

2021 B2B Distribution Pricing Survey



 WHITE CUP

Research provided by  epaCUBE

2021 B2B Distribution Pricing Survey

With the recent release of White Cup Pricing, we've added powerful pricing capabilities to the White Cup's integrated platform. As we work to provide distributors with data-driven sales strategies, we've partnered with one of the most experienced pricing specialists in the distribution industry – epaCUBE – to share these insights with you.

In 2014, Donny Novak and John Gunderson were leading the pricing team at a \$2B B2B distributor, and they designed a survey for sales facing associates (counter, inside, and outside account managers) to get direct feedback on “price.”

This initial survey established a statistical baseline that delivered key feedback to help “price” more effectively and get paid more as a business for the value they delivered.

The survey also established a baseline of responses for future surveys. Over the past seven years, thousands of B2B distributor sales-facing associates have taken this survey to help create industry-leading research on price perception in B2B distribution.

The summary results and trendlines are highlighted in the following executive summary.



Pricing Survey Overview

The survey delivers feedback for B2B distributors in 5 keys areas

Market Level

- What is the perceived market level according to your sales teams?
- How competitive are non-commodity and commodity prices vs. competitors?

Customer Responsiveness

- When a customer asks you for a price concession, how often do you lower the price?

Qualitative Feedback

- What are the most successful ways you have seen to grow margin and profits?
- Open ended comments from associates

Fair Price

- What does your sales team consider a fair price for the products they sell?
- What is your most commonly used margin level on commodity and non-commodity products?

Behavior and Management

- When you change a price, what method of price changing do you use?
- How involved is management in your pricing decisions?

Pricing Survey Methodology

Survey Overview: Thousands of sales facing B2B distribution associates have taken the anonymous pricing survey to better understand their own unique pricing culture. It generates direct feedback and allows each company to benchmark their scores against a wider distribution audience.

- The survey is anonymous to deliver quality direct feedback from sales facing associates.
- Each survey uses eight key questions to create benchmarking for quantitative and qualitative analysis. The survey is weighted towards quantitative analysis.
- The overall survey audience is approximately 70% construction distributors and 30% industrial distributors. The following report contains the combined construction and industrial results with trending where applicable.
- Distributors participating in the survey average a 95% confidence level with a 5% confidence interval.

Pricing Survey Methodology



Market Level

A key variable in market level pricing is driven by the sales associate's perception of their competitive price position vs. the competition. In the last 12 months, the survey results have shown an increase in the **Usually Higher** and **Almost Always Higher** response categories.

For non-commodities, the **Usually Higher** and **Almost Always Higher** responses have climbed +6% in the last 12 months (May 2020 – May 2021).

For commodities, the **Usually Higher** and **Almost Always Higher** responses have climbed +8% in the last 12 months (May 2020 – May 2021).

These increases in negative answers overall the last 12 months are a direct reflection and reaction to the cost increases that distributors are seeing from their suppliers. The COVID effect that curtailed face-to-face selling has also created additional price pressure.

The survey results for industrial and engineered solution-focused distributors show that market level is a key margin governor if a distributor's sales team feels they are over-priced vs. the competition. Their overall gross margin percent (GM%) will typically be less than their channel competitors.

Industrial-focused distributor sales teams with higher percentages of **Usually Higher** and **Almost Always Higher** than the pricing average will usually have lower margin percentages than the industry average.

Market level pricing perception has also proven to be a key margin ingredient for relationship-driven distributors where project business is a significant focus. An example is an outside sales-driven distributor in the construction distribution space, where relationship building has been a cultural cornerstone of their business.

Pricing Survey Methodology



Fair Price

What your associates consider is a fair price is a key margin ingredient for relationship-focused distributors. For example, if your counter associate standing in front of a customer sees a system price for an item that the associate sees as an unfair price, they will often override and lower that price to the fair price they feel is justified.

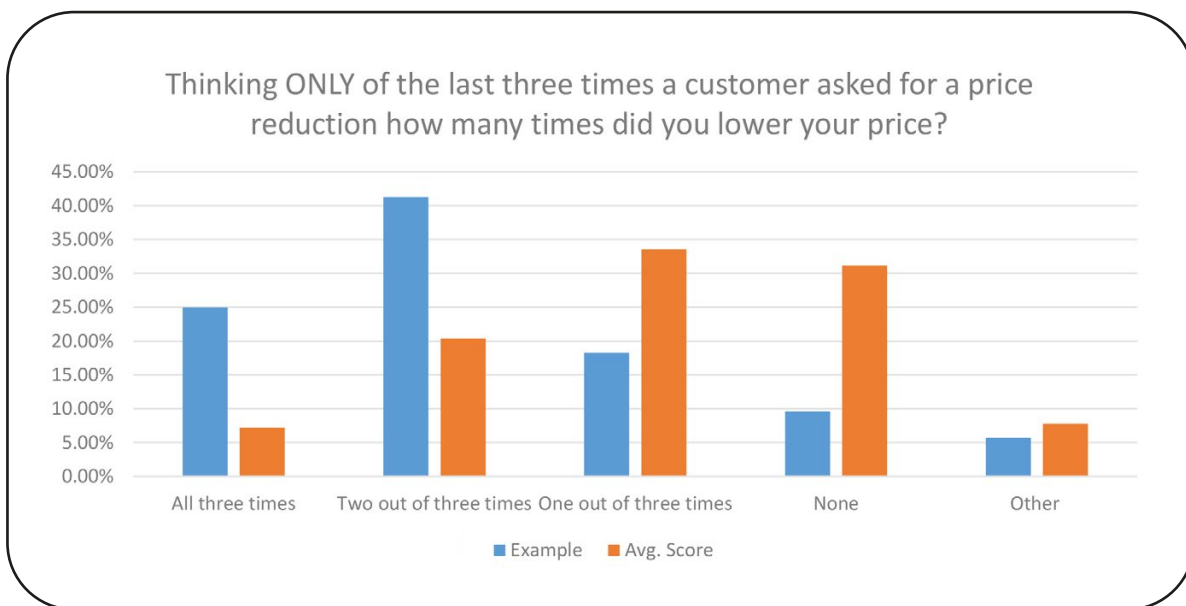
The survey results for relationship-focused distributors show that fair price is a key margin governor if a distributor's sales team feels they are unfairly pricing at the item level.

Construction-focused electrical distributor sales teams that have higher percentages of answers in the lower ranges (1-20%) will usually have overall margins less than the 18.9% industry average. For example, the average electrical distribution gross margin percent was 18.9% in 2020.

Fair price perception has also proven to be a key margin ingredient tied to experience and who places the order for the customer. For example, when an inside salesperson with 20 years of experience makes the price decision at the line level, they will often price that item at the fair price they feel it should be sold.

Fair price perception of industrial or engineered-solution distributors is an important measurement, but it is not as impactful as market level on overall margin. These distributor sales teams generally are more focused on bundling and overall solution price vs. the competition than what is a fair price.

Pricing Survey Methodology



Customer Responsiveness

This measurement has high variability and can be a double-edged sword for many distributors. For example, when your distribution business has a high focus on customer service and relationships, your sales teams will often be very responsive to a customer asking for a lower price. The positive may be strong, long-standing relationships with top customers that help drive top-line sales growth, but a potential downside may be tighter overall margins and net profitability.

Relationship-driven distributors' customer responsiveness scores (**All Three Times** and **Two out of Three Times**) are typically 40-50%.

Engineered solutions and value-based distributors' customer responsiveness scores (**One out of Three** or **None**) are typically 60- 70%.

Customer responsiveness scores are a key measurement to understand its effect on your overall gross margin percent if your sales team has high override authority for system or contract prices.

Pricing Survey Methodology



Management Involvement

This measurement has proven to be the most variable measurement for distributors who have implemented the pricing survey. Relationship-focused distributors often have higher **Never** and **I don't know** response levels than average.

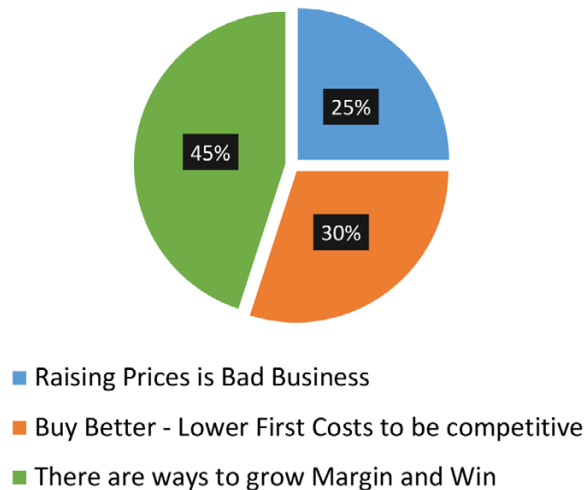
Distributor partners find that if they can lower their **Never** and **I don't know** numbers, they improve price compliance and margin percent over time.

Management involvement also proves to be a measurement that will vary by distribution location. For example, a district manager focusing on margin, with a team involved in margin oversight, will have much higher **Daily, Weekly, Monthly** scores than a district that does not provide much margin overview at the associate level.

Management involvement measurements should be viewed in context to your business strategy. For example, if you have a “hire good people and let them do their job” culture, with high over-ride authority at the order writer level, then your management involvement scores will reflect that philosophy.

Pricing Survey Methodology

What are the most successful ways you have seen to grow margins



Feedback from associates on ways to improve profitability

This open-ended comment question where the sales-facing associates provide their feedback can uncover key insights for your business. We have grouped the average responses into three categories for this report as follows:

- **Raising Prices is Bad Business:** Sell more at current margins, nothing can be done, leave me alone and let me do my job, etc.
- **Buy Better – Lower First Costs:** Our purchasing team needs to buy better, we are too high versus the competition, etc.
- **There are ways to grow Margin and Win:** Improve product mix (sell higher-margin lines or products), improve customer mix (grow medium and small accounts which have better gross margins), improve processes and training, matrix pricing, etc.

Distributors that lower their scores in the Raising Prices is Bad Business or the Buy Better responses improve price compliance and overall profitability over time.

Overview

The 2021 pricing survey saw a significant upward trend in market level price perception. We attribute the significant increase year over year in the **Usually Higher** and **Almost Always Higher** responses to the high cost increases distributors have faced and the COVID effect where face-to-face and relationship selling was severely curtailed.

The combination of price increases and decline in relationship selling has created unique pricing pressures for distribution to face in 2021.

Pricing Survey Summary

This open-ended comment question where the sales-facing associates provide their feedback can uncover key insights for your business. We have grouped the average responses into three categories for this report as follows:

- The voice of associate pricing surveys, with proper benchmarking, unlock valuable feedback and opportunities.
- Benchmarking internally without an outside measurement of price competitiveness is difficult.
- Pricing surveys create management involvement and support, as well as a feedback loop for your pricing and operational teams that can help you unlock profitable growth.

If you have questions about the 2021 B2B Distribution Pricing Survey, please contact White Cup at info@whitecupsolutions.com.

About Us

White Cup turns a distributor's sales pains into profit gains. Our CRM, Business Intelligence (BI), and Pricing software make it easier for you to sell more, keep more profit, and beat the competition. With over 20 years of experience, White Cup is trusted by more than 1,000 customers globally.

To learn more, visit whitecupsolutions.com.

Let's Talk

