Pricing Optimization

Overview and Need

"The pricing optimization program has been an invaluable tool for highlighting opportunities to improve margins. Implementing the principles in a pilot location raised gross margins by over 3% in less than a year. It has been an eye-opening experience for those salespeople using the cost-plus method for determining sales price."

– Kevin Martin, Vice President of Operations, Pipeline Packaging

The issue of margin erosion will never end if distributors do not get creative with both their pricing methods and their value proposition. Issues involving pricing methods are highly critical to profitability and therefore should be addressed promptly in order to safeguard success.

For many distributors, pricing decisions are delegated to individual salespeople to allow for flexibility, but the resulting inconsistency in pricing decisions will result in greater disorganization and inefficiency. The solution to this dilemma lies in "complexity management"—providing consistency and structure with simple and easily manageable variables.

The process of pricing is multifaceted, embodying numerous variables and influenced by a variety of perspectives from management, salespeople, suppliers, marketplace and customers. It is often said that "data is the new oil" and distributors are uniquely strategically placed to capture and "tap" valuable customer and pricing data. Distributors should capitalize upon this asset and perform holistic pricing optimization to address their pricing challenges. Finding the right price for your product -that maximizes value for customers and profit for you-starts with gaining a deep understanding of the products you sell and the customers you sell them to.

Methodology

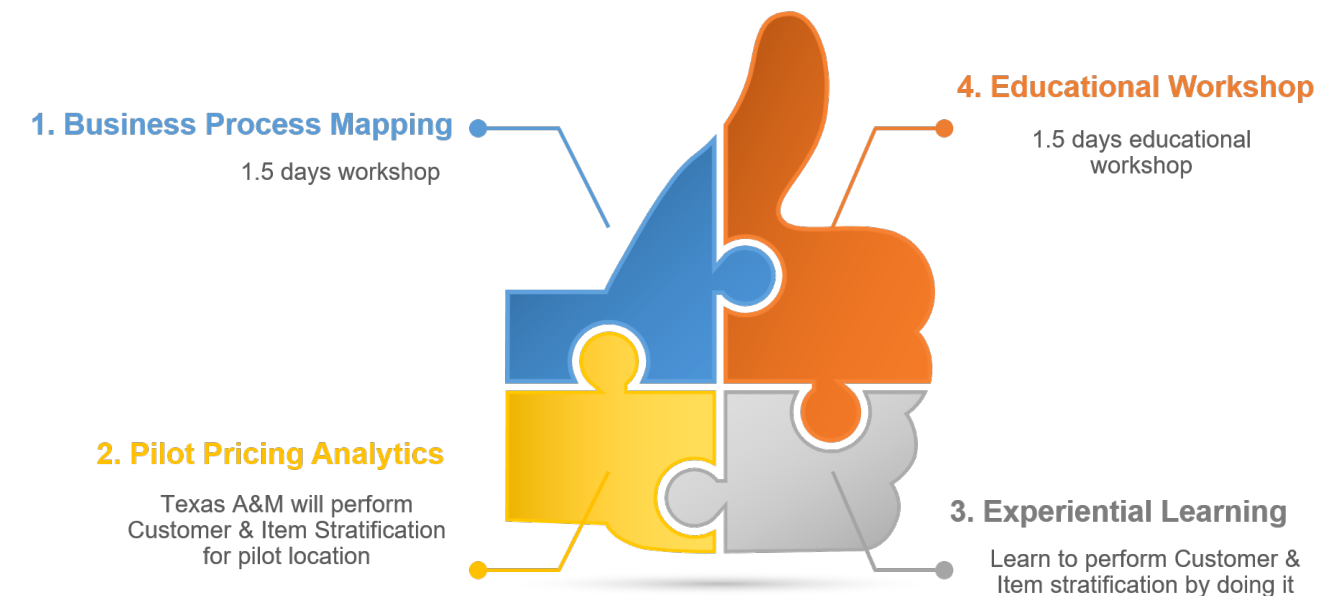The research team will execute the project in 4 phases as illustrated in Figure 1, below:

1. Business Process Mapping
1.5 days workshop

4. Educational Workshop
1.5 days educational workshop

2. Pilot Pricing Analytics
Texas A&M will perform Customer & Item Stratification for pilot location

3. Experiential Learning
Learn to perform Customer & Item stratification by doing it

Figure 1: Project Phase

Phase 1 - Business Process Mapping:

The research team will conduct a one day workshop to understand your supply chain processes and the significant elements of the pricing process. This phase also includes an assessment of your current pricing practice(s). The workshop will follow the Pricing Optimization framework developed by Thomas & Joan Read Center for Distribution Research & Education.
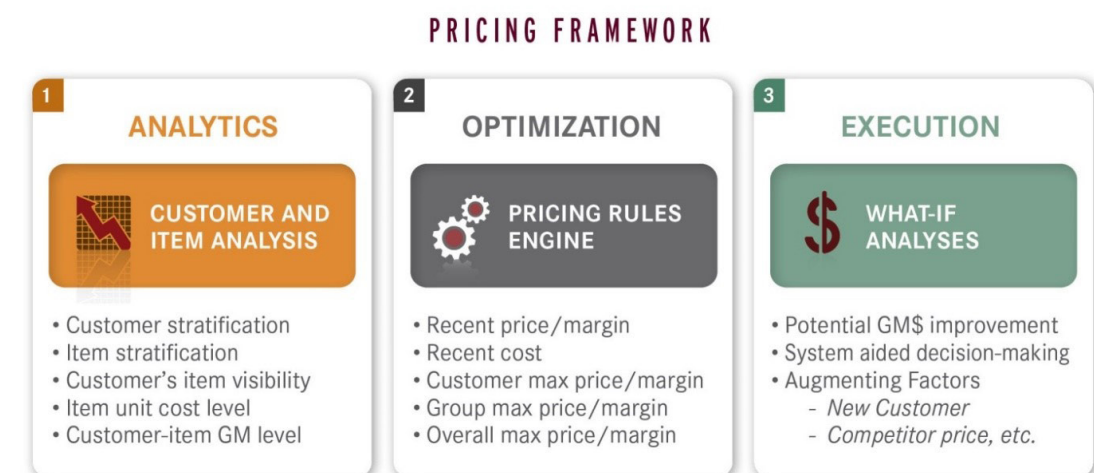
PRICING FRAMEWORK

1 ANALYTICS — CUSTOMER AND ITEM ANALYSIS	2 OPTIMIZATION — PRICING RULES ENGINE	3 EXECUTION — WHAT-IF ANALYSES

• Customer stratification
• Item stratification
• Customer's item visibility
• Item unit cost level
• Customer-item GM level
	• Recent price/margin
	• Recent cost
	• Customer max price/margin
	• Group max price/margin
	• Overall max price/margin
		• Potential GM$ improvement
		• System aided decision-making
		• Augmenting Factors
		  - *New Customer*
		  - *Competitor price, etc.*

Figure 2: Texas A&M Pricing Optimization Framework

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Phase 2 – Pilot Pricing Analytics

In this phase, Texas A&M will perform Inventory Stratification and Customer Stratification for an agreed upon pilot location using your firm's data as illustrated in the below graphic. Your company will have to extract and provide the data in the required format to be analyzed by Texas A&M. Our research team will help you identify the data they are looking for and the optimal format in which to deliver it.

- Sales Data
- Customer Data
- Inventory Snapshots
- Item Data
- Supplier Data

CASH FLOW
PROFITABILITY
GROWTH
% ASSET EFFICIENCY

Pricing Analytics

Improved
Business Strategy & Recommendation
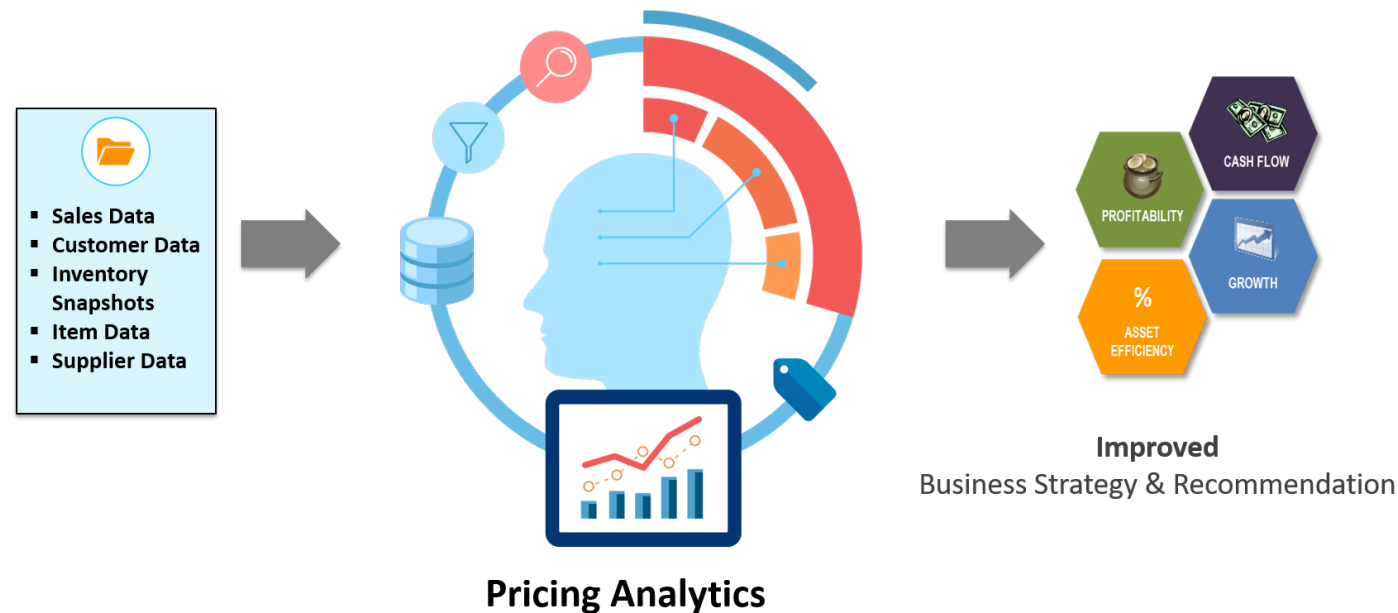
Figure 3: Pricing Analytics

After this, a pricing strategy will be developed using the results from the Inventory Stratification and Customer Stratification analyses that form the most significant element of the pricing decision. When these two primary pricing variables are dovetailed together, they can provide valuable business insights and help the company to make informed pricing decisions. The graphic to the right shows a sample pricing analytics dashboard that uses Customer Stratification and Inventory Stratification analysis to display historical price points paid by different customers for different items.
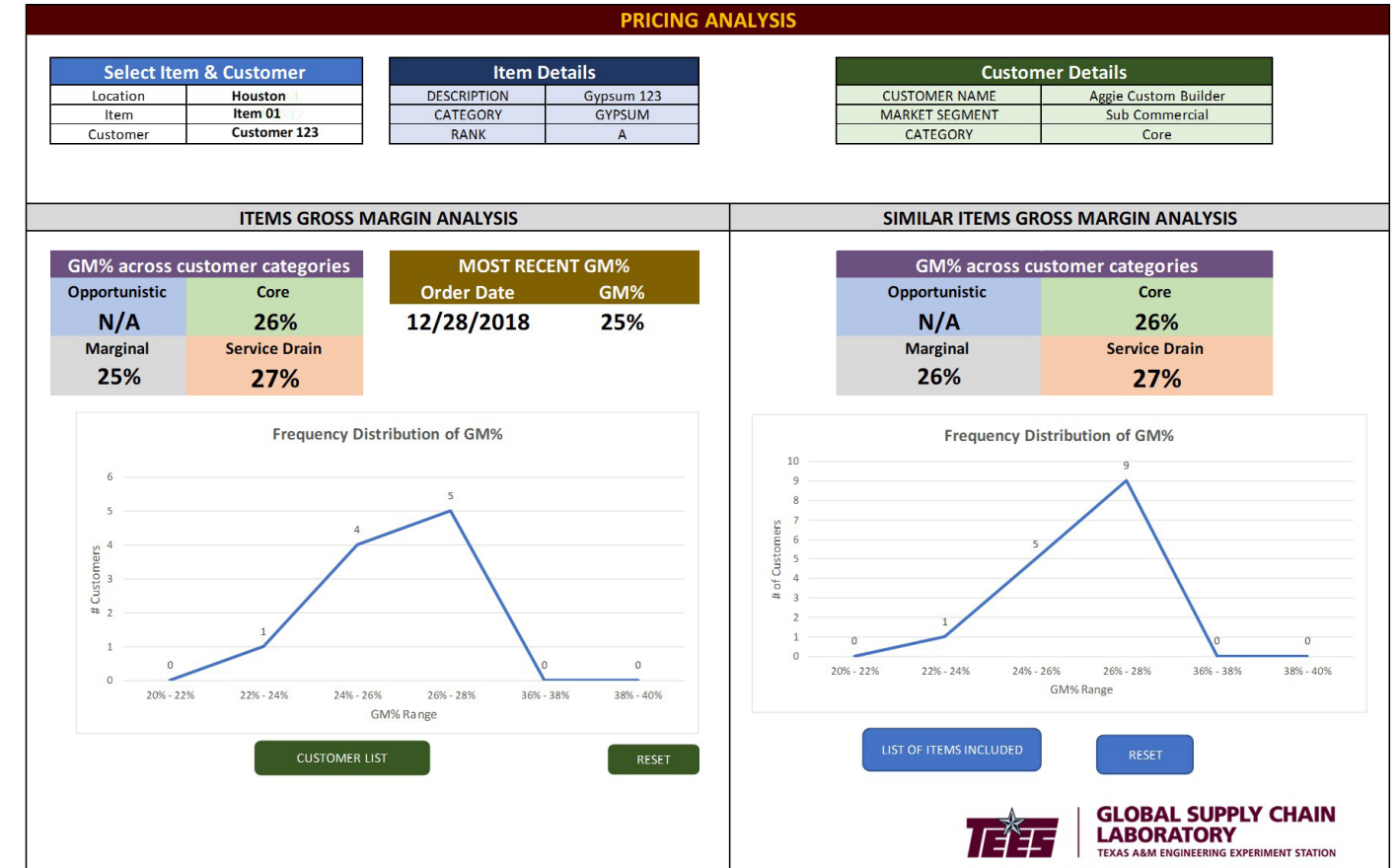

Figure 4: Pricing Analytics Dashboard

Phase 3 – Experiential Learning

In this phase, we will teach your analysts or representative members on how to perform Customer Stratification & Inventory Stratification and how the resulting data will be used in pricing analytics. As a part of this step, a detailed step-by-step procedure will be provided and hands-on activities will be carried out in a webinar/in-person setting. This will enable the participants to understand and learn the analytics process, and will help your company to replicate the analysis in other areas of business decision-making in the future.

Phase 4 – Educational Workshop

The results of the data analysis phase will be presented in a 1.5 days educational workshop to facilitate change management and develop a pricing strategy for companies. Texas A&M will demonstrate the formulation and quantification methodology to the company. This session will educate the executive team, pricing decision influencers, sales force, purchasing team and the IT team on pricing methodology using key analytics drivers.

Benefits

- Improve Margins by 300 basis points
- Identify key variables that must drive your pricing decisions
- Adopt a simple, practical, and scientific framework
- Utilize existing information in your system to increase margins
- Provide meaningful, concise information to your sales force
- Implement pricing best practices with minimal resources

Who Should Attend?	Deliverables
• Sales and Branch Managers	• Slides as a course booklet
• Customer Service Personnel	• Workbook for exercises and activity
• Pricing and Purchasing Professionals	• Pricing Optimization Book
• Executives and Strategic Managers	• Customer Stratification Book
• Business Analysts and IT Managers	• Certificate

Current Publications

All publications are published through Texas A&M University's partnership with the NAW Institute for Distribution Excellence. The following publications can be purchased here:
https://www.naw.org/naw-institute-for-distribution-excellence/#CRDBP

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WHY WORK WITH US?

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Industrial Distribution program in the world.

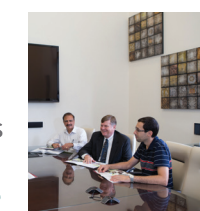Proven methods driven by cutting edge research for over **60 years**
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