



# Generative AI: How to maximize it for pricing and commercial excellence

# Introduction

In business, we often hear tales of transformational technologies that promise to revolutionize industries. Today, the spotlight falls on the disruption known as generative artificial intelligence (AI). It's a technology that has captured the attention of business executives worldwide, including those entrusted with pricing and commercial decisions.

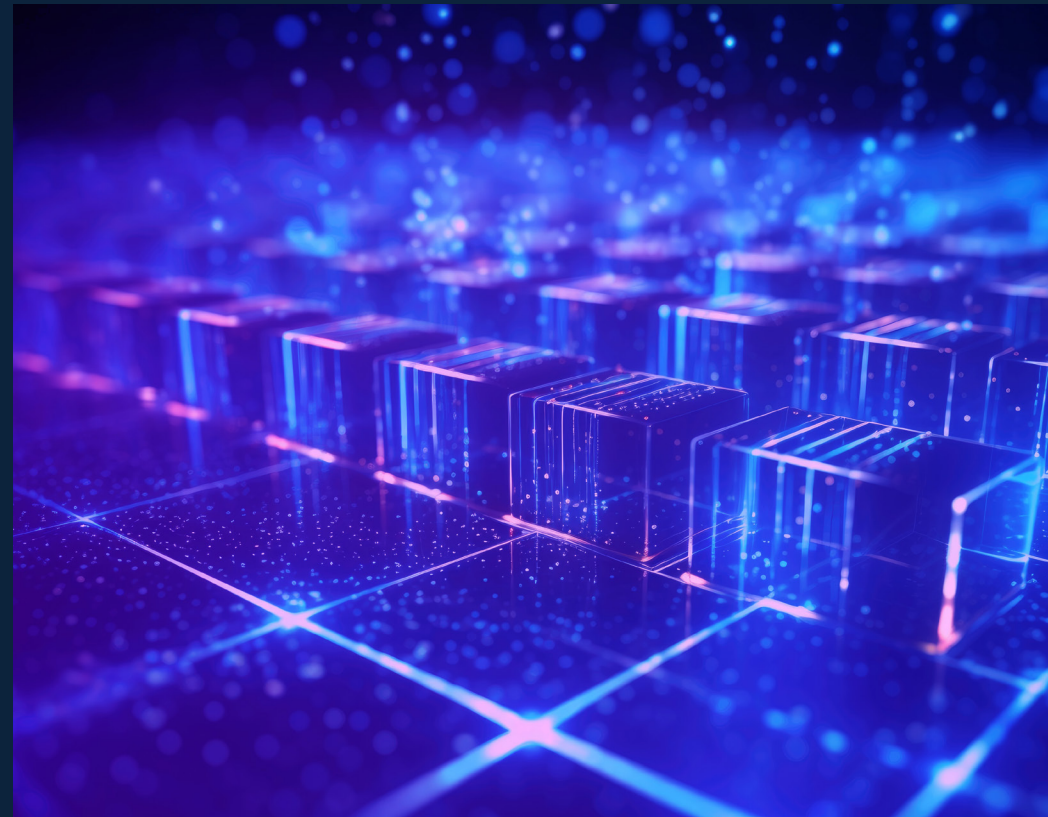
In a KPMG survey in March 2023, 65 percent of 225 US executives replied that generative AI will have a high or extremely high impact on their organizations in the next three to five years<sup>1</sup>. In fact, in 2023 alone, AI moved from the minds of a few thousand data scientists into the hands of millions of people, spurred by trends like the plummeting cost of computing power and the readily available internet-based training data.

However, the path to integration isn't without its challenges. Most businesses are still unprepared for immediate adoption, with 60 percent reporting they are a year or two away from implementing their first generative AI solution. Among the obstacles, the top concerns include cost, lack of a clear business case, cybersecurity, and data privacy.

<sup>1</sup> For business executives' views on generative AI mentioned in this paper, see "KPMG U.S. survey: Executives expect generative AI to have enormous impact on business, but unprepared for immediate adoption," KPMG LLP, April 2023.

In a follow-up survey of 200 US executives in June, this sense of urgency had further solidified: 74 percent said generative AI will be the emerging technology with the biggest impact on business in the next 12-18 months.

How should executives evaluate the use of generative AI in their pricing and commercial excellence functions? Like with any new technology, it requires careful assessment of the potential and the challenges. In this paper, we discuss key issues they must consider under four hypothetical scenarios.



# 1 Recognizing the potential

Generative AI can breathe new life into established business patterns, creating breakthrough forms of value. For instance, in pricing functions, generative AI can analyze vast quantities of data to generate dynamic pricing strategies that adapt to changing market conditions, customer behaviors, and business objectives.

The KPMG survey indicated that executives see the highest potential for generative AI in driving innovation (78 percent), technology investment (74 percent), and customer success (73 percent). This broad impact underscores the transformative potential of generative AI across business functions. For instance, by analyzing customer behavior and market trends, a generative AI model could predict the optimal pricing structure to maximize revenue or customer retention.

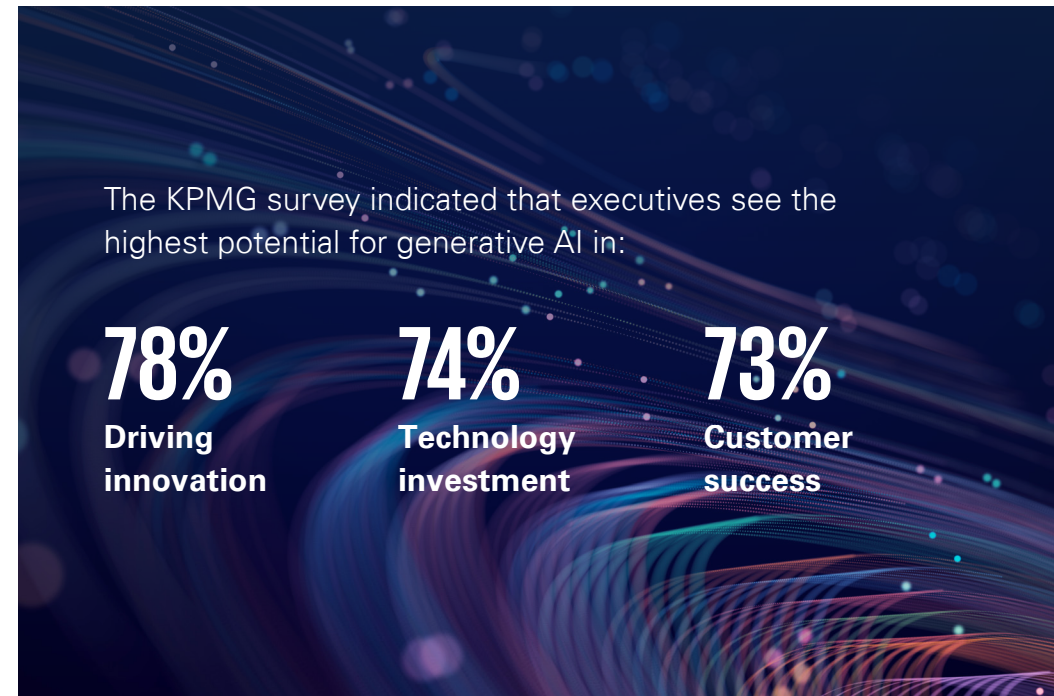
Consider a large e-commerce retailer, RetailCo A, as an illustrative case.<sup>2</sup> With an expansive inventory spanning millions of products, the company struggled to keep up with the fast-paced nature of online retail. Traditional pricing strategies proved to be too static and unresponsive to the rapidly changing market dynamics and customer behaviors.

Recognizing the potential of generative AI, RetailCo A decided to leverage its power to enhance pricing strategy. It implemented a generative AI model capable of analyzing vast amounts of data, including historical sales data, competitor pricing, real-time market trends, and customer purchasing behaviors.

The generative AI model was then tasked with creating dynamic pricing strategies that would adapt in real-time to these changing conditions. The model could consider a multitude of factors, such as seasonal trends, stock

levels, and competitor pricing, to generate optimal pricing strategies for each product in their inventory.

The result was a significant improvement in sales and profitability. Prices were now responsive and competitive, leading to increased sales volumes. Meanwhile, profitability was also optimized as the model was able to identify and exploit opportunities to increase prices without affecting demand.



<sup>2</sup> Names and profiles of companies represent anonymized and composite experiences.

## 2 Addressing the risks

Businesses must comprehend how generative AI should best be deployed to navigate its idiosyncrasies and inherent challenges these present. This involves understanding how generative AI works, evaluating internal capabilities, and investing in generative AI tools.

A key part of this is the careful management of risks associated with generative AI. In the KPMG survey, nearly half of executives agreed that generative AI could negatively impact their organization's trust if appropriate risk management tools are not implemented.

Take SalesCo B, a leading software sales firm, that embarked on the journey of integrating generative AI into its sales processes. The company started with a small-scale experiment; it integrated a generative AI tool into its lead generation process. The AI tool was trained on historical sales data and was able to generate high-quality leads based on patterns and trends that humans might miss. The initial results were promising—the AI-generated leads resulted in a higher conversion rate compared to traditional methods.

Encouraged by these results, SalesCo B decided to scale up the use of generative AI. The company recognized that for the AI to have the most significant impact, it needed to be deployed across the entire sales process—from the beginning of the acquisition funnel through to customer onboarding.

To do so, SalesCo B had to invest heavily in training their salesforce to work with the new AI tools. It also had to carefully manage the risks associated with the use of AI, as it understood that any missteps could inflict substantial damage to their reputation, given the public-facing nature of the project.



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Robust risk management strategies were implemented to ensure the responsible and consistent practical uses of AI.

Despite these challenges, SalesCo B successfully integrated generative AI into its sales processes. The results were transformative; it saw a significant increase in sales effectiveness, improved customer service, and a higher conversion rate. The company was also able to better incentivize its salesforce based on the new metrics and insights provided by the AI.

### 3 Industry-specific considerations

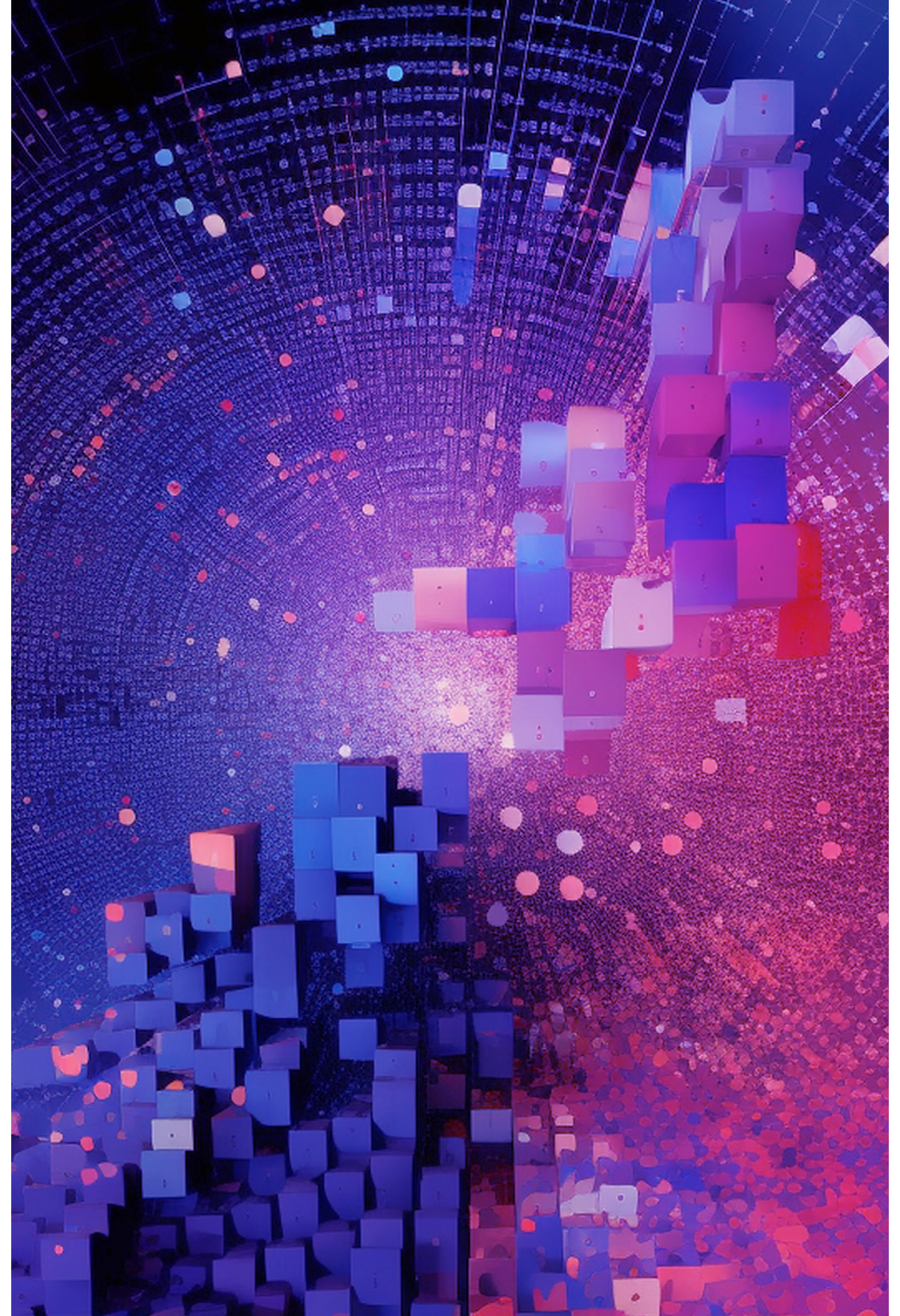
The application of generative AI needs to be attuned to industry-specific factors. For instance, 71 percent of executives in the technology, media, telecommunication (TMT) sector feel they have appropriately prioritized generative AI, in contrast to only 30 percent in consumer and retail.

Consider MediaCo C, a major player in the TMT sector. Recognizing the rapidly changing customer preferences in its industry, MediaCo C embraced the necessity of a dynamic and responsive approach. The company sought to leverage generative AI to tailor its marketing offerings, with the goal of creating a unique, personalized customer journey.

The adoption of generative AI allowed MediaCo C to delve into its customer data, extracting patterns and insights that informed its marketing strategies. The AI was used to create tailored content, deliver targeted advertising, and offer individualized product recommendations, all essentially in real time.

However, MediaCo C was well aware of the specific challenges and considerations within its industry, particularly concerning its heavy reliance on personal data. As a result, it ensured that its AI systems were developed with robust data security and privacy measures, and actually reduced the detail of specific recommendations to avoid any false impressions of unethical or intrusive business practices.

The implementation of generative AI that uses data responsibly in its marketing strategy led to a significant improvement in return on marketing investment and enhanced personalized customer engagement, driving higher customer retention rates while facilitating a more efficient allocation of marketing resources.



## 4 From experimentation to industrialization

For businesses to fully harness the potential of generative AI, they need to develop a strategy that quickly moves their organization from experimental use of the technology to industrializing it.

Take RetailCo D, a leading e-commerce platform. With an existing customer base that was ripe for upselling, RetailCo D saw the potential for generative AI in personalizing its approach to customer engagement. The company aimed to develop a clear strategy that would allow it to transition from experimental use of AI tools to fully integrated, scalable solutions.

RetailCo D utilized generative AI to analyze customer behavior patterns, purchasing histories, and preferences. This in-depth analysis allowed its in-house system to craft personalized product recommendations and

unique bundled offers without the need for oversight. In addition to product recommendations, the AI system was used to automate customer communication. Utilizing natural language processing, it was able to respond to customer inquiries, provide product information, and even resolve complaints with greater satisfaction scores than before.

The transition to industrialized use of generative AI resulted both in a substantial increase in customer engagement and an uptick in sales from existing customers. The commitment of RetailCo D's leadership to embrace generative AI as a key strategic tool in its business operations was crucial. Their willingness to invest in necessary resources, both technology and human capital, demonstrated a clear commitment to transformation.

## Conclusion

Generative AI has the potential to transform business performance. However, achieving more innovation, efficiency, and growth through its use is no simple feat. It requires a nuanced understanding of the technology, a clear vision for its application, and a meticulous approach to managing its inherent risks. The businesses that will truly stand out in the next act of the pricing and

commercial performance are those that can deploy it smartly to draft their own unique strategy for success. As a new era of AI innovation opens, businesses have the opportunity to carve their own path to unprecedented commercial excellence.

# How KPMG can help

At KPMG, we focus on the core areas of the pricing journey and help you overcome the specific challenges your organization faces in today's shifting marketplace. Our deep industry knowledge, cutting-edge methodologies, and industry-leading data and analytics capabilities can help you choose the right solution to help deliver value for your business and customers.

Our pricing perspective helps you achieve next-level capabilities by focusing on five key value drivers:

<b>1</b>	<b>Relentless focus on impact</b>	Typical pricing engagements yield 3-8 percent return on sales within 3-12 months; quick wins can drive 50-100 basis points of value.
<b>2</b>	<b>A thorough performance improvement approach:</b>	KPMG brings to bear multiple areas of specialization, so that pricing recommendations are coherent with the overall organizational strategy, market dynamics, product portfolio, and operating model.
<b>3</b>	<b>Exceptional analytical capabilities</b>	Market leading data and analytics tool arsenal that drives descriptive, predictive, and prescriptive capabilities.
<b>4</b>	<b>Tailored industry strategies</b>	Our belief is that pricing should be tailored to industry nuances. Our deep experience across Industries provides custom insights and overlays.
<b>5</b>	<b>An enablement mindset</b>	We help organizations internalize recommendations through pricing tools and technology, people and skills, decision rights, reporting, and more.

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Sudipto is a partner and leader of the Pricing and Commercial Excellence practice at KPMG. He brings over 23 years of experience working with clients across industries, including automotive, industrial goods, telecom, financial services, and consumer goods and retail. He specializes in commercial transformation, including pricing (strategy, execution, and enablement), sales growth (demand drivers, sales force effectiveness, channel management), and marketing effectiveness (ROMI, promo effectiveness).



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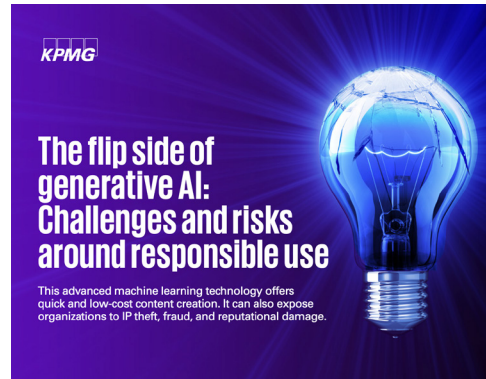
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