Revenue bridge analysis solutions enable sales, finance, pricing, and product leaders to easily find commercial performance issues and drill into the causal effects that need optimizing.

Increase Revenue and Maximize Profit by Capitalizing on Pricing Analytics

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Introduction

While today's enterprises are awash with data from their new digital business systems, it remains challenging for CFOs, sales, pricing, finance, and deal desk professionals to troubleshoot revenue and profit issues and to discover opportunities, such as:

- » What are the products with increased list prices that are not translating into the proportionate increase in net prices?

- » Which accounts receive disproportionate front- and back-end partner rebates compared with their revenue?

- » What has been the impact of pricing and discount changes over the past six months between the Eastern and Central regions in the United States?

- » How can I use pricing strategies to offset rising costs in my supply chain due to inflation?

- » Which customers are targets for margin improvement, and which products would be ideal to sell to them?

While reports from CRM and ERP systems can help identify a trend (e.g., declining sales in a region), they are simply not flexible enough to illuminate unknown issues and allow the user to drill into probable causes at the speed of thought. Diagnosing issues such as the aforementioned real-world questions requires aggregating detailed transaction data from multiple sources (e.g., CRM, ERP, rebate management), analyzing them with the right algorithms, and presenting the information in a user interface (UI) that is purpose-built for profit analyses according to the business unit, offering, location, and persona. Revenue bridge analysis provides a way to quickly diagnose profit issues (see Figure 1).

If the answers are hard or impossible to find, assumptions are made from sparse data, which leads to poor decisions. In 2023, 70% of employees said they rarely or never got around to analyzing or acting upon data they received. The top reason cited was lack of time to analyze the data (source: IDC's *Data Validation Survey,* 2023).

AT A GLANCE

WHAT'S IMPORTANT

- » 83% of CEOs want their organizations to be more data driven.
- » Only 30% of CEOs say that their organization's actions are data driven.
- » Revenue bridge analysis provides a way to quickly diagnose profit issues.
- » SaaS-based solutions with easy-to-understand visuals, AI-assisted forecasting, what-if analysis, direct data integration, and benchmarks should be considered.

FIGURE 1: *Waterfall Visualization of Prices, Volume, Costs, and Discounts During a Given Quarter*
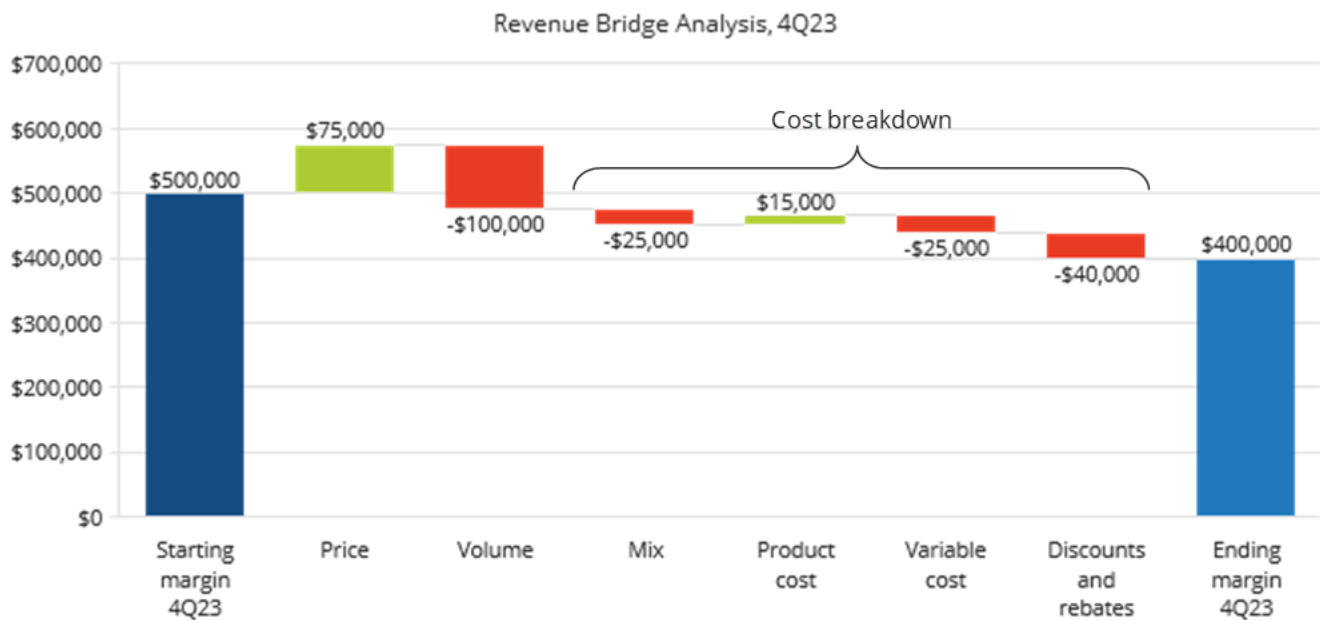
Source: IDC, 2024

Prioritizing transforming data into insights is high on the list for CEOs, with 83% wanting their organizations to be more data driven (source: IDC's *Data Culture Survey,* 2021). However, only 30% of CEOs said that their organization's actions are data driven, which is why the G2000 will allocate over 40% of core IT spend to AI initiatives by 2025.

Solution

The preferred method for analyzing profitability is a revenue bridge analysis, which is also known as a price waterfall or "price, volume, mix" analysis. This is a method many business analysts use to understand the balance and profitability of a client's revenue, as it enables them to quickly prioritize issues that are causing the most revenue leakage or show the most opportunity. At the core of this analysis is the simple price waterfall visualization (refer back to Figure 1) that makes it easy to quickly understand the effects of pricing, discounts, costs, volume, and purchased product mix on a company's revenue and profitability. This visualization hides the complexity of aggregating, filtering, and sorting multiple tables of data so the analyst can focus on the problem versus data management.

Today, most organizations troubleshoot profit issues, discover opportunities, and evaluate strategic scenarios using custom-built solutions. These range from simple spreadsheets to robust tools visualized using business intelligence applications. Most custom tools use exported report data from ERP/CRM solutions, which is easy to implement but does not enable real-time analysis. Depending on the experience level of the team creating the custom solution, these solutions can be very effective until something changes, such as the requirements, underlying systems, or incoming data. However, in most organizations, the team that created the custom solution has moved on, and a new team must either relearn the old solution to evolve it or recreate a new one. This is the crux of custom solutions, as although they can seem cost-effective at first, their effectiveness fades quickly unless the organization commits to an ongoing effort to evolve the solution using the latest technology as business needs change.

Commercial solutions for revenue bridge analyses are typically part of pricing solutions, such as price optimization and management or revenue growth management solutions. These solutions have data integrations with many types of business systems required to troubleshoot profitability issues and then address them with other capabilities in the solution.

Organizations should look for the following capabilities in a revenue bridge analysis solution:

» **Easy-to-understand visuals:** Finding margin, pricing, and sales execution issues is difficult sleuthing work and requires the right mix of data to be presented in easy-to-understand graphics. A dynamic price waterfall view that supports filtering and drilling down through a hierarchy (e.g., business units, location, products) to transactions is important so that causal effects can be easily found. The solution should be able to analyze the data set and provide the user with actionable descriptive and prescriptive insights. Being able to compare dimensions and periods is necessary to understand the impact of pricing and policy changes.

» **Deep filtering and accurate aggregation:** The ability to aggregate and filter data at various levels (e.g., business unit, product line, customer) so that users can accurately drill down to lower levels of detail to understand the causality of an effect is important. While revenue bridges might seem simple to create in a spreadsheet, a common shortcut is to average across all transactions, which can hide important insights and skew decision-making. The best practice is to aggregate at the lowest levels of detail you want to evaluate (e.g., geos, customers, products) and then sum all the detail to ensure that the accuracy of the model stays intact at any drilldown level or filter.

» **Persona focused:** The solution should have persona-focused and use case–focused interfaces that show the persona the right amount of detail for their role (CRO, pricing, financial analyst). The solution should have the ability to share dashboards with other personas to highlight potential discussion, action, or opportunity areas.

» **Data integration:** The solution should be directly integrated (via API) with the organization's master data, including CRM, billing, inventory, promotions/rebates, PIM, and accounting systems for near-real-time insights. Given the complexities of data integration, the solution should monitor the data quality and notify the user of errors and anomalies. In addition, the solution should allow the customer to add external data to the product (index, commodity, currency FX) with no/low-code capabilities to increase forecasting accuracy.

» **Scenarios, forecasts, and benchmarks:** The solution should be able to forecast historical trends, relate them to industry benchmarks, and allow the user to conduct a what-if analysis by changing the parameters (pricing, offer type, quantity, discounts, rebates, etc.) to understand their profit outcomes. The solution should utilize predictive AI for more accurate forecasting using external data, such as forecast economic or climate data.

» **Adaptable UI/visuals based on query:** An emerging trend in analytic user interfaces is adapting UI visuals based on a natural language or predefined query. For example, the query, "How have inflation and currency effects impacted this quarter?" would show a page with the necessary graphics and filtering to help the user answer the question.

» **Quick time to value:** Commercial SaaS revenue bridge solutions should be quick to implement (within a month), especially for enterprises with centralized SaaS business systems. However, enterprises with many regional ERP systems can expect longer implementation times.

Benefits

The overarching benefit of a commercial revenue bridge analysis solution is a mature tool that quickly delivers actionable insights into a myriad of business issues that affect profit. The solution should lower human error (with better UIs and insights) and input data errors (with error/anomaly checking) and increase confidence (with standard processes and repeatable outcomes). Overall, the benefits of a revenue bridge analysis are:

Strategic

» For CFOs, CROs, and COOs, a revenue bridge analysis is an important tool for understanding how their organization is managing to obtain their revenue or margin goals throughout the quarter, especially large strategic changes, such as when costs have gone up from the third quarter to the fourth quarter due to inflation or promotional discounts have gone up 5% YoY. This macroview greatly helps leaders understand what went right and wrong from their assumptions and prior forecasts. Dashboards and alerts can be created, which makes it easy to track how the company is performing.

» It enables leaders to compare the performance of a new offering, channel, or promotion across a variety of dimensions (e.g., geography, selling channel) to provide quick business feedback.

» It provides a data-driven and repeatable way to test strategic scenarios using the full fidelity of the company's historical data (versus relying on simple models), which can be forecast forward. Scenarios can include changes to the product, price, volume, cost, and currency. If the solution provides benchmark data, then the performance can be compared with peers.

Pricing and Profit Excellence

Revenue bridge analysis tools can help pricing or finance professionals understand the impact of many commercial excellence issues, including:

» **Price effects:** What are the impacts on profit due to changes in prices, with the assumption that volume remains unchanged during the period?

» **Volume effects:** What are the impacts on profit due to changes in the quantity of units sold, with the assumption that pricing remains unchanged during the period?

» **Product-mix effects:** What are the impacts on profit due to changes in the quantities of purchased products (or across product lines) during the period? (A positive mix effect represents when customers purchased more of an expensive product versus cheaper products.) How profitable or unprofitable is a particular product during a specific period?

» **Customer-mix effects:** What are the impacts on profit due to changes in how the portfolio of customers changed within a country, business unit, or product?

» **Cost effects:** What are the impacts on profit due to changes in costs with an assumption of unchanged quantity?

» **Location effects:** What are the impacts on profit due to a country's portfolio purchased through a business unit or product?

» **Promotion and discounting effects:** What are the impacts on profit due to changes in rebate programs? Where does leakage occur due to overdiscounting? Why is there a low correlation between the deal size and discounts? Why is there a long tail of SKUs with high discounts (that brings down the overall revenue contribution) of the top product families?

Sales Governance and Deal Desk

A revenue bridge analysis can uncover sales governance issues such as:

» Which reps or regions are consistently overdiscounting or not following price/discount guidance?

» Which reps or regions are not successful at cross-selling?

» Which products or regions consistently need more discounting than others to close?

Operational

» It lowers the time to insights with intuitive visualizations that are relevant to the issue being diagnosed. This makes it easy for leaders to understand the complex effects of thousands of transactions with only a few minutes of training.

» No-code data management features make integrating and wrangling data easy so the solution can operate with fresh and accurate data.

» Role-based access enables pricing professionals to create/edit views while only allowing leaders to use and filter for their insights, ensuring the insights remain consistent.

» It potentially lowers disagreements, as IDC has talked to customers that have used these solutions during meetings to provide data-driven answers to scenarios to silence loud opinions not backed by data.

Considering PwC

PwC is one of the largest professional services firms globally and operates in 151 countries. The company provides business consulting services, including strategy consulting, commercial excellence, pricing, and revenue management guidance, to enterprises. Over the years, the company started codifying its consulting methodologies into commercial software solutions that significantly automate and reduce the time it takes to discover and manage business performance. The company now offers several revenue-focused applications, including Performance Analyzer (revenue growth management and trade promotion management) and Profit Seeker (revenue bridge analysis). The products have a common data platform to increase data sharing and insights across their suite of offerings, and PwC provides business and technical services to address data implementation issues. Profit Seeker is offered in two versions: one focused on promotions and another focused on pricing. This IDC Spotlight is focused on the pricing version.

Profit Seeker extends revenue bridge analysis with 30+ custom dashboards that were derived from over 500 PwC pricing projects. Organizations can use Profit Seeker to diagnose and improve profit performance across several dimensions, including deals, rebates, products, pricing, and customer segmentation. To help the business understand the context of the data, Profit Seeker includes industry and business benchmarks that PwC curates using qualitative surveys. The benchmark data drives easy-to-understand business performance ratings within the application. In addition, the product

has a growing list of customizable business issue questions, which are answered with a dashboard of relevant and filtered information.

This solution eclipses the functionality of using static reports and avoids the usual DIY issues of security vulnerabilities, stale features, and runaway costs. PwC's business consulting services will work with companies to help them get the most value out of the solution.

Challenges

IDC sees two main challenges that tech buyers need to understand when considering PwC's Profit Seeker:

» **Cost/benefit:** PwC will need to convince customers that Profit Seeker is a far superior offering compared with a DIY custom solution. If a company only sells a few offerings direct in one country, then the cost of the tool may outweigh its value.

» **Services/recurring models:** Profit Seeker currently does not support diagnosing recurring revenue issues or KPIs (ARR, NRR, churn), which makes the solution less valuable for companies with digital services.

Conclusion

Each year, the amount of organizational data increases, but converting it into insights that leaders can understand and confidently act on to tackle profitability issues remains challenging. While most companies have created their own custom tools to address these issues, organizations should consider a commercial revenue bridge analysis solution to provide them with easy-to-understand visuals, persona-focused interfaces, and direct data integration with the organization's master data. This helps enable the goal of becoming a data-driven organization, which 83% of CEOs have.

PwC has created a powerful SaaS-based business diagnostic solution aimed at helping leaders in the C-suite, pricing, sales, and finance fields to address hard-to-diagnose business issues. IDC believes that to the extent that PwC can address the challenges described in this paper, the company has a significant opportunity for success in the marketplace.

About the Analyst

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Mark Thomason is research director for IDC's Digital Business Models and Monetization practice. Mr. Thomason's research coverage examines traditional and emerging monetization models for digital products and services and identifies disruptive business models and technologies such as cloud services, product-to-service transformation, and monetization that innovation accelerators such as IoT enable.

MESSAGE FROM THE SPONSOR

Pricing is critical to companies' revenue and profitability, yet few companies have the complete data needed to make informed decisions quickly and at scale. Profit Seeker provides industry-leading pricing performance analytics and insights — all in one place — backed by decades of PwC's hands-on client experience. Now, you can get greater visibility into the impact of your pricing, run different scenarios across different levers of the price-waterfall to predict outcomes, and gain understanding into customer behaviors, market changes, and competitive benchmarks. These actionable insights help you price more effectively to compete in a dynamic market, leading to higher revenue and better pocket margins. For more information, visit PwC.com.

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