studies, saves work time, and helps us a lot in terms of assertiveness. Regarding the tool that I still see a need for, it would be interesting to have software similar to the Buscapé platform. A platform that performed the mapping in one go and brought us all the information at once. Without a doubt, it would be incredible for the industry. I believe that something similar probably already exists for retail and even for services.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Felipe Pires: I understand that the success of the area would be to present the organization with the best alternatives to increase revenue and profitability as a whole. With this, the importance of investing in this area will become clear to the entire organization, not just with software and data, but mainly with human capital. +1% of revenue that the area manages to bring to the company will already justify all the investments made throughout the process.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Felipe Pires: • People: Above all, it is necessary to have engaged and hardworking people who understand the importance of the area and work well as a team throughout all the stages of the process, like a cogwheel.

- Organized Information: In my opinion, it is essential to have quality information, documented in a clear and organized way.
- Market Data: Obtain as much market information and economic data as possible legally in order to understand the impacts on certain segments.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Felipe Pires: I believe that the main benefit will always be the opportunity to increase revenue and profit margin for the organization. With an area focused on pricing and revenue management, it is possible to analyze with much more precision the opportunities to increase revenue and gain market share in a sustainable manner aligned with a good pricing strategy.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Felipe Pires: Today, in general, marketing, sales, and finance departments, before making any decision, analyze studies generated by the pricing and RM departments.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Felipe Pires: I believe so since, in most cases, the market value is greater than the cost of the item or product. Then, it is possible to increase the profitability of the operation. For example, a passenger car. Customers' perception of value for a multimedia screen is something between R\$3.5k and R\$4.5k reais, while its cost for the automaker does not reach R\$1.0K. Now imagine that on nearly 300 items, R\$ 100K of perceived value, R\$ 50k of Cost. See, for example, in our market Small SUV vehicles (HR-V, Tracker, T-Cross, among others). They are "B" platform vehicles, on the same platform as compact vehicles, with a very similar cost. However, the perceived value is much higher for these vehicles due to their elevation off the ground. What happened in recent years? A flood of SUVs invaded the market. It was the niche and the solution that professionals found to increase the margins of all automakers.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Felipe Pires: Without a doubt. I understand that one of the best ways is to increase both revenue and margins in certain items. This is also very common within the automotive sector. Raising the price of entry-level products to make mid or high-grade products look 'cheap.' When this is done in a structured way, it brings great gains to the sector.

Frederico Zornig: Is it better to segment the market and capture the max from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Felipe Pires: The best strategy is to segment the market. For a clear reason: customer loyalty. There are many cases where a customer cannot purchase the best product of a given brand, but he has the possibility of purchasing an entry-level product (Example: Toyota Etios and Toyota Corolla). Once the customer is inside the brand, the possibility of him remaining loyal is much greater. Soon, they see the value in the more expensive product they wanted to buy. Therefore, segmenting the market is the best option.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Felipe Pires: Yes, even though the customer often pays a higher price for the product, it is important that it is clear to them why they are paying this price and the benefits that this will bring. Today, more than ever, we have many competitors in all segments. The customer is not a fool. We must be transparent in all operations, ensuring that the reasons why they are paying more are clear to them. For example, why is product “A” 12% more expensive than product “B”, but both are excellent in quality? The answer is simple - product “A” is more economical, and this justifies the higher price. Not to mention resale value, maintenance value, and all other items that make up the TCO (Total Cost of Operation). The customer understands this, and many of them end up purchasing the product, except for customers who have the “purchase price only” mindset.

Frederico Zornig: How do you define a “pricing strategy”?

Felipe Pires: Always in line with the company's objective. The best strategy is the one that increases gross margin, billing, and market share, but this is not always possible...perhaps only Apple can achieve such a feat. But I define the pricing strategy as follows: the right product, for the right customer, at the highest price he is willing to pay.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Felipe Pires: The client. Every company I've worked for has always focused on the customer. But in order to be able to do that, you must have one of the best products on the market. Once you have that, the focus should always be on the customer. The competition must be analyzed when it does something different or innovative in the market. In the automotive sector, we must focus on the customer; treat them well, deliver quality, show that your product adds value to the operation, and they will always be faithful to your brand, making the competition have to hustle to try to win them over.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist, such as cross-price and income. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Felipe Pires: In the automotive sector, we use price elasticity. Cross-elasticity is still at a very early stage in the truck sector. We started using it a little over a year ago, and then the pandemic hit. I believe that in the second half of 2021, we will have a better resolution regarding its usability in the sector.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Felipe Pires: In the vehicle sector (passenger cars, trucks, buses), unfortunately, it cannot be used due to the product itself, and also for organizational reasons + the authorized network.

Frederico Zornig: What is pricing and/or revenue management to you?

Felipe Pires: It is a sector of extreme and vital importance for any company and should be positioned in a way that allows it to report activities directly to the CEO, MD, and the company's country manager. Today, more than ever, companies should have their pricing & RM areas aligned with the C-Level suite, for all decision-making processes that you may face regarding products, sales, marketing, campaigns, and the like.

Frederico Zornig: What is your final message to those reading our conversation?

Felipe Pires: The pricing and RM area is still experiencing great growth, with great opportunities for improvement, mainly in the more traditional sectors (the automotive industry is one of them). Great opportunities in the near future. I hope that all of us who work with prices today can continue to show everyone the value that can be generated (added value), how we can contribute positively to the organization, results, and financial success. Not limiting ourselves to working only on operations but on strategies, too, or instead.

GABRIEL FOZ

Pricing/Commercial Intelligence Manager, Swift Mexico, 10 years of experience

Frederico Zornig: Tell us about your professional career and how you got into Pricing and/or Revenue Management.

Gabriel Foz: I am passionate about this area and very grateful for how my professional journey has led me to it. Right after graduating from college, I joined the corporate Trainee process at Makro Atacadista. At the time, the process consisted of an 18-month job rotation across all areas of the company, starting with the operation of the stores (receipts, sales, check-out, customer service, restaurants, gas stations, accounting, maintenance, human resources, and store management) and then passing through the core areas of the central office (commercial, operations, marketing, own brands, logistics, and new business). At the end of the program, I was selected to join the Pricing team, which was just starting at the company. Up to that moment, pricing decisions were all decentralized in the commercial area. Thus, a new structure was being created, a new autonomous and independent structure with a Pricing Board that would centralize the pricing strategy. I assumed a Pricing and Assortment Coordinator role, and over a period of 4 years, I was responsible for the pricing promotional actions, virtual pack policies, training the Commercial and Marketing teams, and supporting negotiations with suppliers. I was also involved in the implementation of the Profimetrics price optimization software. After that period, I was invited to join Swift Mercado da Carne to structure their Pricing and Commercial Intelligence area. During the 5 years of my journey at Swift, I implemented pricing processes and policies for retail channels (physical stores and mobile stores), their e-commerce channels, and their stores that were inside other shops. I also supported the structuring of the Pricing area in the US operation (under the Wild Fork Foods brand) and Mexico (under the Meatme brand). During this period, I also taught Pricing classes in the Retail module at the Germinare Business School for high school and elementary school students. I recently took on the challenge of taking over the management of Pricing and Commercial Intelligence in Swift Mexico's operation, to support the brand's growth in that country. It has been yet another rich experience, full of challenges and learning on a day-to-day basis. Finally, I feel extremely fulfilled in this area, and I am fully aware of the impact that my decisions have on the business.

Frederico Zornig: What is pricing and/or revenue management to you?

Gabriel Foz: Personally, I understand Pricing as the science of balancing the balance between being able to offer the product or service at a price that the customer feels is getting a good deal (perceived value generation), while also ensuring margin optimization for the company. This science is not just about balancing this scale... it is also vital to keep expectations in line with other areas involved.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Gabriel Foz: Success for a Pricing or Revenue Management area within an organization can be defined as generating value for the brand, which is more intangible and long-term, and improving financial results such as greater sales, profitability, and number of customers. However, achieving these goals requires coordination with other core areas of the company to offer the best product or service to the target audience.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Gabriel Foz: One of the most important day-to-day processes for a Pricing/Revenue Management area is staying close to the frontline employees who are in direct contact with customers. This ensures that pricing strategies are effectively transmitted to clients and that the teams understand and are convinced that the decisions made are the best for the company. It is also important to stay close to competitors and understand their operations, innovations, and areas where they are doing better. Finally, staying close to customers and listening to their feedback, comments, and understanding their needs is vital for successful Pricing/Revenue Management.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Gabriel Foz: One of the biggest lessons I learned while working with Pricing and Revenue Management is that there is no correct path or decision, especially in an uncertain business environment. The best course of action is to make the best possible decision with the available information, act quickly to apply necessary changes, and share or disclose the possible impacts of the decision to everyone involved.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Gabriel Foz: First, the growth horizon for this area is huge. With the increase in competitors and new players, increasingly knowledgeable and demanding customers, and the difficulty of predicting impacts on costs (e.g., the variation in the dollar due to global political instability), I see more and more companies in Brazil waking up to the importance of an area dedicated exclusively to Pricing and Revenue Management decisions. We see this around us. It is becoming more and more common for the pricing position to be raised to the C-Level of organizations. Another important aspect that will contribute to this is the impact of technology: price comparison robots, dynamic pricing, algorithms, and predictive analysis for price formation fed back with machine learning. These elements will provoke increasingly complex discussions, and we will need professional experts to configure, calibrate, test, and learn from these tools in the beginning.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Gabriel Foz: More than specific technical skills, I always look for professionals with attitudes and behaviors that I consider key to the success of the area. One of the main characteristics I look for in professionals for my team is good communication. Naturally, the Pricing area needs to accommodate the different demands and expectations of other areas, which are often conflicting. Therefore, it is essential for a pricing professional to know how to manage these expectations and be a good speaker/negotiator to arbitrate conflicts. Furthermore, the pricing area is often the "bearer of bad news". Therefore, the ability to communicate and expose the message at the right time for the right forum is essential. Another point that I see as essential is the ability to find new ways and propose alternative paths and solutions. A third desired characteristic is strategic vision. Professionals need to be able to see things in the long run and understand the impact of their decisions on a day-to-day basis. Another frequent question is the desired academic training. Currently, I cannot say that there is a specific degree that I recommend, although I can mention that professionals trained in Applied Social Sciences (such as Administration or Economics) or areas of Engineering, Mathematics, and Statistics end up having a little more ease with the themes and challenges present in Pricing's everyday life.

Frederico Zornig: What technology do you consider essential for your activities today, and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Gabriel Foz: More than a specific technology, I believe that fundamental aspects for a successful Pricing area are:

- (1) Well-defined processes;
- (2) Quality of the information that will be input for decision-making;
- (3) Governance, with autonomy for the area and support from the organization's top management.

With these points well defined and implemented, the Pricing area will surely be well-structured, and in this case, technology will come as an accelerator, providing more speed, performance, and efficiency to the area's processes. Regarding long-term perspectives, I believe that the main technological challenge is a solution capable of grouping and processing all the innumerable internal and external data from the most diverse sources of information that impact and are impacted by price decisions (and here I highlight that many of these inputs are unstructured or intangible data), calculating the variables and delivering the optimal price recommendation according to the defined objectives. In my opinion, I understand that an advanced analytics solution connected to a robust data lake, and programmed to deliver price solutions considering this scenario of multiple variables, is still far from the reality of almost all companies in the Brazilian market.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Gabriel Foz: I think we always have to “walk in someone else's shoes”. Empathy is key in successful organizations, especially in a sensitive area like Pricing. In addition, another essential aspect is trust. Trust comes with time, consistently delivering above-expected results, distributing outputs to other areas with relevance and quality. From a management point of view, I believe that shared KPIs can help the areas collaborate to deliver results (for example: Pricing and Commercial sharing the same utility margin target; or Pricing and Marketing sharing the same growth target for a specific sales channel).

Frederico Zornig: How do you define “pricing strategy”?

Gabriel Foz: I see pricing strategy as the set of all actions and policies that the company takes to put the brand positioning and how it plans to be recognized in its market by its target audience into action. Naturally, this strategy can be adjusted based on the maturity of the company, in cases of the emergence of new competitors, or even changes in customer behavior.

Frederico Zornig: Is it better to segment the market and capture the max from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Gabriel Foz: I believe it depends a lot on the type of business and how customers perceive it. The latest iPhone is sold at the same price all over Brazil. On the other hand, fashion/apparel companies may eventually charge different prices between their own stores, franchises, e-commerce, and multi-brand stores, within a price range that customers can understand. In this case, it is essential to find the balance line so that there is no conflict between channels.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Gabriel Foz: I believe it also depends on the company's segment and the product or service being sold. For cases where it is possible to add brand value to the product or service and generate differentiation from competing brands, it is a good alternative. However, it is essential to reinforce that the target audience must be able to perceive these benefits and see the value of doing business with your brand. If we are talking about more commoditized products or services, where it is not possible to have so much differentiation, I believe that this alternative would not be the most appropriate. In this case, as margins are generally tighter, efficient pricing is the key factor for the sustainable success of that product or service.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Gabriel Foz: I understand the concept, but I don't particularly believe that strategies that “fool” customers will be successful in the long run if they don't actually deliver quality that matches the price paid. For example, in the cinema line, at the time of purchase, the customer may feel an advantage in buying an extra-large pack of popcorn for \$16, when the small one is \$13 and the medium one is \$15; but upon further reflection, would they agree with the amount paid? The big question here is: if there were another option available to the customer, would they still make that choice? On the other hand, I understand that price anchoring (in the sense of offering a reference to the customer when it is not possible to determine exactly how much a specific product or service should cost) turns out to be a valid approach in some cases. For example, in the consulting services segment, it can allow the customer to “break the barrier” and make the decision to try an incoming service and thus be able to assess the quality. If the delivery met their expectations, the customer will surely be more comfortable making the decision to go ahead and hire the service with less hesitation and fear.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Gabriel Foz: I strongly believe that the more transparent the relationship between client and company is, the greater the level of trust, engagement, and long-term success it will generate. With a transparent and clear relationship, when there's a price adjustment due to a substantial increase in one of the materials needed for production, an increase can be better interpreted and better understood by customers. I also believe that customers are increasingly more aware of their purchases: in the near future, they will be willing to pay a little more for brands that have a lower environmental impact or that actually contribute to the community they are a part of. Naturally, this relationship of trust is developed over time, through serious, consistent, and transparent attitudes.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it and how do you use the concept of elasticity in your pricing decisions?

Gabriel Foz: Elasticity is one of the most important factors to consider in the pricing decision process. Despite this, due to the BANI world we live in, it is one of the most difficult aspects to analyze. If we only look at the historical behavior of the price vs. demand, we will certainly be failing to consider all the other variables that may have had some level of influence in the past and may impact demand in a different way in the future. Some of these aspects are more obvious (for example, the actual availability of the product or some competitor's moves), some are unexpected (we can mention the impacts caused by the recent truck drivers' strike or the pandemic caused by the coronavirus), and some are more difficult to follow (such as social media trends or even changes in the weather).

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Gabriel Foz: I agree with Bezos 100%. Customers are the key to everything. By knowing your customer, you will be able to understand their needs, expectations, and desires (which are often latent) that perhaps your competitors are not delivering. In addition, it allows you to holistically interpret who your competitors really are and act quickly in cases of emerging new players. Today, a pizza delivery restaurant cannot consider only other delivery pizza shops in the neighborhood as its competitors. It competes for its target audience with all the restaurants and dark kitchens that deliver and offer meal solutions in its trade area. Another example that we can mention of this type of “cross” competition is the effect of the rise of streaming services such as Netflix and Spotify and their decisive impacts on the business of physical bookstores.

Frederico Zornig: What is your final message to those reading our conversation?

Gabriel Foz: My message to the professionals who are building Pricing departments in their companies: the responsibility is huge. It's a new area, and companies are waking up to the importance of Pricing and starting to demand increasingly qualified professionals for this challenge. We have a very big responsibility. We are building their reference of what professionals in this area are, what our qualities, specifications, and way of working are, and, above all, how much transformation we bring to organizations. The more we raise the bar, deliver better-than-expected results and have people committed to these points on our team, the more recognized we will be for our value and contribution to organizations in the medium and long term. In addition, depending on the segment, the responsibility is doubled: the level of performance is directly related to customers' consumption capacity, that is, every price decision is connected with the possibility of expanding or restricting access to our products. More than asking you to think about expanding your customer base, the question I want you to reflect on is: how much are your actions as a price decision-maker allowing more people to have access to and improve their quality of life with your brand's products?

HIGOR CONTI DE ALMEIDA

Pricing Manager, Boehringer Ingelheim, 10 years experience

Frederico Zornig: Tell us about your professional career and how you got into Pricing and/or Revenue Management.

Higor Conti de Almeida: I graduated in chemical engineering and started my professional life working in industries, in the operations department, super connected to the factory floor and production. I was a trainee at Votorantim Cimentos with this focus, and along with my work in production, I had the challenging project of studying new factories that were going to open. In this challenging project, I had my first contact with market studies, and combining them with my knowledge of production, costs, and capex, I was able to have a complete view of the scenario to carry out the studies. I stayed in the production area for about 2 years, and at the end, I had 2 opportunities: to continue in the operations area or to continue my market studies for further expansion. At that moment, I chose to continue with market studies, which put me on the commercial/corporate path of market studies, market intelligence, competitors... It was the step that brought me to pricing today. I believe that my in-depth knowledge of production operations and analytics still help me in the business process. Market intelligence has improved over time, and pricing is increasingly part of it. I went to work for another company (Cargill) with a similar scope, but with the evolution of jobs and structures (even though pricing was already an activity), and I finally took on pricing positions (with the creation of areas and structuring of processes). After that, I continued in the pricing business and moved again to my current challenge: Boehringer. Currently, I'm very focused on structuring processes, too (Latam and Brazil).

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is the sales history still helpful in any decision-making process?

Higor Conti de Almeida: About the sales history, it's still helping because the branch I work in today is considered an essential activity, so there wasn't a big difference during the pandemic. One of the biggest challenges is understanding which consumer changes may or may not remain. Another point is the balance between supply vs. profitability (possible price increases) so as not to undermine relationships with customers who have withstood the pandemic, and consumers do not feel harmed short-term.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Higor Conti de Almeida: I believe that in the coming years, pricing areas will have greater clarity and more definition of their activities, perhaps through the standardization of activities across companies. This is because pricing is a department that has been growing with returns, but it still has many particularities in each place regarding structure and activities. Furthermore, digitization (before automation) should also take place in general. I believe that if this happens, it will affect the work, requiring more analysis, decisions, and granular follow-up, instead of work that revolves around generating information/reports or even controlling processes.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Higor Conti de Almeida: I generally look for analytical skills, systematic thinking, and good communication. I seek to develop these characteristics in my team through day-to-day activities, interacting with different teams to understand the company as a whole, and demanding clarity and consistency/repeatability of analyses. I don't think there is a specific academic background required to work in pricing; good professionals can come from different fields. If we're talking about focusing on a specific formation or skill, I believe it depends on the size of the team. If you have few resources, your team will have to be more generalist and cover both technical and behavioral aspects. If you have a large team, it is possible to have data specialists, other members who are better communicators, and others who are more analytical.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Higor Conti de Almeida: Due to the confidentiality of some information, I cannot comment in detail about the company's pricing process.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with pricing and revenue management?

Higor Conti de Almeida: I learned that very complex changes and implementations that are difficult to understand will either not be applied or they will easily be “forgotten” when not explained or phased. As I said from my experience, the commercial process is “similar” to the productive process; there are hidden variables. One often depends on different teams, such as sellers, buyers, and customers. Each link puts constraints that, when phased in, are sometimes easier to get around. Personally, I find that taking many small, consistent steps is better than one big leap that won't sustain itself.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Higor Conti de Almeida: I believe that the main technology for pricing today is some kind of BI/Analytics software (like tableau, powerBI, among others). The amount of data has grown and using only Excel has not been a sustainable strategy.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Higor Conti de Almeida: The success of the pricing area is given by the recognition of the business/sales as an area that collaborates with solutions (qualitative), in addition to being quantitatively an area that reaches/helps to achieve the financial objectives and is able to measure the contribution given by prices/processes and price analyses.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Higor Conti de Almeida: I believe that a mix of analyses with internal and market data is important. This combo can give us a view of the competition and internal pricing architecture.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Higor Conti de Almeida: I believe that the main impact I brought was when I worked at another company in another sector, where I reviewed the commercial policy that was applied, adding controls and making the management of discounts and investments clearer.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Higor Conti de Almeida: Due to the confidentiality of some information, I cannot comment on company details regarding pricing indicators. In theory, it is always necessary to look for internal and market indicators.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Higor Conti de Almeida: Seeking synergy in results meetings or planning meetings, aligning activities, and supporting areas such as sales and finance during the day to day. Often listening to the needs of the areas and many others with a focus on helping to carry out some initiatives, albeit outside the scope of pricing, in order to be able to insert the pricing vision into the theme. Generally, finance is a partner area and so is sales, especially in markets where we have less information and sales ends up being our channel for the capture of data.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Higor Conti de Almeida: I believe that most of the time, it is the best way, because it tries to maximize the price (or optimize) in relation to what the consumer who demands the product sees as value. However, depending on the reality and objectives of the companies, it should not be the only way considered. We also have to merge it with internal views of prices, profitability, volume, costs...

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Higor Conti de Almeida: I believe that when you have a portfolio with a variety of SKUs, it is a good approach, but there are many difficulties in execution due to the way you negotiate or when you do not work directly with the consumer/client. The more intermediaries you have, the harder it is to execute it.

Frederico Zornig: Is it better to segment the market and capture the max from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Higor Conti de Almeida: I believe that segmentation is one of the best ways to adjust prices to different customers. With the advancement of technology it is possible to segment/customize more and more. The trend is for technology to let us reach the consumer one by one, individually.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Higor Conti de Almeida: I believe it should be transparent not only to customers but also internal teams. It should be clear to everyone what the possibilities are when it comes to discounts, growths, investments (and keep these decisions firm). For more informal markets there may still be a little flexibility. I believe that by complying with these structures, over time, the discussion is reduced from being just about prices and evolves to how to sell more, optimize...

Frederico Zornig: How do you define “pricing strategy”?

Higor Conti de Almeida: Pricing strategy is the way we are going to convert the company's sales and financial objectives into a language for negotiating and executing sales in a way that achieves these objectives.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Higor Conti de Almeida: I believe they are different foci. Knowing your customers and focusing on them ensures they have a good experience and you reduce their desire to look for new suppliers/products. However, this focus alone may not explore a universe that has not yet been accessed, so checking what competitors are doing can bring an external look, and, with small adaptations, you can continue to satisfy your customers.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g.: price) has on another variable (e.g.: demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it and how do you use the concept of elasticity in your pricing decisions?

Higor Conti de Almeida: Elasticity helps measure and suggest better promotions and discount returns to customers, for example. Thinking about some applications, we see that it is more effective in promotions, where the purchase impulse is greater. The challenge lies in execution, where, in addition to having other variables that influence elasticity, the need for more immediate results from customers or suppliers makes application difficult in the medium and long term.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Higor Conti de Almeida: I have no direct experience with this approach at the moment.

Frederico Zornig: What is pricing and/or revenue management to you?

Higor Conti de Almeida: I believe that it is the study of prices that leverages the company's results. Translating “mathematics” into simple actions that can be understood by teams and customers.

Frederico Zornig: What is your final message to those reading our conversation?

Higor Conti de Almeida: Through discussions and the exchange of ideas we can review, learn and even create new concepts and approaches. I hope this content helps in this kind of reflection and all points of agreement or disagreement can be discussed (either in the event that we will hold with the pricing architects or in other future conversations).

**all responses express my opinion as a pricing professional and do not express the opinions of the company I work for.*

JULIANA BENJAMIM

LATAM PRM Manager, Electrolux, 12 years of experience

Frederico Zornig: Tell us about your professional career and how you got into Pricing and/or Revenue Management.

Juliana Benjamim: I started in pricing in 2008, as a pricing analyst at GPA. My previous experiences had been in the commercial area and financial planning. At GPA I joined a project to implement a pricing tool, I ended up staying there for almost 7 years, going through some other projects and pricing all the group's categories (non-food, grocery, liquid, DPH, etc). In 2015, I accepted a proposal to take over the Pricing Manager chair at Ricardo Eletro, with the challenge of unifying the areas, systems and processes of the group companies (Eletroshopping, Insinuante, City Lar, Salfer and Ricardo Eletro). In 2016, I left Ricardo and went to Cosan Lubrificantes. At the time, the company was undergoing a structuring of the pricing area and creating new processes. In 2020, I left Cosan after finishing the pricing project, implementing a tool and going through a short assignment in Argentina to create the department in the country. Since 2020, I've been at Electrolux, as PRM Manager in Latin America, responsible for leading projects in the region, working with local teams, ensuring standardization and alignment with the company's global requirements.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is the sales history still helpful in any decision-making process?

Juliana Benjamim: The pandemic caused a lot of problems at first, but later, due to the company's business and the change in consumer behavior, everything was back in balance. The main challenge is to sustain the healthy growth of e-commerce, ensuring that in terms of PRM, the other businesses are well structured for decision-making.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Juliana Benjamim: I see this trend of online shopping strengthened, markets are increasingly unified and consumers are very well informed in decision making. In companies, in turn, the data science area is being incorporated into routines and systems. These movements have already started, but in 5-10 years they will be more mature. Today, the decision-making process is still very reliant on people, but this is going to change a lot. The arrival of a new generation in the market should also bring a new structure of thought to the decision-making process.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Juliana Benjamim: I highly value co-creation skills and team spirit. People who are truly capable of sharing an idea and letting it be transformed many times within the group, in favor of a much better result. In addition, willingness to always learn and carry out projects that are relevant to your user (UX). In the technical part, I understand that if the person has this desire to learn and good analytical capacity, anything can be developed, including PRM.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Juliana Benjamim: The company has people with experience in pricing and the executives understand and support the development of the dept. I would say that we are developing this culture, through well-established processes and specific discussion forums.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Juliana Benjamim: PRM is very sensitive and permeates many areas of the company. A lesson that I carry with me daily from past experiences is to always identify the impacts of any change very well and, preferably, develop any new solution together with all the areas that would be impacted. The famous change management is an essential matter for anyone who wants to establish a good PRM within a company.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Juliana Benjamim: It is essential to have a decision-making tool that has automatic feedback and can, within the process, follow basic rules (eg product family hierarchy), while also providing reports for decision-making, route correction and forecasting. In addition to this, having access to market and competition information within the process and basic research on the final consumer profile, so that decisions are not distorted.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Juliana Benjamim: Success is having an area with well-defined processes and KPIs that can actually support the company in the decision-making process or in turbulent times (a pandemic is a good example). The area should offer a clearer view of the possible paths within a strategy, taking the decision from people and bringing arguments based on numbers, history and also, of course, the experiences of all the experts involved.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Juliana Benjamim: The final consumer needs to be closely monitored at all times. Not just monitoring the current situation, but also trends in behavior and changes in the consumption profile. Having a clear view of the competition's movements and the macroeconomic scenario helps to identify necessary course corrections.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Juliana Benjamim: Due to their importance, PRM projects generate monetary benefits. I participated in projects that resulted in profitability growth in a short period of time. In addition to this, I see building a pricing culture within the company, establishing clear rules and processes to guide decisions, negotiations and building teams with team spirit as unquantified benefits, but it is very important for the business.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Juliana Benjamim: Looking at the companies/segments I went through, I understand the following important indicators: gross price analysis, net x cost (manufactured/imported) to understand the price transfer; VPM analysis to understand NS variation and period margin, POS price x competition (and if possible x WTP); price dispersion by channel/customer/business; channel conflict analysis; % investment by type.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Juliana Benjamim: Having a forum with the participation of key areas is super important to guarantee this synergy. In addition, any change in the process must be well planned, including prior communications, adjustment meetings with other areas and periodic monitoring. Preferably, major changes should be developed with all areas that will be impacted so that this important synergy is present from the beginning.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Juliana Benjamim: Value-Based Pricing is an excellent strategy, but in my opinion, no methodology walks alone. Even if it is the main rule in your scenario, secondary rules (with less weight) must follow to guarantee the security of the business. Ex: stock/demand analysis, minimum margin, competition movements, and economic scenario.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Juliana Benjamim: I've seen companies apply this strategy very well. Example: restaurants. I believe that in some situations they can work very well, yes.

Frederico Zornig: Is it better to segment the market and capture the max from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Juliana Benjamim: I believe that segmentation is very important for the vast majority of companies, especially when we are talking about large markets, such as Brazil. There is a disparity in the consumption profile that must be analyzed for pricing.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Juliana Benjamim: Undoubtedly. Transparency will allow long-term partnerships and healthy negotiated margins.

Frederico Zornig: How do you define "pricing strategy"?

Juliana Benjamim: I believe that a pricing strategy should be defined after a thorough analysis of the company (resources allocated to the activity, available tools, price information flow, product/cost), the market (consumer profile, competition, economic situation), and pricing current (price, margin, volume, dispersion, etc.) With this starting point, it is possible to understand and adapt a pricing methodology that is suitable within the market and establish growth indicators and objectives.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Juliana Benjamim: The company's focus should be on the customer and on the trends that its market is pointing to. Not just your customer today, but how that customer should evolve in the coming years. In any case, in this analysis, it is important to understand how the competition is doing and how it should also react to this evolution.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g.: price) has on another variable (e.g.: demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it and how do you use the concept of elasticity in your pricing decisions?

Juliana Benjamim: I have already used elasticity to make a decision about the price increase. Understanding the elasticity of my product and the competition. It is very relevant information, but it must be used with great care, because in volatile markets and with many uncontrollable variables, elasticity can point to movements that do not exist, caused by a single, unidentified event. It is extremely relevant information, but always use it alongside a professional analysis.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Juliana Benjamim: The company is focused on this market that has been responding very well in recent years. Currently, the area is much more dynamic than the traditional market, and the trend is for it to develop further this year with pricing and algorithms.

Frederico Zornig: What is pricing and/or revenue management to you?

Juliana Benjamim: PRM is an extremely strategic area within a company. PRM must be the guardian of profitability, without losing sight of competitiveness in its market. This management encompasses every part of Gross to Net in the P&L. It must provide support and direction for business decisions.

Frederico Zornig: What is your final message to those reading our conversation?

Juliana Benjamim: I've been working in PRM for 12 years and within that period, I've seen an exponential growth in information on the subject and investment within companies. Companies that have not yet woken up to this reality need to run. Professionals who have just chosen to work in the area should know that entering this field is an excellent opportunity to challenge yourself and they should seek good references on the subject in order to develop. I see in pricing a network of people who are always looking for this connection and are generous in sharing their knowledge, and that is very good.

LEANDRO CREPALDI

Senior Manager, Goodyear, 10 years of experience

Frederico Zornig: Tell us about your professional career and how you got into Pricing and/or Revenue Management.

Leandro Crepaldi: I started my trajectory indirectly in pricing when I worked at Unilever in the FP&A area for channel analysis. I say indirectly because I only did a trade profitability analysis for the value chain of all channels, from leaving Unilever to the arrival of final value and the profitability of each of the links in the chain. I was invited to start developing the pricing area at Mexichem (commercial brands Amanco and Plastubos). When I met Quantiz, they were hired to help us with this project, which consisted of readjusting channels, commercial policies, types of discounts, price tables, competition development, and team structure. At that moment, I saw the delivery of results that a pricing area can give in the short, medium, and long terms, and I fell in love with the area. A fundamental point that I learned was that if the commercial area buys the idea of pricing, it works (in an industry). We had full support from our Commercial Director at the time, and the project, so despite all the challenges, it was a success. I also worked at Cosan Lubrificantes as a strategic pricing coordinator, which made me certain that pricing and revenue management need to go hand in hand within a company, having the same report. They were separate there in the past, responding to different boards, which didn't work... Today, they are together. Finally, I joined the pricing area at Goodyear, and with the lessons learned throughout my career, I created some pricing points that I believe are effective and deliver results for the company.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is the sales history still helpful in any decision-making process?

Leandro Crepaldi: At this time, with the pandemic, the big point is to understand the demand and market for tires, as it has a variant that has a very high market share, which are imported tires and which, at a time like this, has a very high volatility in entry and prices and they make local industry volumes almost impossible to predict. We went through a moment of lack of demand at the beginning of the pandemic, and the forecasts given by customers were extremely pessimistic. With the rise of the USD, imports disappeared, replacement demand increased absurdly, and the sales of new vehicles increased absurdly with the rise in prices for used vehicles. Today, we are experiencing a shortage of car tires in the market as a whole. The sales history of 2019 and years with low imports in the market are still helpful, but the levels of assertiveness are lower than in the past within the analysis cycles we carried out.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Leandro Crepaldi: I believe that the pricing area is growing above the market curve, and that companies, even more so after such a complex moment as this pandemic, will be structuring their pricing areas (we see an increase in pricing job offers appearing on the market), and the companies that already have them will be hiring specialized consultants and training their teams. In addition, they will be investing even more in strengthening the teams. I also believe that the area is becoming much more technological, with several intelligent systems that help a lot in decision-making. But despite the statistics, I am very much in favor of the idea that people need to understand and trust in the pricing area, to let it + technology bring us the results we know our area can deliver. Another important point to analyze is the question of the pricing professional in the future. The path, in my point of view, will be much more focused on decision-making and interpersonal relationships. In addition, internal convincing, as technology will bring variables and analyses that will almost answer questions, but the human part of pricing will require this from pricing professionals in the future.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Leandro Crepaldi: I'm looking for analytical people with excellent interpersonal skills. What I really believe is that the combination of these factors for our pricing area makes the professional able to transcribe, for example, a statistical analysis for people who do not understand and make them understand and buy into this idea. This is the ideal professional for pricing. We usually find good people (internally) in finance who have sales skills and vice versa. For the pricing area, you don't need specific training, but a person who has a mix of two fundamental points: being a person with easy interpersonal relationships and being an analytical and empathetic person. This skillset fits the challenge of the pricing area in organizations, because in addition to knowing how to analyze in-depth and see profitable alternatives for the business, we need to know how to navigate within the organization so that the board and other areas of the company are engaged and convinced.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Leandro Crepaldi: Yes, my company does have a pricing culture. This was a significant challenge in all the organizations I worked with, as many of the discount decisions and commercial policies were made solely and exclusively through sales and finance. With the creation of the pricing area, the great challenge was to establish a pricing culture. To achieve this, the focus was on achieving quick wins to demonstrate that the pricing area is effective and delivers results, both in the short, medium, and long term. We also had to establish a pricing cycle within the company, which involved engaging all areas of the organization and then making a final decision as indicated by the board. As a result, in several of my experiences with pricing, this level of engagement consistently increased the pricing culture over time within the company.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Leandro Crepaldi: That statistics can be wrong. However, we have already learned the extent to which we can use it. It is a fundamental tool, but we do have to consider people's experience. The best mix is statistical intelligence + experience, it is this mix that helps us make decisions that maximize profit and minimize error.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Leandro Crepaldi: I believe that for day-to-day transactional operations, SAP is fundamental for pricing. For tactical analyses, I would recommend Vistex in the Dmp package. I would love to make more use of the Vistex modules, as I see great potential in the tool in terms of managing credit notes, defining commercial policies, and tactical actions.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Leandro Crepaldi: As mentioned in some of my previous answers, I defend that a pricing area is successful when the sales department buys into the idea, understands the analyses and decisions, and feels like an integral part of the process. Another point that I strongly defend for the success of pricing within organizations is the question of a pricing cycle, that is, sharing a few moments with the areas of interest, like a moment for meetings with sales and marketing, to understand what we did right and what opportunities we will have for the short, medium and long term. Afterwards, it is also important to have a meeting to decide and define the next steps, including supply chain and finance, and finally a monthly meeting with the company's board, so that the decisions are aligned with the entire company, as well as the calculations and results forecast.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Leandro Crepaldi: I believe that in the day-to-day of the pricing area, the most important processes are: Monitoring the daily, weekly and monthly KPIs to understand whether the strategies outlined are being directed in the right direction. Another very important point is to give some autonomy (with control) to the commercial area, so that they can make decisions without depending 100% on the pricing area. In this way, we prevent the pricing area from becoming a bottleneck for sales and avoid the title of "anti-sales area", we want to be and be seen as a partner area of the commercial area. In addition, tools that allow an analysis and understanding of the market, in a reliable and fast way so that course corrections can be made, in a way that generates results for the company.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Leandro Crepaldi: Within the pricing area, we created some benefits for the company. First, within the strategic scope, we defined who would be our main competitors by product and what would be the optimal price difference. Another point was to give controlled autonomy to the sales and follow-up area through KPIs. Understanding of the entire value chain for making pricing decisions.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Leandro Crepaldi: We created the pricing cycle where all related areas participate, such as finance, marketing, and supply chain, and they all have moments of interaction and participation in pricing decisions. With this, everyone feels like an integral part of the process, and we maintain synergy between areas. However, there are always partner areas and more difficult areas, areas that progressed well and areas that did not. I also believe that people can hinder or make it difficult to implement a pricing area, so I believe that the sponsor and the company's decision-makers must be engaged and buy into the idea. In addition to all areas buying the idea, the ideal is that the CEO, CFO, and Sales Director buy into the project, so that other areas of the company can understand the importance and thus help in the implementation process. Another necessary point for success is aligning indicators between areas, such as price level within commercial policies, % discount level, GP aligned with the company's objectives, among others.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Leandro Crepaldi: In the tire industry, perceived product value is low, yet our product positioning strategy is about customer perceived value. We have a strong quality brand that guarantees standards of excellence, effectiveness and efficiency, in terms of mileage, wear and tear, among other tire factors.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Leandro Crepaldi: I think so. For example, in most of the "suggested price" tools, price anchoring is used. I believe that this factor is something psychological that helps in sales and in maximizing companies' profits.

Frederico Zornig: Is it better to segment the market and capture the max from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Leandro Crepaldi: It depends on the market. I've worked in markets where the strategy for capturing and differentiating prices by channel worked and still works very well, such as civil construction. Others, such as the Nike brand, have a single market price and extract the value they want from the market, precisely because of the perceived value and because they are part of an attractive market when it comes to buying.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Leandro Crepaldi: I believe that, as we commented above in some of the questions, in addition to a transparent commercial policy that the commercial area buys into, your clients must feel safe and confident in the commercial policy and in the discounts they receive. A discount that has lost a lot of credibility lately in Brazil is the "Take 4, Pay 3" policy, which is used in practically all sectors. But today, consumers do not trust this practice, saying that in the end, the price is the same. That is why the entire value chain must trust the company and what it is offering to the market. Showing numerically that owning, reselling, or being a distributor of the brand is a win-win.

Frederico Zornig: How do you define "pricing strategy"?

Leandro Crepaldi: I believe that a company's pricing strategy must go through a few steps: First, understand the market, the target customers, and which channels you will want to work with. Secondly, understand your customers and what their objectives are so that the same strategy is always linked. In the case of industries, for example, your resellers and partners must understand and agree with your pricing strategy. Last but not least: your competitors. Understand everything about your competitor, have a more aggressive value proposition, understand your price positioning objective vs. the competitor's.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Leandro Crepaldi: As I mentioned above, the focus should always be on the customer, but great managers need to know their competition very well and know who they are dealing with so that they can monitor and make decisions based on them. However, the focus always must and always will be the customer.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g.: price) has on another variable (e.g.: demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it and how do you use the concept of elasticity in your pricing decisions?

Leandro Crepaldi: In my experience, I have used elasticity to make shorter-term decisions, such as promotions and possible anticipation of price increases in the market. Clearly, there are errors, and the results do not always deliver what we calculated. However, it is useful to use elasticity to correct any future errors and generate a basis for future pricing decisions.

Frederico Zornig: What is pricing and/or revenue management to you?

Leandro Crepaldi: For me, pricing and revenue management must first be a single area with three pillars: transactional, tactical, and strategic, all under a single umbrella. I have had experiences where the pricing department was separated from revenue management, and the strategy did not match day-to-day operations. Pricing is the area that makes the company generate value for the market, for its customers, and shareholders. Having a pricing strategy and a dedicated area with a lot of investment makes these analyses reach the market confidently and generates value for the entire chain.

Frederico Zornig: What is your final message to those reading our conversation?

Leandro Crepaldi: I am super excited and flattered to participate in this initiative that I believe will be a first for pricing in Brazil. This is the first time we have brought together so many different industries with so many experienced professionals. I think the final product will be amazing.

LEOPOLDO MELLO

Revenue Management Senior Manager, Parts Sector, 18 years of experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Leopoldo Mello: I have eighteen years of experience in Business Management, Commercial Planning, Customer Service, and Finance across national, family, and multinational companies in the Consumer Goods and Services segments. My expertise lies in developing a 360-degree consultant view regarding processes, business models, and problem-solving to provide an end-to-end solution and ownership mindset throughout the organization. I also have experience in business areas involving strategic planning and commercial demand (S&OP) and Revenue Management (pricing, commercial incentives) to maximize business profitability. I have managed different types and sizes of businesses' P&L, financial modeling, budgeting, cost reduction plans, and productivity increase, as well as implementation and management of KPIs. Additionally, I have experience in different areas of Customer Service with national coverage, in different states of Brazil. I have conducted turnaround projects (valuation and due diligence), focusing on the reversal of financial results, process improvement, and compliance. I possess the ability to form and develop cross-functional, remote, and high-performance teams (team building) with trained professionals to act effectively for the business, being a manager with an above-average rating. In 2016, I left the technical assistance network management area for the company's Spare Parts business, and the primary objective was the implementation of the new pricing methodology after receiving a diagnosis from Quantiz. We started the project. At the end of 2016, we completed the "theoretical" stage, consisting of three steps: New customer segmentation, Review of pricing and commercial policy. In 2017 we implemented the segmentation and new pricing, and in 2018, we raised the new commercial policy. Throughout 2018, we started developing the Vistex system for price and budget management, and we went live in 2019.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

Leopoldo Mello: In 2020, the significant challenge was to maintain the strategic direction of reducing the noise that price was having in the customer experience (NPS) with the company's after-sales service. As a result, even though we prepared the 2020 budget with a transfer, we did so only on items that had suffered a lot from the increase in the dollar and were generating a negative margin. We took advantage of the moment to match the price of parts from the same family and started to use our B2C as a price rule for the consumer. The sales history is not always the best proxy, in this specific business, due to the complexity of the part's life cycle, the informality of the market and particularities in the competitive scenario. What we have changed over the years is to include the pricing team in the S&OP process and thus avoid distortions or rupture of sales in price change windows.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Leopoldo Mello: I believe that processes will be even more relevant in capturing brand value, product/service for companies and I believe that there will be more demands for transparency by consumers and/or partners. At the same time, I believe that there will be an even stronger discussion about the tax issue, the different benefits that exist and the distortions that are generated because of this. Additionally, I see that these areas will be increasingly based on Big Data and Machine Learning and will be fundamental in this new consumer omni-channel journey. The impact, in my opinion, will be on the profile of pricing professionals, as well as greater investment in automation. Lastly, I believe that there will be cooperation between the industry and customers in order to have a clearer win-win relationship and in this way, I see that pricing professionals will be closer to the end customer.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Leopoldo Mello: As far as a specific academic background is concerned, I don't have a predilection, as I had people trained in administration, economics, statistics and engineering on my team. What I saw in terms of hard skills was a taste and ease in analyses, working with large databases, logical reasoning and an enthusiasm for pricing. In addition, I see other characteristics as relevant: nonconformity, curiosity, having good communication and being part of the “commercial heat” of the business, that is, being available to talk to the commercial team and/or the customer and making adjustments where necessary and not live in a numerical “straitjacket”. In my opinion, they are responsible for guaranteeing the “commercial policy”, which is the way we execute the commercial strategy of the business. Development will depend on where the professional's gap is, whether they need more hard skills or soft skill, and then based on this diagnosis, we implement a plan to mitigate the gaps. What I did during the period in which I led the Revenue Management area was to have the team participate in fairs and events, benchmarking with other areas of the company and/or with players from other industries.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Leopoldo Mello: I believe that the company is evolving in terms of the pricing culture, but it is a hostage of price as a decision maker instead of a strategic benchmark. Additionally, I see different moments of maturity in the company's different businesses and at the same time I see retail (where our main customers are) stuck in a culture of discount/rebate and comparison with competitors, rather than a position where whoever has the best equation of value (service, relationship and post-sales) that is distorted due to customers who have a special regime. The culture was created by bringing in specialists/consultancies from outside, who helped the company review its pricing and create areas dedicated to pricing.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Leopoldo Mello: I believe the main lesson was that it will never be perfect, so it's better to do small things and evolve than to wait for perfection. In addition, I also learned that communication is the most important phase of the turnaround, and this concerns all stakeholders, and one should always err on the side of excess. We started the process in 2016, and each year we evolved in something, reviewing some criteria and learning from our mistakes.

Frederico Zornig: What technology do you consider essential for your activities today, and why? Is there any tool or solution you would like to use that doesn't exist yet, or you don't have access to? Please elaborate.

Leopoldo Mello: I believe that the ideal technology will vary from business to business, especially with regard to the commercial process of ordering and converting it to billing. In the company that had 20k items, we were undoubtedly leaving money on the table by not knowing our portfolio in-depth, so a technology that facilitated this SKU suggestion could generate additional value to the business. As our sales process was over the phone, everything that generated productivity for the sales supervisor was beneficial, and in terms of the pricing process, the technology that would allow us to gain scale in analyses and comparisons. One thing we missed was information, from the outside, from the inside, and information that was reliable, from more informal markets, and that would allow us to have more ballast for decisions and for monitoring our actions. We tried a few initiatives over this period:

- Price mapping through hidden consumers (because it is a technical market, we saw some weaknesses in the data, high variability in phone vs. in-store prices, different price tables by reseller (retail, wholesale, technical, and end consumer))
- Collection of prices by a field supervisor (it was restricted to São Paulo. We saw after a while that it did not bring gains, and it presented the same problems we saw in hidden consumer because most resellers do not have a “public” price on items)
- Exchange of sell-out with some customers (we received this by spreadsheet, which reduced the level of reliability. In addition, we saw price variations in the item in different versions of the spreadsheet)
- Benchmark with other industries that have the replacement market and the concept of the original (distributed by the manufacturer) and parallel (from other market competitors).

We used market numbers to make a proxy for the size of our market and our potential market share. However, we saw many distortions and weaknesses in the numbers. Thus, over time, we tested various methodologies to seek information from the outside to the inside. We also sought ways to estimate elasticity and market size, but none proved to be 100% reliable and scalable.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Leopoldo Mello: In the early years, we measured success as adherence to actual execution vs. what had been planned and the impact on the financial indicators of the business (contribution margin, price-volume-mix effect). After the strategic change in the business, we started to monitor the impact of the price on the NPS and the negative weight it had on the valuation. So, in addition to the financial and some operational indicators, we started looking at the NPS as well. However, I personally didn't give that much weight to NPS, for a few reasons: a small sample vs. the sales volume and size of the portfolio, difficulties in separating the price component of the part in a price claim in the service order, and possible weaknesses in the tabulation process. Thus, what I understand as success is the area's ability to define and execute the strategy to support the commercial strategy and its ability to adapt to changes in the market and/or within the company, as the price area directly impacts the financial health of the company and the consumer's perception of the value/brand.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Leopoldo Mello: I had a BSC with my team that consisted of:

- Price Cycle / Operational and Strategic KPIs / Projects
- Price cycle was our planning and execution (monthly, quarterly, annual commercial target publication, quarterly transfer, commercial policy update, performance assessment)
- (Operating KPIs: Price-Volume-Mix variation, deviations within subfamilies, captive/competitive factor, cost variation. (Captive = the part was only sold by our company / Competitive = the part was supplied by us and other market players)
- Strategic KPIs: channel hierarchy, adherence to commercial policy, competitiveness map
- Projects: what was the focus of the year, and how we were doing in terms of execution vs. planned schedule. We had one managerial meeting a week where everyone in the business evaluated how we were doing vs. the month's plan and given the deviations, each member would leave with an action/activity. Depending on the moment of the year, we could have had some heavier action in price, and we followed the "profitability vs. volume", as well as the promotions of the month and the positive feedback from customers. What my team and I followed the most was whether something in the price could have impacted the target for the month, whether we were using the commercial budgets as planned, and if not, what levers we had to compensate for any deviations and/or further accelerate any successful action, always monitoring the availability of parts.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Leopoldo Mello: The business administration position and pricing process for parts already existed, but the process was outdated and underutilized. By investing in the review of the pricing department, we brought more intelligence, governance, and control to the process, making it clearer for customers and the commercial team what would happen, when it would happen, and why. In addition, we brought the commercial strategy to the forefront and used the commercial policy as a tool for its execution. We also removed any conflicts between customer and supervisor incentives so that everyone's direction would always be what is best for the business, and everyone would win. It is a cycle that started in 2016. We implemented the first part (segmentation and new price formation) in 2017 and ran the new policy (funds based on performance) from 2019, and each year, we have made improvements/revisions in each one of the pillars so that we increasingly reflect the needs of all stakeholders. Last but not least, with the strategic review of the area, we focused even more on the consumer, and all of our commercial strategies, KPIs, and actions began to be guided by the potential impact on the consumer and the impact on the journey of their experience with the brand.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Leopoldo Mello:

Price-Volume-Mix Variation (actual vs. planned variance vs. previous periods)

% Captive/Competitive

Breakdown by family (focus on top sales)

B2C Price = Suggestion Price

Volume variation

% actual budget vs. plan / % of use of each type of budget / % Achievement of monthly goals

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Leopoldo Mello: The fact that the demand and pricing teams were under the same structure facilitated synergy and direction. In addition, the fact that we are a small BU and have the habit of running the process of setting goals (monthly, quarterly, and annually), in addition to weekly monitoring the execution of the current plan, made it easier for us to have everyone on the same page and with a common goal (which was the goal of the month, quarter, and year). The area also built a culture of sticking together even when we made mistakes, and we sought to revise the YTG goal to compensate for any deviations that could have been generated or to demonstrate that the initial goal was no longer feasible or even to limit the goal of some part number to focus on consumer availability. When we started the review in 2016, we had a lot of support from the financial area of the business and the marketing team. At first, the commercial team stayed away from the review process. When we presented the new segmentation and pricing a few months earlier, they were more reactive, as they would directly feel the difficulties of the new policy, risking an impact on volume and possible customer complaints. However, as we did the entire communication process with them, they began to feel like participants in the process, and we changed some points that they were more sensitive to. Thus, we had a very successful price turnaround in 2017. Since then, we have evolved and have always involved the commercial team in the process.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Leopoldo Mello: I would like to simply say yes. However, in such an informal market, without the "suggested price" culture and with the concept of original and parallel, we saw that the consumer, when he had a problem and the warranty no longer covered it, tended to choose the cheapest. In the last two years, we started to use our B2C channel as a price reference and thus be a guide for the consumer's choice of channel. However, when discussing perceived value, we entered into several discussions where we did not have outside information or even ran the risk of generating some impact on the brand of the finished product (example, a piece can be used in products from different brands, but we will have different prices. What would be the perception of value? The brand, the type of material, the price of the finished product, a combination of all of this?) We had as a guideline that no part could cost more than X% of the value of the product, and we had a plan to reduce this % in the coming years.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Leopoldo Mello: I believe so, but it varies a lot by industry/segment. For example, services, luxury brands, and so on. I believe it has a lot of value for some types of products/markets, and especially where there is anchoring, it does not generate distortions in the market or in the different players in the chain. I believe that the famous "scapegoat" will also continue to be valid, but with competition coming from e-commerce and marketplaces, the risk is to play against the company/owner of the product, depending on the price variability in these different channels.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices, or follow a strategy with identical prices for all customers in all channels?

Leopoldo Mello: We started the process trying to maximize, which we managed to do from 2017 to the middle of 2018. However, after a change in the company's strategy for the Spare Parts area, we started to review the segmentation so that the end consumer could buy at the same price, regardless of the channel they bought from. However, given the informality of the market and the distortion generated by the Key Accounts tax regime, it was not something we could always do and for all parts. With that, we chose a reference basket in B2C and tried to guarantee the price to the consumer. Thinking about the company in general, I believe that most are migrating from maximizing the segment to a greater focus on the final consumer and trying to generate other differentials for the players in the chain that are not just price-based.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Leopoldo Mello: I believe that transparency about the mechanics of trade policy is beneficial to customers, as well as to supervisors. At the same time, in my experience, it took about 2 years for everyone to understand the difference and especially the benefit of the new policy. In our case, people struggled with the informality and the difference in the size of the clients, which was a great challenge. For some, the benefit of the performance was something close to 10 Brazilian reais, and sometimes they could not receive the money. Another challenge was the "turnover" both in the revenue team and the commercial team, and even in the customers. It meant that we had to start from scratch several times since most of those involved were not used to transparency, mechanics, and the necessary governance to have a policy based on performance.

Frederico Zornig: How do you define "pricing strategy"?

Leopoldo Mello: It is a mix between capturing value, commercial strategy, and desired behavior. In another way, it would be the monetization of the combination between your product/service, your market strategy, and your commercial strategy. Not long ago, most players priced at cost-plus or closed margin, but now there are increasingly refined techniques, and gain/profitability comes from the lifetime value of the customer with you, frequency, preference, and not just the punctual gain of that product/service. Undoubtedly, this is what everyone compares, but I understand that the strategy is how to capture the above factors reflected in the value measure associated with that product/service.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Leopoldo Mello: I believe that pricing can vary between sectors of the company, for example, commodities or products that have a commoditized bias. Apart from that, assuming that the company has a differentiated product/service, the focus should be 70% on the customer, because with them, you will be able to know the competitive environment and bring improvements according to customer feedback. However, I don't believe that it is capable of looking only inwards, and therefore, I would allocate 30% to look at the market, not necessarily just the competition, but also what other companies in different sectors are doing that could be incorporated.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Leopoldo Mello: I believe that changes in price can have an impact on demand, which is why we need to consider elasticity. However, in our market, there are other factors to consider, such as competition with customers and suppliers, original vs parallel, and replacement due to the need for repair. We try not to rely too heavily on the effect of demand (positive or negative) in our pricing decisions and instead detach our price strategy from any opportunistic behavior. We want to be a positive part of the customer's experience with our product and view the pricing strategy as secondary.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Leopoldo Mello: In our company's D2C channel, we worked closely with our partners and followed their suggested prices, and the parameterizations were carried out by them, and we defined a basket.

Frederico Zornig: What is pricing and/or revenue management to you?

Leopoldo Mello: For me, the pricing process, and consequently, the company's revenue management, is one of the most important processes for most companies as the whole result starts at the top line. More than that, the ability to "capture value" vs. "generate a discount" is what has increasingly differentiated market leaders from market followers. It is, without a doubt, a journey. It's not a 100m race. When the initial temptation to discount the price is overcome, companies start using other tools, and thus get closer to the "suggested price". Everyone in the chain wins, and the consumer will be able to choose the channel knowing that they are not paying the bill.

Frederico Zornig: What is your final message to those reading our conversation?

Leopoldo Mello: It is an exciting and dynamic area that will increasingly be tested in every way. If done well and continuously evolving, it will make commercial conversations revolve around aspects other than price. Market dynamics will favor those who deliver more value to the end customer, not those who give more discounts. At the same time, pricing shows a lot about the culture of regions and countries and the need to negotiate. Winning through the complete differential as a company is not only a great advantage but also a sign of a more sustainable business. Additionally, I see some challenges becoming more apparent in the daily lives of companies, such as omni-channel and the increase in the marketplace. This brings even more discussions on the topic of price, sometimes running the risk of conflict or even a divergence of direction between online and offline teams, and a deterioration of the company's margin if the raison d'être of the channels, their strategies, and positioning are not clear to everyone involved. Finally, the tax difference in Brazil, added to the omni-channel, generates more discrepancy in the competitiveness of some players, and the final consumer ends up being negatively impacted. In this way, the discussion of simplification of taxes and positioning for the price sell-out and not sell-in will be fundamental since consumers have already started to demand this transparency.

LUCIANO BENÍCIO

Head of Digital Products and Sales, BNP Paribas Cardif, 23 years of experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Luciano Benício: I obtained my bachelor's degree in Production Engineering, and I have a master's degree in Economic Engineering. I have always loved numbers and analysis. Personally, I have always been a communicative and creative person. At the beginning of my career, in the area of Telecom Products, I started to stand out thanks to my solutions and creative analysis of products and promotions. I realized that the pricing area suited me. Since then, I have led the Products, Business Units and Pricing areas in Telecom Banking (in the Insurance, Services, and Loans sectors). I have been introducing myself as a Marketing Engineer for a long time, because of my analytical rigor and creative business initiatives in pricing, portfolio management, offers, and promotions.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

Luciano Benício: I have just started a new 60-day challenge that is focused on the Products and digital transformation area. It is important to note that since I have been with this organization for such a short time, I will talk about my previous work experiences where I led different Pricing teams and projects to answer these questions. Regarding sales history, it is true that the year 2020 had different movements than usual. Future projections are not necessarily based on continuities of 2020 data, but they are based more on the assumption that typical scenarios will resume.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Luciano Benício: I imagine that the decision-making process will demand more and more precision and speed, with the increasing use of data and machine learning tools. I led Pricing departments during a time when elasticity studies and A x B tests required a long period of data handling after a test trial period for us to reach the best strategy/conclusion. Now, I'm going to issue an alert. There is still a huge gap between business leaders and the data science crowd. If people believe that artificial intelligence will do everything by itself, they are wrong. A good amount of time must be devoted to communication between the business area and the scientists who will make the models. Relevant and irrelevant variables, data quality, grouping of variables, and types of results that are expected are all important parts of the process, particularly when working with supervised models. There's no such thing as randomly sending data to data scientists and asking for a "data milkshake", expecting it to be delicious in the end.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Luciano Benício: I look for "ingenious" people. Ingenious professionals are those with an analytically rigorous background (such as Engineers and Economists), but who are creative and find innovative solutions and opportunities beyond numbers and cost functions. People with a mastery of analysis tools are also needed on the team. I always look for a very communicative team who communicates with each other and interacts with other areas and takes pleasure in innovating. I make a point of dedicating time to the development of innovative proposals, which is noticed by the team. Want an example from my time in phone companies? A prepaid rate plan where the 2nd minute was free. Exactly. A person from the team, studying the traffic, showed the histogram of prepaid calls every 6 seconds. At least 75% were less than 30s, 90% up to 48s, and almost nothing was longer than 1 minute. That is, a prepaid call was very short, just to pass a message. So, we decided to give the 2nd minute away for free. It has the marginal cost of this minute, but also the marginal revenue created in the additional time up to 60 seconds. In addition, to remain in this differentiated plan, consumers were required to recharge prepaid credits every month. In other words, a win-win. A repeat customer had the possibility of talking more calmly with his friends and family, and the price of his minute was, on average, cheaper. And the company had more results. Another example of a solution that came from the provocation to the team a few years ago was a Home Insurance product that provides double coverage (not double payment, but coverage) if the customer hires from a certain range. Result: the concentration on low values, just to gain the traditional assists, rose to larger ranges, increasing revenue more than the marginal cost of claims.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Luciano Benício: Based on my last 15 years of work experience in a large financial institution, without a doubt. A few years ago, we had a scenario of credit spreads lower than the market and a culture that was very focused on concession volumes. Incentive systems pointed much more towards volumes, and even with price increases in the Regional teams. At that time, I was given the opportunity to lead a new Pricing area. The main mission was to recover spreads to market levels through the implementation of new Pricing models, rethinking levels, incentive models, etc. During the first year, we centralized authorities through a "Price Table". We changed incentive systems, and naturally, there was some discomfort on the part of many members of the commercial teams. As the objectives were achieved, we maintained a lot of communication to prove the validity of the changes and to transform the initial resistance into a new culture. The organization has changed a lot in recent years, not just consolidating the pricing issue but also working on training teams in a culture and incentive systems focused on revenue and customer satisfaction. The evolution of the company's results and indicators such as spreads and ROE no longer present a gap in relation to peers and are now a reference, as well as the NPS. After all, there is no way to capture value from products and services without customers being satisfied with them.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Luciano Benício: The clear communication ability is the great weapon to drive a big change. In questions 5 and 8, I commented on the "not only technical" transformation that we implemented in the pricing of loans, but also structural in the systems of incentives, autonomy, and regionalized powers. See, if a pricing change is to improve the company's results, the commercial teams will have to understand this in their own benefit. Communication needs to be right. And the first months of this change, where we imposed strong changes, were very tough. So I decided it was time to build an easy-to-understand rationale, with good explanations and comparisons, and hit the road. I believe that over the course of a year, I made at least 50 presentations to audiences of 20 to 100 people, in which I was literally catechizing people, always using examples from that group or region to show how there were opportunities on the table.

Frederico Zornig: What technology do you consider essential for your activities today, and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Luciano Benício: Traditional Excel, SAS, and SQL tools can still do the job if piloted by skilled technicians who know the questions they are answering. However, I have also observed that some are getting faster responses through Python and modeling with much larger data volumes. But I must emphasize that people who know what to ask for the data come before the data. The data can only answer correctly if the questions are well-formulated, and the paths to the answers are well-identified. What I see with enormous potential for the coming years is the increasing use of dynamic pricing to adjust prices in the face of penetration and sales objectives. For instance, imagine a product like auto insurance, where there is an expected customer/product/region risk that differs for each insurer, resulting in prices that are often very dispersed. I led an auto insurance distribution channel with multi-insurance quotes for a few years, and during this period, I often noticed how much each insurer priced regions, cars, and customers differently. In some situations, an insurer dominated a submarket, probably leaving money on the table or taking excessive risk. But in others, it placed itself entirely outside the competition and practically did not convert quotations. The interesting thing is that adjustments in both cases took a long time, indicating that the experiences of insurers with the risks of their portfolios generated very different price outputs. Of course, none of them had the experience of the total market, which would be the sum of them all. Therefore, working on margin and risk in real-time, seeking an objective for the "Function for converting quotations into sales," can be a dynamic way of considering the experiences of competitors and the market as a whole within the model itself.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Luciano Benício: A successful Pricing area is one that creates solutions that make the company's objective viable. Two extremes are growing market share while maintaining the same unitary margin or growing margin without losing market share. Therefore, it is essential to look at customers and the market, "getting out of the box" to make price a key tool to support the strategy. A good example was the Loan Pricing job that I led a few years ago, where we had credit spreads lower than the market, a gap that could be eliminated without giving up the volume levels we had. And so it was done. The implementation of super-clustered risk-based pricing, going from 4 or 5 price groups to a few dozen clusters, and with A x B sensitivity tests, was crucial to target groups of customers with very different levels of risk and price sensitivity. Furthermore, the Pricing area must go beyond statistical techniques, getting to know the market and what drives the commercial area.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Luciano Benício: Keep a close eye on the indicators on a daily basis (as per question 11 below), always monitoring whether the routes outlined are performing as planned. Communicate often with Finance and the commercial team. Visit clients with them, participate in their meetings, understand their pain points, and create a strong bond. Finally, always have time dedicated to ad hoc studies, testing hypotheses, and innovative alternatives for new products or commercial actions.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Luciano Benício: As in the answers to questions 5 and 8, I believe that when I led the organization's Loan Pricing transformation, I was able to achieve revenue gains by recovering spreads, but also lasting benefits in the company's profitability culture. Speaking of a previous experience in Telecom, we were the 3rd entrant and very focused on innovation. We had the challenge of always launching innovative offers and plans before competitors. I believe I was able to guarantee a "Win-Win" pace of innovation in the Pricing area. We created the first "You Control Plan" on the market, the 2nd Minute free with a recharge commitment, the Family Plan with free minutes between members, the possibility for customers to choose their time slot for a reduced rate (and not just at dawn), and the company's own launch promotion (31 Years of Free Calls on the Weekend in intra-network calls) which granted traffic in idle capacity and contributed to twice as many customer acquisitions in the company's 1st year. The company grew very quickly and in a few years matched the competitors in the region where it operates.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Luciano Benício: The Pricing area has to know how to monitor Volumes, Unit Net Margins, Total Net Revenue, and Profitability on a daily basis. The Pricing team has to be very careful to avoid “100% healthy death”, when margins are incredible, but volumes are impacted in such a way that total revenue drops. I have always worked in service companies (Telecom and Banks) where Total Net Revenue has a huge challenge in terms of covering indirect cost bases, as well as remuneration for investments and allocated capital. And the more stratified all the indicators, by segment, product, channel, etc., the better. Pricing activity has to get away from the averages. Stratify, study dispersion, identify opportunities, and point out risks. That’s how a “Price Pro” works.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Luciano Benício: Constant communication is essential. Pricing is a part of marketing. If finance is the defense and the commercial team is the attack, marketing is the midfield that creates and makes the transition to the attack but also helps to defend. The pricing and RM team needs to have finance's confidence that we know how to responsibly lead the construction of results. Likewise, dialogue with the commercial team to support sales by generating solutions and alternatives, but also indicating limitations. Anyway, the two ends, with such different characteristics, need to be confident that the midfield is in the hands of the right people. What is interesting here is that the finance and commercial interlocutors have very different profiles. In this way, reports, presentations, and language for the same KPIs (gross margin, net margin, sales volume, etc.) end up being adapted.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Luciano Benício: Yes, pricing based on the perceived value is the best method. The price is the monetary value of what that product or service delivers to the customer. It has nothing to do with its cost. The cost determines whether the value you create is profitable or whether you are out of business. The classic and silly example is the price of water in the desert compared to a cafeteria. And what about teaching children about toys: what is the correlation between the price of a toy and the perceived value? None! They randomly attach themselves to toys without any correlation to price. Finally, I will give an example from my Telecom days. In the second startup I participated in, we wanted a super innovative portfolio of plans, unlike anything else on the market. We designed several alternatives and made a Conjoint Analysis testing several pricing variables with customers. I tell you, the main variable that customers chose (having the minutes back in the following month in the packages of minutes if they didn't use them all) was not the one with the highest cost for the company, but it was the most valued. Simply because customers are conservative and tend to buy a smaller plan than what they actually end up using. Still, returning minutes was a win-win where the customer was assured of fairness in the model. "The only plan that returns your unused minutes in the following month" was then the great attraction of the postpaid plans in that startup.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Luciano Benício: Undoubtedly! Price actions need to show the "win-win" to customers. The psychological impact of anchoring makes customers decide to buy a product they wouldn't buy (or buy more units) because they see an advantage in that offer. In retail in general, anchoring generates some good effects associated with the management and lifecycle of portfolios and collections that turn faster and faster. The first price helps to define who you are and what value your products have. Innovators and early adopters love the ability to pay to own something first. And then you start building the average margin of your collection or portfolio. As time goes by and the next portfolio or collection approaches, we start the "Was \$\$- Now \$" and the product goes through the massification process, with consumers having as a reference that feeling of "winning and getting a deal" over the launch price. It is the sales maximization point, still at a good margin. Finally, it's time for the "rest", for those consumers who are super focused on price. At that moment, the new portfolio / collection is already distributed and the vain Innovators and Early Adopters are already consuming it. And so the wheel turns. In my personal example, I experienced this a lot managing the cell phone portfolios of the best known manufacturers. There were two or three portfolio rounds per year, where the "high-end" model of a collection "went down the table" in the following rounds, becoming accessible and massified (always with the "Was - Now"), while Innovative, new models took the top spot for Innovators and Early Adopters. Finally, the example that I consider the clearest as a consumer is that famous Spanish fast fashion store, with its price stickers piling up as the collection approaches its end. I don't buy anything with the first price sticker on the tag... I identify what I like and follow its life cycle during the collection, as the labels stack up.

Frederico Zornig: Is it better to segment the market and capture the max from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Luciano Benício: Earlier I commented on the importance of super price segmentations by customer in previous experiences. In this question, I will focus on my opinion about channels. Most companies have sought omnichannel pricing (the same across all channels), ensuring transparency with customers. On the other hand, I believe that for companies that want to build customer loyalty through digital relationships, it makes sense to create promotional actions in this channel. Thus, they break down barriers to use and generate consumer habits in the digital channel. An example that I find very interesting and that connects the digital to the physical is applied by one of the largest supermarket chains: in the application, discounts on the prices of various products are activated. When checking in at the checkout, the price is only reduced if the customer has activated the promotions in advance.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Luciano Benício: A good customer is the one that comes back, the one that is recurring and loyal. In a bank, for example, a business client knows that the more his cash flow is concentrated on payments and receipts, the more benefits he will have. The cost of serving this customer drops, its overall profitability rises, and the bank acquires more knowledge about its behavior - thus better assessing the granting of credit limits and pricing, which is so important for companies. In retail in general, simple rules for granting and maintaining discounts, price benefits for combos and cashback programs help to retain customers. Again: transparency generates “win-win” scenarios. Finally, an example of a price increase by a monopolist that was poorly communicated and caught pretty badly... The WhatsApp case. Now, Social Networks, in general, or WhatsApp are not free. We pay with Data currency (D\$). Facebook took a unilateral decision to raise the price (more D\$ to maintain access to the service) with poor communication and transparency. The price increase (amount of data to be accessed) is, in fact, much smaller than people think, but it was so poorly done and the reaction so fast (visible by the rapid growth of other platforms) that they had to postpone the change until May/21.

Frederico Zornig: How do you define “pricing strategy”?

Luciano Benício: A set of guidelines and actions that define how pricing will give consistency to the company's value proposition to its customers. That is, how the value of the offer is captured. The clarity of the strategy allows the team to price products and generate aligned tactics. Thus, the customers' understanding is formed in relation to the value proposition of that company and what to expect from the prices of its products and commercial actions. Let's think of Apple and the pricing of iPhones versus other smartphones. At the other end, supermarket chains focused on “Price, Price, Price”. Or the big brands of the biggest designers at one end and the fast fashion stores at the other. Finally, the Pricing Strategy reflects the capture of the company's Value Proposition and the target audience to which it directs its efforts.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Luciano Benício: A combination of both. If we think about the customer lifecycle, acquisition is still very influenced by comparison with competitors. Customers are not yet “yours”, if that even exists. Starting a relationship with a customer requires showing why your offer/value proposition is better than the one on the market, even if it is absolutely disruptive. Now, it is true that a customer who becomes loyal to a company and is satisfied with it, believes in its value proposition and transparency (question 16), is not constantly comparing the value proposition and its prices with the market. And then it is the responsibility of the company to be correct and ethical on a daily basis so that this trust is not broken.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g. price) has on another variable (e.g. demand). We know that different types of elasticity exist, such as cross-price and income. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Luciano Benício: I always use elasticities in search of opportunities to achieve results, believing that you can always create “win-win” offers with customers. I've talked about Risk Pricing models with A x B tests to maximize Total Net Income for loans, but here's an example in the life insurance industry. Some time ago, we decided to make an important price cut in life insurance with coverage starting at R\$ 1 million, still maintaining a good net margin. The frequency of hiring for this amount was very low, with the mode and median well before this value range. As a result, the share of sales more than tripled in this value range (where before the frequency curve was already close to a plateau, a “new and beautiful mountain” appeared), increasing Total Net Revenue in all sales seasons. In other words, high-income customers began to purchase coverage that they identified as adequate for their profile, accepting the pricing as fair, which was further proven by the improvement in churn over time, generating even more value for the new pricing.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Luciano Benício: Speaking of insurance for individuals, my current industry, I see two distinct models. The pricing of auto insurance is super dynamic, with models trying to adjust pricing almost daily due to the enormous amount of data that feeds the systems. At one end, managing the loss ratio, at the other, the conversion on quotes made for that particular profile. Products such as life and residential insurance do not have this dynamic. It doesn't make much sense for a customer to encounter recurring price changes for these products. Now, on the subject of retail and shopping baskets, it's amazing how I don't do my groceries without consulting the supermarket's app first. They already know my habits, offer me discounts on my recurring products, and suggest new ones, testing my propensity. They have made me a loyal customer, and I always buy with the perception that I had clear and measurable benefits (question 14) and that I am being treated in a personal and fair way (question 16).

Frederico Zornig: What is pricing and/or revenue management to you?

Luciano Benício: It's the most fun and fulfilling activity for someone who loves math and business. The area carries a lot of responsibility, but it's fun and full of opportunity. I think the name of this project (Arquitetos do Pricing) is perfect, as the architect is a professional who combines mathematical skill with a huge dose of creativity and innovation. This is the “Pricer” within the company. And as I answered in question 12, it is the midfielder that plans the game, creating situations for the sales “attack” while at the same time helping protect the results.

Frederico Zornig: What is your final message to those reading our conversation?

Luciano Benício: Get out of the box and get creative. Pricing is marketing. Have fun doing pricing. Be observant and see pricing at work in everything. A "Pricer" notices the clothing store's overlapping labels and pays attention to the collection cycle (how many units are sold at each price?). Ask about the revenue and cost structure of the ice cream parlor that charges R\$ 12 for the "small," R\$ 14 for the "medium," and R\$ 16 for the "large." Why does the bank give a 100% discount on the service package if the customer is an investor? The experiences and strategies of other markets will always generate creative insights for your own. Also, reject averages! Segment and stratify. If you do this in conjunction with good questions, the numbers will gladly give you good answers.

MARCOS SCALI

Senior Pricing and Profitability Strategy Manager, Abbott Diagnostics, 12 years experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Marcos Scali: Unlike most, I started my career as an "entrepreneur," working in the field of civil construction (my training), and in parallel, as part of the Engineers, in the financial market, working mainly with commodities (trader, broker, analyst, investor, and speculator). After 7 years, due to a structural change (a change in the business model) in the market where brokerage firms implemented HomeBroker to reduce fixed costs and reduced brokerage fees, believing that volume would increase (the first "case" experienced on Pricing) impacted as a game-changer. As a result of this change, I was forced to reinvent myself, and the first step was to identify the intelligence area as an opportunity because companies at that time were investing and opening up space to create the area. So, I started a shopping intelligence area at Alpargas and stayed there for 3.5 years. Fate would have it that I was contacted by a Hunter (Sabrina Gama) for a vacancy at Suzano, and after our conversation/interview, she asked me if I would be open to an opportunity at Johnson & Johnson because I'd be a good fit. After 4 months and 4 interviews, I started my career in Pricing. Now I carry 12 years of experience and the certainty that this is the path I want to continue on for the next 20 years or more.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is the sales history still helpful in any decision-making process?

Marcos Scali: My main challenge is to maintain the health of the team to be able to meet the needs of the business with speed and accuracy without contact with people and without adequate tools - navigate the VUCA* world.

Frederico Zornig: Does sales history still help when making decisions?

Marcos Scali: The year 2020 is a milestone for laboratories and will be remembered for a long time. At the beginning, revenue was severely impacted as a result of social distancing measures, as around 90% of laboratories are not in hospitals, and just as all of them were also in lockdown, as well as a reflection of the sharp drop in demand for tests by people. Upon reopening, the routine took a long time to return, and so far, it is not 100% (it is a chain of events that does not occur, many consultations do not take place, and therefore many tests as well) and the focus remains on Covid, but the demand did not happen as predicted. However, this challenging environment has also favored the growth of new forms of assistance and the creation of new services, which would take a long time in a normal situation. Therefore, sales history has not been a good guide for decision-making, and it is important to be very close to each customer, understanding what is happening in the short term, in order to build an accurate picture of the situation.

(*: Volatility, Uncertainty, Complexity, Ambiguity)

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Marcos Scali: In 5 years, the department will become a protagonist (C-level) assuming responsibility for delivering results by orchestrating a set of areas. Some areas will be execution-based (Sales), and others will be more strategic (Market Intelligence, Analytics). Based on my experience as an entrepreneur, I believe it will be essential to have market visibility, understand how to serve the market, and position yourself to deliver the result by translating the "Right product for the right customer at the right price."

Frederico Zornig: How will these changes affect the work that you do today?

Marcos Scali: In short, I will be going to the front office, leading, and being the protagonist.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Marcos Scali: The characteristics that I think are important and that I look for are leadership, problem-solving, soft skills, business-oriented mindset, persuasion and negotiation skills, creativity, analytical thinking, critical thinking, and active learning. I try to exemplify through examples I have experienced or real situations or demonstrate with my attitude how we should apply these characteristics in our daily lives (providing individual or team feedback in real-time, depending on the situation). Discussing the most appropriate academic background, like they say in Physics, "It depends"... I think that it doesn't matter if the person studied the humanities, or if they come from a mathematical and scientific background. It depends on the needs and strategy of each business, on the characteristics of the segment, on the company's culture. Based on these variables, some technical skills are required, but they can be taught. There is no better degree than the others, the essential thing is to be business-oriented and have an entrepreneurial spirit. One lesson I took from my life as an entrepreneur (mainly from my experience as an investor analyzing the business theses of different companies in various segments) is that the experiences we live, regardless of where, are enriching, and many of them can be replicated, for the most part, in any segment, but yes, it is important to adapt and respect the particularities of each.

Frederico Zornig: Does your company/industry have a pricing culture?

Marcos Scali: In part, the health sector still has a preponderant "commercial DNA"; they understand the importance, but they are not prepared to lose money, so they have no gains.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Could you comment on the process of building a pricing culture or tell us how you are currently bringing one to your company?

Marcos Scali: The culture is being created, and the pressure on the top line is increasing. The cost of healthcare to the world, being translated into the bottom line and increasing competition, are the main drivers. Companies in the healthcare sector understand the strategic importance of the area and are looking to implement the culture via processes and systems supporting policies and strategies. However, there is a bigger lesson. Other areas also need to develop to be prepared. Like marketing, for example, where there was a role for professional education and/or events, but they need to become a strategic marketing area to dialogue with other areas.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with pricing and revenue management?

Marcos Scali: Do not confuse brand with value. This results in a poor, shallow value proposition that does not support the value strategy. I would also say that communication is a critical point, and it was one of the biggest lessons I learned, ensuring consistency and being able to translate finance's special lingo to sales, and vice versa, or operations to sales.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet, or you don't have access to? Please elaborate.

Marcos Scali: There is still a lot of manual work that consumes our time, and in this sense, technology helps us, automating, structuring, and enabling solid governance, serving a complex environment, and increasingly offering more possibilities for implementing different strategies. I understand that we are in a moment that allows experimentation in real-time. My experience with the Vendavo system was fantastic, but it is not a platform that solves everything. Integrated systems and software. Integration is the key word here.

Frederico Zornig: Is there any tool you wish you had but have no access to, or it doesn't exist yet? Please elaborate.

Marcos Scali: I miss visibility on end-to-end processes, and yes, I would like to use pricing systems vs. inventories, market segmentation vs. integrated market information vs. whatever is important, considering everything from process automation, governance, strategy definition, and results tracking. Having a Bloomberg similar to the financial market!

Frederico Zornig: How do you define success for a pricing or revenue management area within your organization?

Marcos Scali: Currently, success involves participating in the process of planning and defining the plan that must be delivered based on data. That is, leading but keeping in mind that if it is a strategic area and a partner, we work side by side, participating in the definition of the strategy and the goals. Directly, the area should, exemplifying with hypothetical numbers, set a target of R\$2 million in incremental margin and deliver R\$2.5 million, and/or reduce sales outside the commercial policy from 30% to 25%, positively impacting the margin, and so on from year to year, and/or delivering top-line percentage growth.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Marcos Scali: I have three pillars in mind – Administration (ensuring that the defined price is correct in the system without any operational impact), Strategy (defining the price that will reflect the strategy and deliver the result), and Execution (validating what was accomplished versus the strategy, and then carrying out corrective action plans – be it correcting strategy or correcting execution).

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Marcos Scali: I provide focus, development, and maturation of the sales team. I also develop the Marketing team seeking investment in information to gain market visibility and data-based discussions. I review strategy, processes, and structures, that is, conversations that impact structurally, adding results to profitability.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Marcos Scali: In my experience, both as an entrepreneur and as a manager, "what not to do" is of greater importance to ensure focus on the strategy, how to efficiently use the company's resources. Thus, I try to monitor indicators that signal this deviation, such as, for example, what percentage of sales is carried out "out of policy" and how far this sale takes place so that we can act by drawing up correction plans – both in execution and in strategy. For example, if 20% of sales are "out of commercial policy," it is a matter of execution. However, if 80% of the sale is out, it is important to reassess the strategy. But without neglecting both revenue (I understand the Price-Volume-Mix equation) and margin.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Marcos Scali: Dialogues and open conversations for alignment are key, as the role of a Business Partner is to ensure a common goal for delivering results, always working together. Simple policies that are easy to understand, reflect the business environment, maintain depth, and are easy to update.

Frederico Zornig: Is pricing based on perceived value the best method? Why?

Marcos Scali: Pricing by perceived value is the best way to capture better profitability, and if that's the strategy, the answer is yes. I understand that price is the reflection and spearhead that translates the strategy (what to do and what not to do). Therefore, the best way to price will be the one that translates and delivers the business strategy.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Marcos Scali: For the Medical Device segment, where pricing by value is sought, it works very well, as long as there is organization in the execution and alignment with the Marketing and Sales departments for adequate communication. Anchoring works in both directions. One can use premium products from a line to improve the price positioning of an intermediate product or use a platform of products that will be discontinued to improve the price positioning of a new line of products. For example, considering hypothetical values, a premium knee prosthesis can be positioned 15% above what it should be to increase the intermediate line by 10% and the basic one by 5%. This would allow us to capture greater value based on the comparison between the different lines of products we offer. Alternatively, we could even use the competitors' premium products to price our innovation at a 50% higher price. Conversely, a solution that will become obsolete and go out of line can have its price increased by 5% to position the new line that would be launched as 10% better.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Marcos Scali: If we're talking about capturing value, I see that increasingly, identical pricing for all customers across all channels is not the best fit. But I also understand that it depends on the segment, product, target audience, strategy, volume, and channels. The go-to-market strategy will define the "How".

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Marcos Scali: Business policies must offer transparency to customers. They must be simple, easy to understand, and accurately updated, reflecting the business environment.

Frederico Zornig: How do you define “pricing strategy”?

Marcos Scali: Pricing strategy translates the Business Strategy into numbers.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Marcos Scali: In my experience, the focus needs to be on the customer, understanding their problems and delivering solutions, but we shouldn't forget to monitor the competition because they can see something you didn't see.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g.: price) has on another variable (e.g.: demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it and how do you use the concept of elasticity in your pricing decisions?

Marcos Scali: Due to the complexity of the chain in the health segment, elasticity is difficult to apply, and inverse effects may occur. For example, price reductions after the negotiation of a healthcare plan can lead to a large reduction in volume, as the hospital that is in the middle of the chain does not want to lose revenue, and thus the hospital increases the volume of products from competitors that have higher prices. In the same way, price reduction does not directly guarantee an increase in demand, as many procedures are elective and can be postponed, while others depend on events (trauma, for example, reflects the growth of accidents).

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Marcos Scali: Unfortunately, we are still far from being able to use this due to the characteristics of the segment and the maturity of companies, but I see this trend as an opportunity for the future.

Frederico Zornig: What is pricing and/or revenue management to you?

Marcos Scali: Pricing and revenue management is the best opportunity to validate and discuss everything from business strategy to execution and delivery of results. With my experience as an entrepreneur, I would say in a simple way that it is "What product, for whom, for how much, and how".

Frederico Zornig: What is your final message to those reading our conversation?

Marcos Scali: Pricing and revenue are topics that combine the balance between strategy and operations very well. They offer an excellent opportunity for your development and career. By working in this area, you can achieve a balance between thinking and taking action.

MÁRIO J. PINTO

Commercial Director - Caribbean + Central America, Kraft Heinz Company, 15 years of experience

Frederico Zornig: Could you share some details about your professional journey and how you entered the Pricing and/or Revenue Management field?

Mário J. Pinto: I began in the commercial sector and, as I specialized in finance, naturally moved towards planning and focused on Revenue Management. I worked in industries such as retail, consumer goods, and energy for companies such as Thyssenkrupp, Brasil Foods (BRF), and KraftHeinz. The Coca-Cola System was my first introduction to Revenue Management, where I learned everything I know about Pack Price, OBPPC (Occasion, Brand, Price, Package, Channel), price tree, promotions strategy, price adherence, end-to-end execution, channel relativity, and packaging. I applied this knowledge at other firms, including BRF, where I assisted in constructing pricing processes and strategies when the company chose to shift to regional management in Brazil, and at KraftHeinz, where I was assigned to develop the department from scratch in regions like the Caribbean, Central America, the Southern Cone, and the Andes. This included general category mapping, competitor analysis, distribution and pricing indices, channel and packaging redesign, and commercial investment models, all while working to restore profitability in all areas.

Frederico Zornig: In this turbulent time caused by the pandemic, what is your primary challenge, and is sales history still helpful in any decision-making process?

Mário J. Pinto: The primary challenge has been the change in consumption patterns and its corresponding impact on the supply chain. Despite all the technological advancements, the opportunity we have to anticipate consumer needs quickly is still latent, whether through efficient demand planning, robust sales and operations planning (S&OP), or altering promotional intensity. I observe companies temporarily discontinuing SKU's, empty shelves in some categories, while others are dealing with excess inventory and product expiration losses. Sales history is currently serving as a guide, but it is much more critical to stay close to the market, comprehend what is happening and communicate it to the company as soon as possible (panic buying, lockdowns, etc.). Clear and transparent communication, as well as the ability to act quickly, have been critical success factors for companies during this pandemic.

Frederico Zornig: How do you envision the Pricing and Revenue Management field in the next five or ten years? How will these changes affect the work you do today?

Mário J. Pinto: I see more and more companies investing in this area, whether by creating a position within existing teams such as finance, commercial, planning, and marketing or even creating a specific department with a robust team. I believe that we are well-advanced in creating the plan, with tools and methodologies, but there is a lack of engagement and excellence in its execution, regarding the governance of prices and promotions, channel relativity, chain margin, etc. I see companies increasingly improving the way they execute their plans, but there is still a long way to go. This improvement calls for a change in the profile of the Revenue Management professional, who, in addition to technical skills, needs to be persuasive to generate engagement in the other departments responsible for executing the entire strategy designed. Additionally, he needs to be responsible for checking adherence to the plan along the schedule and have the humility and agility to change if something does not go as planned.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Mário J. Pinto: I seek a balance in the team between technical people (pure statistics) and people who are a little more commercially oriented (who ideally should be physically close to the commercial team). Since I'm a "finance" person, we usually create a very complementary team with these characteristics. In order to develop skills, I try to involve these 3 visions in the projects (Statistics/Commercial/Finance) so that, over time, everyone on the team understands each other's point of view and, over time, they become more complete professionals. Another super important point in relation to the team is to always reduce turnover to a minimum, as it has a huge impact on the team's performance. I believe that a person takes at least 6 months to become familiar with the reality of the department, even if they have worked with Revenue Management before. Knowledge of the portfolio and sensitivity to the company's numbers are acquired over time.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Mário J. Pinto: Yes, and I believe that this culture was created by giving a "body" to the Revenue Management area, with regional departments close to the operation, for improved plan execution. And also... create a good central technical team to support the regional ones, with shared services (or consultancy).

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?"

Mário J. Pinto: The biggest mistake you can make (and I've already made it) is to apply top-down strategies without listening to the market or other related areas, just basing yourself on numbers. I now understand and embrace the culture of investing enough time in planning before execution.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or that you don't have access to? Please elaborate.

Mário J. Pinto: All data-crossing technology, so we can always check the correlation. I believe that all the tools we need already exist, in some way or another, on the market, but I miss a "consolidating" tool that goes from a neighborhood store price point (granularity) to national market share, passing through household penetration and consumer insights. I feel that marketing, revenue management, and trade are still very disconnected, without total synergy. Artificial intelligence is increasingly being used to improve the prediction of market behavior, based on dozens of variables.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Mário J. Pinto: In addition to very clear KPIs, such as profitability, market share, distribution, and price effect, visible to the operation, I believe that the implementation and improvement of market monitoring processes, influence and engagement of other functional areas, and professional development of the team are also success factors for a revenue management team.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Mário J. Pinto: Price point execution vs. plan, competitors' actions, and as a consequence, price index. Other KPIs directly impact the plan and need to be followed, such as forecast accuracy, out of stock, customer inventory, share of shelf, and adherence to the planogram. KPIs such as sales and profitability are a priority and must be followed by the entire organization, not just by revenue management.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Mário J. Pinto: As I have usually worked in leading companies in the market, most of my success stories are related to stopping the loss of market share and mainly recovery of profitability via: (1) price and optimization of commercial investments, (2) assortment (simplification of the portfolio), (3) chain optimization and production plan, (4) improving sales forecast, (5) clear channel strategy reducing margin bleeding. In addition, I try to focus on clear and simple routines and processes that remain in force for a long time and help a lot in the agility of decision-making.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Mário J. Pinto: Price Effect, CMA, Forecast Accuracy, Sales, Distribution by SKU/POS, Portfolio by channel, priority SKUs (assortment), and of course, Market Share.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Mário J. Pinto: I try to involve these areas as much as possible in all projects and especially in execution, letting each one have a clear idea of their role so as not to “invade” the other department. But as I said earlier, this is one of the great challenges for the future. Examples that usually work include actively participating in the S&OP Cycle (if it does not exist, it is extremely important to create a committee, with representatives from the Commercial, Finance, Marketing, production planning, factory, logistics and monthly routine of the promotional and innovation calendar, involving Marketing, Trade Marketing, and Sales departments.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Mário J. Pinto: In my point of view, yes. Despite being more complex, you maximize the company's revenue and consequently the CMA since the price gain directly affects profitability. The big question here is how to increase perceived value, which goes through brand building and service level.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Mário J. Pinto: I am a big believer in the price anchoring strategy, especially in industries where the portfolio is created for all consumption occasions and all “magic” price points. It is very common in the consumer goods industry to use the anchoring strategy to increase prices. As an example, the type of promotion “buy 2.5L at the same price as 2L” can be used (with the 2L being the pivot) until the new price reference is created in the consumer's mind and the packaging relativity goes back to being the regular strategy.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Mário J. Pinto: In my point of view, it is to segment the market, considering that the company is already mature. Price/Margin needs to be one of the main inputs for the Go-to-Market team. A startup or growing company has other priorities before market segmentation.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Mário J. Pinto: Totally. Companies need to understand that there is no longer a transactional relationship between the industry and retail. Transparency is fundamental so that neither side feels harmed and both can grow together in a win-win strategy. That is why it is essential for the Revenue Management area to provide studies and data behind the commercial policy and clearly, transparently, and objectively explain the strategy to everyone involved in the process.

Frederico Zornig: How do you define “pricing strategy”?

Mário J. Pinto: Pricing strategy, for me, is having a plan that goes from the price point to the consumer (aiming at the customer's perception of your brand's value) by consumption occasion and by channel, always observing the relativity of this price vs. the competition and your portfolio.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Mário J. Pinto: For me, it's a little bit of both. In markets that are 100% mature, innovative, and perfect, monitoring consumers is more important than the competition, but in emerging, complex markets with a variety of players, it is necessary to know what the competition has been doing because they do not always use the correct “weapons,” and this will directly affect your business. The faster you know about a problem, the faster you can act on the solution.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Mário J. Pinto: Elasticity has been a part of my professional life since 2010, and I think I can no longer work without it. However, it cannot be used blindly. We always need to check the accuracy of the data used to calculate the elasticity, possible outliers, and especially if the short-term reality is reflecting the result of the regression. In summary, elasticity is the main pricing tool and a great guide, but knowing the history and monitoring of the plan must be constant. The problem is not in making a mistake but in the time it takes to fix the error.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Mário J. Pinto: In my market specifically, there are no large price variations in retail vs. e-commerce (yet!). However, we use the strategy of adjusting prices on demand, being very close to the client/market. Execution is usually done via commercial investment.

Frederico Zornig: What is pricing and/or revenue management to you?

Mário J. Pinto: For me, it is a very important decision-making tool and one of the components of a 360-degree strategy that every company needs to have, which involves a robust study of consumer insights, brand equity, Go-to-Market, Trade Market, and Revenue Management. What I have discovered over the years and what fascinates me about this profession is that although the theoretical foundations are “standard” (statistical models, regression, correlation...), the medium and long-term plans that need to be put together depend on three main factors: (1) the company's strategic objective (Market Share or Profitability); (2) Consumer perception of your product and brand; (3) The Go-to-Market (sales channels). The short term, on the other hand, needs to be operated in a very dynamic way, observing mainly: (1) Competitive actions (campaigns, promotions, activations); (2) Supply chain (Product availability and production line efficiency); (3) Sudden changes (policy/economy, sector, or company crisis, pandemic, force majeure events). To reinforce, the faster you discover the error, the faster your reaction.

Frederico Zornig: What is your final message to those reading our conversation?

Mário J. Pinto: I am very happy to have the opportunity to share a little of what I have acquired over the last 15 years, and I hope I have managed to convey two main messages: (1) Revenue Management is super important in decision-making and is part of a 360-degree plan that involves all the areas of the organization so that they act synchronously, like a living organism; (2) In relations between Industry x Retail x Consumer and intradepartmental, transparency is vital. The win-win relationship is the main objective for the sustainability of the chain.

PEDRO PICCOLI SOARES

Executive Advanced Profit Management & AI, Sixt SE, 10 years of experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Pedro Piccoli Soares: My professional career began when I was 20 years old. During my graduation in production engineering at PUC-RS, I did an internship at Parker Hannifin in Cachoeirinha-RS, which was 100% focused on production planning and control. After a few months, I received an internal offer to join the pricing team as a junior analyst. At the time, Wilson Ricoy was the pricing manager at Parker Hannifin in Brazil, and he was one of my great mentors at the beginning of my career. At Parker, I built the base of my knowledge on pricing, migrating between the markets the company serves and gradually increasing my responsibilities. I learned a lot about value-based pricing, price lists, contract readjustments and negotiations, long-term agreements, customer and product segmentation, and pricing for new products. After 6 and a half years at Parker Hannifin, I was invited to join Heineken's revenue management team and became the point of reference in the area for the southern region of Brazil. In this position, I was introduced to a much more dynamic and competitive market compared to what I was used to. Additionally, it was necessary to learn more about pricing strategies in B2C, which was quite different from what I had worked on previously. At Heineken, I increased my knowledge about revenue management, promotions and discounts management, inventory management, and sales channels. A few months after starting at Heineken, I received an offer to join the pricing & yield team at FlixBus in Munich, Germany. FlixBus is one of the biggest mobility startups in the world, and in my new role, I was responsible for the company's pricing strategies in the Spanish and Portuguese markets. After one and a half years in that position, I was transferred to the company's operations research team, where I worked directly with data scientists and engineers in the development of machine learning algorithms responsible for pricing tickets sold by FlixBus. Additionally, we started the development of a new revenue management system, integrating and automating several functions. I recently accepted a new challenge and joined the advanced profit management & AI team at Sixt, one of the largest car rental companies that has been developing new products such as car sharing. At Sixt, I'm working on artificial intelligence projects in the pricing & yield management, fleet management, and e-commerce sectors.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

Pedro Piccoli Soares: As I work in the mobility sector, which is closely linked to the tourism sector, the challenges generated by the pandemic are enormous. I believe that the main challenge is how to manage the supply of products. How valid is it to reduce prices to attract demand? Or should we increase prices because, due to restrictions, only strictly necessary trips are allowed? It's a complex issue. Initially, analyses and revisions that were done monthly or every quarter, now need to be done every week to understand changes in consumer behavior. In addition, due to the pandemic, there has been a strong increase in integration between different departments so that we can react in the best and most agile way possible. In general, I believe that what remains is the need to act dynamically, focus on profitability, and serve customers.

Frederico Zornig: How do you envision the Pricing and Revenue Management area in the next five or ten years? How will these changes affect the work you do today?

Pedro Piccoli Soares: I believe that emerging technologies will strongly impact the work of Pricing and Revenue Management teams. Artificial Intelligence with Machine Learning techniques are already part of everyday life in many companies, and this trend will continue. The great advantage is the ability of machines to analyze large amounts of data, which would be impossible for teams composed only of analysts. In the end, I believe that Pricing professionals will be left with much more strategic and less operational tasks. Additionally, I believe that we will see a strong integration with Data Science and AI teams, making it necessary for Pricing professionals to have basic knowledge of these areas. I don't think everyone needs to be a programmer or know programming languages, but it is certainly necessary to know how to communicate effectively with these professionals. Today, in some companies, I already see a merger between the Pricing, Revenue Management, Data Analytics, and Data Science departments.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Pedro Piccoli Soares: I understand that the necessary characteristics will depend on the level of the position. For more senior positions, logically, prior knowledge of pricing and RM is expected, as well as leadership characteristics and team management skills, and strong communication and persuasion skills (we know that it is not easy to “sell” pricing strategies to the high-level suite). However, when we think of more entry-level positions, I believe that the main characteristics would be proactivity and a willingness to learn and develop. Of course, knowledge of mathematics and statistics, for example, is very important, as well as prior knowledge of pricing strategies. A case that explains what was said above very well is one of the applications I recently received for a vacancy in the Revenue Management and Operations Research team. Among the various CVs received, one of them stood out because the candidate had a PhD in Astrophysics. It is not usually expected of a candidate for this area, but during the interview, we realized that the person's profile was very interesting and that it could generate significant benefits for the team. As I write this answer, the selection process has not yet been completed, but this candidate is still in the running. Ideally, I don't think we should exclude potential stars because they don't have specific knowledge. In terms of developing the necessary skills, a mutual partnership between the manager and his or her subordinates is necessary. It is necessary for the leadership to indicate the path that professionals must follow to evolve and provide the necessary tools, and on the other hand, it is up to the professional to really go after and learn the techniques. Today, it is possible to find vast literature on pricing and revenue management, several online courses, and several forums such as the Professional Pricing Society or the European Pricing Platform. That is, there is no shortage of resources to improve your knowledge in the area.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Pedro Piccoli Soares: I think so. It is a company that works in the car rental business, one of the sectors that, along with hospitality and aviation, is among the forerunners of dynamic pricing and revenue management. In these markets, it is very difficult for a company to last that long (over 100 years in this case) without having a strong pricing culture. I think it has not been an easy journey, but the fact that today we have a Pricing & Yield Management Vice President, teams focused solely on improving pricing systems, and a team of data scientists focused on algorithms for dynamic and accurate pricing shows that we are on the right path.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with pricing and revenue management?

Pedro Piccoli Soares: After almost 7 years working with Pricing at Parker Hannifin, I thought I already knew everything about the subject, and I believe that was my biggest mistake. After changing jobs, I realized that there are numerous Pricing tactics and strategies for the most diverse markets and situations. The knowledge gained working in a given market can and should be used in other fields, but even so, there are still countless strategies to learn. Today I see that it is an area where learning is continuous, and we always need to be up-to-date. Ideas need to be shared, tested, and revised. It is impossible for us to know everything.

Frederico Zornig: What technology do you consider essential for your activities today, and why? Is there any tool or solution you would like to use that doesn't exist yet, or you don't have access to? Please elaborate.

Pedro Piccoli Soares: Nowadays, my work is very connected with artificial intelligence. It is a technology that has existed for some time but has gained strength in recent years, mainly due to improvements in the processing capacity of computers and also due to the increase in data and information available. This union between pricing and Revenue Management with AI is inevitable and will become indispensable for any type of market or company. For some applications, it may still be expensive to develop these technologies, and artificial intelligence projects prove to be economically unfeasible. But that will change; technology is getting more and more accessible, and we see incredible growth in the number of professionals working as data scientists/engineers. The Pricing and RM teams need to be alert and take the greatest possible benefit from this partnership, as it generates proven competitive advantages. I recently worked on a project with the Data Science team to improve our customer segmentation methodology. In a very traditional way, the company where I worked basically divided its customers according to the region and type of product. Talking to the team of data scientists, we came to the conclusion that we could perform this clustering through an artificial intelligence algorithm known as K-means. The algorithm in question considers several characteristics of a database and groups them into "k" predefined groups. As a result, we discovered that customers from different regions often have similar purchase and consumption patterns, and it makes more sense to create a specific segment for these customers than just grouping them by location.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Pedro Piccoli Soares: In general, I understand that the success of these areas is directly linked to the company's strategic objectives. Regardless of the goal set by the management team, such as an increase in profitability, market share, revenue, or productivity, Pricing and Revenue Management are tools that can help achieve these objectives. For example, profitability is a common goal in virtually all companies, but there are several ways to achieve this goal, such as product/customer segmentation, dynamic pricing, volume discounts/promotions, long-term contracts, and bundling. Since these are strategic objectives of the company, it is clear that Pricing and Revenue Management cannot achieve them alone. Joint work and harmony with other departments of the company are essential. Specific goals and indicators can be created for each department, but this will vary according to the market in which each company operates. More generally, I believe that the company's success is also a reflection of the success of the Pricing and Revenue Management areas.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Could you please elaborate?

Pedro Piccoli Soares: If we consider all the functions of the Pricing and Revenue Management teams, I believe that the most important activities are those related to the definition of pricing strategies and price formation. In my opinion, these are the most relevant activities when considering long-term results. However, because they are more strategic, they are not part of the daily activities of the teams. Thinking about our day-to-day, I understand that there are two very important processes in the Pricing/RM team. One of them is the constant monitoring of market situations. You need to understand whether consumer behavior is changing, whether your price/product is still adequate, what your competitors are doing, what opportunities exist, where you can gain market share or increase profitability, etc. This is an activity that, regardless of the type of product or market in which the company operates, must be at the heart of the Pricing team. This is because it is a process where external information is needed, and contact with departments such as Sales, Marketing, and Market Intelligence is very important. The other process that I also see as highly important is more related to internal issues. It is also necessary to monitor and be aware of the changes that take place within the company, such as increased costs of a product, scarce raw materials, production problems, changes in product characteristics. That is, all the changes that may affect the customers' relationship with the product. For both monitoring processes, it is essential that the Pricing and Revenue Management teams have all the necessary information to define their actions and react to changes effectively and efficiently.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Pedro Piccoli Soares: Thinking about my current position and past experiences, I see that the benefits generated by pricing teams are extremely important and relevant. Pricing strategies have helped launch new products successfully in highly competitive markets, increase the company's market share, increase the life cycle of a product, manage the relationship between supply and demand, segment customers/products, influence consumer purchase patterns and, logically, increase the company's profitability. In 2020, during the beginning of the Covid-19 pandemic, I can say that the actions taken by the pricing and revenue management team were essential to keep the company I worked for profitable, thus avoiding mass layoffs.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Pedro Piccoli Soares: The most standard and common indicators would be revenue, profitability, and level of car usage. These indicators can be analyzed globally or specifically, depending on the type of analysis we are working on. Checking the KPIs according to each country, region, or branch is very common, as well as comparing results from different periods. It is also possible to carry out comparisons at the product level, such as vehicle brand, model, day of the week, seasonality, etc. The options are endless. In addition, we use some indicators that are more specific and focused on our market, and sometimes, it is common to combine different indicators such as revenue and kilometers driven, for example.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business?

Pedro Piccoli Soares: I believe that to maintain synergy, there is nothing more important than clear communication between the different departments. It is essential that all the company's teams are aligned in terms of goals and are focused on a common goal. I think it's also important that each area shares with the others what their specific goals are and what relevance other departments have in relation to that goal. I believe that anyone who has a little experience in pricing and RM knows that one of the biggest difficulties in the area is the relationship with the sales department. For this relationship to be productive, it is essential that the two areas trust each other and realize that, in reality, both are on the same team and have the same objective. In this sense, I understand that the promotion of interdisciplinary workshops and seminars can be very useful and further improve the synergy of the different departments.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Pedro Piccoli Soares: Ideally, yes. The problem is that the perception of value is individualized - each customer perceives a different value in your product/service. Pricing's great challenge is to identify the value perceived by each customer, and then segment or group them and manage to offer them the ideal price. Depending on the business model, it is practically impossible to define a price according to the value perceived by each individual. Although this is theoretically the best option, companies end up opting for a general price for all their customers according to the purchase channel, type of product, time of day, etc. In the vast majority of cases, what ends up happening is that companies need to estimate the value perceived by groups of customers. Of course, this is not the optimal solution to the pricing problem, but the more segmented it is, the better the results. Nowadays, with most sales being done online, pricing has become more granular and, as companies learn to manage customer data, they can more accurately estimate each customer's willingness to pay.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Pedro Piccoli Soares: Depending on the type of product and the company's business model, price anchoring can be a very effective strategy. In general, when they don't have a lot of knowledge about the product, customers already use the price of the most expensive option as a benchmark. Based on the most expensive option, consumers check which attributes they would be willing to compromise in exchange for a lower price, thus choosing the ideal product for them. This technique is often seen in the alcoholic beverage industry, such as wines and whiskeys. In this industry, it is common to find special editions or premium labels with much higher prices than those sold on a larger scale. These days I see this technique a lot in businesses that use subscription models. In almost all offers, we find a more expensive and more complete version, usually with additional features and attributes that attract very few people. The objective is to offer an option with a higher price so that the core product, which the company is focused on selling, appears fairly priced. In addition to attracting demand for the main product, this strategy also generates extra revenue by selling the option that is used as an anchor at a higher price to customers who always opt for the premium or more expensive product. I recently worked on a case where price anchoring was the main topic addressed. On the landing page of the company's website, we always showed the cheapest prices and the best deals, usually with messages like "starting from" and the lowest price available for the product. However, as the company worked with dynamic prices, depending on the day of the week or the time the customer wanted to travel, they would not find promotional prices in their search. In general, the lowest prices were only available for less popular trips, and my hypothesis was that communicating the lowest prices on the landing page generated frustration and reduced the conversion rate. To check if the raised hypothesis made sense, we performed the so-called A/B test, where the traffic of our website was divided into two groups: half of the people would find on our homepage, as usual, banners with the lowest prices (control group) and the other half would find banners with our highest price (test group). Thus, we were able to analyze which of the groups generated a higher conversion rate and a higher average purchase price. In this case, the test group exceeded expectations, generating very positive results in relation to the control group. I believe that there are several applications for price anchoring, but cases like the one I told you will become more and more common, especially due to the continuous increase in online sales.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices, or follow a strategy with identical prices for all customers in all channels?

Pedro Piccoli Soares: I understand that, in theory, it would be best to have a price for each customer, applying the maximum level of segmentation, but this is usually not feasible. Recently, I was reading a book (*The Death of Comrade President* – Alain Mabanckou) where the main character goes to the small market in his village to do some shopping. The market, in the book, was called “Case by Case”, and the owner set the price of the products individually, according to what she knew about the customer and his family, the stock of each product, expected demand, etc. In this fictitious scenario, and in some specific real-life situations, it is indeed possible to perform fully individualized pricing, but it is not the most common practice. At the beginning of the last century, retail began to gain a lot of strength in the United States, and companies like Sears or Macy's generated fortunes with a strategy that offered identical prices to all customers. Product catalogs were printed and sent to customers' homes, who placed orders via telephone. Of course, some customers benefited from discount coupons, but in general, prices were the same for everyone. When the large retail chains began to emerge, the same problem was seen: it was impossible to reach the level of customer segmentation seen in the “Case by Case” example. In addition to not having the necessary information about customers, this process of negotiating prices and discounts would require a huge number of employees. As a result, identical prices were set for customers and printed on product labels. Thinking about it today, I believe that both of the above cases are quite extreme. In my opinion, I believe that with the advancement of data availability and processing technologies, we will come closer to the idea of individual pricing. In the very near future, all products will be available online, and with technology that already exists today, the set price will be based on the specific profile of each buyer.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Pedro Piccoli Soares: Of course, if the company's goal is to maintain long-lasting relationships with its customers, transparency is essential. Your consumers need to feel safe and know that your commercial policies are clear and honest. On the other hand, it is important to understand that commercial policies and commercial/pricing strategies are different things. A classic example is that of plane tickets. As a consumer, I fully understand airline commercial policies. I know what I would get for the flexible, economy or premium rate, and that prices are likely to increase over time, etc. However, I don't have access to their pricing strategy, I don't know when exactly the price will increase and by how much, what is the current capacity of the plane, and how many discounted tickets were sold. I think this distinction is fundamental, and that the commercial policy must always be well-defined and shared with consumers.

Frederico Zornig: How do you define “pricing strategy”?

Pedro Piccoli Soares: Madhavan Ramanujam, in the book "Monetizing Innovation," objectively defines pricing strategy as a company's monetization and revenue generation plan for the short and long term. I strongly agree with this description, and I think that all topics related to revenue, in one way or another, are part of pricing strategy. The definition of sales channels, discounts, customer segmentation, monetization models, billing methods, the definition of product attributes, and value communication are all points of great importance and are part of the pricing strategy. The definition of the specific price of a product is a consequence of this strategy and the harmony of all the points mentioned above.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Pedro Piccoli Soares: Jeff Bezos didn't become one of the most successful entrepreneurs in history by chance. For a long time, companies were very focused on internal problems and issues, such as reducing costs and increasing production, with very little focus on the market and their customers. Over time, this scenario changed, and most companies began to direct their efforts towards competitors. Gaining market share became a priority in many markets, and the main objective was to monitor competitors and try to "beat" the competition. I now see that this scenario is already changing. It is much more common to find companies that really put the customer at the center of their attention. When you don't know the customer, it's impossible to know which product to sell, in which channel, and at what price. It is logical to say that one cannot completely disregard the competition and ignore their actions, but I believe that most of our attention should be directed towards customers and potential customers. Companies whose main strategy is to follow competitors will always be one step behind and will be copying competitors' mistakes.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist, such as cross-price, income, etc. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Pedro Piccoli Soares: Price elasticity is a crucial component of the main project I am currently working on. We are developing and improving the algorithm that estimates the price elasticity of our cars. In the car rental and car sharing market, having accurate estimates of price elasticity is essential. Once we calculate the elasticity, we can estimate the impact on demand generated by changing prices. For example, if we increase the daily price of renting an economy car, what happens to its demand? If our competitor lowers their three-day car rental price, what impact should we expect? If we increase the daily price of the "standard" car options, will there be a variation in the demand for the "premium" options? All of these questions can be answered by estimates generated from a precise calculation of price or cross-elasticity. The results are even more compelling when we apply artificial intelligence and machine learning techniques to the calculations. Lately, we have also been using A/B testing extensively, which generates a sample with greater reliability. In this way, we can analyze a larger amount of data in real-time, giving us greater precision.

Frederico Zornig: Dynamic pricing and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Pedro Piccoli Soares: In recent years, I have been working a lot with this e-commerce scenario and dynamic pricing. These techniques have been applied for a long time in the ticket sales and car rental markets. But in recent years, algorithms are becoming smarter and, with that, pricing becomes increasingly effective. In my current position at Sixt and at FlixBus, I have a very close relationship with the Data Scientists/Engineers teams. The Pricing team plays a vital role in the development and monitoring of algorithm performance because, in general, IT teams do not have as much knowledge of the business area and the particularities related to pricing. This integration is fundamental, and for that, it is necessary that both teams communicate and understand each other well. For this reason, I think that Pricing and Revenue Management teams will increasingly need to have basic knowledge of data science and artificial intelligence, as this is the future of pricing, especially in online sales markets. Lately, I have been reading a lot about AI-Based Pricing, and although prices are set by artificial intelligence, the correct inputs need to be provided to the algorithm. This is a task that only Pricing experts can perform with perfection and mastery.

Frederico Zornig: What is pricing and/or revenue management to you?

Pedro Piccoli Soares: Pricing and Revenue Management are fun and challenging every day. It is the area where I developed my career, and the area I intend to dedicate myself to for several more years. What fascinates me most is the possibility of applying knowledge and experience from a specific market to other markets and generating positive results. Furthermore, the power these strategies have to drive profitability is incredible, and the more we work and study, the more we encounter the "hidden profits" mentioned by Rafi Mohammed in *The Art of Pricing*. I see that Pricing and RM are areas full of opportunities for those willing to develop and exceed expectations. They are certainly the right departments for people who want to make a real impact and place their company at the top of the market.

Frederico Zornig: What is your final message to those reading our conversation?

Pedro Piccoli Soares: I would like to highlight something that may have been implicit in our conversation: regardless of the market and product type, Pricing and Revenue Management are the most powerful tools to enhance a company's profitability. The correct application of these strategies may not be easy and may not generate immediate results, but the long-term impacts will certainly be surprising. It's also important to keep up with market trends and new technologies. The world is becoming increasingly dynamic, and those who are not willing to learn and try new ideas will be left behind. This is especially true for Pricing and RM, where Artificial Intelligence and Machine Learning are becoming a reality in several markets and will soon reach all companies. Finally, if you're interested in developing in this area, be prepared to face many challenges, but also many opportunities for improvement and development, both professionally and personally. And most importantly, you'll have a lot of fun on your journey.

RAFAEL MATTES RUSSO

Pricing Manager for South America, Schneider Electric, 11 years of experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Rafael Mattes Russo: I started working with Pricing at the beginning of my career when I joined the intern team at Alcoa Alumínio S/A in 2010. I was in my last year of engineering college, searching for internships in the administrative area, outside the technical area. I fell in love with the Pricing area, the functions, and the impact that pricing could bring to the business. Since then, I continued working in the Pricing area, eventually taking on some other product marketing and market intelligence responsibilities in B2B businesses and also in the construction material sector. I used data to make decisions that help improve the company's performance, profitability, and sales.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is the sales history still helpful in any decision-making process?

Rafael Mattes Russo: In this pandemic, the main short-term challenge is to protect and seek improvement in the company's profitability through action and quick responses in pricing, while keeping an eye on and advancing towards medium/long-term goals such as rebuilding and revising commercial policies, adopting new tools, training, and disseminating the culture and importance of pricing within the company. The sales history does not allow us to predict the future, but it helps when it comes to building scenarios and simulating impacts of product mix, channels, customer categories, etc.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Rafael Mattes Russo: I predict that the Pricing/RM area in the next 5 to 10 years will have more strategic and less operational responsibilities. This is thanks to automation tools and technologies, such as the entire maintenance part of ERPs, registration of price lists and discounts, policies, positioning analysis, and transaction histories, etc. People will see pricing as a strong business advisor, the midpoint of the balance between finance, marketing, and sales. The Pricing area will be sought to identify and suggest actions for better company results according to the company's global strategy, whether it be share growth, revenue, margin, or any other goal.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Rafael Mattes Russo: The first skill I look for in applicants is excellent communication skills. It is very important to be able to communicate short and direct (but effective) messages to a group of directors about a certain action plan, to be able to translate this action plan and support it with strong negotiation arguments for the group of connected people in sales, and to know how to explain yourself well to the Finance team. I'm also looking for people with basic math skills and some ability to work with numbers and data analysis tools (such as Excel, BI tools, or even more advanced programming languages), but it's not a primary requirement. In general, in terms of academic training, I don't see any specific area as a requirement, but courses in mathematics, statistics, and engineering can provide a better foundation and technical background for this position. I seek to develop these skills in my team with direct coaching/training, gradually sharing and delegating activities with an increasing level of complexity and exposure at all levels of the company so that they can gain experience.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Rafael Mattes Russo: In general, I've been seeing companies in Brazil implementing a pricing culture, so I would say that, at least in the companies where I've worked, Brazil is at an intermediate stage. Companies approach pricing strategically, but the responsibilities are spread across several other departments such as finance, planning, marketing, and sales. The process of implementing a pricing culture involves creating a specialized department, area, or person who dedicates 100% of their time to pricing, centralizing some responsibilities that were previously diffused. For example, the price list and commercial discount policy (recording, updating, and maintaining it in the various systems, even disclosing it to customers) should be the responsibility of the pricing sector and no longer the responsibility of other marketing or sales professionals. The analyses, reports, and discussions of price variations and consequently the recommendation of tactical moves to leverage results no longer fall to the finance sector or other areas. Finally, the cultural transformation with the commercial team is also very important in this construction process. We must show through analyses, data, and methods that the proposed actions and price movements have a rationale behind them and that they are aligned with the company's goals to improve the overall results and that they will contribute positively to the team's daily negotiations (pricing is not just about raising prices). In order to create and develop a pricing culture, we must engage in a lot of interactions and dialogue between the finance, marketing, and sales sectors. We must understand their needs and the difficulties they have faced, in order to show them how a management that specializes in pricing could help them boost business and facilitate their day-to-day activities. To help build and maintain this culture and trust in the Pricing area, it is also essential to hold periodic forums and committees to discuss KPIs and actions, have conversations and individual meetings with these areas, conduct field visits with teams to understand the business environment and customer perceptions, conduct frequent training, and share reports and pertinent pricing information.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Rafael Mattes Russo: Discussing mistakes is never easy, but the biggest lesson I learned while working with Pricing and Revenue Management is that making big changes (such as completely changing a commercial policy, implementing new parameters, rules, price positioning, etc.) too quickly may not be the best approach (even when the changes are theoretically correct and necessary!). It is important to allow enough time for the teams, especially the sales team, to understand and absorb the reasons for the changes to avoid setbacks and diversions in the process. No change is easy, so having the help of as many field "allies" as possible (such as the sales team at all hierarchical levels) during the construction process facilitates this change, instead of simply forcing it.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Rafael Mattes Russo: An excellent system/engine that manages commercial policy rules (requested prices vs policy standards, with various possibilities for segmenting products, customers, and other variables relevant to the business; in addition to the consequent attribution of approval flows in cases of requests for additional discounts) and a database (reliable, with accuracy) with BI tools and robust analytics that can support the identification of behaviors quickly, generate insights, and route corrections. I would like to use artificial intelligence tools to identify patterns and behavior of the data, such as unconventional segmentations, which would automatically generate suggestions for stakeholders/approvers within the evaluation flow of additional discounts.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Rafael Mattes Russo: Alignment and delivery of results according to the global corporate strategy is what I have observed throughout my career (whether it is to increase margin, deliver more margin, increase share, increase volume and grow more than competitors, evolution pricing, etc.) and recognition as an area that brings insights and contributes to the business, an area of business advisors, not just an area that assesses KPIs, transforming the pricing area into the reference area to be sought out to support and contribute to several strategic decisions.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Rafael Mattes Russo: Governance of "price list" and commercial policy discounts, ensuring that the entries in the appropriate systems are correct, that any suggestion of change or new registration is aligned with the strategy and positioning between products and customer classifications, and that any tactical action of price has been properly mapped and discussed/approved (including its impacts, benefits, and consequences). Monitoring the execution of commercial policy prices and discounts, identification of deviations by product/family or customer/segmentation, and generation of recommendations and suggestions for corrective actions for marketing/sales teams aligned with objectives, with simulations of scenarios and impacts.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Rafael Mattes Russo: Throughout my career and journey in pricing, I believe that showing options and paths for executing better average prices for certain segments (for example, in which products, channels, and customers it is possible for us to make some movement of price, seeking to maximize results through actions aligned with the strategic objectives of organizations) generates significant impacts from a tactical and short-term point of view. In the strategic aspect, medium and long term, dissemination of the pricing culture with training, value-based pricing concepts and approaches for different teams, in addition to periodic reviews of strategies, price positioning, and commercial policies.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Rafael Mattes Russo: There are short-term indicators that can be used as measures of the contribution of pricing to the company's results, such as price variation (versus inflation indices or versus variation in costs), contribution margin, sales volume, or billing. In addition to financial indicators, measurements that accompany and reflect the execution of prices and proposed actions, for example, adherence to the commercial policy and dispersion of discounts in the different levels of the existing segmentation, number of orders, or portion of the billing that passes with and without additional discounts (and how is this distribution of additional discounts). We must also think about the cultural evolution of pricing within organizations. So, measurements of the amount of training or people trained in general pricing concepts or commercial policy, as well as response time or availability of information, actions, and insights can be good indicators of the area's evolution.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Rafael Mattes Russo: Maintaining synergy and constant contact with areas, especially marketing, sales, and finance, is essential to positively impact results. I use forums and periodic pricing committees to keep everyone updated and ensure that the main KPIs (price variations, dispersion of discounts, additional discounts by group of customers, products, etc.) are well understood by everyone involved. I also have direct and individual contacts with the areas to anticipate and predict impacts, such as macroeconomic forecasts and impacts on costs with the finance team, effectiveness in the execution of actions and market perceptions with the marketing teams and sales, and availability of products, raw materials, and logistics with the supply team. It is also important to always have the alignment of objectives and understanding of project prioritization with the top leadership, which can help in cascading guidelines with their teams. This helps when trying to make things happen.

Frederico Zornig: Is pricing based on perceived value the best method? Why?

Rafael Mattes Russo: I believe it is the best way in theory, but not always the best in practice due to a lack of information, resources, or even relevance of a given product within the portfolio. In some cases, pricing a certain product according to the competition or even in the cost-plus format can be more cost-effective in terms of time, effort, and return. In the case of product offerings with higher levels of technology, differentiation, and greater visibility and relevance for the company, pricing by perceived value is the best way, as it aligns pricing with other marketing pillars and brings more subsidies to the commercial team in view of the customers at the time of the argument of sales. Additionally, always seek the optimal price desired in the balance between volume, revenue, and margin.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Rafael Mattes Russo: Yes, I think it's a good approach and I think it should be used, never with bad intentions, such as promotions with the immediately preceding price increase, the "half-double" discount. When we always consider the relativity between things and people's need to compare things, generating product alternatives and combos helps the consumer understand the relative value between the options. Anchoring helps the company direct the desired product (while giving consumer alternatives). In the aspect of discounts and price variations, a good commercial policy designed with the desired placements between channels, customer behavior, product attributes, and other categories helps the commercial team at the time of negotiation (in cases of B2B sales) and also makes this point of relative placements transparent to the client.

Frederico Zornig: Is it better to segment the market and capture the max from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Rafael Mattes Russo: I believe in segmentation, considering that different categories or groups of customers are willing to pay differently for the same product, according to their needs, uses, and applications. Additionally, thinking about a strategy for channels and distribution to end-users, each group of customers or link in this path of products and services has a different role and adds value differently along the chain. Therefore, they may also have different prices and be remunerated in different ways. All this without taking into account the company's strategic design, in which each organization must think and design according to their plans, in which channels and partners they want to invest in order to offer their products and services in the best way to consumers.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Rafael Mattes Russo: Yes, the commercial policy must be totally transparent for the client (and built according to the company's strategic objectives). If a company wants to sell in a certain lot size, it should create conditions for the client to understand and have some benefit in that format instead of fractional. In addition to being transparent, the commercial policy must also be consistent and reliable for the sales teams and customers. The client needs to understand that they will only have better conditions if they follow certain rules or behaviors and that these will be practiced for all their competitors, so they feel safe in carrying out these trades in a certain period.

Frederico Zornig: How do you define “pricing strategy”?

Rafael Mattes Russo: A pricing strategy is defined as the positioning of a given product's price according to its attributes and perceived values, while considering the alternatives that consumers have, the company's internal restrictions and limitations (production volume limits, costs, minimum acceptable margins, among others). Based on this, and in accordance with the company's distribution strategy for a given business division or product line, the commercial policy and discounts throughout the chain are defined for different channels and segments or other forms of remuneration for partners that encourage the commercialization of that product until it reaches the final consumer at the final price position determined initially.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Rafael Mattes Russo: The company's focus must be on the customer, always seeking to understand what they need in terms of solutions and attributes in products and services, what they value, and how and to what extent the company's products and services meet these consumer needs. In this way, various marketing strategies, including pricing, can be designed and executed with a view to serving customers and in line with the company's global strategy. For the pricing environment, this makes it much simpler and clearer for everyone (internal teams and consumers) to know what, how, and at what price to sell each product or solution with its due arguments, without great need for negotiations and fights for discounts. But the competition should not be the center of attention and the main focus of the company's actions and movements. Instead, it should be observed for decision-making and reactions in accordance with the strategy and internal objectives that aim to serve customers.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g. price) has on another variable (e.g. demand). We know that different types of elasticity exist, such as cross-price and income elasticity. How important is it and how do you use the concept of elasticity in your pricing decisions?

Rafael Mattes Russo: Throughout my career, I have used the concept of price elasticity to discuss promotional actions. For instance, I consider if a proposed promotional discount is worth it or not. I evaluate how much discount to offer, why, and whether the increase in volume that this promotion will bring (or that we hope it will bring) will generate the desired financial result. In some cases, it may not make sense to promote a product if we have seen in the past that it is practically inelastic, meaning that a price reduction will not increase volume. I also use the concept of elasticity in defining price list increases in a non-linear way between products and product families, aiming to keep products more sensitive to prices (i.e., more elastic) and normally with greater price visibility for consumers, making them more competitive. Accessory and complementary products or services, with less sensitivity and perhaps inelastic, may have greater increases to maintain profitability while balancing the basket of margins and price variations.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the electronic market (e-commerce). Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Rafael Mattes Russo: In my pricing journey so far, I haven't had the opportunity to apply dynamic pricing concepts. Usually, in the segments and industries I have been through, price changes are a little slower, scheduled, and with certain notice periods to customers for their complete execution. However, I see opportunities and applications of concepts similar to the shopping basket in segments other than e-commerce. It is possible, for example, to link related products that form a solution or system, leaving the items of greater visibility and of reference to consumers with more competitive prices and their accessories and complements with relative positioning of different prices with the objective of improving the contribution of the basket while maintaining the customers' perception of good value for money.

Frederico Zornig: What is pricing and/or revenue management to you?

Rafael Mattes Russo: Pricing and revenue management involve balancing marketing, sales, finance, and supply to achieve a company's strategic objectives. This is done through the development of strategies, policies, procedures, and analyses, which lead to tactical actions aimed at optimizing desired indicators and controlling price execution in a sustainable and lasting manner. Such practices must be adaptable to new situations and scenarios over time.

Frederico Zornig: What is your final message to those reading our conversation?

Rafael Mattes Russo: Pricing is an area with plenty of opportunities for organizations at different stages of maturity. For those just starting, it can involve looking at data, identifying opportunities, or calculating margins for specific customers. More advanced organizations can leverage complex algorithms and artificial intelligence for real-time pricing adjustments. If you enjoy working with data and patterns, and want to make a direct impact on a company's bottom line, Pricing may be the perfect area for you. And for those in management positions, such as marketing, sales, or finance, who believe in the use of data and processes to achieve greater sales and profitability, investing in a Pricing area can yield significant gains.

RENATO MENDONÇA BELLOMO

Revenue Management Director, Gol Airlines, 16 years of experience

Frederico Zornig: Could you tell us about your professional career and how you got into Pricing and Revenue Management?

Renato Mendonça Bellomo: I believe that the attributes that led me to work in Pricing and Revenue Management were having an analytical profile, enjoying seeing recommendations implemented in practice, and having a passion for problem-solving. A good problem always brings a challenge and adrenaline that enhance professional achievement. I graduated in Business Administration from FGV EAESP, and later specialized in Market Intelligence at Ibramer, which is now part of Live University. Recently, I obtained a Certificate in Aviation Management from Embry Riddle Aeronautical University, the main institution for aviation professionals in the world. During college, I had significant involvement with student organizations, participating in the Junior Public Consultancy and serving as president of the Getúlio Vargas Academic Directory (DAGV), which were my first leadership challenges. Later, I did internships at P&G (Marketing) and ABN AMRO Bank (Strategic Planning), which confirmed my choices and my generalist analytical profile. My first formal job took place outside Brazil, in India, in 2005, as a Trainee in a global program of Tata Consultancy Services (TCS), a company of the Tata Group, responsible for 2-3% of Indian GDP, working with mapping processes and new business development. This experience lasted a year until I decided to restart my career in Brazil, as I wanted to be closer to decision-making areas. So, I resigned, but before returning to Brazil, I traveled around Asia for a year visiting countries like Nepal, Pakistan, Sri Lanka, Thailand, Laos, and China. It was literally a once-in-a-lifetime experience that fueled my adventurous spirit and influences my life to this day. In Brazil, I joined the Gerdau Group as a Trainee and worked in the Planning and Management areas, gaining familiarity with executing strategic and tactical planning cycles, coordinating projects, executing action plans, and carrying out my first activities related to Market Intelligence. Later, I joined Votorantim Cimentos in Strategic Planning, deepening my knowledge and practice in the area. Finally, I was invited to return to the Gerdau Group to work with Purchasing Intelligence in Supplies, setting up the scope, processes, and activities of this area, in addition to working with management, indicators, and global projects in Supplies. All of the experiences were enriching, but I had never had the opportunity to implement my actions and recommendations. This part always depended on a business area, such as Sales or Supplies, which would receive the content, analyze it, and move forward with what they considered relevant at the moment. I always felt like I wanted more, until the opportunity to work in Revenue Management at Gol Airlines came up. At that time, I considered Pricing as an arm of Market Intelligence, Strategic Planning, or Marketing that worked on a very specific topic of these activities: Price. However, during the selection process and later, in my professional work, I realized the scope of analysis possible from that point. This area united aspects that I loved in a professional performance: analysis, practical implementation, and challenge! Not to mention the possibility of using other professional skills, such as a systemic vision and process development, indicators, project management, and programming. The result was that I dove into this activity with enormous fulfillment, transforming the company's results, structuring and developing the area's performance, and being increasingly recognized professionally.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

Renato Mendonça Bellomo: Aviation was one of the sectors most affected by the pandemic. To give you an idea, Gol Airlines used to operate with an average of 750 daily flights, and at the beginning of the pandemic, in April 2020, we reduced our operation to 50 flights per day. This context made the sales history obsolete because everything was based on another reality, and consequently, performing accurate projections of demand and revenue became one of the main challenges in revenue management. What will be the size of demand in two months, and what is the ideal number of flights for this period? In addition, consumer behavior has also changed in this period, as travel decisions have happened way more last-minute compared to departures. We reformulated the projection methodologies, giving more weight to recent demand histories, internet search trend indicators, and macroeconomic confidence indicators. We also intensified the frequency with which we reviewed the projections, given that news regarding the health scenario, politics, and government decisions quickly changed the scenario. This set of adaptations collaborated significantly in the way we went through this difficult period.

Frederico Zornig: How do you imagine the pricing and revenue management area in the coming five or ten years? How will these changes affect the work you do today?

Renato Mendonça Bellomo: The volume of information available for decision-making has increased dramatically; however, the acquisition of technological infrastructure, adaptation of tools and processes to make the information accessible and applicable is still in a transition phase in companies and industries. I believe that in the next five years, the different industries will be able to adapt their pricing processes, methodologies, concepts, and teams to work with this set of variables: traditional sales history, internet traffic information, consumer behavior profile, interaction on different platforms, and social networks, in a useful and actionable way to segment products, value, and consequently, pricing. Personalization will be more and more frequent, socially and legally we will have to adapt to having different prices for different consumer profiles. To adapt to this transformation, the acquisition of data lake infrastructures and digital platforms with high processing capacity will be increasingly common, and professionals in the area will have to be able to interact with these technologies with notions of programming to understand and influence the calibration of algorithms, but keeping its main characteristic of analysis for decision-making and value generation of added value.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Renato Mendonça Bellomo: I consider the Revenue Management profile to be one of the most complete because it combines the basic competence of analysis with other competencies needed in various areas such as business vision, teamwork, communication, and decision-making capacity. In addition, having sufficient programming skills to perform data mining or small tools with dexterity brings a competitive differential for the business. It seems like we're asking a lot from a single professional, but at different levels, the employees of a Revenue Management area have or learn these different skills and, together, become a strong team, so much so that these areas usually "export professionals" to other areas of the companies where they also contribute to the development of the company as a whole. The academic background of these professionals is varied, but, in general, people with a logical bias coming from economics, business administration, engineering, mathematics, and statistics have a higher level of adherence to the profile of the area. The development of skills is a very difficult topic. In theory, it would be important to have periodic training so that concepts, such as segmentation in different modes, are assimilated and practical skills, such as using tools and reporting, are passed on. However, what I see in practice is that the training, despite existing and being continuously improved, hardly surpasses the development through exposure to practical and real problems, demanding that professionals dedicate hours, days, exercising their potential skills to learn to see the issue from different perspectives, communicating different perspectives, communicating with different people and areas, debugging data, making presentations, and making decisions. I believe that formal training has to continue to improve because it saves learning steps by didactically presenting the way of thinking and acting, but the "practice of the problem" will always play a fundamental role in the development.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Renato Mendonça Bellomo: I think so. One of the first industries to develop Revenue Management in a structured way was aviation. This story began in the 1970s in the United States. So much so that it is common to find positions of Director or Vice President of Revenue Management in airlines and large departments with 50, 100, or more employees. When I try to understand why this happened so early, I find some basic explanations: difficult balance between supply and demand in a fiercely competitive environment, perishability of the product (seats), consumers with high price sensitivity, low level of product differentiation, little access to the final consumer, and great availability of historical information on demand. The airline industry has high fixed costs (e.g. aircraft leasing and crew expenses) and variable costs (e.g., aviation kerosene) that operate with low margins due to the difficulty of passing business costs to the consumer because the nominal value of the tickets is high compared to the purchasing power of consumers, even if it is a price that represents a loss to the airlines. Also, the imbalance between supply (number of flights and seats made available) and demand, especially in a fierce competitive environment, which usually operates with more supply than available demand, limits the ability to balance the business through fares that are profitable vs. cost-effective tariffs.

In this context, low margins can easily turn into an imbalance between supply and demand or volatility in the economic scenario, as is currently the case with the pandemic. Therefore, there is an urgent need for value extraction in this type of industry. Another contributing factor to the development of Revenue Management is the perishable nature of the main product, the aircraft seat. A seat made available for a particular flight and date has fixed and variable costs tied to it that should be monetized in the same flight. If the seat is not sold and remains empty, the opportunity to monetize these costs and the asset is wasted. Obviously, the same seat can be made profitable on another flight and date, but we treat this new flight and date as a new product for another consumer, with different demands and costs. However, the profitability of the seat that was empty in the first example was not successful. There are some possibilities for action to reduce costs and reduce the risk of leaving with an empty seat, such as canceling a flight or changing the aircraft on the flight for one with less seating capacity, carried out by areas such as Network Planning or Operations. However, Revenue Management aims to make flights profitable and sell seats at an optimal level until the departure date, seeking to prevent idleness scenarios from materializing. Therefore, the reality of high costs combined with the perishability of the seat made Inventory Management of the seats one of the main techniques used in aviation Revenue Management. It fills all the seats of the aircraft and understands the optimal price level that should be charged for each seat, ultimately paying all costs with a positive margin according to the consumer's willingness to pay. It controls the booking curve for each flight, for different consumers in an uncertain demand, leveraged by the development of robust methodologies of estimation of probability, elasticity, and demand forecast that contribute significantly to the profitability of flights. Furthermore, as the airline industry has been operating on a large scale for a long time and with millions of consumers, sales are not carried out by Sales or Commercial areas, as in other industries. As a consequence, we also have a robust volume of information that allows us to carry out statistical analyses and accurate optimizations in different types of segmentation. This set of factors - industry characteristics with low margins, difficult balance between supply and demand, seat perishability, demand characteristics with high price sensitivity, competitive environment, little access to consumers, and abundance of demand information - created a perfect environment for the development of robust areas of Pricing and Revenue Management. In this context of a more established Revenue Management culture, the area becomes an important part of the company's strategic decision-making chain. This involves Planning, Revenue Management, Commercial, Marketing, and Analytics, acting as a link that influences the macro decisions of Planning and opining on scenarios more favorable to the formation of future Revenue. It signals to the Commercial and Marketing areas opportunities for actions with a focus on greater or lesser added value. This entire chain is supported by Analytics through the provision of analysis and tools that facilitate the decision-making process.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Renato Mendonça Bellomo: I would say it was Game Theory working in practice. During all these years working in aviation, I saw several competitors with the strategy of dominating a certain part of the demand or market. However, this type of strategy is unrealistic. It assumes that the competition would react passively to a drop in demand or loss of market share in an aggressive/competitive environment with low product differentiation and similar size players. This is not reasonable in the medium and long term. Generally, this type of strategy only leads to tariff wars, losses, and destruction of value for everyone. The competitive environment is very important, but it must be based on superior relative performance achieved with intelligent differentials in products, processes, operational performance, team, and different pricing strategies, for example. These are healthy competitive practices that promoted differentiated products, experiences, and prices to customers.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Renato Mendonça Bellomo: In the current context, calibrating our Pricing and Inventory Management models with the most recent history, or even working with methodologies that are more responsive to the current context in parallel, given the changes in demand behavior, is essential. We must react to the abrupt change in the scenario caused by the pandemic. In addition, access to real-time information on our own performance or the market environment, such as data on search trends, has been essential to guide us. The information that I hope will become more available in the coming years is related to Big Data and Machine Learning based on consumer profiles to enhance pricing decisions and inventory management.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Renato Mendonça Bellomo: Success is the delivery of optimized revenue growth with superior relative results in a sustainable way based on technologies, processes, and people, and that acts as a pillar of direction and influence on other areas and the organizational strategy.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Renato Mendonça Bellomo: I consider the core processes that deal with pricing and inventory management to be fundamental. Pricing processes seek to optimize the segmentation, positioning, and allocation of prices by origin and destination. They are fundamental as they define the price level of a market and consequently play a decisive role in its profitability. They make the initial attribution of the perceived value in prices to the consumer according to the demand history. Inventory processes, on the other hand, seek to optimize revenue on a flight-by-flight basis. Price management is more volatile than pricing since day by day it takes into account the performance of each flight to encourage it with lower prices or monetize it with higher prices. As with pricing, it uses historical demand with user interaction to seek revenue maximization. Competition mapping processes are also important as this is a dynamic factor that influences decision-making but which is not normally part of the main optimization processes. Finally, there are the operational processes that enable price changes and allow the segmentation and price differentiation decisions taken in the pricing and inventory processes to be reflected for different consumers, channels, and points of sale. They make the decisions taken for the client become real.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Renato Mendonça Bellomo: Primarily, the delivery of increasingly better-optimized revenue results is the area's most objective contribution, as it influences the first line of the income statement. In addition, we contribute to the construction of a strategic mindset as opposed to a tactical one, where revenue optimization and thinking about what is best for the company prevail in relation to the reactivity of what competitors with other guidelines pursue. We influence the development of analytical thinking in other areas of the company, for example, in areas such as commercial, e-commerce, marketing, and BI, building joint processes, strategies, tools, and actions. Finally, we developed methodologies, processes, tools, and a team that gave more clarity to the strategy, concepts, objectives, and measurement of results.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Renato Mendonça Bellomo: Among the main end indicators are revenue, occupancy rate, which is equivalent to volume, and yield, which is equivalent to the average fare but divided by kilometers traveled.

The middle indicators are just as important; they are decisive for achieving end indicators such as the percentage of flights with occupancy above or below what was forecast, price difference versus competitors, or percentage of markets with a price premium. Finally, indicators that provide insight into the industry are also important. Capacity indicators, such as the level of seat supply per player, are crucial for understanding how tariff levels should behave in an industry with a delicate balance between supply and demand. Relative indicators, such as market share or efficiency (the balance between market share and supply share), help identify opportunities in case of low performance.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Renato Mendonça Bellomo: The existence of shared forums is essential for this. At Gol Airlines, we have the Revenue Committee, which meets weekly, bringing together areas such as Revenue Management, Sales, E-commerce, Revenue Analytics, Marketing, and Planning, among others. This forum aligns the vision on the current context, shares indicators and information on the priorities of each area, and aligns next steps for the week. In addition, the growing integration of indicators and strategy between teams through processes and direct communication between teams is essential to avoid leaving forums solely responsible for alignment, synergy, and communication between areas.

Frederico Zornig: Is pricing based on perceived value the best method? Why?

Renato Mendonça Bellomo: I believe so because, at the end of the day, what matters is the customer's view of the product or service, and perceived value is the transcription of this perception. Pricing based on costs or positioning versus competitors is also important as references to ensure that margins are achieved or that the product's positioning strategy in the value chain is respected. However, these factors contribute to the formation of the price but cannot make or sell anything if they are unrelated to perceived value. For this reason, continuous alignment between areas such as Marketing, Product Development, Market Intelligence, and even Senior Management, with Pricing and Revenue Management, is important to ensure that there is alignment between the corporate strategy, customer perception, and pricing strategy.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Renato Mendonça Bellomo: I believe so, as long as the anchor and anchored products or services are really comparable in customers' perception, as it helps to make the pricing logic clear internally for the company. For example, certain products or services will have less quantity and more margin, and others in which the opposite will happen. Mainly, for the consumer, the attribution of price and value becomes logical.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Renato Mendonça Bellomo: In theory, segmenting is better, but that depends on the level of demand migration across channels. Segmenting means executing the possibility of assigning different prices to perceptions of different values and varied willingness to pay among consumers. Normally, different channels and groups of consumers present variations between these aspects, and being able to charge more for those who have a more premium perception and cheaper in the opposite cases optimizes the number of customers and revenue, as long as there is no migration between channels. When there is migration between channels, customers will naturally buy from the cheapest channel, compromising the channel's performance and, ultimately, the relationship with the channel and the brand. Therefore, it is important to impose limits that make migration difficult, adapt the pricing strategy where it is unavoidable and segment where possible.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Renato Mendonça Bellomo: I think so because the relationship with the company is not only in the acquisition and use of a product or service, but it is also an exchange relationship where transparency and justice in the attribution of prices must be respected in order to build a relationship of trust for future business and transactions. The practice of business with little transparency can present advantages in the short term but can bring important losses in the medium and long term.

Frederico Zornig: How do you define "pricing strategy"?

Renato Mendonça Bellomo: Pricing strategy means charging more from those who attribute more value and can pay more and charging less from those who attribute less value and can pay less, with the ultimate goal of maximizing the revenue generated by the business using pricing and inventory management techniques.

Pricing strategy is the translation of perceived value by customers into different prices through a logical structure of segmentation of products, channels, and customers, and statistical inventory management, based on applied statistics with robust concepts, efficient processes, and intelligent tools with a differentiated team in order to optimize the revenue generated by the business.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Renato Mendonça Bellomo: I think we have to keep one eye on the fish and one eye on the cat. Customers are more important as they attribute value to the product, and ultimately, if there is no value perceived by customers, there is no product or company. However, competitors' movements significantly impact business performance and eventually even the value perceived by customers. So it is important to monitor competitors. Despite this, the key business questions should always be "What is our strategy? What do we want to offer? What is best for our business and our performance?" After these definitions, compare yourself to your competitors. This initial self-centrism helps to ensure that the end goal, which is the result of the business itself, is not trampled by the competitive mindset.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Renato Mendonça Bellomo: A good part of consumers in the airline industry are very flexible, and therefore this concept is of great importance in aviation. We use both elasticity and cross-elasticity. We started using elasticity because, given the volume of customers and data, it is possible to understand for the main origins and destinations and for each flight, what is the elasticity for each price range. However, origins and destinations compete with each other for the same seat on the aircraft: is it better to charge R\$500 for a passenger between São Paulo and Salvador, or R\$800 for a passenger coming from Porto Alegre, who makes a stopover on this flight from São Paulo to Salvador? And what is the probability of there being demand for this price range in São Paulo - Salvador? And in Porto Alegre - São Paulo - Salvador? To address these issues, our systems optimize the performance of all flights together towards revenue maximization based on the elasticity and probability of demand of each origin-destination and price range competing against each other. And finally, we have cross-elasticity versus competitors, which helps us understand the price difference we should position ourselves based on the quality of each product to maximize our revenue. As I mentioned earlier, the concept is crucial given the consumer's sensitivity to price, the similarity between products, and the competitive environment. It is one of the foundations of our revenue maximization techniques.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the e-commerce market. Has your company been working with pricing algorithms to apply price changes using these approaches?

Renato Mendonça Bellomo: Aviation price optimization systems have been providing dynamic pricing for a long time by calculating consumer demand and elasticity by price range for each origin and destination and for each flight. As a result, we allocate a different number of seats to each price range and have the effect of dynamic pricing for the end consumer. Currently, these models have been improved and complemented to include new variables, allowing for a greater level of customization of the amount charged. They not only operate with price ranges but also with continuous pricing that considers the client's elasticity. Additionally, they allow the construction of packages that include auxiliary services, such as on-board entertainment, car rental, and others, in addition to airfare.

Frederico Zornig: What does pricing and/or revenue management mean to you?

Renato Mendonça Bellomo: Pricing and revenue management are functions responsible for defining and executing the pricing strategy and the inventory strategy. The pricing strategy, based on customer perceived value, creates a logical structure for segmenting products, channels, and customers based on robust value concepts and efficient processes. The inventory strategy, based on applied statistics with robust concepts, efficient processes, and intelligent tools, optimizes the revenue generated by the business. Both together create an ideal demand management scenario, at the ideal price and at the ideal time for each customer. So, in simple terms, revenue management is the company's ability to charge the right price, at the right time, to the right customer to maximize revenue.

*My thanks to Leonardo Lauretti for formulating this conclusion.

Frederico Zornig: What is your final message to those reading our conversation?

Renato Mendonça Bellomo: From a business point of view, Pricing and Revenue Management are areas with enormous potential to contribute to superior results. These are complex areas that seek to unite the performance of different areas: Product Development, Marketing, Market Intelligence, Planning, Finance, Sales, in a logical way and with the influence of impacting external variables, such as the demand profile itself, consumer behavior, and competitor movement. Working with such complexity represents a problem, a fire, because from one moment to another, people expect logics will be established, processes, and strategies will be integrated, strategies implemented, and results significantly improved. However, this challenge also represents a great opportunity. Allocating competent professionals, dedicated resources, and infrastructure generates expressive results.

Therefore, even if it is difficult from a certain point of view, with a dose of courage, it can be seen as an opportunity and an adventure, building something new! Professionals in these areas have a distinct profile, as they manage to unite analytical skills and systemic thinking with teamwork, communication, listening, and decision-making to generate results. Executing this skill set from strategy to implementation brings enormous fulfillment as fuel to turn the wheel of this great transformation. In many companies, these are areas in formation/growth phase conquering space and credibility, and the performance of these professionals in this exciting area will make history and will play a decisive role in the development of their activities in the Brazilian corporate context. I am proud to have them as professional colleagues and thank you for the opportunity to be part of this journey. We have a united group, and the Pricing Architects initiative is an example of this. I thank my family and friends for encouraging me to participate in this book, everyone who helped review the content, and especially Fred, for inviting me, and I hope I have contributed by sharing my perceptions and experience in Revenue Management. I make myself available to everyone to talk and exchange experiences.

VANESSA BURATTO

Revenue Operations Director, Marriott International, 13 years of experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Vanessa Buratto: I started my hospitality career in 2008, working in finance at the Hyatt Regency Merida Hotel in Mexico as part of a college exchange program. At the end of my internship, I was hired as an Assistant Manager in the housekeeping department, and two years later, I became the Housekeeping Manager. In 2012, I joined Marriott as the Director of Services Operations at the JW Marriott Mexico City hotel. Although my career was in full swing in Operations, my heart was set on something more strategic. So, I decided to change departments and became the Revenue Manager for three hotels, including the JW Marriott Mexico City, Courtyard Mexico City, and Courtyard León. It was a significant opportunity to work with something entirely different from what I had before. In 2014, I took on a task force for six months in Ecuador, working with two hotels (JW Marriott Quito and Courtyard Guayaquil) to continue developing and gain international experience. After completing the project, I returned to Brazil as a Senior Revenue Manager with the mission to implement specific strategies for the Groups and Events segments. I coordinated hotel openings for the 2016 Olympics, working with eight hotels in the department in addition to Groups/Events. In the same year of 2016, after the acquisition of Starwood, I took on a new portfolio that was more focused on luxury hotels with more complex operations. I worked with hotels such as Sheraton RJ, Renaissance SP, JW Marriott RJ, Sheraton POA, Sheraton Recife, and Sheraton Santos. In 2019, I was promoted to Director of Revenue Operations, a position that acts as a bridge for revenue management to other departments. I coordinated projects in Brazil and Latin America to improve leadership, processes, and systems.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

Vanessa Buratto: The main challenge for the hotel industry is accurately projecting revenue for stakeholders because we are currently facing a scenario of high unpredictability in the short and medium terms. Demand tends to fluctuate based on the restriction measures of the city where the hotel is located, unless the destination has some type of demand related to quarantine or essential services that require accommodation. This situation makes it more of a recovery benchmark than a demand forecast per se, as historical trends are based on behavior that is significantly different from what we are currently experiencing.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the coming five or ten years? How will these changes affect the work you do today?

Vanessa Buratto: More process automation is necessary for workforce optimization in the Brazilian hotel industry, which can be broadly categorized into two groups: large international hotel chains with advanced technology for price decisions and profitability, and independent hotels/small chains that are undergoing technological transformation. Small hotels are adopting yield systems (revenue optimization) and incorporating them into sales and inventory control systems as part of their tech transformation. They are utilizing historical data as an initial source for price and mix recommendations. In the next 5-10 years, I predict that for large international hotel chains, revenue management will become the point of convergence between sales, marketing, customer experience, and finance, improving all these departments. The output of demand forecasts, price recommendations, and revenue mix construction will continuously improve. For independent hotels and small chains, the evolution will take place in inventory control, connecting all sales channels into a single source, improving overbooking control, and increasing average occupancy. This control will ensure improved data quality within yield systems, automating price changes and sales restrictions by channel, resulting in better quality and profitability. In 10 years, the same team that takes care of one hotel will be able to manage ten hotels with the help of technology and process automation. I don't predict reductions in staff, but I do foresee the inclusion of marketing functions such as monitoring internet searches to improve demand forecasts and the implementation of new package capabilities that cater to customer demands.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Vanessa Buratto: I look for a combination of hard and leadership skills in candidates. I value individuals with excellent communication skills that foster a collaborative work environment. They should possess strong analytical, organizational, strategic, curious, and agile skills. In an area with an abundance of data and systems, it is essential to communicate recommendations clearly and objectively to stakeholders while also being able to provide a detailed explanation when necessary. Curiosity is an essential trait because individuals must investigate demand behaviors that may appear as outliers or new trends, especially considering the changing world tourism demand. Agility is also essential as people must identify behavioral changes and act promptly to recover or leverage sales. These skills are developed through constant training, opportunities to rotate responsibilities, and daily monitoring, avoiding micromanagement.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Vanessa Buratto: It is a great honor to be able to work for the first hotel company that created and used the concept and discipline of Revenue Management in the 1980s. At the time, the CEO, Bill Marriott, was inspired by new practices at American Airlines and began this journey of building Revenue Management departments within Marriott. Undoubtedly, when executives support the idea and understand the positive impact of the discipline's daily execution, it is essential to have at least one direct line reporting to commercial leadership, where marketing and sales converge.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Vanessa Buratto: Data vs. Opinions, making decisions based on opinions disregarding the power of data. Working for luxury segments, there are many opinions on price positioning, individual vision. The impartiality and clear definition of the persona of each venture take away this individual bias in price decisions.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Vanessa Buratto: Real-time price monitoring is certainly critical for Revenue Management teams to have as an automated process to optimize human capital time. What is missing in the Brazilian market is a company specialized in holding shops (quotations) for groups and events, as these prices are often opaque and personalized.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Vanessa Buratto: You can define it from two points of view: financial and qualitative. Financially, it is the impact on profitability. A good price strategy and mix leads to better quality revenue that has a higher flow percentage to profit, provided that this "profitability" is achieved with operational excellence. From a qualitative point of view, I consider it successful when the department is seen as essential to the business. Having the buy-in of other departments, understanding concepts, and providing constant feedback to Revenue Management for process/systems improvements are all factors that contribute to success.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Vanessa Buratto: General market information can anticipate demand behaviors and help plan how to capture this demand before it starts to buy. It is important to monitor supply and demand, competitor prices, strategic price movements, and restrict discounted sales (especially when demand exceeds supply) as well as inventory control. The set of actions above ensures the sale of the right product at the right time, at the right price, to the right customer, through the right channel.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Vanessa Buratto: Market share growth, better positioning in the market, constant revenue and profitability growth (disregarding the pandemic period for the entire sector, of course), and multidisciplinary thinking in strategic decision-making.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Vanessa Buratto: Most indicators in the area end up being quantitative, such as:

- RevPAR Index (Market Share)
- Average Rate and Occupancy
- Revenue per available room (RevPAR)
- Revenue per square meter (more focused on events)
- Ancillary revenue (Revenue generated for other outlets such as restaurants, spa that a reservation can generate)

As for qualitative indicators, since Revenue Management is an area that is expanding in many industries, it is important to invest in developing talent for succession purposes. Investing time in your team is part of preparing them for their next move.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Vanessa Buratto: Communication! Building good relationships with other areas, especially with your peers, creates an environment of greater trust, and with it, the flow of information. Be transparent in decisions, always seek win-win results, detail declines to the commercial team precisely so that we all learn in the process. It is essential for a manager to create these bridges and enable interdepartmental communication, creating processes that speed up decision-making.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Vanessa Buratto: For hotels, yes, because we sell an experience, not just a hotel room, especially in luxury hotels. To price correctly, we need to have a detailed understanding of our product compared to our competition. We need to evaluate all the physical characteristics and services provided by a high-end hosting provider to find the ideal rate positioning. The constant review of these values leads to the ideal price, as the most important thing is the perception of the target customer.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Vanessa Buratto: Based on the book "Thinking, Fast and Slow" by Nobel Prize winner Daniel Kahneman, the anchoring effect impacts more than 40% of decisions. I believe this approach can be used as long as it is not false advertising. In hotels, room rates ending in 9 are widely used, so that R\$599 is seen as "five hundred and something" and not R\$600. It seems "cheaper" than R\$600. Another example is suite prices. When a Presidential suite costs around R\$20,000.00 a night, seeing a Standard room at R\$599 looks like a great deal! Anchored at R\$20,000.00, an executive suite for R\$1,500 also seems like a great deal. Sales of the Presidential Suite are negligible compared to other rooms, but its existence helps customers make decisions to purchase our other categories.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Vanessa Buratto: Both. When it comes to direct-to-consumer pricing, rate parity is a super important topic that the big hotel chains are concerned about. Large chains invest in technology to guarantee it, focusing on individual reservations made through direct channels (hotel website, reservation center) or indirect channels but sharing the same individual customer (Booking.com, Hotels.com, Decolar, CVC, travel agencies, etc.). In the big hotel chains' direct channels, you will usually find extra discounts for those who are part of the loyalty program, which requires nothing more than registration for the discount to be valid. But apart from that, yes, the sale price with parity in all channels is the sector's focus. In indirect channels, the negotiation of the markup is crucial and tentatively at the same value between competing intermediaries. For opaque segments (corporate negotiations, groups and conventions, air and sea crews, etc.), deeper discounts are used to capture higher volume demands, generally based on a contract.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Vanessa Buratto: Yes! Speaking of B2C, a practical example is Marriott's Best Rate Guarantee policy, which guarantees that the lowest price will always be offered through the hotel's direct channels (website, reservation center). If the customer finds a lower price, they can request a 25% discount off the cheapest rate found (if they already had a reservation) or 5,000 points in the Marriott Bonvoy loyalty program, which can be exchanged for free nights at any hotel in their network. Speaking of B2B, controlling 100% of rates distributed through intermediaries is an arduous task, but there are several technologies available on the market that track all digital channels on a daily basis, motivating customers to buy through direct channels (either always or when the hotel's direct channel selling strategy is adopted).

Frederico Zornig: How do you define “pricing strategy”?

Vanessa Buratto: The model used to find the optimal price for a product or service is crucial in the hospitality industry, where pricing is dynamic, and almost all pricing methodologies end up being used at some point. However, when opening a new hotel and requiring a target price, the best model is the Perceived Value model, as it sells a unique experience rather than just a hotel room, especially in the luxury hotel industry. These exercises must be constantly updated and discussed with Sales, Marketing, Finance, Operations, and Revenue teams to ensure price positioning versus the competition, rather than just focusing on the price itself. When constructing prices for different channels, such as B2B and B2C, the discount margins must be analyzed carefully. It's important to focus on conducting good negotiations with intermediaries to have lasting relationships with the hotel/chain. For long-term stays and demand from air/sea companies (crew members), as they purchase a larger volume of hotel nights, there is a tendency to offer more competitive prices with longer-term contracts. As for groups and events, prices must be based on demand and accommodation standards to avoid displacement and maximize sales in other channels/segments. This price analysis is the most detailed because each group has a different pattern. For a city hotel with corporate demand, demand is concentrated during the week, and there is less demand during the weekends. A group checking in on Tuesday and leaving on Wednesday can generate a "wall," limiting the sale of higher fares entering on Monday and leaving on Friday. As for resorts, a convention held on a holiday may not be a good deal if rooms on that holiday have historically been sold out at non-discounted rates. It's important to emphasize that in the hotel industry, supply is limited. What was not sold today may not be possible to recover tomorrow, so the sales and pricing strategy must always be one step ahead of demand, and the price must make sense. In the next answers, I will provide further details on the concept of rational pricing.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers, or the competition?

Vanessa Buratto: The customer! Understanding changes in buying behavior generates greater chances of sales conversion. On the other hand, understanding what the customer is looking for creates opportunities for constant innovation in the services we offer. Within Revenue Management, this information is reviewed with the Marketing and Sales departments, defining the "products" to be sold, i.e., which products and packages to have on the "shelf". But of course, monitoring the competition allows us to anticipate and avoid a loss of market share when we identify something that could impact a hotel's demand.

Frederico Zornig: Elasticity, according to economic theory, is the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist: cross-price, income, etc. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Vanessa Buratto: Price elasticity is a key concept for the hospitality industry because production capacity is limited. Every day, a means of accommodation (whether hotels, inns, resorts, etc.) has a maximum occupancy of 100%. So the price has a very important factor in building the maximum potential revenue for the day. When demand exceeds supply, raising the price will decrease demand and thereby build more profitable revenue. On the other hand, "low season" prices and promotions aim to generate more volume, trying to attract more demand in those periods where there is idle inventory. Another variable to consider is the window of purchase. Hotel sales for a given day are not built on that day. Each destination, hotel, month of the year, type of demand (leisure or corporate) has its own sales window, and understanding this window is very important to optimize revenue using price elasticity. If today is December 31st for a luxury hotel on the Copacabana waterfront in Rio de Janeiro and that hotel's occupancy is at 50%, drastically lowering the price won't necessarily generate the volume you're looking for, since that's not the window of greater demand for the destination and date, what we call leakage would happen, that is, it generates volume with a low average price when it could generate the same volume with a higher price, generating greater profitability. As for a hotel located inside an airport, where the purchase window is very short, fluctuating prices for today and tomorrow can have a much greater impact than a resort, for example.

Frederico Zornig: Dynamic pricing and shopping baskets are being used more and more, especially in the e-commerce market. Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Vanessa Buratto: The hotel industry, like aviation, has been working with dynamic pricing for over 20 years. The vast majority of revenue optimization systems for hotels already apply this concept in their algorithms, as well as price elasticity. In our industry, we need to be aware of changing demand trends every day to adjust prices accordingly. Fortunately, there is an acceptance of this price dynamism in the hospitality and aviation sectors, which facilitates customer understanding. Dynamism is understood not as promotions on the regular price, but as the fluctuation of this regular price, where other promotions can fluctuate accordingly. Seasonality is one of the main points when thinking about dynamic pricing in hospitality. Almost all hotels have periods of high and low demand. In periods of high demand, prices are higher, and often the productive capacity (inventory of rooms) is not enough to meet the demand of the period. With this, a way to reduce demand, following the point of price elasticity, is by increasing rates and "filtering" the most price-sensitive customers. Another super important point when building promotions and packages is to ensure that when the regular price fluctuates, the other products also fluctuate. Putting this into practical examples, considering the regular price as a base rate for accommodation only at a price of R\$500, a package that includes breakfast must have an additional value on top of the base rate, say R\$550. A package including breakfast and dinner costs R\$650. We can say that in this hotel, there is a supplement in the price of R\$50 for breakfast and R\$100 for dinner. It's R\$ pricing. Now, when the base rate fluctuates, for example, rising from R\$ 500 to R\$ 600, the breakfast package should rise to R\$ 650, and the breakfast and dinner package to R\$ 750. If the prices of travel packages were static, when the base rate fluctuates, there is a risk of having packages that are too expensive or cheaper than offers with more inclusions/add-ons, which does not make sense for the consumer. There are several ways to work with these differentials, with a % of the base rate or a surcharge on the base rate, but they must inevitably fluctuate together so that dynamic pricing follows rational pricing.

Frederico Zornig: What does pricing and/or revenue management mean to you?

Vanessa Buratto: Personally, it's a passion! Revenue management is a dynamic discipline that is constantly evolving, and you learn something new every day. It's one of the fundamental pillars for any industry/sector/company as it involves a constant focus on optimal pricing, booking windows, and mix. To excel in Revenue Management, one needs a deep understanding of demand behavior from an impartial point of view.

Frederico Zornig: Is there any topic we didn't mention that you would like to talk about?

Vanessa Buratto: Another point that I consider very relevant in Revenue Management in hospitality is the periodic review of the supply. Let's say a hotel has an inventory of 100 rooms, of which 50 are Standard, 30 are Executive, and 20 are Luxury Suites. If you identify that you could sell more if you had more Standard rooms because they are the cheapest, it is worth reviewing a scenario with more Standard rooms, fewer Executive, and fewer Luxury Suites. These periodic reviews should be carried out at least every 5 years, a period in which changes in demand patterns may be relevant or after each major change in strategy or mix, such as a new crew in the hotel using part of these Standard rooms daily. The common practice, without reviewing the inventory, would be to overbook the Standard rooms and end up accommodating some reservations in Executive rooms, but if there are additional costs in the room (amenities, differentiated linen), it is not the best deal for the hotel. For new hotel projects, during feasibility studies, it is essential to keep this inventory flexibility in mind in the civil construction project so that costly works are not necessary for inventory readjustment.

Frederico Zornig: What is your final message to those reading our conversation?

Vanessa Buratto: Regardless of the industry you work in, believe in your project! Put together a strategic plan for the idea before presenting it to your company. Understand the decision-making processes before presenting the idea. This prior understanding will save you frustration and discouragement in the process of implementing a pricing/revenue management department or process. Build bridges, not walls, and have good working relationships with peers in other departments to enhance and accelerate implementation. Never stop learning! Something new appears in our area every day. Continuous education is crucial; invest in yourself!

VITOR SERRA

Pricing Manager, Carrefour, 7 years of experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and Revenue Management?

Vitor Serra: I have a degree in Business Economics from USP in Ribeirão Preto. Despite having taken subjects such as microeconomics in college, at that time, what I learned related to the subject of pricing (of products and services) boiled down to simple concepts of elasticity, the function of supply and demand, and cost accounting. My professional career began at DPaschoal in Ribeirão Preto where I started as a Trainee at the company after a year of internship. After participating in projects related to various topics, my last challenge in this role was to lead the company's pricing project. The company had few defined processes, very little science, and many systemic opportunities, so my first challenge in pricing was to organize these points and implement a strategic pricing culture in the company. After some time, we took the project off the ground and started a pricing culture that contributed to processes that showed results. After that period, I went after a new challenge at Carrefour, where I currently work as Pricing Manager, taking care of the pricing strategy of all product sectors. It's been an amazing journey with a lot of learning, much of which I hope to share here.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

Vitor Serra: Right now, we face challenges on a daily basis. For food retailers, this pandemic period brought a large flow of customers and a positive impact on revenues, even though consumers are more concerned about saving money given the uncertainties that this period has brought us. Today, I believe I face two main challenges. The first is to provide the team with a clear direction, a path to follow, at a time when we are subject to so many short-term route changes, ranging from sudden inflation in commodities to new restriction measures. The second challenge is knowing how to make coherent readings that result in efficient recommendations and decisions in this atypical time, with altered consumer behavior and different market movements all around us. While sales history is still helpful, it's important to look at recent trends and understand that consumer behavior has changed and will continue to do so as the situation develops. At the beginning of the pandemic, we lost some of the usefulness of sales histories as the behaviors of some categories changed a lot. Over time, this negative effect has diminished. The famous "new normal" is now clearer, and the sales history, especially more recent data, is now reliable.

Frederico Zornig: How do you imagine the Pricing and Revenue Management area in the next five or ten years? How will these changes affect the work you do today?

Vitor Serra: I foresee a lot of evolution in the pricing area in the next five years. I separate this evolution into two aspects. The first is technological and scientific. Currently, we already see many solutions that make use of sophisticated algorithms to recommend prices based on elasticity, cannibalization, and desired effects. As with all technology, I believe this area will still gain a lot of relevance, diving deeper into artificial intelligence, machine learning, making use of more data related to consumer behavior and even more consumer-friendly UX to break the resistance barrier against these tools more easily and ensure their widespread adoption. The second aspect that I believe will evolve will be the pricing professional's profile. They will become more strategic professionals, more in demand as consultants. Their job will be to interpret the information in the systems from a human point of view and recommend efficient paths for the company. These changes already affect today's work because that's exactly what we need to aim for, but without forgetting the present challenges, if we want to stay relevant in this role.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Vitor Serra: I often say that a pricing professional needs to be good at two fundamental skills: analytics and relationships. The first is the foundation of pricing work. The analysis here includes identifying the factors or rules that can influence the price, organizing them in order to have a clear understanding of their effects, relating them so that we can understand patterns and deviations, and from there, proposing solutions and processes that ensure efficiency and governance in the area. Regarding the ability to build and maintain good work relationships, this is what will make you able to create ties within your organization so that your analysis is heard, and you can bring positive changes to the company through your work. In my opinion, there is only one really successful way to develop these skills in a team: exposing them to these challenges on a daily basis. Regarding academic background, I look for candidates who come from a background in economics, business, engineering, statistics, and marketing. I believe that someone's behavioral skills, drive to accomplish, and energy are more relevant traits than their academic background. A person's degree only indicates what they have already done, and in my opinion, it should not be the main criterion for hiring or retaining someone on the team.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a pricing culture? Comment on the process of building that culture, or if you don't have a pricing culture yet, tell us how you are trying to create it.

Vitor Serra: I believe so. When I arrived at Carrefour, the pricing culture was already well established in the company. They had an independent area dedicated to pricing, autonomy, defined processes, and systems that went beyond Excel. Currently, after three years of following and helping the evolution of this area, I see that we managed to develop these points even further, promoting improvements in our team, systems, processes, and in our interactions with the other departments of the company. A pricing culture is well-established when the area acts strategically, proactively influencing the decision-making process.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Vitor Serra: At the beginning of my pricing career, when I was still at DPaschoal, one of the most important lessons I learned during the challenge of designing a system and creating a pricing area was to make all stakeholders part of this creation process. When a company does not have a pricing area, it does not mean, of course, that it does not set prices, or that it does not have, in some way, a pricing strategy. It sets prices, but the processes related to this are dispersed throughout the organization, in the hands of different influencers, without a clear-cut method. If you want to get something off the ground in this area, you need to listen carefully to everyone involved. Pricing does not have a magic formula, so over time, I learned that the best thing to do is to build a custom formula as a team. This alignment makes things go faster, people feel proud of the initiative, and the chances of getting a project off the ground are much greater.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or you don't have access to? Please elaborate.

Vitor Serra: Good old Excel is still indispensable. Although we have a tool that uses science to make price recommendations, Excel is still a fundamental ally to carry out sporadic analyses, which helps us answer questions that go beyond price formation. It is accessible, easy to use and understand, not only for the pricing area. As for the technology I would like to use, I believe we already use it (a price optimization tool) and as I mentioned in another answer, time tends to improve technological tools.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Vitor Serra: Generating results is undoubtedly one way to define the success of a pricing area. But since results are not only achieved by price, before achieving results, the success of the area lies in reaching the status of decision influencers. In the process of evolving the pricing area within companies, when the pricing team stops carrying out operational activities and starts to be sought after by other areas and to contribute to the formation of strategies, we can say that the implementation of the area was successful. This means that people trust the professionals who are there and the processes that have been established, that the data they bring is useful, and that they add value to the decision-making process.

Frederico Zornig: Thinking about the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please elaborate.

Vitor Serra: Taking care of the data and making sure we know how to use it correctly. In my opinion, having a lot of data doesn't mean anything if the team doesn't know how to interpret it correctly and use it smartly. This includes knowing the source well, understanding the role of this information in the decision-making process and, from there, being able to take actions based on it. When I talk about data, I mean not only information that is input for price formation, such as costs and market prices, but also data on sales results. The pricing professional who knows how to handle data well and take advantage of it is undoubtedly one step ahead.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): Thinking about the impact generated by the area, could you comment on the main benefits you believe you have brought to your organization?

Vitor Serra: When we think of results and benefits that pricing generates for an organization, the pair "margin and sales" comes to mind. Of course, at the end of the day, these are the resulting variables we want to see. They are also the most clearly perceived variables. But I would like to talk about an effect and benefit that an appropriate price can generate: gaining the customer's trust. Especially in recent times, after two very significant movements (the pandemic and rising inflation), our pricing policy has proven to be efficient. We see our results growing, sometimes faster than the market. More than booming sales, which can happen at one time or another, consistent growth is only achieved when customers trust what we're doing, and in my understanding, pricing helps establish that. Without neglecting the demands of results, we provide options for all needs, fairly. This helps us win the game in the long run.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Vitor Serra: To evaluate pricing results, the performance indicators I like to look at are margin, volume, competitiveness, and perception of the price image. The margin, of course, tells us whether the pricing policy, in general, will be profitable in the end. Volume helps us understand (better than just billing data, which has a price effect) if we are managing to win over and keep customers based on our pricing. For me, this indicator, especially in a recurrent purchase segment such as food retail, should be looked at very carefully. Consistently losing volume is a difficult trap to get out of. It often means having to aggressively lower prices to capture that lost portion again, which means, in some cases, lowering the quality of services, creating problems to capture more volume. This is the spiral we always want to avoid. Regarding competitiveness, I believe it is necessary for us to know where we stand in comparison with other competitors. Understanding their movement helps us take a more complete look at the market and thus be able to formulate strategies in a safer way. Last but not least, I consider the consumer's perception of the price image to be a very relevant indicator. In pricing, it's not enough to have a good price, the consumer needs to recognize that. Your competitiveness indicator might be incredibly good, but if the customer doesn't recognize that your price is right when they're shopping, your volume indicator will start to signal that problem. The positive side of this indicator is that it will not necessarily be moved by changes in price. Changes in layout, communication, store location, decoration, and assortment are variables capable of changing consumers' perception of the price image.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Vitor Serra: For this to happen, I believe it is fundamental to have fixed agendas with the different areas impacted. In this way, it is possible to establish an ongoing relationship, which requires us to always share results and strategies, proposing and debating topics of interest to the company. I would also like to highlight the importance of encouraging the team to create relationships with different areas so that they can naturally contribute whenever they feel the opportunity to do so. Finally, I think it is important to have KPIs (like the ones mentioned above) shared with other areas, thus encouraging teams to work together with the same goals in mind.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Vitor Serra: I believe that when you work with a smaller assortment of products, it is simpler to establish a metric that can directly capture consumers' perception of a product. In the case of retail, there are many variables that impact perceived value, from the quality of parking in the store to the way products are displayed on the shelf. Using this strategy systematically for a retail store is difficult, but it is undoubtedly possible to carry out this approach in areas of the store where purchases are more impulsive and the product is more distinguishable.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Vitor Serra: This is a basic concept, one of the most common in our daily lives and, in my opinion, already widely used, even if unintentionally, by many companies. I understand that in B2C markets, there is more potential to use the technique successfully. In my case, I recall my time at DPaschoal where we guided the customer not only through the price but also through the salesperson's arguments in the store. We instructed them to always present the customer with three product options (first, second, and third), and through this, we were able to lead the customer to purchase items that had more benefits and, of course, higher prices.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices, or follow a strategy with identical prices for all customers in all channels?

Vitor Serra: I believe that segmenting is the best way. The more specific the pricing, the more successful it tends to be. Imagine if I had to price all products for just one customer, hypothetically for Mrs. Mary, who is 43 years old, married, has three children, has a family income of 3000 reais a month, and goes shopping at the supermarket every month. I would do my best to know these details about the client and more, in order to have a solution that is extremely suitable for her needs. Of course, this is not the case, especially in retail. So although segmentation to capture value is the best strategy, it is not easy. It requires more work, systems, rules, and algorithms that can handle these distinctions well in an automated way. In this sense, I strongly believe in the potential of the combination of pricing and CRM. I would say that pricing areas that are more mature need to move in that direction. Another way of segmenting that I think is essential is through channels. In retail, we have different store sizes with different proposals that fit specific purchase occasions. In these cases, price segmentation is necessary due to the cost structure, and customers understand this.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please elaborate.

Vitor Serra: Undoubtedly, if you don't offer transparency, someone else will. In a world where information is increasingly accessible, customers have more power to make informed decisions. I believe that having a strategy that provides transparency will lead to customer loyalty in the long run. An example of pricing policy transparency that I like is Uber. Before Uber, customers would get into a taxi and the most they would know (if they knew anything) was whether the meter was at 2x or 1x, and thus whether the price would be higher or lower. The way in which the price increased on the taximeter was undoubtedly a point of discomfort for customers when using this service. With the arrival of Uber, even with dynamic prices, customers already know the amount they will have to pay before ordering a car. This builds trust and immediately eliminates a pain point for customers during their shopping experience.

Frederico Zornig: How do you define "pricing strategy"?

Vitor Serra: It's the most efficient combination between what the customer is willing to pay, what you must deliver and the actions you need to take to break the barriers between you and them. For me, the main obstacles are:

- Understand what the customer thinks: if we are not clear about the things that matter most to them, we will not be able to deliver something that makes them happy.
- Understand and respond to competition: You may have your strategy, but you're not swimming alone.
- Taking care of the negotiation/ensuring that your cost structure is efficient: there's no point in having a plan, knowing the customer, understanding the competition and beating it if you can't be profitable.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Vitor Serra: The customer must be the focus. This does not mean that we should not look at the competition, know their movements and respond to them when necessary, but if this happens without having the customer at the center, there is a risk of following a strategy that is not yours and leaving opportunities for innovation go by unnoticed. The innovation is in the customer and in the problems they have that need to be solved. If Amazon focused more on their competitors, they probably wouldn't have changed the market the way they did, because their source of inspiration would be limited to what's already being done.

Frederico Zornig: Elasticity, according to economic theory, refers to the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist, including cross-price elasticity and income elasticity. How important is it and how do you use the concept of elasticity in your pricing decisions?

Vitor Serra: Elasticity is an important concept that follows a simple mathematical formula in microeconomics, but obtaining it in companies requires complex calculations. This is because there are many variables that impact the demand for a product, including the demand for other products. Therefore, I believe that more and more companies, especially those with many SKUs, will use tools that help with this calculation. Elasticity is important data because it helps us to better understand the product and the customer's response to it at different price levels. It also helps us understand the overall impact of the actions we take, with greater precision. This variable helps us to understand where to invest to receive the highest return, depending on our goal.

Frederico Zornig: What is pricing and/or revenue management to you?

Vitor Serra: I would like to answer this question by splitting it into two parts. First, I'd like to share a definition, and then what this subject means to me. By definition, I understand that pricing is a subtopic of economics, a social science, which aims to balance factors such as behavioral economics, that is, how individuals make decisions, with a company's needs for profitability. Making pricing decisions without considering these two factors to some degree means using this science in an incomplete and limited way. Now, for the second aspect, for me, pricing was and continues to be, the opportunity to unite my analytical skills, my concern and curiosity with numbers, with my passion for the customer, for their interests and behavior. Putting these two together, I have realized more and more that pricing is an incredible topic because there are no right answers to the questions we ask. There are models and methods for every situation and market that need to be tested all the time. And that's what motivates me.

Frederico Zornig: What is your final message to those reading our conversation?

Vitor Serra: Take advantage of this material. If you are thinking about pursuing a career in pricing or venturing into this area in any way, take advantage of the messages in this book. You will probably have to figure out the best way to go through very similar situations in your company, and reading this material can provide you with valuable insights that took us a few years to obtain. Finally, I would like to thank you for the opportunity to learn more about the subject from my colleague's contributions and to share some of my thoughts on the field. I am very grateful to everyone who has participated in this journey for knowledge by my side: my family, leaders, peers, teams, and clients.

WILSON RICOY

Pricing and Market Intelligence Manager, Assa Abloy, 19 years of experience

Frederico Zornig: Can you tell us about your professional career and how you got into Pricing and/or Revenue Management?

Wilson Ricoy: The company I previously worked for started implementing the Pricing area globally in 2002. I was chosen to be the person responsible for implementing Pricing in the division where I worked, due to my previous experience in financial and commercial areas. In 2008, I was promoted to Pricing Director for Latin America. Currently, I am responsible for the Pricing area at ASSA ABLOY Brasil, managing seven different brands.

Frederico Zornig: In this turbulent moment caused by the pandemic, what is your main challenge? Is sales history still helpful in any decision-making process?

Wilson Ricoy: The main challenge currently is managing several price increases for raw materials (some of them reaching double digits) and the constant devaluation of the Real against the US Dollar. These topics affect our profitability significantly, and even assuming a portion of these increases internally, we need to pass these variations on to our customers. It requires constant monitoring of the impacts of raw material price variations on our costs and discussions about how we can pass these impacts on to our prices while maintaining competitiveness. We always analyze our sales history data to understand the eventual effects of seasonality and the behavior of our customers, considering different periods.

Frederico Zornig: How do you envision the Pricing and Revenue Management area in the next five to ten years? How will these changes impact the work you do today?

Wilson Ricoy: I believe that software solutions for Pricing (such as PROS, VENDAVO, among others) and data analysis tools (such as Power BI, Tableau, etc.) will become more accessible, making life easier for those who still heavily depend on Excel. With these tools, Pricing professionals will be able to focus more on acting strategically to determine prices and develop strategies, serving as navigators to help senior management make more assertive decisions, considering the company's internal needs and the behavior of the markets where they operate. The future of the Pricing professional will involve managing information panels to understand trends and guide the necessary actions for profitability. However, interpersonal skills will remain essential to interact and collaborate with all areas of the company.

Frederico Zornig (Question sent by Fábio Vakuda, Senior Consultant at Quantiz): When recruiting people to work in pricing, what are the main characteristics you look for? And how do you develop these skills in your team?

Wilson Ricoy: That's an excellent question! In my opinion, the profile of a pricing professional has changed significantly over the years. Currently, in addition to having good knowledge of Excel, one must also possess knowledge of tools for processing and analyzing data, such as Tableau, Power BI, etc. This is essential for analyzing data quickly, consistently, and effectively for decision-making. Additionally, interpersonal skills are essential for interacting with all areas of the company at all levels for teamwork and achieving the proposed objectives. I develop my team by providing specific training for their technical skills, and I also coach them to help them develop and improve their soft skills. Regarding academic background, if I am looking for someone with a generalist profile, I prefer people with a background in Business Administration or Economics. If I am looking for an information analyst, I prefer people with a background in Engineering or Statistics.

Frederico Zornig (Question sent by Marcelo Krybus, Managing Partner at Quantiz): Do you think your company has a Pricing culture? Comment on the process of building that culture, or if they don't have a pricing culture yet, tell us how you are trying to create it.

Wilson Ricoy: The company I work for has a global Pricing culture, mainly after the hiring of a Global Pricing Director two years ago. There is a constant exchange of information between the company's Pricing professionals, through online training and quarterly meetings, in order to monitor company's results and define the next steps. Currently, there is constant synergy with the commercial team to exchange information and experiences, after years of antagonism, which shows the importance of information from our area to for the develop commercial strategies, with profitability. Nowadays Pricing is a very important topic of every results meeting and is strongly discussed on financial, commercial and marketing team's weekly meetings.

Frederico Zornig (Question sent by Celso Silva, Senior Consultant at Quantiz): Talking about mistakes is never easy, but what was the biggest lesson you learned while working with Pricing and Revenue Management?

Wilson Ricoy: In a nutshell, never clash! Empathy with the people and departments we interact with is essential for us to do our jobs properly. In addition, simplifying our speech is essential in order to ensure everyone's understanding and involvement, leaving the mannerisms and keywords of our area to moments when we're speaking with other Pricing professionals. For everyone else, keeping it simple (and speaking in their native language) as much as possible.

Frederico Zornig: What technology do you consider essential for your activities today and why? Is there any tool or solution you would like to use that doesn't exist yet or that you don't have access to? Please comment.

Wilson Ricoy: Currently, we are still very dependent on Excel. We are starting to develop some projects in Power BI to save time and mitigate the possibility of errors, so we can develop more advanced dashboards in order to get visual management of our results. We have started web scraping sell-out prices available on the internet to have a smarter process of quick price research for strategy corrections and decision making. Personally, I would love to work with more advanced Pricing analysis features like PROS, for example, but we still have some way to go.

Frederico Zornig: How do you define success for a Pricing or Revenue Management area within your organization?

Wilson Ricoy: My definition of success for Pricing is to be considered an important part of the business, showcasing how our actions and strategies directly affect the company's results. For many years, we have been seen only as spreadsheet makers and commercial antagonists. I am very happy to know that this has changed radically over the years, and now we can see that a Pricing professional is considered essential for most companies worldwide.

Frederico Zornig: When considering the day-to-day processes of a Pricing/Revenue Management area, which ones do you consider the most important? Please comment.

Wilson Ricoy: I believe that monitoring changes in sales prices in relation to the evolution of the company's contribution margin is one of our most important key performance indicators. Through it, we can evaluate the results of our pricing processes and the execution of our strategies by the commercial team, as well as the refinement of this process along the way, with quick corrective actions to improve results. The Win Rate analysis of the budget and quotation is also very important in improving the fine-tuning of this process, making it more efficient through continuous improvement.

Frederico Zornig (Question sent by Tiago Martin, Managing Partner at Quantiz): When thinking about the impact generated by the Pricing/Revenue Management area, could you comment on the main benefits you believe you have brought to your organization?

Wilson Ricoy: The Pricing area has proven to be essential for the company to react more efficiently and effectively to market turmoil, especially considering the unstable scenario that we are currently experiencing. The culture of constantly analyzing Pricing key performance indicators, processes, and strategies has proven to be essential to ensure the company's good results, not only in Brazil but also in all countries where the company operates.

Frederico Zornig: Since we're on the subject, which indicators do you use to monitor and evaluate your results?

Wilson Ricoy: We use Sales Price Variation (sell-in), response time for quotes and budgets, Win Rate for quotes and budgets, contribution margin variation period vs. period, and their respective impacts.

Frederico Zornig (Question sent by Juliana Sampaio, Senior Consultant/Partner at Quantiz): How do you ensure synergy between areas so that you can actively impact business results?

Wilson Ricoy: One of the main responsibilities of the Pricing professional, in my opinion, is precisely to be the link between the different areas of the company that are essential to provide information for our area. Knowledge of the specific key terms of each area, in addition to a good dose of empathy and interpersonal relationship skills, is essential to establish this synergy.

Frederico Zornig: Is pricing based on the perceived value the best method? Why?

Wilson Ricoy: In theory, it would be wonderful if we could always price products in the same way. However, there are products where the value is unfortunately not properly perceived by the customer or consumer, which makes companies adopt other pricing strategies.

Frederico Zornig: Do you believe that price anchoring should be an approach used by companies?

Wilson Ricoy: If we are talking about a type of product where the reference price for comparison is very strong, then the answer is yes. However, let's remember that this is more common when we talk about products intended for the final consumer. Price anchoring for B2B, for example, is not a very common strategy.

Frederico Zornig: Is it better to segment the market and capture the maximum from each segment with differentiated prices or follow a strategy with identical prices for all customers in all channels?

Wilson Ricoy: Each channel has a different dynamic, and prices must respect this. The same applies to geographic location, considering the socio-political and economic differences found in a country with continental dimensions like Brazil. The company's commercial policy needs to consider this segmentation (channels/region) to act more assertively and achieve better results.

Frederico Zornig: Should trade policies provide transparency to customers on how they can buy better or do better business with your company? Please comment.

Wilson Ricoy: The greater the transparency for the customer, the greater their trust in you. They will see you as a business partner and not just a seller. The transparency of the commercial policy, in my opinion, generates a win-win feeling, essential for building solid and lasting partnerships, improving customer loyalty.

Frederico Zornig: How do you define “pricing strategy”?

Wilson Ricoy: For me, pricing strategy is about setting the most appropriate price for a given situation, to capture the value needed to leverage the company's results, while adequately communicating the value of the product or service to customers. This, of course, should be done while maintaining market competitiveness, which is essential for business survival.

Frederico Zornig: Jeff Bezos mentions that knowing your customers is more important than monitoring your competitors. In your opinion, what should the company focus on, the customers or the competition?

Wilson Ricoy: In my opinion, the ideal is to know and follow both. Knowing the customer is fundamental to understand their pain points and offer the most appropriate solutions to solve their problems. An important point to note is that the more customized the solution is for a customer (or group of customers), the better. However, understanding and following the dynamics of the competition is always essential to understand market movements and how they are affecting your customers and your company's results.

Frederico Zornig: Elasticity, according to economic theory, refers to the size of the impact that a change in one variable (e.g., price) has on another variable (e.g., demand). We know that different types of elasticity exist, such as cross-price and income elasticity. How important is it, and how do you use the concept of elasticity in your pricing decisions?

Wilson Ricoy: We still use the concept of elasticity in an elementary way in the company, using the Garbor-Granger method. We conduct price research to determine the supply and demand for a specific product. Information from the commercial team, combined with the automated online price collection system, is essential for our analyses.

Frederico Zornig: Dynamic prices and shopping baskets are being used more and more, especially in the e-commerce market. Have you or your company been working with pricing algorithms to apply price changes with these approaches?

Wilson Ricoy: To be honest and transparent, I have never worked with this type of dynamic pricing or algorithms. I don't have much to contribute to this answer, except to say that this is fundamental when working with prices aimed directly at the final consumer in e-commerce.

Frederico Zornig: What is pricing and/or revenue management to you?

Wilson Ricoy: For me, it means being the guardian of the company's profitability and competitiveness, contributing significantly to its growth.

Frederico Zornig: What is your final message to those reading our conversation?

Wilson Ricoy: We must never forget our purpose, which is to ensure and improve the profitability of companies. I've been at this for a long time and we've evolved a lot from a feeling of incredulity at the beginning to a moment where the importance of Pricing/RGM has proven to be more and more essential over the years. It is a great honor to have participated in this journey from the beginning and to have left a legacy for the new generations, forming successful professionals today. I'm very happy with this!

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