

2023 Pricing Planning Guide

Are your pricing strategies governed by the path of least resistance or the application of best practices?



WHITE CUP

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In today's competitive market, pricing can make or break your business. While intelligent pricing practices have been shown to improve margins by 2 to 4 percent, many distributors don't understand what levers they can pull internally to offer the right price at the right time to the right customer. And even worse, some are heading down a "dead-end discounting" road to margin erosion.

Learn the five strategic steps you can take to adopt effective pricing strategies before your competition beats you to the punch.



1

Get real (granular) about your customer and product segmentation

Not having a strategic and granular view of customer and product segments can hurt your business. Often, product segments simply follow basic line cards without regard to profit or volume. Customer segmentation is usually based on industrial categories (e.g., electrical contractors, hospitals, cash customers, etc.) or geographies (e.g., the Dallas branch, the Pacific Northwest, etc.), or, worst of all, size (e.g., small, medium, or large). These segments fail to provide meaningful pricing guidance because they are not based on actual, profit-driving behaviors and attributes.

Two customers in the same industry might buy from you for different reasons. One could be price sensitive or purchase large quantities for a price break. While the other doesn't care about price as much as your convenient location. Just because a particular customer is small today doesn't necessarily mean there isn't the opportunity for them to increase their spending with you tomorrow; if you genuinely understand their business and price them correctly.

Similarly, with product segmentation, it's essential to look at sales data when segmenting products. Many distributors simply group products together based on how their manufacturer lists products. But there are tons more product attributes important to customers and for which they are willing to pay different prices. These include product availability, brand recognition, niche requirements, client preferences, and more.

Many distributors think segmentation is too challenging to do regularly, if at all. Some have tried segmentation and quickly found themselves overwhelmed in data in unwieldy spreadsheets—an experience so painful that they never attempted it again. Fortunately, today's intelligent pricing practices allow you to analyze, adjust and create new segments in a matter of minutes—to let you say "Adios" to weak, poorly designed, and unprofitable segments.



2

Improve decision making with data - driven pricing

Pricing decisions are made every day. However, most distributors don't know whether these decisions are profitable or how many are planned or ad hoc. Too many distributors make pricing decisions based on the whims of sales reps, rumors of competitive pricing, or customer complaints. This practice can be a race to the bottom in terms of profitability.

Just because a customer brings in a competitor's flyer, how do you know if you should match that price? Perhaps it is an outrageously low-loss leader. And maybe this customer would buy from you anyway because you have better service. Without the context, it isn't easy to make strategic pricing decisions. Pricing decisions made in a vacuum only result in low profits and too many unanswered questions.

As companies imagine the post-pandemic economy, leaders prepared to invest in pricing to counter inflation and to build solid foundations for growth may want to consider four steps carefully:

- *Building an analytical fact base*
- *Setting a value-based dynamic pricing strategy*
- *Creating conviction among the sales force*
- *Governing and carefully tracking execution and results*



Sometimes distributors make sweeping changes to their pricing records attempting to correct out-of-date pricing, only to learn they have no way of measuring the success of these pricing corrections.

With intelligent pricing practices, you can get started immediately with data-driven pricing in a matter of weeks. Built-in best practices and profit plays directly help identify simple pricing changes to drive new profit daily. In contrast, teams can be empowered by performance scorecards that provide transparent reporting on the impact and success of pricing changes.

3

Put the kibosh on pricing overrides

The dirty little secret of the distribution industry is that way too many organizations are handing the keys to the pricing kingdom to their sales reps, allowing them to override pricing on nearly every sale. There are sometimes opportunities to win deals based on price discounts, but they are rare. Statistical analysis of price discounting shows that a 1% price discount kills so much profit that you'd need to increase your sales volume by 20% to break even. By doing the math, it's easy to see why most distributors would be better off eliminating pricing overrides altogether.

The real reason reps override pricing is that they don't trust the pricing matrix in the first place because it's probably out of date and wasn't based on real data, to begin with. When your pricing matrix is suitable, pricing is more systematic and designed to drive profitability aligned with your greater corporate strategy, not on thousands of individual ad hoc pricing decisions.



By strategically and systematically implementing price changes, companies could effectively pass on input-driven cost increases (or decreases) in a value-based way while potentially creating healthier pricing practices and stronger customer relationships that will endure. McKinsey, Defying cost volatility: A strategic pricing response, Aug. 25, 2021.

4

Make pricing your core competency



Pricing is the most critical element of profitability and customer relationships—that's why you need to own it, and that's what intelligent pricing practices are all about. Forget about "outsourcing" this function to a consultant or company unfamiliar with your sector, products, or customers.

White Cup has partnered with one of the most experienced pricing specialists in the distribution industry—epaCUBE. These experts understand the particulars of the distribution industry and pricing challenges. Together with industry-leading price optimization software, distributors are empowered with training and comprehensive guidance from epaCUBE's distribution pricing experts for best-practice rollout and adoption and continuously improve and refine pricing strategies. This combined software and services package provides a "Pricing Center of Excellence" to transform sales cultures.

Does your sales team sell based on value or solely on price?

In a survey of 5,000 individuals responsible for sales at distribution companies conducted in May 2021, when asked what method was used to institute price changes, 34% said they used manual price override, while 23% said they used the last sales price paid.

5

Keep Score

If you want to improve your profitability (of course you do!)—then you absolutely must track the impact of your pricing decisions. If you don't have a way to track the effects of price changes—both individually and collectively—it may be too late to make adjustments by the time you realize you are losing profit on poor pricing decisions. Profit isn't just about raising prices or increasing volume; it's important to know the score to improve continuously.

How often have you attempted to strategically correct pricing and never know the success or results of those changes? Part of putting intelligent pricing practices in place is tracking the most important measures of your pricing success in one easy to understand view. This enables sales teams to instantly view profit increases week over week, progress in reducing pricing overrides week over week, and actual dollars added to the bottom line per week, as well as the expected benefit of deeper price analysis on total sales. While pricing managers, sales reps, and branch managers often love to drill into various levels of detail with products and customers, executives have at their fingertips a two-minute overview of pricing successes the scoreboard provides.

Do you know which customers represent the bulk of your net profits today?

Companies must treat pricing tech as a critical enabler—not the agent—of pricing transformation. Easy to overlook because tools and systems need to be embedded into the proper process and organization, accompanied by the right mindsets, behaviors, and capabilities. vMcKinsey, [Digital pricing transformations: The key to better margins](#), Jan. 15, 2021



Achieve Greater Profits in 2023 with Data-Driven Pricing Analysis

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.

Ready to get in the driver's seat of continuous profit improvement via intelligent pricing practices?

Let's Talk

