



## Digital transformation in B2B – The role of AI and Pricing Automation

European Wholesale Study 2020

September 30, 2020

# EXECUTIVE SUMMARY

## Summary (1/2):



- ! European wholesalers (EWS) experience higher importance of building digital platforms today than in 2016, while pricing is seen of highest importance; going forward, however, the business pressure from both digital platforms and pricing is expected to become lower with the maturity of digital tools (like, e.g., AI).
- ! According to the surveyed EWS, Artificial Intelligence (AI) is important for companies (78%) and will be even more important in the future (89%). It is not as important for the own company (67%) as for companies in general though. And: The type of enterprise has no influence on the assessment of AI-importance.
- ! Today, only one third of all EWS are using AI (39%). And only 1/5 use it intensively (9%). International companies seems to use AI more often than buying groups and regional/local independent companies (tendency).
- ! EWS which already use AI are significantly bigger in terms of employees and revenues and believe that AI generates jobs.
- ! EWS don't expect AI to destroy jobs. They rather hope for improving customer understanding, developing new products, focusing on data and getting rid of boring routines. However, not all employees are equally embracing AI. The so called "AI sceptics", when too many, could hinder a successful implementation and usage of AI.
- ! Our regression analysis shows:
  - The more important companies rate AI for their own company, the higher the intensity of usage (+ 0.8 pt). This indicates that managers who want to increase the intensity of AI usage should emphasize the importance of AI for the own company
  - The more respondents fear job losses through AI, the lower the intensity of AI usage in these companies (- 0.5 pt)
  - The higher the degree of automatization in pricing, the lower the intensity of AI usage in these companies (- 0.14 pt)
- ! AI can help with the main business challenges like pricing automatization and competition from online platforms in the future.

## Summary (2/2):



- ! Management of price pressure remains top priority for 69% of EWS. We expect that also other companies, with similar complex pricing situations, will have the same challenge. Lowest rated business challenge was “passing through suppliers list prices“ (12%), which indicates clear decoupling of price increase management and cost development: customer centric and value-based pricing continue to replace cost plus pricing.
- ! Despite given complex pricing challenges, degree of pricing automation today is very low: 70% of respondents still apply manual price setting approaches.
- ! But EWS plan to turn it around: by 2025, 74% of respondents plan to apply automated pricing solutions. Besides application of pricing software (21%) and dynamic pricing (16%), especially AI based pricing solutions (37%) will be focus of EWS to automate pricing management.
- ! Key pricing challenge will be to manage multiple data sources for automated and AI based pricing. Already the top 9 reported influencing factors are based on 8 different internal and external data sources. Pricing solutions require excellent management and synchronization of those. Interesting: the impact of external factors on willingness to pay strongly underestimated, compared to internal factors. EWS companies need to improve understanding of usage and integration of external data.
- ! Our research shows: pricing automation is still in “Pioneer and introduction” phase, without clear link to current business challenges or reflection of specific price influencing factors today. However, EWS plan to change this in near future. Especially companies with complex product portfolio and multichannel business seem to aim for more pricing automation.
- ! Also we see that EWS plan to manage complex environment of price influencing factors more intensively. We recommend that pricing projects do not remain “siload optimizations” and rather develop a joint and scalable strategy & technology pricing vision to fully exploit growth and EBITDA potentials.

# STUDY (SHORT VERSION)

## Introduction

- **Digitization** is the mega trend across all industries, especially when it comes to applying **Artificial Intelligence** in conducting business
- While there is plenty of research emerging in B2C, there is relatively **little research in B2B**
- When talking to **electrical wholesalers** – as a **typical mid-tier industry group in B2B** – the industry debates its future potential regarding digitization, automation and Artificial Intelligence
- As a group of interdisciplinary researchers working both as practitioners and academics, we want to shed light on the recent digital trends in B2B – analyzing the particular role of **Artificial Intelligence** and **Pricing Automation**
- Comparing the industry dynamics to our first research with **141 international electrical wholesalers in 2016**, we conducted a pre-Corona study in **February and March 2020 with 160 electrical wholesale managers across Europe (22 countries)**

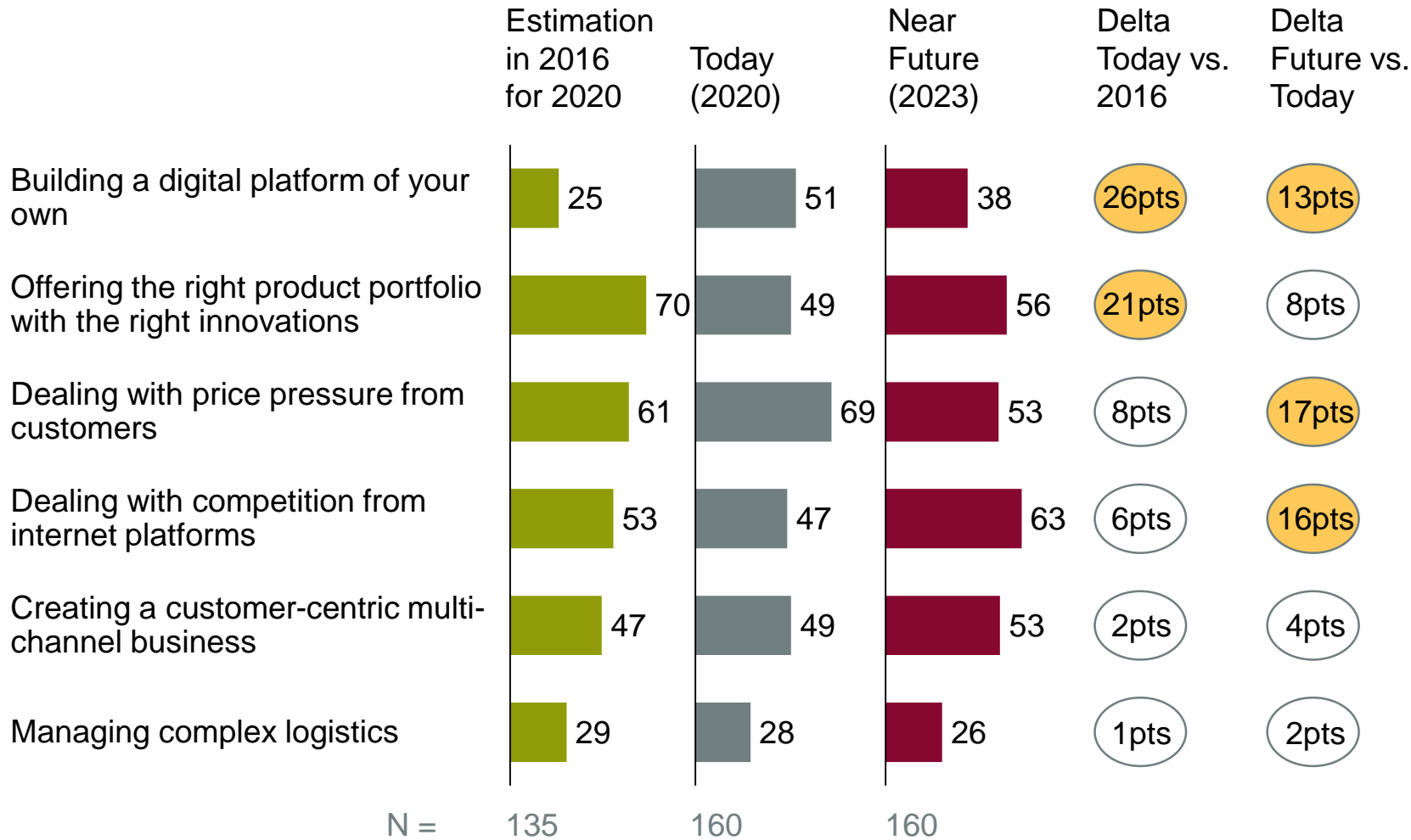
## This study shows ...

- 1 ... how **business challenges** for Electrical Wholesale have changed over time and what today's expectations are for the next 3 years
- 2 ... how many of these companies already use **Artificial Intelligence (AI)** and which **factors** drive the usage of AI for these companies
- 3 ... which **expectations and hopes** these companies have regarding the use of AI and what managers can do in order to support a positive implementation of AI
- 4 ...which role (AI based) **dynamic and automated price management** plays today and in near future for companies with complex pricing situations, like electrical wholesale
- 5 ...if **pricing automation** solutions today are in line with **strategic business challenges** or if they are rather isolated “pioneer projects”
- 6 ...for which **specific pricing challenges** electrical wholesale companies plan to develop automated pricing solutions and what are **preferred approaches**

1

# Business Challenges for Electrical Wholesalers changed over time – building digital platforms like AI was underestimated 4 years ago

Comparison of 2016 Estimation, 2020 Actual, and Future Expectations (in 3 years)



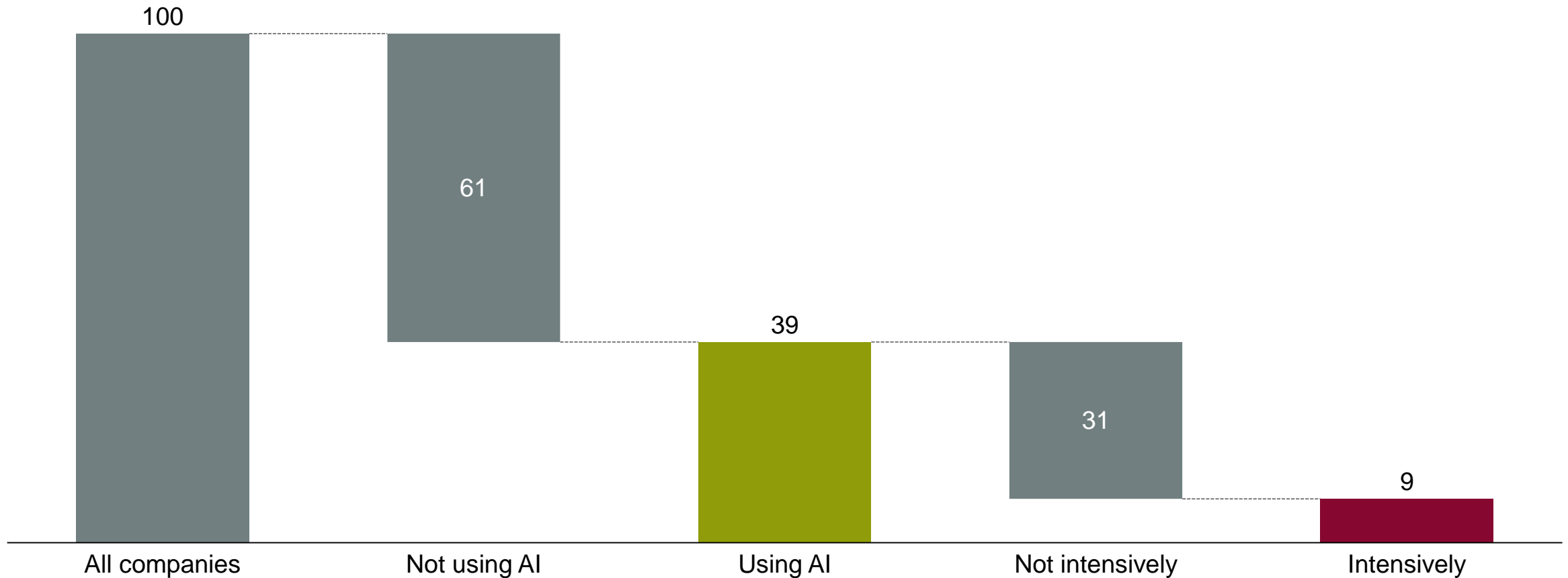
- Compared to the expectations in 2016, building a digital platform was underestimated in 2016
- Pricing has the highest perceived importance today
- Going forward, digital platforms again estimated to be less of an issue (⇒ digital maturity)
- Also Pricing expected to become less relevant (⇒ digital tools)
- However, competition from internet platforms to become much bigger issue



2

## Intensity of usage: Only 1/3 of EWS use AI at all, only 8.6% of those use it intensively

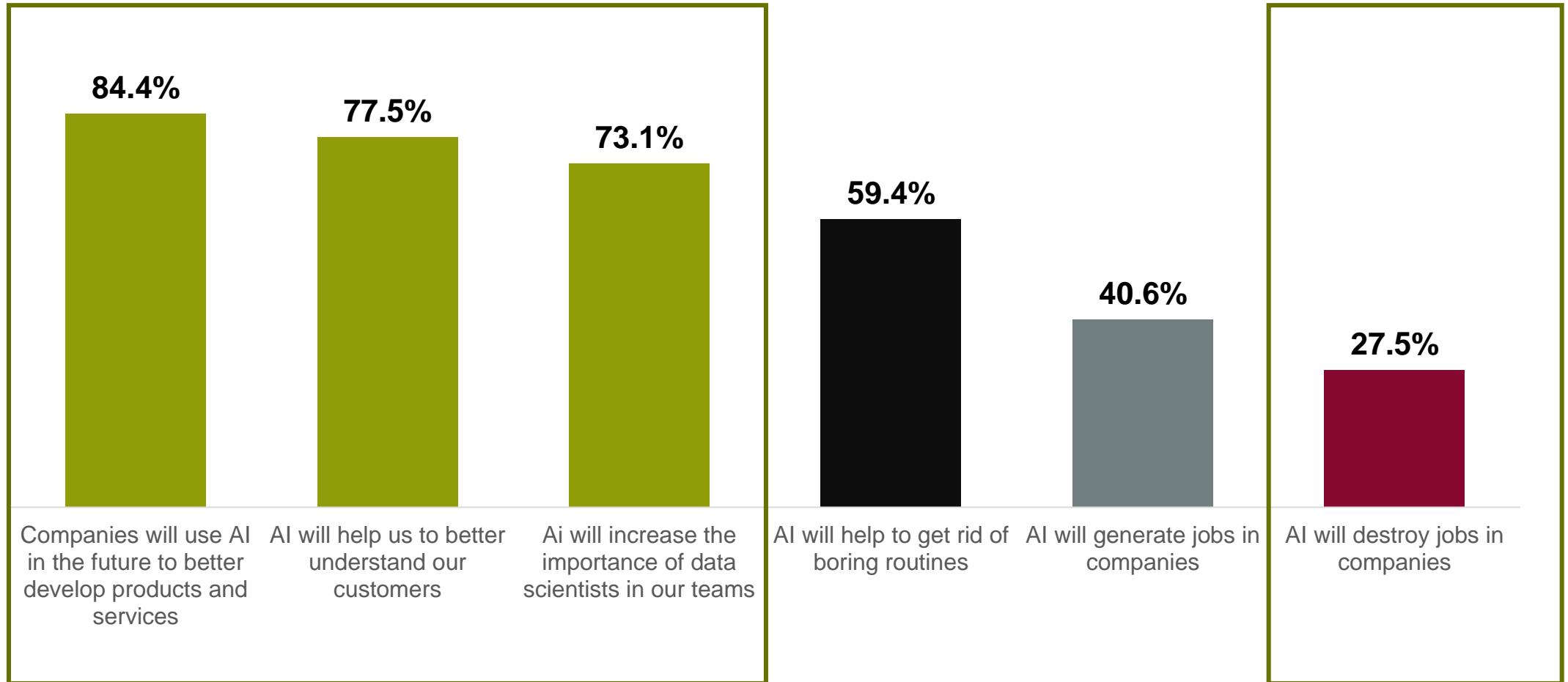
In Percent



Q D3a: We are already working with AI in our company, n = 142; D3b we use AI in our company ... (scale 1 to 5, intensively = 4 & 5), n (100%) = 142

3a

## Expectations: For most respondents, AI will not destroy jobs, rather help to improve products, customer and data understanding

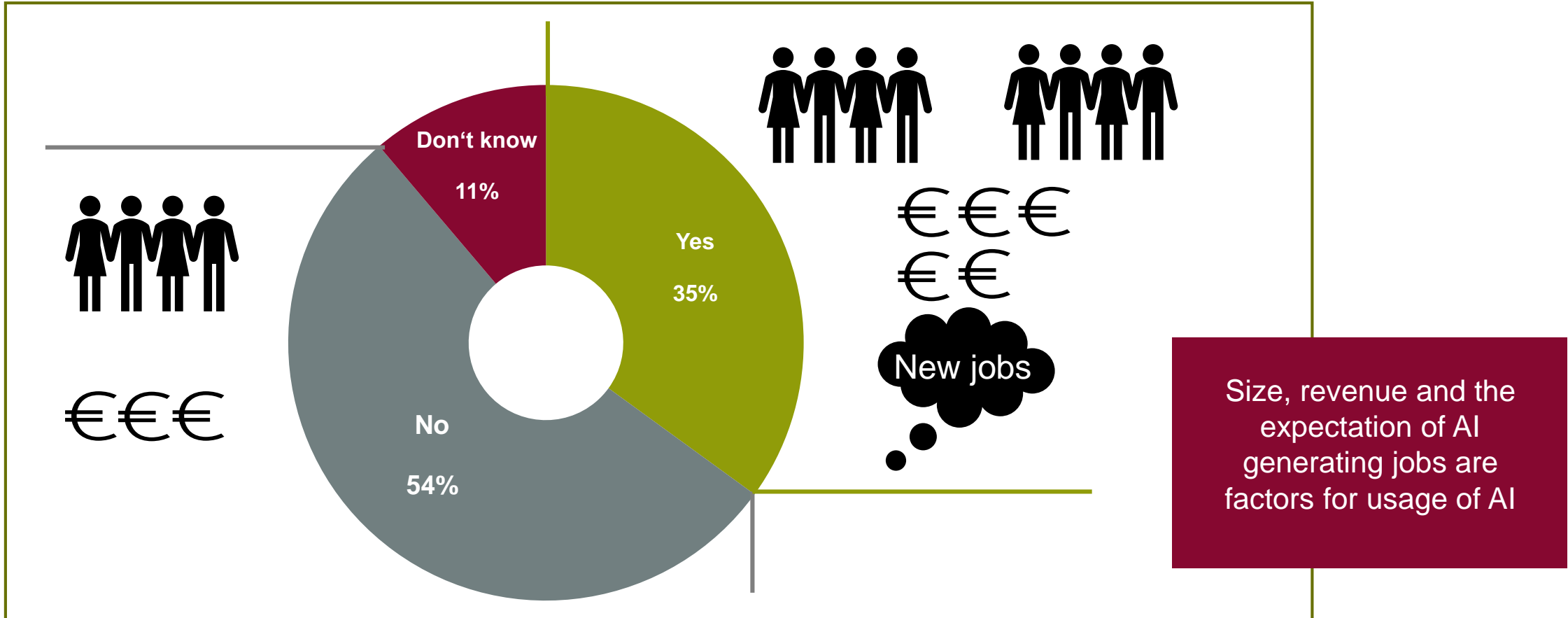


Q D2\_1 – D2\_6): Expectations on AI: To what extent do you agree to... (scale: 1 = don't agree at all, (...) 5 = fully agree), n = 160

3b

## Drivers for usage: Companies that already use AI have significantly more employees and revenue and believe AI to generate jobs

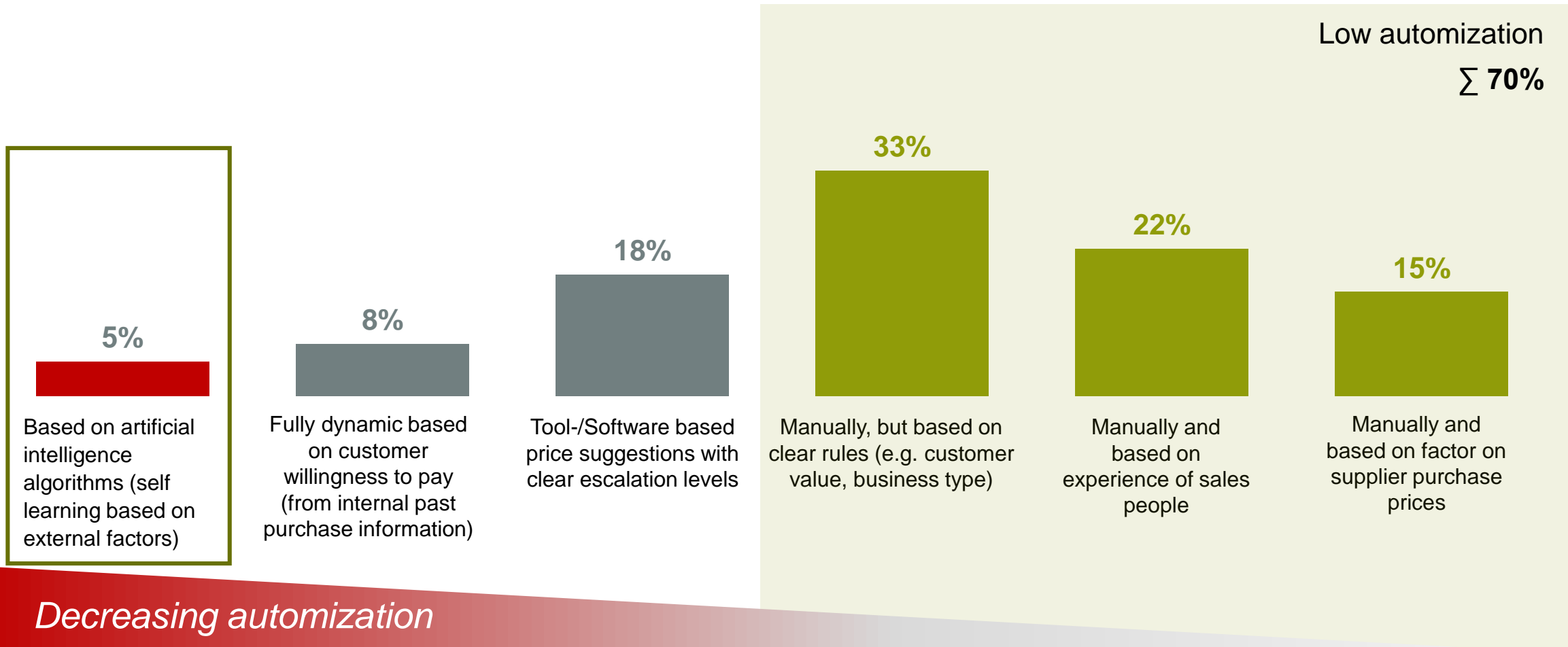
Q: "We are already working with AI in our company" (yes / no)



Q D3a: We are already working with AI in our company, n = 160; Tests: 1.) t-test with equal variances,  $p < 0.01$ , comparison of „yes“ and „no“ in regard to size, revenue, belief 2.) ANOVA: D2\_4 AI will generate jobs, n = 56 (scale 1 – 5) and D3b: We are already working with AI in our company. n = 160:  $B = 0,587$ ,  $p = 0.03$

4a

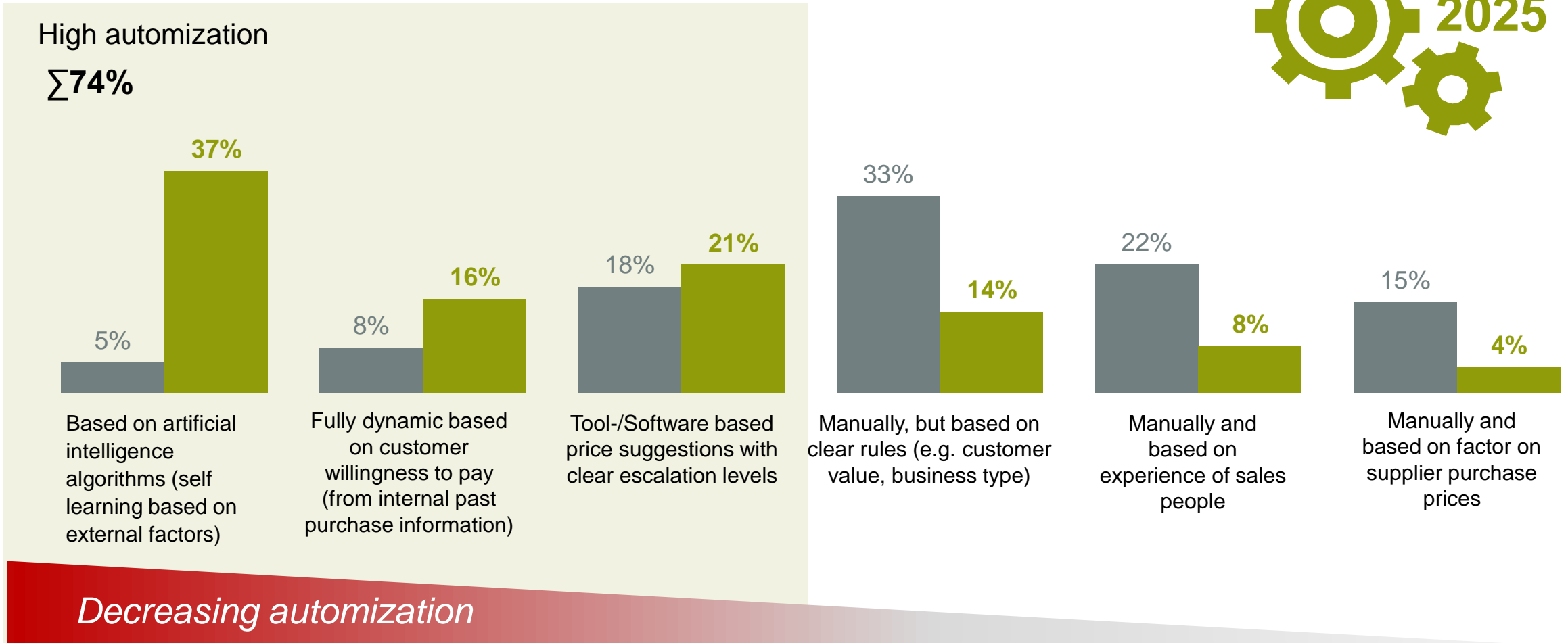
# Pricing professionalism today rather low – more than two thirds of companies do not set prices really strategically nor tool supported



Q E1: How do you find the right price for your installers / contractors today? n = 158

4b

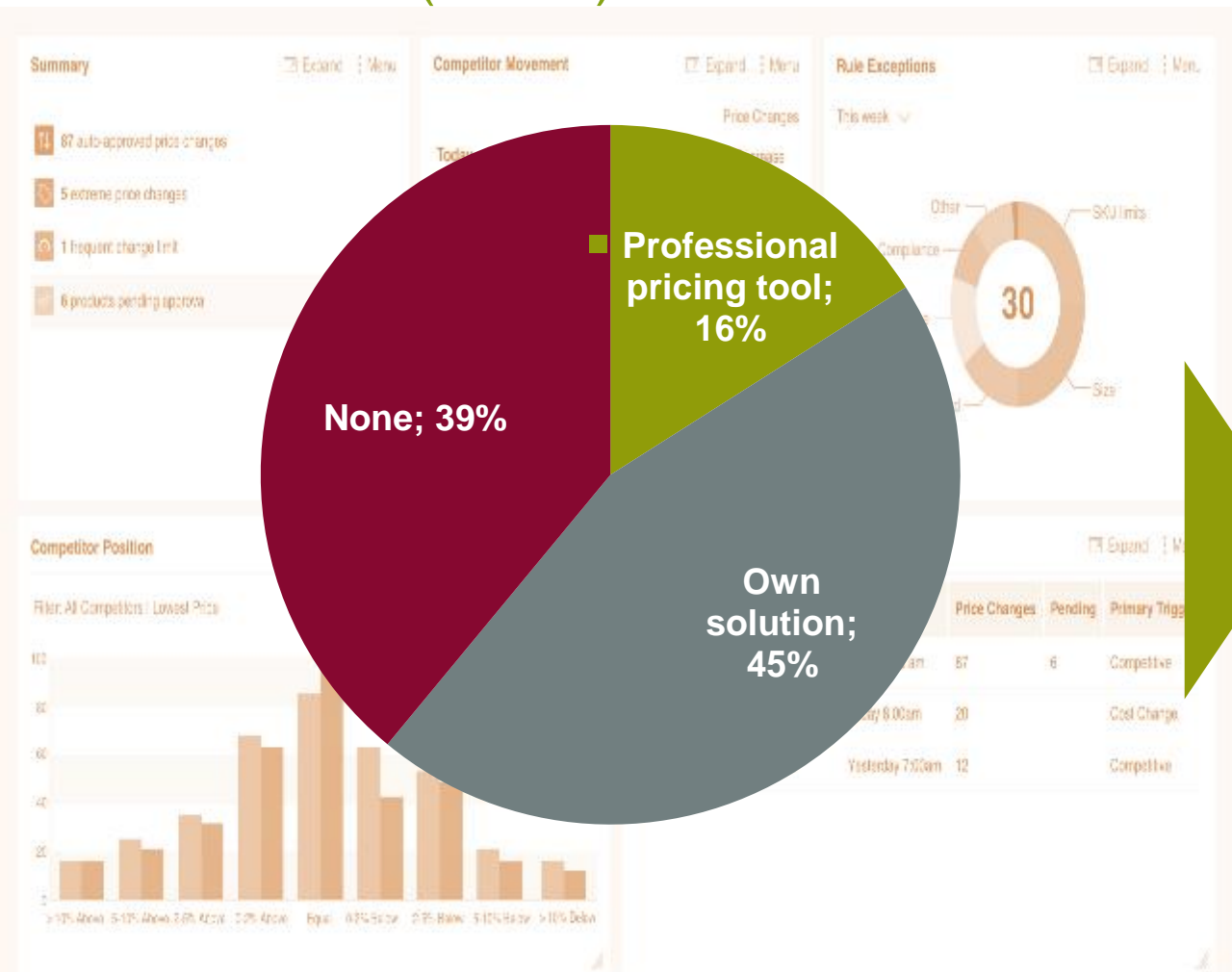
# Expected pricing professionalism in 5 years up to 74% to be supported by pricing tools and software



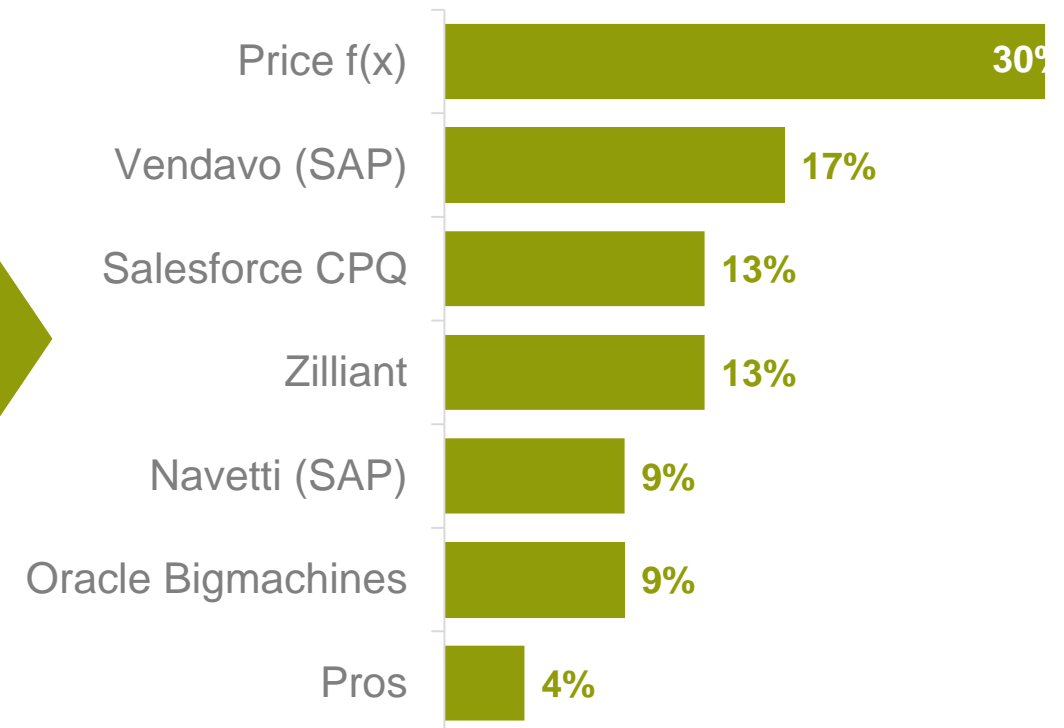
Q E1: How do you find the right price for your installers / contractors today?

5

Only few EWS companies use professional pricing tools ... more than across all industries (~16%)



### Professional pricing tools usage



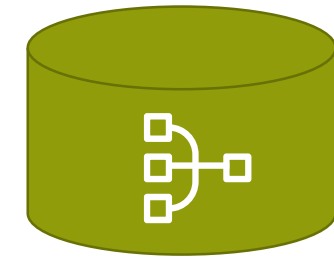
Q E3) Which of the following pricing or CPQ software solutions do you use today? (randomize options) n=136

6

# One of the key challenges to build AI-based price recommendation algorithms is building the data base – relevance of external data underestimated

## Influence of criteria on willingness to pay

Criteria / Source →	Internal source	External source
Product related criteria	<b>3.9</b> <ul style="list-style-type: none"> <li>Product availability</li> <li>Product quality</li> </ul>	<b>3.5</b> <ul style="list-style-type: none"> <li>Competitor price</li> <li>Raw material prices</li> </ul>
Customer related criteria	<b>3.7</b> <ul style="list-style-type: none"> <li>Personal relationships</li> <li>Easiness to do business with</li> <li>Customer size / growth</li> </ul>	<b>N/A</b> <ul style="list-style-type: none"> <li>Not evaluate</li> <li>Examples: growth, potential, brand value, region, etc.</li> </ul>
Situational criteria	<b>3.7</b> <ul style="list-style-type: none"> <li>Speed of delivery</li> <li>Business type</li> <li>Order size</li> </ul>	<b>2.9</b> <ul style="list-style-type: none"> <li>Brand and reputation</li> <li>GDP / interest rate</li> <li>Weather</li> </ul>
<b>Avg. impact</b>	<b>3.8</b>	<b>3.1 !</b>



Pricing data base



Automized & individual price recommendation

**Success factor:** Building data base which can consolidate internal AND external information to build multidimensional price forecasting models.

Q E4) Which criteria influence your installer's / contractor's willingness to pay most? (randomize options) (1-no influence / 5-strong influence)

# Our Recommendations

## Overall business challenges

- Importance of building **digital platforms was underestimated** by electrical wholesalers and needs to be actively addressed – just “waiting” for digital maturity will not solve it
- Especially in the light of increasing new **“pure online” business models**, differentiating with new digital platforms will **increase value for customers and competitive positioning**

## Next level AI

- **AI is a decisive economic factor** in the 21st century. EWS companies have recognized this, but **implementation** of AI is still **low**. **Our key recommendations:**
  - **Start using AI** and learn from mistakes now – don’t postpone it to later, competition will be fast
  - Assess **level of AI acceptance in your team**; too many sceptics will hinder AI impact
  - **Show employees the effect of AI on their company** to increase AI usage and experience

## Next level Pricing

- In **complex businesses**, as electrical wholesale, **pricing** will remain **top priority** to manage profits
- **Avoid** developing **siloed pricing software solutions**, and create understanding how **scalable pricing process automation** will support achieving your strategic business goals
- **Business, Strategy and IT** need to develop **aligned roadmaps** and **work closely together** to realize full growth and EBITDA potentials



# Interested in more details?

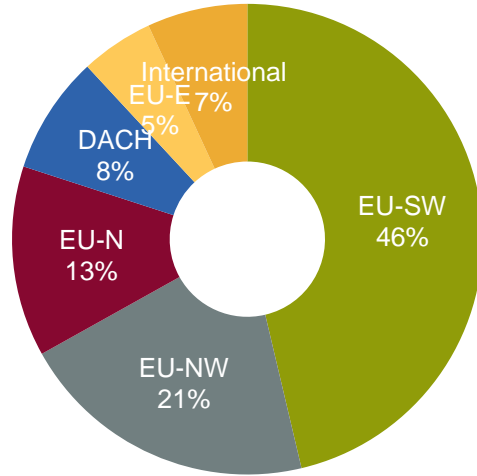
Please get in contact with us  
to jointly discuss all insights from  
the long version of our study.

SAMPLE

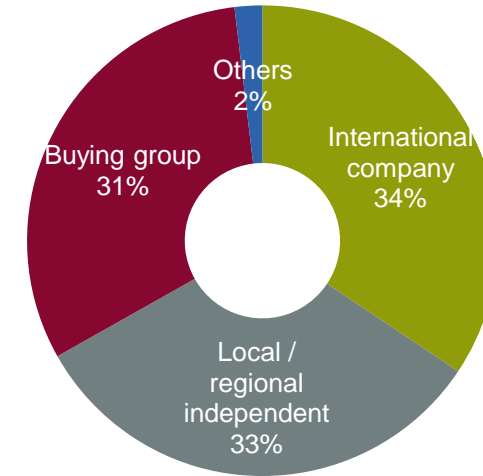
# Sample - Broad representation across Europe with fair shares among company types

**160** Participants working in **22** different countries

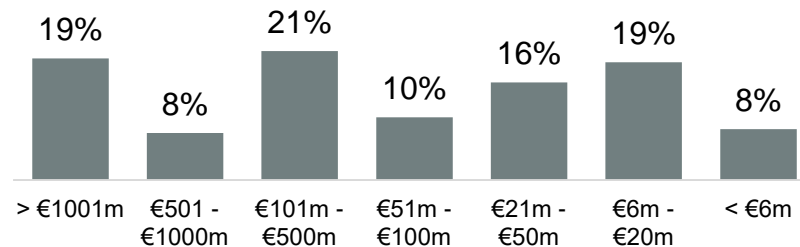
Regions



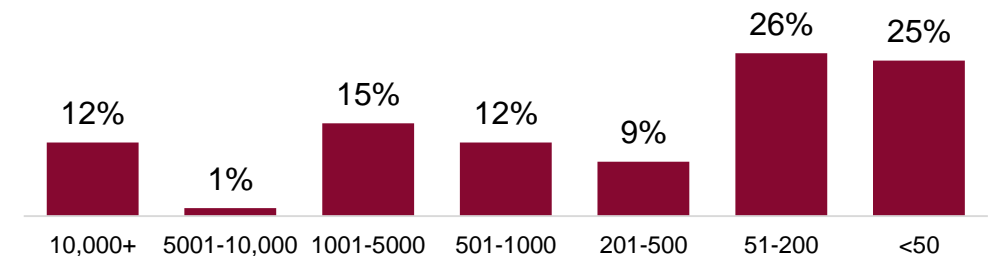
Company types



Annual revenue



Employees



# TEAM

## Short profile Prof. Dr. Claudia Bünte

### References Prof. Dr. Claudia Bünte



**SIEMENS**



McKinsey  
& Company



**XING**

**Vaillant**

**BBDO**

- **Associate Principal** McKinsey & Company, marketing and sales practice
- **Global Senior Vice President** Volkswagen AG, brand and marketing
- **Director Europe + Director Strategy** Coca-Cola Company, Knowledge & Insights Europe + strategic responsibility for 4 markets in Europe
- **International Brand Manager** for NIVEA
- PhD in brand management
- **Professor for international marketing/ head of department** marketing + >15 years of lecture experience
- **Managing Director** of Kaiserscholle GmbH, Center of Marketing Excellence
- Title "Vice-Marketingkopf" of the year 2020

# Short profile Prof. Dr. Nikolas Beutin

## References Prof. Dr. Nikolas Beutin



**600+** sales & pricing projects

- **Managing Director** Accenture Strategy, Pricing & Commercial Strategy Lead Europe
- **Partner** PricewaterhouseCoopers (PwC), Customer Practice Leader PwC Europe
- **Executive Partner** EY (formerly J&M), Management Consulting Lead
- **CEO / Owner / Partner** Homburg & Partner
- Ph.D. in B2B sales & pricing management
- **Professor for Bus. Admin., esp. Sales & Pricing** Quadriga University 20+ years of lecture experience
- **Visiting Professor** various universities (e.g. Bayreuth, Bamberg, Mannheim, Darmstadt Salzburg)
- 200+ publications, interviews, articles etc.
- 200+ seminars & speeches

## Short profile Patric Kirchner

### References Patric Kirchner



**accenture**

**SIMON • KUCHER & PARTNERS**  
Strategy & Marketing Consultants



**pwc**

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PLATFORM®

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**PPS**  
PRICING SOCIETY™



**Quadriga**



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#DigitalAssetPricing, #SubscriptionPricing,  
#PricingDataManagement, #DealOptimizer*

- **Managing Director Accenture Strategy** – CEO & Enterprise Strategy Europe (+14 years of international strategy consulting)
- **Senior Manager PwC** – Pricing & Commercial Excellence Lead Germany
- **Director Simon-Kucher & Partners** – B2B Pricing Expert
- **Trainer for Pricing & Sales Trainer** – inhouse seminars, VMK, industrial Associations, European Pricing Platform, Professional Pricing Society
- **University Lecturer** – University of Bamberg, Quadriga University

## Short profile Dr. Oliver Vogler

### References Dr. Oliver Vogler



McKinsey  
& Company

OSRAM

B/S/H/



- Managing Director Europe-West and Group Executive Member at **LEDVANCE GmbH**
- Head of Global Sales Marketing at **OSRAM GmbH**
- Consultant for **McKinsey & Company** (high-tech / lighting / semiconductor industries)
- Project Controller Smart Home Appliances at **B/S/H/ Home Appliances Group**
- Dr. rer. oec. in Empirical Economics from **Ruhr University Bochum**





**THANKS FOR READING**