

Prioritizing Profits With Your Pricing Strategy



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Less than 20% of your customer base makes up 80% of your profits. Chasing the wrong customers can cost you dearly – in time, resource investment, and opportunity loss.

To prioritize profit in your business strategy, distributors need to revamp their pricing strategies to move away from the ad hoc “deal desk” approach to a data-driven approach based on the perceived value they bring to their customers. A customer that values your services more will pay more for those services.

Pricing has a solid trickle-down effect that goes well beyond winning the deal. A well-orchestrated pricing strategy sets the intention for your business. A choice that fixes your focus and resource investment on 20% of your customer base contributes to 80% of your profits. Eliminate unprofitable business pursuing and focus your efforts on those customers who have the promise to become more profitable.



Is Your Pricing a Losing Proposition?

Many distributors are getting destroyed due to market volatility. According to McKinsey, pricing strategies are critically important in the distribution business, where margins tend to be razor-thin.

Salespeople hungry to make deals may continually ask for price reductions. But cutting prices in a low-margin environment risks eroding margins without enough volume uplift to make up the difference. For example, for a distributor with gross margins of 18%, the volume required to break even is roughly 6% for a 1% price cut. Thus, continuously lowering prices is a race to the bottom.

Many distributors work with flawed pricing fundamentals - mainly when an average costing basis is employed. This is especially so when an ERP system references a product's one-time purchase cost rather than current pricing. This pricing model is like looking in the rear-view mirror - as it takes a long time for values to change in the ERP system.

Distributors in the janitorial sector experienced this first-hand, as products such as toilet paper experienced drastic price changes during the pandemic. Yet, it took time to process through the system (months later) after customer and vendor payments were factored in.



As a result, many distributors operating from an average costing basis are losing profitability by not raising prices quickly enough. Rather than looking back, it makes more business sense to develop pricing strategies based on each customer's willingness to pay and understand the factors they value most.

Often distributors employ a pricing manager within the sales or the executive team. Sometimes this can be like putting a fox in charge of the hen house. This is especially true if the sales culture is all about lowering the price and discounted pricing to win the deal in exchange for the possibility of future volume.

Discounting should not be a tactic that gets applied by default as a blanket percentage. Some products should have greater profitability. Similar products grouped by like characteristics should command like prices. Other factors that are important to consider are the organization's size, the importance of the product to that organization, and the importance of service. Additional factors come into play, such as what customers previously bought, will they pay the inflated prices in the future, and what other vendors are charging for that exact product.



Establishing a Pricing Center of Excellence

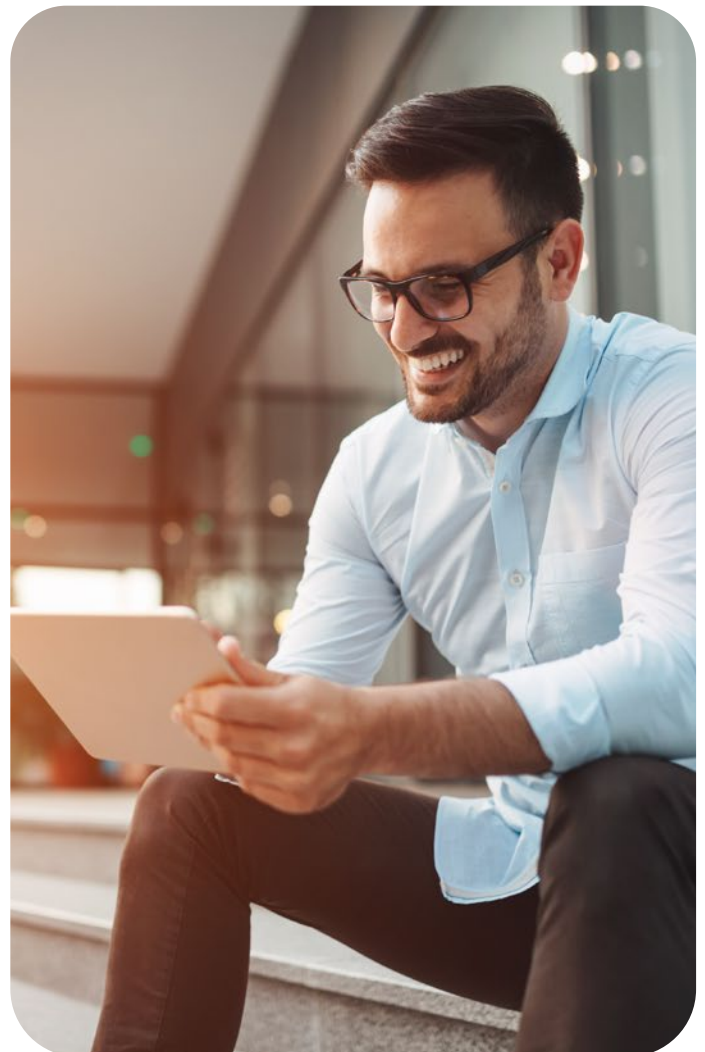
We have established that pricing is the most strategic part of your business. Next question: **What kind of resources do you have in place to support it?**

Many distributors won't move forward with putting the necessary resources in place to support a Pricing Center of Excellence because they think these projects are too much of an investment. Most have thousands of customers and don't know where to start.

Pricing is complex. Intelligent pricing strategies require pricing management technology that leverages machine learning and analytics. Machine learning eliminates the tedious and labor-intensive tasks of reviewing large datasets. Machine learning and analytics do what people don't do well – analyzing large blocks of information to understand trends and identify outliers to make predictions and introduce automation. This helps businesses save valuable resources, both time and labor.

However, it's essential to have a balanced approach that leverages advanced technology along with human intervention. This ensures you can continue to benefit from all the actual knowledge your team has from their years of industry experience and how and where they can make suggestions to adjust pricing.

The goal is not to have the technology supersede sales reps but to guide sales reps on making better, more data-driven decisions. At White Cup, we offer a pricing solution that keeps teams honest – requiring approval on the quote side, providing workflows, and “guard railing” the different levels of discounting – like endorsements, safeguards and checks, and balances with invoice approvals.



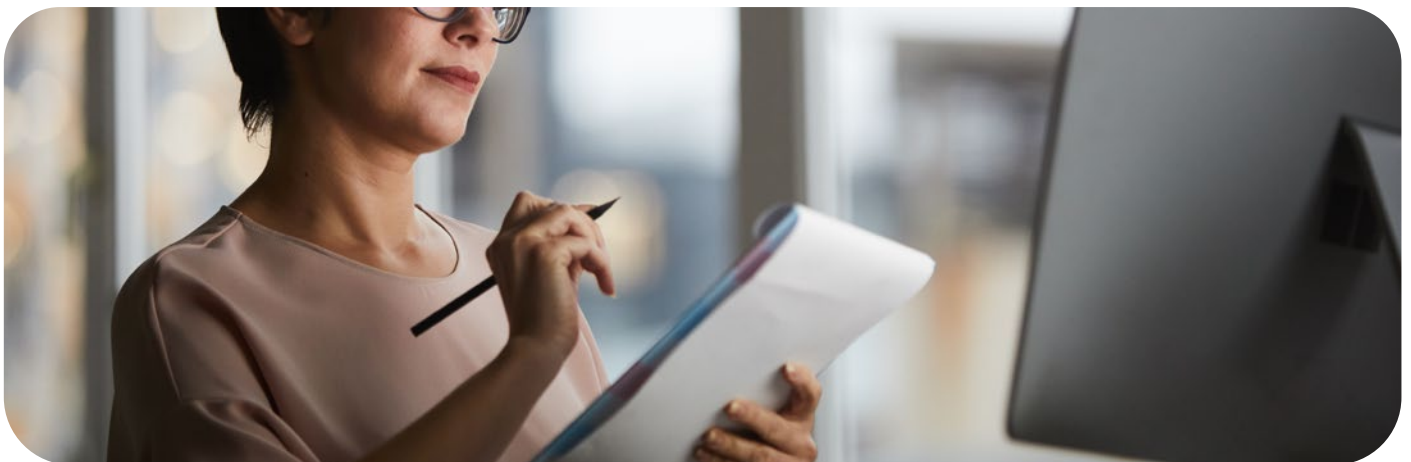
Ensure Profitability with Intelligent Pricing and BI

The best distributors use pricing strategies as the tip of the spear to guide their overall business objectives. Pricing strategies require business intelligence (BI) software that seamlessly integrates with your ERP system to distill data quickly. BI does the following:

- Uncovers more sales opportunities
- Improves customer communications
- Detects customer performance trends
- Instant insight into customer, supplier, and product performance

This, in turn, helps you continue to inform pricing strategies and guide downstream business execution.

Reviewing accounts receivable payments and historical sales data allows distributors to group customers based on how they engage with you via their sales volume, profitability, and cost to serve.



Look at your client base through the lens of profitability and revenue. Profitability on the y axis and gain on the x-axis. This information will guide you on what kind of conversation to have with customers to change their buying behavior, improving their value to your organization.

For example, for those customers that are in the bottom left quadrant of low volume, low profitability, should you be investing time in them? Furthermore, you can see where discounting is being applied with these accounts to grow the report and know that it's not working.

You can now evaluate how you allocate sales, marketing, and inventory management resources. You can stop wasting time and resources on those customers that are not worth it.

The goal is to focus your time and resources on those customers in the top right quadrant to make them happy and laser-focused on providing what they need. Those customers that fall in the remaining quadrants –profitable but not high volume represent opportunities to grow – or high-volume clients that have a very high cost to serve – express opportunities for efficiency or process improvements.

Leading with intelligent pricing practices helps you understand how your customers engage with you and engage with them, which lays the groundwork to strategically know where the company needs to go to support your best customers and acquire more of them.

This has a trickle-down effect to help guide business strategy across the following areas– what vendors do you talk to? What conferences and trade shows do you go to? What products do you stock? Where should you open a new distribution center? Are you offering the right services that your customers demand?



The distribution business has become very sophisticated; smart players manage from an operating framework and entail more than simply selling products out of a warehouse. Now, the company is strategically guided to invest time and energy into those accounts where you can make money versus those accounts that happen to employ a sales rep's best-golfing buddy.



About Us

White Cup offers a Revenue Intelligence platform consisting of Business Intelligence (BI), CRM, and Pricing solutions specifically designed for the wholesale distribution industry. Our software captures data across critical business systems, reveals industry-specific analysis, and provides the tools needed to take action for revenue improvement.

To learn more, visit whitecupsolutions.com.

Let's Talk



Get in the Data-Driven Driver's Seat with White Cup Revenue Intelligence

You face challenges never experienced in the distribution space, and your customers are too. It's a whole new world that requires unique strategies to unlock new sales opportunities and build relationships based on a deeper understanding of your customers' needs.

Ready to get in the data-driven driver's seat? 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.

