DISTRIBUTION PRICING JOURNAL

The only publication dedicated to helping distributors
increase their profit through better pricing.

VOLUME 1 | ISSUE 1 | JANUARY 2023

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Welcome

Editor's Letter

Welcome to the first issue of the Distribution Pricing Journal! It is our honor and privilege to bring you the latest news, ideas, and insights on pricing in the distribution industry. Our goal is to provide readers with a comprehensive overview of pricing trends, research, best practices, and case studies from experts across the globe. We hope that this publication can serve as an ongoing resource for distributors looking to maximize their profits through innovative pricing strategies. Thank you for joining us on this journey, we look forward to your contributions and feedback over the coming months.

Were so grateful that this past year has brought us new friends, partners, editorial board members and sponsors to help broaden innovation in the world of distribution pricing. We are thankful for your support over the course of this remarkable journey, and we look forward to providing you with more valuable content in 2023.

-- Campbell Frazier, Editor-in-chief

10 New Year's Resolutions for Pricing Managers

Happy New Year to our valued readers and sponsors of the Distribution Pricing Journal.

As we enter a new year, now is the perfect time to reflect on our successes from last year and set new goals for the coming year. We're grateful for your continued support in helping us build an industry-leading resource focused on pricing best practices within the wholesale distribution industry.

Here are 10 New Year's resolutions for distribution pricing managers:

1. Each month, work on a new area to take a more holistic view of the market and customer profiles to identify new pricing strategies that will generate more profits. Not every branch has the same demand patterns or customer types. Not every product line can generate the same margin. Different offerings have different costs-to-serve. Make it a priority this year to learn one new area in your business that affects pricing each month.

2. Identify high-value customers and develop tailored pricing models that maximize their value. There is a lot of low hanging fruit in your house accounts; however, don't forget that your high-value customers are the biggest drivers of success in your business.

3. Analyze competitor pricing strategies to ensure your prices remain competitive in the marketplace. Don't assume that a competitor knows what they are doing, but you don't want to be caught unaware of sudden promotions or shifts in the market.

4. Consider using variable pricing tactics such as time-based discounts to encourage customers to act quickly and capitalize on offers with limited availability.

5. Explore regional strategies to capture new markets and create localized pricing models that cater specifically to local needs and preferences.

6. Utilize customer segmentation analysis to create tailored prices for different customer types based on their buying behaviors or purchase histories. This can be difficult to do unless you are using distribution-specific price optimization solutions,

but with the right tools in place, customer segmentation is a big driver of new profit.

7. Invest in new technology to approach the marketplace with greater precision. Obviously, you should look at price optimization, but distribution CRM and other AI data solutions can help as well.

8. Develop loyalty programs or loyalty cards that reward repeat customers with special deals, discounts or other incentives while encouraging ongoing engagement even if they don't make frequent purchases. Frequency is an important element of profitability as it raises profitability per order, lowers your cost of sales and increases your inventory turn rate.

9. Monitor data from customer surveys, reviews and feedback mechanisms regularly to stay up to date with changes in the marketplace and adjust pricing where appropriate accordingly.

10. Stay in the loop with your stakeholders. Utilize analytics tools to assess the success of your current pricing models and identify areas for improvement in terms of profitability or customer satisfaction levels. Over-communicate your pricing vision. Poor communication and lack of vision was one of the main reasons given by our readers when we asked them, "why did you fire your pricing manager?"

This year, let's resolve to continue exploring innovative strategies for setting profitable prices for customers, create tailored pricing models that offer maximum value for consumers and leverage data insights to gain a better understanding of customer buying behaviors. Together we can work towards enhancing profitability in wholesale distribution through improved pricing tactics.

The Four Most Basic Factors in Distribution Pricing

Distribution pricing is determined by a variety of factors, but some are more important than others. While many companies may choose to focus exclusively on cost plus margin, others will take other factors into account. The following are four of the most basic factors that affect distribution pricing.

Your distribution pricing strategy should consider the following factors:

1. The type of product or service being offered
2. The target market for the product or service
3. The competition in the market
4. The costs associated with distributing the product or service

Product and Service Level Pricing

Product pricing is generally determined by the type of product or service being offered. Brand names and important commodities often dictate a higher price point, while more generic products are priced lower. Product lines also play a role in how products are priced; for example, a vendor known for industry leading engineering can command higher prices for their tools and equipment that a more budget-friendly manufacturer.

When it comes to value added services, pricing is often determined by the scope of the project, or the amount of time required. For example, a one-time consultation will be priced differently than an on-going service, OEM programs, vendor managed inventory agreements, job shipping, specialized kitting or supply level guarantees.

How Markets and Segmentation Affect Pricing

When pricing items, it's important to consider the market that is being served and the customer segments that are present. Different customer segments are willing to pay different prices for the same items, so it's important to tailor your prices accordingly.

Additionally, geographic location can play a role in pricing; certain areas may be willing to pay more for an item than others. Finally, demand and urgency can also affect pricing; if an item is in high demand or needed urgently, you may be able to charge a higher price.

By taking all these factors into account, you can ensure that you are providing the best possible prices for your products or services.

Competitive Pricing

Competition in the market affects pricing in a few ways. First, when there is more competition, companies are forced to lower their prices to stay competitive. This can be good news for consumers, who can get the same items at a lower price. However, it can also be bad news for companies, which may end up losing money if they don't raise their prices back up to a level that covers their costs. Additionally, when there is competition, companies may feel pressured to offer discounts or other promotions to attract customers. This can lead to lower profits for companies and reduced prices for consumers.

Pricing Can Be Influenced by Associated Costs

There are many costs associated with distributing a product or providing a value-added service. These costs can affect the pricing of the product or service.

One cost associated with distribution is replacement cost. If a product has become expensive to replace due to a shortage or increase in demand, you should adjust your pricing accordingly regardless of what it cost to originally purchase that item. If a product is defective or needs to be replaced, the company may need to reimburse the customer. This can increase the cost of doing business and may be reflected in the price of the product.

Another cost associated with distribution is cost to serve. This includes the cost of labor, materials, and other expenses necessary to provide the product or service. If these costs increase, the company may need to raise prices to maintain profitability.

Finally, transportation, storage and shipping costs can also affect pricing. If the cost of shipping increases, the company may need to raise prices to cover these additional expenses.

Pricing strategies can vary from business to business, but it's important to consider these four most basic factors before determining a final price point. After all, the goal is to generate revenue while still providing value to the customer.

How to Communicate Price Changes to Customers

In distribution pricing, it's not uncommon for prices to change. Whether it's a price increase or decrease, customers need to be made aware of the changes. The best way to do this is through clear and concise communication.

There are a few things to keep in mind when communicating price changes to customers:

1. Be transparent about price changes

Customers appreciate honesty and transparency. When communicating price changes, be upfront about why the prices are changing. it is important to be open and honest about the causes of the price change. This could be a change in the economy, your vendor sets a new price level, a supply chain disruption or even that you had underpriced the items in error. This means being upfront about why the prices are changing and using simple language that everyone can understand. It is also important to be considerate, and to remember that customers may not be happy about the change. However, by communicating honestly and clearly, you can help ensure that everyone understands what is happening.

2. Be clear about price changes

Customers should be able to understand the new pricing structure easily. Use simple language and avoid technical terms. When communicating price changes, it's important to avoid using jargon. Jargon can be confusing and intimidating for customers and can make it difficult for them to understand the new pricing structure.

For example, don't use technical terms if the price of copper has increased and causes a ripple effect through your vendors. Don't say something like, "emerging markets are demanding more copper for their infrastructure and a miner strike is causing disruption," unless you think your customer can follow that conversation and you're willing to engage them. You might cause a lot more headache, questions and confusion. Instead, say something simple like, "the price of copper pipes is increasing around the world, and we have to increase our prices, too."

Use simple language that everyone can understand. Be clear about why the prices are changing and explain the new pricing structure in a way that is easy to follow.

3. Be considerate with your customers when communicating price increases

Increasing prices is disruptive to your customers' businesses too. Consider your customers' budgets and don't make drastic changes that could price them out of your products or services.

When communicating price changes, it's important to be considerate and empathetic. Understand that customers may be upset or confused by the changes and be prepared to address their concerns. Try to anticipate the impact on their business and see it from their point of view.

Be patient and understanding when responding to questions or comments from customers. Listen to their concerns and try to find a solution that works for everyone. price changes can be difficult, but with clear communication and empathy, we can make the transition smoother for everyone involved.

4. Be timely when communicating price changes, up or down

Communicate price changes in a timely manner so that customers can adjust their budgets accordingly. This is more than being polite. It's important to communicate price changes in a timely manner because it helps customers plan. If they know that prices are going to be increasing, they can adjust their projects and jobs in advance. If they know that prices are decreasing, they can take advantage of the change to be more competitive. Either way, timely communication helps customers make the most informed decisions possible. This gets ahead of potential issues and drive customer loyalty by demonstrating that you are a proactive partner in their business.

Communicate price changes in a timely manner so that customers can adjust their budgets accordingly.

5. Be flexible and willing to negotiate when changing prices

When communicating price changes to customers, it is important to be flexible and willing to negotiate. Offer options and be open to negotiation to meet the needs of both parties. Customers may have questions or concerns about the changes, and it is important to be open to answering them. It is also important to be willing to work with customers to find a solution that works for everyone.

One technique we've seen is when a vendor announces across the board pricing changes but only increases pricing on certain items. You could communicate that you are not increasing on the whole line as was publicized but are trying to work with your customers during the increase. If you're ahead of the increase – say you know the increase is happening in six months – communicate that you will be changing pricing in three months and that gives you three extra months to negotiate with.

Sometimes, negotiations may result in a compromise where both the customer and business benefit. In other cases, the customer may choose to shop elsewhere if they cannot come to an agreement with the business. However, being flexible and willing to negotiate can help avoid any animosity between the customer and business and ultimately help maintain a positive relationship.

With these tips in mind, you can communicate price changes to your customers in a way that is both respectful and beneficial to your business.

Ways to communicate price changes with customers:

1. Send automated emails
2. Use social media
3. Provide customer support through chatbots
4. Use surveys to collect feedback
5. Hold webinars and events
6. Conduct phone consultations
7. Invite important customers to lunch
8. Host counter days with vendors
9. Add into your email newsletters and blogs
10. Create a system of text alerts


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CRM is Critical for Price Execution

Price is one of the most important factors that your customers consider when making purchasing decisions. It can be the deciding factor between two distribution companies and can be the final factor in whether a customer will choose to buy from you over a competitor.

To price your products effectively, you need to have a good understanding of what your customers are willing to pay. This is where price optimization solutions come into play. But once you have optimized your pricing, you also need to be able to quickly adapt your prices and customer interactions in response to these changes. This can be difficult without the right tools and processes in place.

A CRM system can help you execute your price changes by providing interaction tools, analytics and insights into customer behavior. It can also help you track contract renewals and manage customer activities. Having this information at your fingertips will allow you to make quick, informed decisions about price execution that will benefit your business.

What is a CRM system?

A CRM, or customer relationship management, system is a software application that helps businesses manage their customer interactions and data. It can provide a centralized location for customer information, help track customer interactions and communications, and automate certain tasks related to customer management.

Why is a CRM System Critical to Price Execution?

What do you do once you have optimized your pricing? You must work with your customers to get your new strategies in place. Many distributors overlook this critical last mile in their pricing strategy. A CRM system helps you:

- Communicate with customers
- Run campaigns based around special pricing
- Create call activities for reps
- Manage and track contract renewal processes
- Apply advanced analytics

Communicate With Customers

You can get price information out to customers quickly and easily using a CRM system. With its ability to store customer information, you can quickly access their details and contact them to inform them of new price points or specials. This ensures that customers remain informed about products or services that could benefit them, helping to build relationships with existing customers and attract new ones. Additionally, the organized data within a CRM system makes it much easier to monitor customer engagement and understand customer behavior. This information can be used to refine marketing strategies or develop more customized campaigns that better target individual customers. Ultimately, a CRM system helps you stay connected with your customers and make sure they're always in the loop about new offers and products.

Run Campaigns Based Around Special Pricing

A good CRM system makes it very easy to create, run and track specialized campaigns around pricing, discounts, offers, and updates to drive business growth. Leverage your CRM system to quickly design and implement effective marketing campaigns that can target specific audiences with the right message at the right time.

By using these campaigns, you can ensure that customers are regularly informed of any special pricing or offers, helping them make decisions more quickly when it comes to purchasing. Your CRM system can also help you track the success of these campaigns, providing insights into which messages resonated with customers, helping you refine your approach in the future.

Overall, a good CRM system gives you powerful tools for running specialized campaigns that can help drive customer engagement and ultimately increase sales.

Create Call Activities for Reps

When you update pricing, running a call campaign is very important to provide customers with important updates on availability, pricing and more. Introduce your customer service reps to the process of communicating with these customers in a friendly and informative manner. Making sure that price changes are communicated effectively to customers is essential for any business as it ensures they can adjust their purchasing decisions accordingly.

It's also an opportunity for distribution sales reps to better understand the needs of their customers. Through personal call activities, reps can find out more about why customers make certain decisions and how they can help them in the future. This increased level of understanding is invaluable for increasing customer satisfaction and overall sales figures. You may discover new upsells or complimentary products to offer. You may learn about new jobs they are working that you wouldn't have heard of if you hadn't made a regular call. A CRM system make all this easy to manage.

In addition, by having a personal touch when communicating price updates with customers, any potential issues that arise can be quickly addressed and resolved. This helps to maintain a strong relationship between the business and its customers, leading to increased customer loyalty and higher sales.

Manage And Track Contract Renewal Processes

Many distributors use special pricing contracts to win important accounts. When these pricing contracts expire, they can be a drain on your profit. Sales reps need to call to update contracts to make sure your pricing is accurate and keep that customer loyal to your business.

It's important to manage and track pricing contract renewals to ensure that your prices are accurate and that you are continuing to offer the best deal to your customers. This also allows you to keep track of any deals that may have expired or been cancelled, so you can adjust your prices as necessary.

Leading CRM Systems Offer Advanced Analytics

It is important for distributors to implement distribution-specific CRM systems. Distribution CRM systems allow you to apply advanced analytics beyond price optimization such as frequency analysis, support interactions and more. This means you can gain insight into customer behavior and preferences to create more targeted, effective marketing campaigns that drive sales. With the right data, you can also identify opportunities to increase operational efficiency, optimize pricing for maximum profitability, and reduce customer churn.

Using advanced analytics with a distribution-specific CRM system allows you to better understand your customer's needs, motivations, and behaviors. This information can be used to personalize marketing initiatives and create more effective strategies that are tailored to meet their specific wants and needs. Additionally, you can use analytics to identify customer segments with high potential for growth or identify product lines that need additional resources or attention.

The right CRM system also allows you to track customer support interactions and take advantage of cross-functional analyses across different aspects of your business. This helps you identify areas for improvement, such as product development or customer service. With the right advanced analytics tools and insights, you can increase customer loyalty and maximize sales opportunities.

By leveraging the power of advanced analytics with a distribution-specific CRM system, you can improve efficiency, maximize profitability and create better experiences for your customers. Investing in the right analytics tools will help you gain insights into customer behavior and preferences that will help you become a more successful business. With the right data-driven decisions, you can take advantage of opportunities to grow your business and improve

This article was written by editorial board member Joe Raventos.

Joe Raventos is President of Sales Management Plus (SMP). SMP provides distribution-specific CRM, BI and proactive marketing integrated to your ERP system to help you grow your top-line. Proactively manage your sales process, execute integrated marketing, deliver self-serve dashboards and close more sales. Joe serves on our editorial board for topics related to sales execution and analytics.

ERP Price: Where Did it Come From?

Have you ever wondered how your ERP system comes up with the price for an item? It's a complicated process based on a complex set of rules established inside the distribution ERP system. But it is also one of the most important elements of distribution pricing.

Every ERP is different. So, every system comes up with their own ERP price matrix or rule sets. Every ERP price retrieval is based on these rules so they can vary from system to system. This post will outline the general concepts that most distribution ERP systems follow. It is important to consult the documentation for your specific ERP price setup for more details on how your system handles pricing.

1. Are the any special ERP price contracts?

Usually, the first place your system looks to deliver the ERP price to your sales rep is among the database of special contracts. A special pricing contract is given to a customer based on a unique set of circumstances and often in conjunction with vendor involvement. The most common reason to offer a pricing contract is to win a large or strategic customer.

A pricing contract locks in a pricing level or discount that is specific to a combination of a customer and a product or product line. Usually, the contract is set for a year and requires renewal at the end of each period. For example, you offer a particular customer a discount level on any item they purchase in a given product line until the end of the year. Assumably, this special pricing contract is a better deal than they would get from the regular price matrix. That is why this is the first place your system looks for pricing.

2. What does the ERP price matrix say?

For the lion share of your customers, you will set up a pricing matrix. The ERP price matrix calculates pricing based on a particular set of categories. At its most basic level, an ERP price matrix looks at what group your customer is in and what group the product they are purchasing is in. That intersection has a specific price or discount assigned. For example, you might have a category of customers that are frequent purchasers and regardless of the product they purchase they get an extra 4% off. Or you have a group of customers that was targeted from special pricing by a large vendor, so any customers that interest with that vendor's product lines get a little bit better pricing than a walk-in customer.

Of course, your ERP price matrix can get a lot more complicated than those simple examples. It can include shipping, transportation options, purchase or replacement cost and more. Every distribution ERP price matrix handles these things a little bit differently, but the main idea is to give the customer the best possible price based on the type of customer they are and the product they are purchasing.

3. What is the ERP price by default?

Not every customer belongs to a specific customer group. Some are walk-in customers. Some just order online without logging into a specific account. These customers get a default ERP price, usually based on some sort of cost-plus analysis by your purchasing agent.

4. Do you allow sale reps to override the price?

Do you allow your sales reps and counter reps to override price anytime they want to? You probably shouldn't do this because it is one of the biggest sources of lost profit and can be difficult to track down if you don't have a pricing analytics system. But the override does just that, it overrides all the above logic and accepts whatever you allow your rep to enter the system.

For the lion share of your customers, you will set up a pricing matrix. The ERP price matrix calculates pricing based on a particular set of categories.

Who is In Charge of Pricing in Your Distribution Company?

Who is in charge of pricing? Pricing is important to distribution companies because it determines profitability. If a company sets its prices too high, it will not be as profitable as if it set its prices lower. In addition, distribution pricing influences customer satisfaction. If a company charges too much for its products, customers may be less satisfied with the purchase. Finally, pricing can influence other aspects of a business. For example, if a company charges too much for its products, it may not be able to sell as many products and may have to reduce its workforce. Or purchasing agents may become frustrated when they see discounts cutting into the hard work, they put into driving profits.

Price points can make or break a business

There are a few reasons why price points can make or break a business. The most important reason is that it greatly affects profitability. If a business sets its prices too high, customers will be unwilling to purchase its products or services, and the business will lose money. On the other hand, if a business sets its prices too low, it may not be able to cover its costs and will eventually go out of business.

Another reason why price points can make or break a business is because it influences customer relationships. If customers feel that a business is too expensive, they will be less likely to do business with that company again. Conversely, if customers feel that a business is offering good value for their money, they are likely to return in the future.

Ultimately, it is essential for businesses to find the right balance between price and profitability so that they can continue to operate successfully.

Reasons why the CEO often oversees pricing

There are a few reasons why the CEO should oversee pricing. The most important reason is that the CEO has a wide view of the entire business and can make decisions that affect all parts of the company. For example, the CEO may decide to raise or lower prices to improve profitability or compete with other businesses.

The CEO may also have a long history with the markets, locations and customers of the business. This knowledge can be invaluable when it comes to setting prices. Additionally, the CEO has the largest motivator to drive overall success and will see pricing through that lens.

Ultimately, it is essential for businesses to find the right balance between price and profitability so that they can continue to operate successfully. The CEO is in the best position to make decisions that will achieve this balance.

Reasons why the CFO often oversees pricing

There are a few reasons why the CFO should oversee pricing. The most important reason is that the CFO is focused on financial well-being, profitability and cash flow. The CFO can make decisions about pricing that will improve profitability and help the company achieve its financial goals.

Another reason why CFO should oversee pricing is because the CFO doesn't have internal departmental conflicts. For example, sales leaders may conflict with purchasing agents over driving sales vs. profit with pricing. By having the CFO in charge of pricing, these conflicts can be minimized or eliminated altogether.

Reasons why sales leaders often oversee pricing

Sales leaders are the closest to the customers' buying motivations and needs that influence perception of value. They understand what customers are looking for and what they are willing to pay. This understanding gives sales leaders a unique insight into pricing and can help them set prices that reflect the true value of the product or service.

Sales leaders know more about market competition and how it impacts pricing. To be successful, they must stay ahead of the competition and one way to do that is by being knowledgeable about what other businesses are charging for similar products or services. Sales leaders can use this information to set their own prices in a way that is both fair to the customer and profitable for the business.

Closing rates can be dramatically affected by incorrect pricing so sales leaders are very interested in getting the price right. It's important to have someone who is passionate about getting the price correct in charge of pricing, and who better than the sales leader? This individual understands all the factors that go into setting a price and knows how important it is to get it right.

Who is in charge of pricing? Everyone.

In the end, who is in charge of pricing? One of the reasons pricing is a complex process is that it can have a significant impact on a company's bottom line. If prices are too high, customers may go elsewhere, resulting in lower sales and profits. If prices are too low, the company may not be able to cover its costs, leading to losses.

Price optimization software and consulting can help everyone make the right pricing decisions because they provide objective data that can be used to guide pricing discussions.

Another reason pricing is complex is that it can be influenced by a variety of factors. For example, what type of product is being priced? How much competition does the product have? What is the economic environment? All these factors need to be considered when setting prices.

Finally, pricing is complex because it involves making trade-offs. A company may need to choose between pricing its products competitively to gain market share or pricing them higher to maximize profits. There is no one right answer – it depends on the specific circumstances and goals of the company.

To make sound decisions about pricing, it's important for a company to involve all members of its team. This includes people with knowledge about the products, the target market, and the competitive landscape. By working together, companies can develop a well-informed pricing strategy that meets both their short-term and long-term goals.

The right tools and consulting help everyone make the right pricing decisions

The right tools and consulting can help everyone make the right pricing decisions because they provide objective data that can be used to guide pricing discussions. Price optimization can help give you the right guidelines for profitable pricing and establish your ERP price matrix, while pricing analytics can help your team have data-driven discussions about pricing. With the right tools and consulting, everyone involved in pricing decisions can make informed and confident choices that will lead to better profits for your business.

What is Cost-Based or Cost-Plus Pricing?

A cost-based or cost-plus pricing strategy is when a distributor sets their ERP price based on the cost of the good or service plus a margin. This type of pricing can be used to ensure that the business is making a profit on each sale, while also keeping the prices low enough that their customers will still be interested in purchasing them. It can also be helpful for distributors who are unsure of what their competitors are charging, as they can use their own costs as a baseline and add on an appropriate margin.

Why Do Distributors Use Cost-Based or Cost-Plus Pricing?

When it comes to distribution pricing, cost-based pricing is one of the most popular methods around. This is because it is easy to calculate, objective, and brings predictable margins. It also doesn't require too much effort to put in place, making it a very attractive option for businesses.

In addition, cost-based pricing is readily justifiable to customers as it's a very straightforward way of approaching price. If a product costs x to purchase, then the producer must charge x plus a margin to secure a profit. This is a simple concept that most people can understand, making it a more appealing option than some of the more complex pricing strategies out there.

Overall, cost-based pricing is a reliable and straightforward way to set prices. It brings predictability and consistency to margins, while also being easy for customers to understand. This makes it an ideal strategy for many distributors.

The Downsides of Cost-Based or Cost-Plus Pricing

There are several downsides to using cost-based pricing, especially for the employee who oversees pricing. The most glaring of which is that it is inward-focused — only taking into consideration internal cost concerns and not considering external factors such as a customer's willingness to pay a premium.

For example, you may have a source of inexpensive but reliable replacement parts for sophisticated factory machinery. Your customer places a high value on you having the right parts in stock for them when their plant is down. The cost to them will never be anywhere near the value of keeping their factory up and running. You could charge a premium for those parts well above a cost-plus pricing strategy. As such, using a cost-based pricing strategy in this instance would lead to lost revenue. You would be leaving a lot of profit on the table.

Another drawback of cost-based pricing is that it can be inflexible. For example, if production costs increase, the price of the good or service may not be able to be raised due to competition or other market factors. This can lead to lower profits or even losses for the business. Additionally, cost-based pricing can be difficult to scale up or down in response to changes in demand, which can lead to excess inventory or shortages.

Cost-Based or Cost-Plus Pricing is Inaccurate

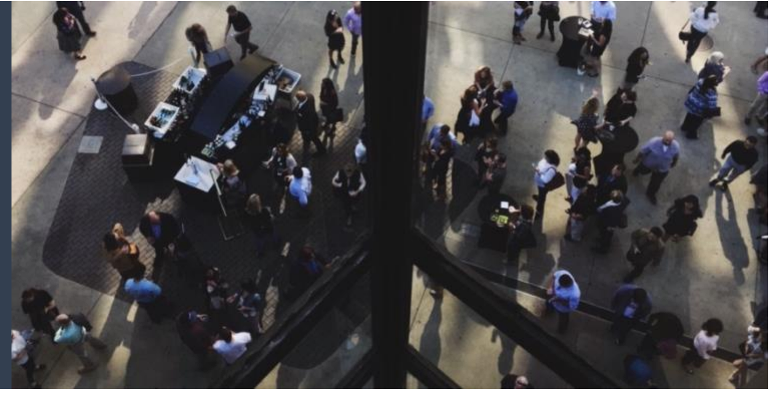
As we discussed above, most distributors use some form of cost-based pricing in their business believing that this price will cover the cost of purchasing and selling the good or service, as well as generate a profit.

While this may be a sound strategy in theory, there are several factors that can make it difficult to accurately calculate costs. For one, input costs can change over time, making it difficult to estimate future expenses. Additionally, different branches and locations may have different fixed costs, which can be difficult to attribute to specific products or services. And finally, even if costs are correctly estimated, there is always the chance that they will be inaccurate, resulting in lower profits than expected or lost customers altogether.

Input costs can change over time, making it difficult to estimate future expenses.

In short, while cost-based pricing is often a reliable way to set prices, it is not without its drawbacks. Distributors need to be aware of these challenges and take them into account when setting prices. By doing so, they can ensure that their prices are both fair and profitable. This is why price optimization solutions have become so critical in running your distribution system as they give you other options to evaluate market-level pricing and pricing based on customer and product segmentation.

What is Market-Based Pricing?



A market-based pricing strategy is a pricing strategy that sets the price of a product or service based on its competitive market position and product market fit. This means that the price is set to be in line with or near the competition. It is an alternative to cost-based cost-plus pricing. Market-based pricing is often used for commodities, as the ERP price is set by what the market is willing to pay. This type of pricing strategy is beneficial for businesses as it allows them to stay competitive in the market and can help increase sales.

However, this type of pricing strategy also has its drawbacks. Market-based pricing relies heavily on the demand and competition within the market, which can be unpredictable. Companies must monitor their competitors carefully and adjust prices accordingly to remain competitive. There is also a risk of setting the price too low and not making enough profit or setting the price too high and discouraging customers from buying.

Overall, market-based pricing can be an effective strategy if used correctly. Companies must constantly monitor the competition and adjust prices accordingly to remain competitive and maximize profits.

Market Based Pricing Is Common in Commodity Markets

In commodity markets, price is often determined by the law of supply and demand. When demand for a good or service is high and the supply is low, the price of the good or service goes up. This happens because companies can charge more for a good or service that is in high demand. The opposite is also true. When the demand for a good or service is low and the supply is high, the price of the good or service goes down. This happens because companies can charge less for a good or service that is in low demand.

Market-based pricing takes this into account by looking at the market conditions to set prices. This means that the price of a good or service will be based on how much people are willing to pay for it and how much it costs to produce it. By looking at the market, companies can make sure that they are charging what people are willing to pay and not just what it costs them to produce the good or service.

Do You Have a Cost Advantage?

Market based pricing can work well if you have a cost advantage in your market. This is because you can offer prices at a market discount compared to other retailers, which will attract customers and help you to increase sales. Additionally, by having a cost advantage, you are likely to be more profitable than your competitors, which will allow you to grow and expand your business. As an example, Amazon has been able to successfully use market-based pricing due to its cost advantage in the retail industry. By having a cost advantage, it can offer prices at a discount and remain profitable, which has allowed it to become one of the largest online retailers in the world and come to threaten traditional distributors.

When used correctly, market-based pricing can be a powerful tool to help businesses that have a cost advantage in the market because it allows them to attract more customers and increase their profits. As Amazon has shown, by having a cost advantage and using market-based pricing correctly, you can become successful in the markets you serve.

The key is to use this type of pricing strategy correctly and ensure that you are always offering prices that are in line with your competition. This way, you can remain competitive and make sure that you are still profitable while providing customers with the best possible value. Additionally, it is important to monitor the market so that you can adjust your pricing as needed. By doing this, you can ensure that your business remains successful in an ever-changing market.

Is It Profitable?

There are a few reasons why market-based pricing may not be the most profitable approach. First, this pricing method does not consider the buyer's willingness to pay, meaning that money may be left on the table. Additionally, market-based pricing can be unstable and difficult to predict, which can make it difficult to manage and plan for long-term success. Finally, this pricing strategy often relies on external factors such as market conditions and competition, which means that it is not always under the business's control. As a result, market-based pricing may not be the most profitable approach for all businesses.

Market-based pricing can be a powerful tool when you have a cost advantage in the market. You should try to ensure that you are always offering prices that are in line with your competition. Additionally, it is important to monitor the market so that you can adjust your pricing as needed. By doing this, you can know that your business remains successful in an ever-changing market.

Can Your Distribution Company Command Premium Pricing?

Premium pricing is a strategy where a distribution company sets its prices higher than most of its competitors to create perceived value, higher brand quality and even luxury (e.g., premium lighting and bath fixtures). This is often used by companies that sell new, high-tech and popular brand products, as customers are willing to pay a premium price if they have a positive brand perception. When companies use this strategy, they may charge more than their production costs to get a high profit margin. It is important to note that this strategy works best when users perceive the product as a premium one.

Why Would a Distributor Use a Premium Pricing Strategy?

There are several reasons why companies might choose to use premium pricing. One of the main reasons is that it can help create a sense of exclusivity and luxury around the product. When something is seen as being exclusive or high-end, people are often willing to pay more for it. Additionally, premium pricing can help a company achieve higher margins and increased profits. By charging more than its competitors, the distributor can make more money on each sale. Finally, premium pricing can also be used to signal quality and distinction. If consumers believe that a product is high-quality, they may be more likely to pay a higher price for it.

How Does a Distributor Set Premium Prices?

When a distributor chooses to use a premium pricing strategy, it is typically looking to charge a higher price for its products than what is being offered by its competitors. This can be a tricky endeavor, as the distributor needs to make sure that the price it sets is one that customers will be willing to pay.

There are a few things to consider when setting prices using a premium pricing strategy. One of the most important factors is the cost of the product. The distribution company needs to make sure that it is earning enough money on each sale to cover its costs and turn a profit. Premium brands cost you more as well. Many companies approach premium products from a cost-based cost-plus pricing strategy. Additionally, it is important to consider what the competition is charging for similar products. If the distributor charges too much, customers may be willing to switch to a competitor's product. While it is difficult to research, market-based pricing can be critical when considering just how high you can set your premium pricing.

Most importantly, a distributor should use a price optimization solution to maximize the profit they can achieve with premium products. You do not want to leave additional profit on the table when offering top brands and a pricing optimization solution can help you determine the right mix of price and profit for each of your product and customer segments.

Ultimately, pricing is a very complex decision and there is no one perfect answer. It is best to use sophisticated analytics to drive a profitably strategy. A distributor that uses a premium pricing strategy needs to carefully weigh all the factors involved before setting final prices and without the right solutions to support your decisions you could be eroding your profit.

What Are the Benefits of Using Premium Pricing

When it comes to pricing your products and services, you have a few different options to choose from. One of those options is premium pricing, which entails charging more for your offerings than what is typically charged in your market. There are several benefits to using premium pricing, including:

1. Maximizing revenue – By charging more for each transaction, you can maximize your revenue. This is especially important for businesses that rely on sales volume to make a profit.

2. Setting yourself apart from the competition – By charging more than your competitors, you can make it clear that your products and services are of a higher quality and come with greater value. This can help you attract customers who are willing to pay a premium for the best possible experience.

3. Increased profitability – When you charge more for your products and services, you typically see increased profitability as a result. This is because you're able to cover the costs of doing business while also making a profit on each sale.

4. Attracting high-value customers – By charging more, you can attract high-value customers who are willing to pay more for what you offer. This can help you improve your customer base and increase sales over time.

While there are certainly some risks associated with using premium pricing, the benefits listed above can be quite significant for businesses that execute it correctly. If you're thinking about using premium pricing in your own business, be sure to weigh the pros and cons carefully before making a decision.

What Are the Downsides of Using This Strategy?

There are a few potential downsides of using a premium pricing strategy. First, it may be more expensive for customers to purchase your product or service. All things equal, that will decrease the demand for your products, and you will have to consider what is the mix of price and market demand that will maximize your profitability. Because customers may be less likely to buy it if they feel that the price is too high, it can reduce the effectiveness of strategies based on frequent purchasing and higher purchasing quantities. Also, you may find it difficult to attract new customers if your prices are too high. You may get a reputation as the top distributor who is also the most expensive. Customers will come to you for top brands, services and advice but will buy the lion share of their commoditized products elsewhere.

We know that profit drivers include the number of lines per order and the number of turns you can make on your inventory. A premium pricing strategy can reduce your success in both areas even though the revenue per item may increase.

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An Example of Premium Pricing in Durable Good Distribution

You may feel that there are only a few construction products that command premium pricing. Distributors often feel like they are price-takers when it comes to common items. But as we discussed above, technology and brand perceptions are powerful drivers of price elasticity. One example is roofing shingles. There are a variety of types of shingles available, each with their own benefits and drawbacks. The most popular type of shingle is the asphalt shingle. Asphalt shingles are made from an asphalt-based material and come in a variety of colors. They are also relatively affordable, making them a popular choice for homeowners.

However, there are other types of roofing shingles that command a higher price tag. If you want a roof that will last longer and look great, then you may want to consider investing in some slate or cedar shingles. Slate shingles are made from natural slate and are known for their durability and beauty. Cedar shingles are made from cedar wood and have a natural resistance to decay and pests. While both options cost more than asphalt shingles, they can be well worth the investment if you want a long-lasting roof that will add value to a home.

In these cases, you may have a blended strategy of using both premium and cost-plus pricing. This underscores the importance of using consulting and technology to optimize your pricing strategy across all your inventory.