

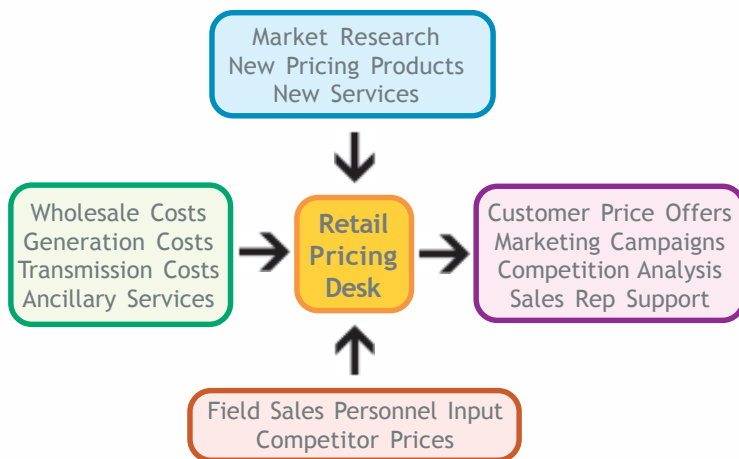


# Retail Electric Pricing

With the advent of deregulation and competition in the electric and gas markets, it is becoming increasingly important for retail energy marketers to develop sophisticated pricing tools and systems that offer competitive prices in a timely manner to all its prospective customers. Achieving such a capability requires the energy marketer to invest in the appropriate development of its business systems and processes. To provide a high standard of service, they can focus, and use a focused “Retail Pricing Desk”.

## What Is the Retail Pricing Desk?

We can define Retail Pricing Desk as a functional area within the energy marketer’s organization responsible for developing price quotes, pricing structures, and pricing models to support the marketer’s sales force. The retail pricing function has to be integrated with other parts of the retail marketing organization including supply acquisition, marketing & sales, product development, billing, and information systems.



## Evolution of its Responsibilities and Functions

Prior to deregulation, the utility’s rate department owned the task of developing rates based on revenue requirements and cost of service models. Fuel price and other risks were simply passed on to the ratepayer leaving the utility with no significant risk exposure. As markets deregulate, a new pricing function has become a necessity. Over the years, this concept has evolved from simply being a cost-plus price determination exercise to one that values the product sale to the customer and manages the risk of the marketer.

The pricing desk is typically responsible for determining the deal structure and prices quoted to retail customers ensuring that the quotes are in conformance with supply costs and other established pricing policies. The Retail Pricing Desk performs both day-to-day activities, such as developing price quotes; and strategic activities, such as assisting the sales force and developing appropriate models.

The Retail Pricing Desk provides pricing support to the retail sales force. It develops pricing strategies for marketing campaigns, price quotes for specific proposals to large accounts or aggregated groups, and new pricing structures in response to customer needs driven by feedback from the sales force and by product development activities. As an important resource for the sales and marketing force, the pricing desk also analyze competitors’ rates to help the sales force develop differentiating facts and help the sales force make more informed sales pitches.

One of the critical functions of the pricing desk is to monitor supply costs and adjust prices accordingly. Small changes in supply costs can cause big swings in retail profitability. Constant monitoring has to be maintained and mechanisms put in place to make the appropriate changes in the price offered to customers and reduce the risk exposure of the marketer. The pricing desk also serves an important liaison role between the sales team and the wholesale supply desk. Constant market feedback from the sales team is provided to the wholesale supply desk so that appropriate actions can be taken by the wholesale supply desk to meet specific customer needs. Similarly, the pricing desk controls the flow of information on market conditions from the wholesale supply desk to the sales team.

Another of its functions is to develop and maintain flexible and accurate pricing models. The pricing desk should have flexible pricing models for quick analysis of alternate pricing schemes to respond to sales and marketing needs. It should also maintain pricing models for changing data, supply cost structures, and new pricing schemes. Because the pricing desk has to respond to a large and diverse sales force, it must develop processes to broadcast pricing rather than respond to every sales inquiry. This will automate the process, making it more efficient and accurate. Most importantly, the pricing desk should integrate pricing models into business processes such as the sales force automation and proposal offer management systems, so that the retail sales force can concentrate their efforts on selling rather than tracking open quotes or offers.

## Implementation Issues

The design and deployment of the retail pricing desk is determined by the marketers. Some of the major implementation issues include:

**Who will be the users of the pricing desk?** Will it be sales staff only, or will the pricing desk be responsible for direct pricing to customers? It is best if all sales staff have direct access to the pricing desk and the pricing models so that there is little or no delay between price quotation and order acceptance. The Internet makes this easy today.

**What commodities are being priced and in what markets?** Is it gas only, electric only, or both gas and electric? What are the geographic markets? What are the target customer segments? The process design and pricing models must be capable of handling multiple commodities as well as the nuances of regulation in each Local Distribution Company (LDC) or Electric Distribution Company (EDC). It is very important to keep the mission of the marketer foremost in our minds so that the process and models can be scaled as necessary over time.

**What are the wholesale-to-retail relationships?** This answer will define many of the pricing processes, pricing structures, business processes, and the system requirements. If wholesale and retail are parts of the same organization, the interface can be less robust, and the interaction a little less formal, than if the two are parts of different organizations. Does the company have the supply capability and resources in all markets where it intends to do retail business? Will it enter into any retail-wholesale alliances? How will these relationships differ in different markets and for different commodities?

**What are the organizational design issues?** Some key organizational design issues that need to be addressed include: Who does the pricing desk report to? How will the pricing desk be audited and pricing checked to ensure accuracy? Where does the risk management function reside? Who owns the price quote and the retail book - the sales team or the pricing desk?

**What capabilities and skills are required for the pricing desk staff?** While it is most essential to have strong analytical capabilities, the creativity of the pricing desk will define how innovative they can be in offering new pricing structures. The size of the desk (based on the anticipated volume of business), will determine if both types of skill sets are adequately represented in the desk.

## The Future

The Retail pricing desk is becoming an ever-increasingly important function within the retail marketing organization. What started in most retail organizations as spreadsheet models residing on the desks of a few analysts, is now being integrated within larger business processes and systems such as sales force automation, offer management, and risk management. Creative, efficient, and speedy pricing desks will be the difference for retail marketers who become profitable and thrive well.

## Author Bio

S. Balakrishnan has over 20 years experience with retail power markets, including strategy, economic analysis, procurement, pricing, supply and retail risks.



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