DISTRIBUTION PRICING JOURNAL

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

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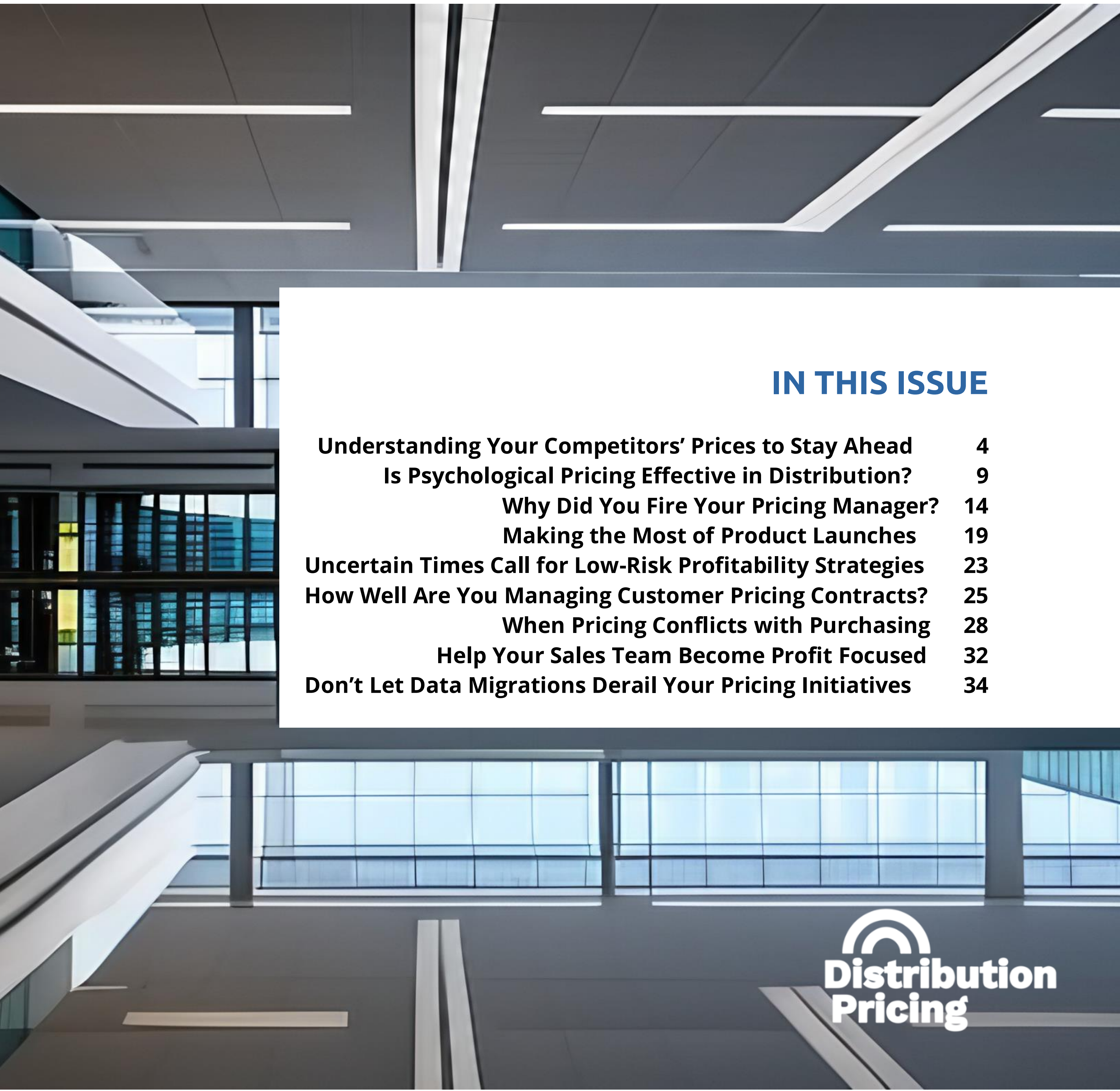

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Distribution Pricing

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Welcome

Editor's Letter

We are thrilled to bring you the latest Distribution Pricing Journal - a new platform for industry leaders to share their insights on the latest pricing trends, strategies, technologies and best practice customer distribution tactics.

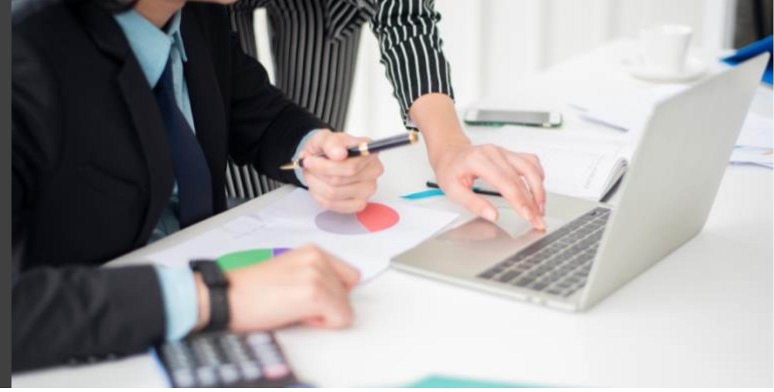
Our contributors' write-ups, detailed case studies, and interviews with prominent industry leaders equip professionals like you with tools to stay ahead in this constantly evolving field. The journal also features editorial board members with extensive experience in pricing and distribution-equipped to provide sound guidance and support to the subscribers.

We extend our sincere gratitude to the contributors, editorial board members, and subscribers for your unwavering support as we navigate and grow this journal.

Thank you for joining us on this journey, and we look forward to your continued support.

-- Campbell Frazier, Editor-in-chief

Understanding Your Competitors' Prices to Stay Ahead



In the distribution industry, competitive price intelligence can be a great source of insight. Understanding the pricing strategies of competitors can provide invaluable information about the market and how to best position one's offerings. It is important to explore how competitive price scenarios can be used to inform decisions such as product positioning, value added services, price optimization, purchasing strategies and promotional offers.

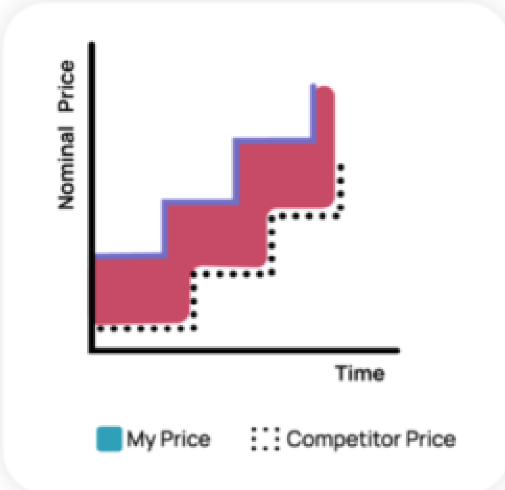
Your competitor's pricing can indicate potential opportunities or threats posed by competitors. Understanding their competitive positioning involves looking at their prices, products, services and availability. It also requires understanding how customer needs and behavior might influence their purchasing decisions. Additionally, it may be necessary to assess how competitors are responding to the changing market conditions.

Once the appropriate data is collected, distributors can evaluate their pricing decisions and adjust accordingly. This could include changes in promotional offers, discounts or other forms of price adjustments. It could indicate new operational or purchasing adjustments. It might even be time to initiate some new vendor negotiations about your pricing and rebate offers. It is important to keep in mind that different scenarios may require different pricing strategies, and each must be evaluated on its own merits.

By leveraging competitive price scenarios, businesses can gain valuable insights into the market and how to best position themselves for success. Through careful analysis, businesses can develop effective pricing strategies that maximize profits while still providing value to customers. In addition, understanding competitive dynamics and responding appropriately can lead to more efficient operations and better customer satisfaction. Ultimately, competitive price scenarios can be an invaluable tool in helping businesses stay competitive and successful.

We asked Daniel Cakora, Business Consultant at Vendavo, a global market leader in B2B price management and commercial excellence solutions, to provide some of his insights on competitive pricing scenarios.

Scenario 1: My Price Increases and My Competitor Follows Suit



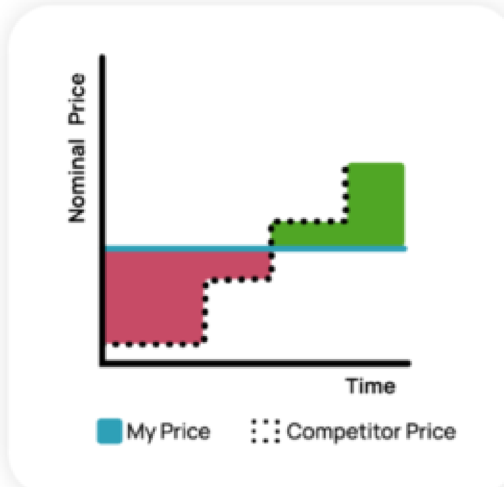
Pricing Leader Scenario (Image courtesy of Vendavo)

The first scenario Cakora referenced involves an initial price increase and a competitive increase closely thereafter.

"If the price of your company's products goes up and its competitor follows, it is a sign that your company is a pricing leader in its market," said Cakora.

This scenario indicates that the company has the potential to positively affect profitability by leading with other price increases. This allows your company to have more control over pricing decisions, enabling you to maximize profits while still providing competitive prices. When your price leadership is driven by solid price optimization analysis, it allows you to better respond to customer needs and adjust pricing accordingly to maximize profits. According to Cakora, this is especially important in highly competitive markets where customers expect to get the best price possible. Overall, leading in pricing decisions through a higher initial price can lead to greater profits and a more secure market position.

Scenario 2: My Price Remains Steady and My Competitor's Price Increases



Competitive Price Increases Scenario (Image courtesy of Vendavo)

If your price remains steady and your competitor's price increases, a few situations might be true, according to Cakora.

"This could signal solid customer demand or could indicate inflationary costs. If customer demand is driving the price increase, then it implies that buyers are willing to pay more for a product and may be less sensitive to price. Of course, you might also simply be pursuing a lower pricing strategy to gain market share, such as a loss leader strategy," said Cakora.

If you're a distributor using price optimization solutions, you may feel confident in your pricing strategy. Your competitor may not be using special tools to help them decide how much to charge for their product. It could mean that their price increase was not planned carefully.

"Remember, just because a competitor changes their price, it doesn't mean they're taking the right path," said Cakora.

When considering the cost of products in comparison to a competitors' prices, it is important to consider the effectiveness of managing your own costs. If a competitor's price is higher than yours, it may be an indication that you have done a better job at managing your replacement costs and the overall costs of operation, pick-pack-ship and storage. This can be an advantage for distributors as it can lead to higher profitability and better margins. Additionally, when prices are managed effectively, customers may be more inclined to purchase your product or service as they will have access to a lower price point.

By managing costs efficiently, businesses can remain competitive in the marketplace and benefit from the cost savings. This underscores the importance of using price optimization solutions because there is always a balance to strike between the profit driven by better purchasing and operations and the profit driven by optimizing your pricing to appropriate market levels.

On the other hand, if your competitor's costs are increasing, they may be forced to increase prices in response. If this is the case, then it's important to work with your suppliers and purchasing team to determine where potential efficiencies have been gained and could be developed in other product lines.

According to Cakora, if a competitor's price is higher than yours, it could also mean that they have added more value to their overall offering, which justifies the higher price. This could be for several reasons. It could be due to the perceived quality of the product or service. Are they offering new value adds, better packaging, unique shipping offerings or something else? New value-added services may allow them to command a higher price due. Moreover, if a competitor has better brand recognition or higher customer loyalty, then this could also lead to them charging more for their goods and services.

Finally, if the increase in price does not appear to be based on either consumer demand or cost increases, you need to dig a little deeper to discover why your competitor is using a different pricing strategy than you.

“My advice to anyone who finds themselves using a different pricing strategy than their competitor is to dig a little deeper and potentially reconsider your own pricing strategy to ensure it is still in line with the market. Run back through your price optimization analysis and look to see if there are some unusual price matrix issues that just need to be dealt with mechanically in your ERP system,” said Cakora.

Scenario 3: My Price Remains Steady or Rising but My Competitor Is Lowering Their Price

Next, we asked Cakora what companies should do if their price is steady or rising but their competitor is steadily lowering their price.

“This scenario is the opposite of when your competition gets more expensive. So, you want to flip the questions you asked above upside down and apply them to your own business,” said Cakora.

It could mean that customer demand is driving the price increases and buyers are less sensitive to the price. Maybe you’ve been a little bit late on your analysis around this product line. It could point to your competitor’s cost structure being better than yours.

Alternatively, it could indicate that you are not providing enough value-add to justify a higher price point. It might be time to do some competitive shopping around the value adds your competitor is offering. It may also be necessary to implement other strategies as well, such as improving customer service, enhancing the value of product or service offerings, or increasing marketing efforts.

If your price is steady or rising while they are lower their prices, it could point to a new competitor or product brand is entering the market and attempting to gain market share. A manufacturer may be offering more attractive rebate incentives, or they may be offering a lower priced product that is forcing the entire category to price lower. In either case, it’s important for businesses to stay abreast of any changes in pricing and adjust their own prices accordingly if they want to remain competitive.

Competitive Price Analysis Isn’t Easy in Distribution

Determining how to price your products or services is a difficult task. While understanding your competitors’ pricing is critically important, it’s also only one element to consider in your strategic decision making. Solutions like Vendavo Pricepoint can help you boost your pricing agility and stay ahead of changing markets.

It is not always easy for a distributor to gain competitive intelligence around a competitor's pricing. Such knowledge can be hard to come by, and the information that is available may not always be complete or up to date. Inaccurate data can lead to poor decision making, leaving a distributor at a disadvantage in the market.

Fortunately, there are ways for distributors to gain an advantage when it comes to pricing intelligence. By leveraging technology, distributors can access more accurate, timely pricing data and gain a better understanding of the competition. Automated price monitoring tools are especially beneficial in this regard, as they allow distributors to keep track of competitor prices in real time. This helps them make sure their own prices remain competitive and gives them insight into what strategies other players are using in the market. Additionally, price optimization tools can be used to increase profits and ensure maximum profitability by analyzing the market and setting the most advantageous prices.

About Dan Cakora

Dan Cakora is a Business Consultant at Vendavo and has worked in various aspects of pricing for more than 15 years. Dan started his career as a Field Economist responsible for helping to measure inflation for the federal government. Before joining the Vendavo team, Dan was a customer at a large, international B2B distributor. He has led pricing teams, developed pricing and sales enablement products, and has a passion for data visualization. Dan has an MBA from DePaul University and a BS in Economics from Purdue University.

Is Psychological Pricing Effective in Distribution?

Psychological pricing in distribution is a marketing technique that relies on the notion that certain prices can influence consumers’ perception of a product or service. It involves setting prices at certain levels to encourage more sales, rather than pricing products simply according to their true market value.

But isn’t the whole goal of price optimization determining the exact right price to offer the right customer at the right time? How would psychological pricing strategies fit in with an analytical approach in distribution pricing?

The truth is, not all buyers – even B2B buyers – are completely rational. While you should take care to set up a data-driven pricing strategy using leading price optimization solutions, you should also use every advantage available to you to increase your market share. Here are some ways distributors can use pricing psychology to win more deals.

By understanding the psychology behind buyer behavior, distributors can adjust their pricing strategies accordingly and offer prices that are perceived as low or attractive by customers. Through a combination of pricing psychology and other marketing tactics, businesses can create an environment where customers are more likely to buy and keep coming back.

Psychological Price Points

Creating psychological price points can involve setting prices slightly below certain thresholds – such as $9.99 rather than $10 or rounding up to the nearest dollar amount – to make products appear cheaper, or pricing items just above certain thresholds – such as $20 rather than $19.99, to give customers a sense of getting a good deal. Psychological pricing can be effective in both physical and online purchases and can help you drive sales higher when you establish a new ERP price.

Once you analyze your pricing, you are going to have to execute the pricing inside of the ERP system anyway. You might as well choose a psychologically attractive price. Interestingly, using psychological price points can reduce manual price overrides as well because your sales reps are also susceptible to perceived value and less likely to discount.

Selling Product Bundles

Bundling products together is a great way to improve your pricing psychology that can help boost sales and encourage customers to make larger purchases. The more lines you have on each order, the more profitable that order is because you are already paying for your pick, pack and ship costs. By offering product bundles, distributors can offer customers the convenience of buying multiple items at once for a discounted price. This helps customers save time and money by not having to buy each item separately or shop around. Bundling also helps businesses move more products at once, reducing their inventory costs and opening new opportunities for profit. Additionally, bundling is a great way to introduce customers to multiple product offerings from the same business, helping expand relationships with existing customers, as well as attract potential ones.

When considering which products should be bundled together, the key is to create an offer that customers see as advantageous. Look at your data to understand which items are commonly purchased together and just as importantly, which items should be seen as a common plus-one purchase. This can be a way to boost impulse sales of items you wouldn't otherwise sell. For example, if you might sell repair parts one at a time. But if some parts are commonly sold together, you could bundle them together. Then consider adding a common tool to the bundle as a repair kit, Finally, add in something that they wouldn't ordinarily think of purchasing with the repair parts, like cleaning supplies. The customer might think, "that's a good idea, I'll need to clean up the work area when I'm done." That way you'll make an additional sale you wouldn't have thought of before all while increasing the psychological value of the bundle.

The bundle should be priced lower than the total of all items when purchased separately, and it's important to make sure the products are complementary, so they work together well. It's also a good idea to include higher-priced items in the bundle to help increase profits and offer customers more value for their money. Finally, consider targeting specific customer segments and times of the year when bundling may be more advantageous to customers. For example, sprinkler kits will sell more in early spring when you're trying to grab market share, while you are probably more likely to get higher pricing on single items late in the season.

Bundling is a great way to increase sales, decrease inventory costs, and introduce customers to products they might not have considered previously.

It's an easy and efficient way to offer customers more value while also increasing the bottom line of a business. By bundling products together, businesses can showcase their product offerings to customers in an attractive and cost-effective way. Bundling is a great way to encourage customers to purchase multiple items at once for a discounted price and help distributors increase their sales. With the right offer, bundling can be a powerful tool for any distributor.

Using Flash Sales

Flash sales are a great way for businesses to drive more revenue by offering customers attractive discounts on their products. Flash sales involve companies offering limited-time discounts on certain product lines or services to spur quick purchases from customers. This can be a powerful tool for distributors, as it encourages customers to act quickly and often leads to larger purchases than they may have originally intended. Flash sales can also help businesses move excess inventory or slow-selling products to make way for newer items.

When launching a flash sale, it's important to set realistic goals and objectives to determine the success of the promotion. Consider what kind of products you plan to discount, how long the sale will run, and how much of a discount you will offer customers. Additionally, it's important to promote the sale in advance and make sure your customers are aware of the limited-time offer. Finally, be prepared for an influx of orders during the sale so that you can fulfill them efficiently and keep customers satisfied. Essentially, you want to train your customers to be on the lookout for irresistible but time-limited offers.

Flash sales are a marketing tactic used by distributors to drive purchases and attract new buyers. This technique relies on the psychological principle of scarcity, creating a sense of urgency in the consumer to act quickly or risk missing out on a limited-time opportunity. By using this strategy, distributors can capitalize on buyers' desire for something that is not widely available and encourages them to make a purchase on the spot. Flash sales are typically used for promotional items, limited-edition products, or other products that the distributor is trying to clear out of inventory. Distributors can also use flash sales to attract new customers by offering an exclusive deal or discount. By doing so, you can increase your customer base and create loyal customers who want to return for future purchases. Flash sales can be extremely effective in driving new business and encouraging customers to make a purchase in a short period of time.

Promote Premium Product Lines

The core concept of creating psychological pricing in distribution is based on the idea that people are more likely to purchase a product if it appears to be cheaper than something similar. As we stated above, buyers may perceive a product priced at $9.99 as being less expensive than one priced at $10, even though they are essentially paying the same amount. This perception can be further compounded if other products in the same product category are priced higher – say, $14.99 or more – creating a greater sense of value for the lower-priced item. Additionally, customers may find it easier to make purchases at certain price points; for instance, many people feel comfortable spending lower amounts to try out a lesser-known product line or make an impulse buy on a small item, while in some cases they may be less likely to make big-ticket purchases that are priced too low.

There are two main approaches distributors can take when looking at psychological pricing in premium product lines:

- Infrequent Special Offers Can Be Very Effective in Premium Product Lines
- Premium Pricing for Top Brands Can Make Lesser-Known Brands Look Cost Effective

Infrequent Special Offers Can Be Very Effective in Premium Product Lines

Premium brands often offer a unique experience that goes beyond the product itself. Special discounts and offers on premium products give your customers an opportunity to enjoy these benefits without having to pay full price. With premium brands, customers can expect exceptional quality and attention to detail when they purchase their product. Special discounts can add even more value to the purchase, allowing customers to purchase the item at a lower cost than they would otherwise.

To make special offers on premium product lines more effective, consider emphasizing how customers will benefit from purchasing the premium product and outlining why it is superior to other offerings in the market. Explain why buying a premium product will provide customers with a better experience, higher quality materials and/or more advanced features. Showcase the unique aspects of your product and emphasize why it is worth paying more for the premium product line.

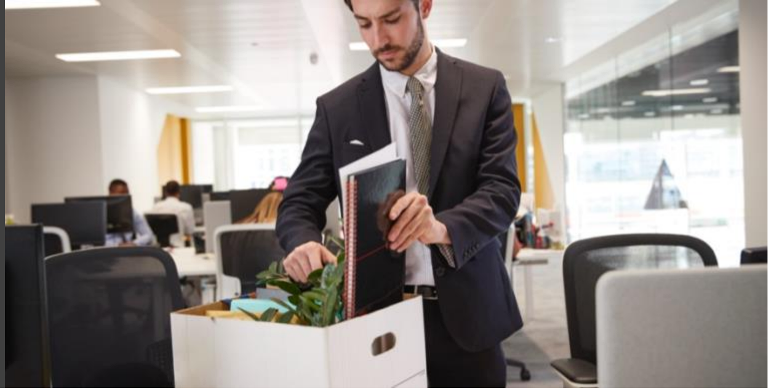
Additionally, consider offering incentives such as free shipping or training to encourage customers to purchase items from your premium product lines. This builds loyalty and encourages customers to return to your store in the future.

Premium Pricing for Top Brands Can Make Lesser-Known Brands Look Cost Effective

Marketing communications around your premium brands has several advantages. First, well-known brands often provide excellent marketing support. Also, marketing premium brands can set you apart in your local service areas as a high-quality distributor. But from a psychological pricing perspective, premium brands allow you to make pricing comparisons with lesser-known product lines that can make those products look very cost effective. When a premium brand releases a product line, it can make the lower cost generic brands more appealing to your customers. For example, when Kohler releases a high-priced luxury line of bath products, the plumbing contractors and builders you work with may view the lower cost generic brands as an equal, but more affordable alternative. The presence of the more expensive option also creates an aura of quality and reliability around the lesser-known brands, making them more attractive. This is especially useful when launching a new product or brand, as it can give the consumer an instant sense of quality and trustworthiness even before they get a chance to use the product. By leveraging the power of premium brands, marketers can create a perception that their other less-known products are just as good, reliable, and cost-effective as the more expensive ones.
Another advantage of using premium brands to promote less known product lines is that it allows you to quickly capture market share. Since your customers already associate these luxury products with quality, they may be more willing to give an unknown brand a chance if they know it's backed by a well-respected name. This can also help to drive up sales, as customers may be more likely to buy a product if they trust the brand behind it.

Using premium brands to promote less known product lines is an effective and efficient way to reach consumers and drive sales. By leveraging the power of luxury products, you can make your own lesser-known products look comparably cost effective and trustworthy. This can help to quickly expand your customer base and increase sales, allowing you to maximize profits over time.

Why Did You Fire Your Pricing Manager?



We asked some of our subscribers if they recently had to let a pricing manager go and if so, why. They shared some very insightful stories. From the responses, it became clear that there were several key themes. Many participants mentioned that the pricing manager lacked attention to detail, failing to understand the nuances of the company's pricing strategy or misinterpreting data, as well as not trusting experienced advice from colleagues. Furthermore, there was evidence of a lack of vision from the pricing manager, as they were unable or unwilling to make necessary adjustments to changes in circumstances and customer needs. Lastly, many readers pointed out that communication skills played an important role in their decision-making process, citing issues with a refusal to collaborate with other teams or failure to speak in plain English instead of statistical lingo. This highlights how essential qualities such as detail, vision and strong communication are for success in this role.

A Lack of Passion for Profitability

"They just didn't care enough about total profitability."

Pricing managers need to have a passion for profitability because it is the ultimate goal of your pricing strategies. Without understanding and appreciating the importance of achieving maximum profits through accurate pricing, your management team and other employees may be skeptical about implementing price changes as they can be perceived as risky or not worth the investment. Having a keen eye for profitability allows pricing managers to clearly explain their reasoning and provide concrete evidence that their proposals are in line with market fluctuations, customer interests, and most importantly the bottom line. A passion for profitability ensures that pricing managers stay on top of their game and make well-informed decisions that will benefit long-term growth.

Poor Attention to Detail

"Our first pricing manager lacked attention to detail and would hurry to make price changes without checking with sales or purchasing. Even if they were correct 95% of the time, the other 5% caused us not to trust 100% of our pricing and our sales reps would override pricing all the time."

Managing pricing in the distribution industry requires stringent attention to detail because of the complex set of variables involved. Accuracy is essential to ensure that prices remain competitive within the market, as customers increasingly have more access to information about pricing norms and potential discounts. Historical data about customer behavior should also be taken into consideration when making decisions as this provides valuable insight into consumer preferences and expected purchasing patterns. Replacement costs are also a key ingredient for consideration when setting or adjusting pricing as it can help with ensuring that profits are not lost due to mismanaged inventory levels or potential discrepancies between projected and actual sales figures. Attention to detail allows pricing managers to make informed decisions that are tailored to the company's objectives in terms of profit maximization, customer satisfaction, returns on investment, etc.

Lacked Ownership and an Opinion

"We had to let go of a pricing manager as they failed to provide a clear direction and strategy when it came to making changes in prices. Furthermore, they were not willing to advocate for their point of view or actively defend their decisions related to pricing adjustments. Because of this lack of foresight and commitment, we felt it best to end the employment relationship."

Pricing managers should have a clear vision on the top priorities for price changes so that they are able to effectively lead on profitability. While sales or purchasing agents may point out certain opportunities or potential threats, it is ultimately up to the pricing manager to weigh all the evidence and make an informed decision. By taking ownership of their role, they will be better equipped to identify areas of improvement, set goals, provide direction and guidance, and ensure that everyone is working towards a common desired outcome. Pricing managers should also be mindful of how their decisions affect not only the company's bottom line but also its reputation in the marketplace. Having a well-defined vision enables pricing managers to drive pricing from a proactive stance instead of passively accepting suggestions from others.

Aligning Too Closely with the Sales Team

"We haven't fired anyone for this, but every pricing manager we've ever brought on gets immediately sucked into the whims of the sales team. We have to tell them that their understanding of pricing and profit has to be much wider than just the sales team or else we would've just taken the advice of sales for pricing in the first place."

It is important that pricing managers don't get all their information solely from sales reps as they are not privy to all the data points needed to make informed decisions. As well as getting the customer's perspective on prices, it is also essential that pricing managers are aware of inventory levels, purchasing discounts and rebate goals to ensure a successful pricing strategy that maximizes profitability. Without considering these other factors, sales reps can be influenced by short-term fluctuations in the market and fail to consider long-term pricing plans.

Thinking Their Job is About Making Price Changes Instead of Making Profit

"We had a pricing manager that was a constant tinkerer. I think he was making changes all the time just to look busy. I'm OK if you tell me pricing is fine and we don't need to change anything for a while, especially if we've got data to back it up."

Pricing managers should not be tempted to make needless changes just to appear busy; data is vital in making informed decisions and when it shows that things are running well, no major adjustments are necessary. Although it is important to strive for continuous improvement, this should not equate to frequent change for the sake of change. Over-amending pricing plans can detract from profitability, cause confusion among customers and disrupt the harmony of the pricing system. That's why it's essential to balance looking busy against making calculated changes when they are absolutely needed.

"Too many price managers are focused on the trees, not the forest. Maybe I'm trying to get that next rebate level and quantity is more important to me right now than short term price."

A successful pricing strategy should be based on the overall objectives of the company. As such, price managers must be able to look beyond short-term gains and analyze pricing decisions considering how these will contribute to achieving corporate goals. This may include focusing on long-term objectives such as market share, customer loyalty or entering new markets. Furthermore, a well-thought-out pricing strategy could also involve utilizing pricing tactics such as loss leader pricing or bundling to reach specific targets, such as increasing volume or gaining competitive advantage. It is important that price managers have an understanding not just of the numbers but also the strategies behind them so they can develop a robust and effective approach that reflects company objectives.

Recommending the Wrong Price Optimization Solution

"We fired a pricing manager who insisted we choose a well-known price optimization software that didn't really fit our business. It was costly to implement, made some disastrous suggestions and we ended up losing money."

Choosing the wrong price optimization solution can be a costly mistake for distribution companies. Generic software solutions are often not adequate when dealing with the specific complexities and nuances of the distribution pricing model, such as wholesale discounts and bulk ordering. A lack of industry-specific features can lead to inaccurate projections, incorrect margins and missed opportunities to maximize profitability. Furthermore, inefficiencies caused by using the wrong system can result in an increase in operational costs due to manual intervention needed to make up for inadequate automation. It is important that distribution companies find a software solution that is tailored to their needs.

Lacked Communication Skills

"I don't want to hear about stochastic this and multivariate that. Talk to me and the rest of the company in plain English if you want to get your point across. And no more 100-line spreadsheets crammed into a presentation deck."

Excellent communication skills are essential for pricing managers as they are often required to explain highly technical information to a variety of stakeholders, including those with less experience in pricing. Being able to clearly articulate the data, models and strategies behind their proposals is key to gaining buy-in from those who may not be conversant in the details. Moreover, persuasive communication requires an ability to listen and take onboard input from other departments such as Sales and Purchasing. A good pricing manager knows how to get stakeholders on board, be it through consensus or presenting a compelling business case. Working collaboratively and effectively with others is crucial for success within these roles.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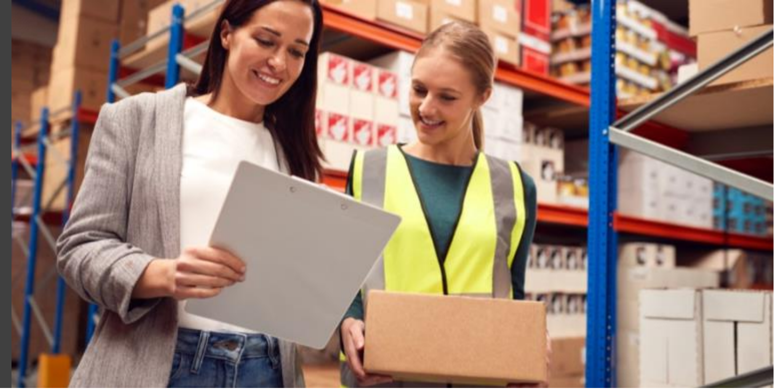
Making the Most of Product Launches



The HVAC industry is constantly evolving with the introduction of new products and technologies. To be a leader in the industry, it is essential to stay ahead of the curve and remain on the frontline of new developments. This means staying up to date with regulatory changes that could impact your business.

Regulatory changes can have a huge impact on the way a distributor does business. A product launch is an opportunity to be one of the first in your market to introduce new products and technologies to customers, giving you an edge over competitors. To ensure a successful launch, there are several steps that must be taken prior to its release. These include conducting inventory reviews, pricing reviews, sales and customer training, creating new collateral for promotional activities, as well as establishing communication protocols and policies.

By staying ahead of industry trends and launching a successful product launch, you will not only be able to remain competitive but also retain customers. Your company’s reputation is on the line, and it is essential that you make the right decisions to ensure a positive outcome.

Pricing Reviews

When new products are launched in the HVAC industry, conducting a pricing review is an essential step to ensure that customers remain loyal and continue to purchase from your company. By analyzing their current and past pricing models, companies can determine how much they should charge for a particular product or service and how it compares with the competition. Doing this will help HVAC companies stay competitive and ultimately attract more customers. Additionally, it will provide them with valuable insights into customer preferences and buying habits so they can better tailor their pricing strategy to meet the needs of their target market. By conducting a pricing review, HVAC companies can ensure that they are charging the right prices for their products and services while still providing great value to their customers.

Teamwork between pricing, sales and purchasing is important when conducting a pricing review, it is important to consider the cost of purchasing and delivering the product or and related services, as well as any associated overhead costs. Additionally, factors such as market trends, customer feedback and competitor pricing should be taken into consideration when determining an appropriate price point. By taking all these factors into account, companies can ensure that their pricing remains competitive and attractive to customers. By using price optimization solutions, you may find areas where issues like urgency or previous installations are driving purchasing and you can price your products higher for more profit.

It is also important for HVAC companies to monitor their own pricing models over time to make any necessary adjustments. Companies should be aware of changes in the market and adjust their prices accordingly. Additionally, they should keep an eye on customer demand and feedback to make sure that their pricing remains attractive. By conducting regular pricing reviews, HVAC companies can ensure that they remain competitive and profitable while still offering great value to customers.

New product launches in the HVAC industry can impact pricing in several ways, and that is why it is critical for you to leverage a price optimization solution. Depending on the type of product, new launches may lead to price increases or decreases. For example, if a new HVAC system is released that offers more efficient energy use or higher quality components than previous models, the associated price increase may be offset by potential savings in electricity bills or increased durability. On the other hand, if a company releases a lower-quality model at a lower price point than current offerings, it could drive down prices throughout the market as other companies compete for customer dollars. Ultimately, new launches can have both positive and negative effects on pricing depending on the specific product being offered.

Inventory Reviews

As we mentioned above, the HVAC industry is facing significant changes due to new regulatory procedures coming into effect in 2023. This has a direct impact on transitioning inventory, as equipment must now be rated using both the current SEER rating system and the new SEER2 rating system. This poses several challenges for those with existing stock of only SEER-rated equipment, as they must now figure out whether the equipment has been rerated.

To streamline this process, OEMs are proactively working to ensure that older equipment is replaced with newer SEER2-rated models. This will help to reduce the amount of time needed for inventory transitioning and make sure that all stock meets the necessary regulations.

The industry is making great strides to ensure a smooth transition to the new regulations, helping to reduce the burden of inventory transitioning and provide a better overall experience for customers. With the help of OEMs and the proper protocols in place, businesses should be able to easily adapt to the changes made by 2023.

It is important to conduct inventory reviews when a new HVAC product is released to ensure that your business has the right products that meet customers' needs. This can help prevent overstocking on outdated models and/or understocking on newer ones. Additionally, conducting inventory reviews helps you stay up to date on the latest advances in HVAC technology, allowing you to better serve your customers and remain competitive in the market. Having an accurate understanding of your current inventory is essential for efficient operations and providing quality customer service.

When conducting an inventory review, you should consider the number of units available and the ages of those units, especially when it comes to ratings and regulations. You should also compare prices with other distributors — do a little competitive shopping — to ensure that your products are competitively priced. Basically, you want to make sure that your inventory is appropriately stocked with the right mix of products to meet customer needs and remain competitive in the market. Finally, conducting regular reviews allows for quick adjustments when necessary, ensuring that your customers get what they need in a timely manner.

Sales and Customer Training

HVAC distributors should conduct sales and customer training around new products to ensure that their customers have the knowledge and understanding necessary to properly use them in various applications. This is especially important for HVAC systems, as any improper installation or utilization of components can be costly and dangerous.

With sales and customer training provided by HVAC distributors, customers can be confident that they are purchasing quality products and getting the most out of them. This means helping customers understand the features and benefits of their HVAC systems, how to properly install them, how to troubleshoot and maintain them effectively, as well as other vital information related to safety protocols.

Online training courses are a great way to conveniently provide sales and customer training if you have multiple branch locations. Consider blogs, newsletters and video part of your training strategy. HVAC distributors can create course content that covers a variety of topics, such as product information, installation procedures, operation tips, troubleshooting techniques, safety guidelines, and more.

To get the most out of their customers' training experience, HVAC distributors might also consider offering rewards, such as certificates and discounts, to those who successfully complete their courses. This will help to motivate contractors to learn more about the products they are purchasing, making them better informed and more likely to get the most out of their investments. It also creates a lot of loyalty with your clients.

By investing in sales and customer training, HVAC distributors can ensure that their customers have a full understanding of their products, as well as the knowledge necessary to ensure that their HVAC systems are installed and used properly. This can help improve customer satisfaction, reduce costly errors, and increase sales for the distributor.

Are You Ready for a Product Launch?

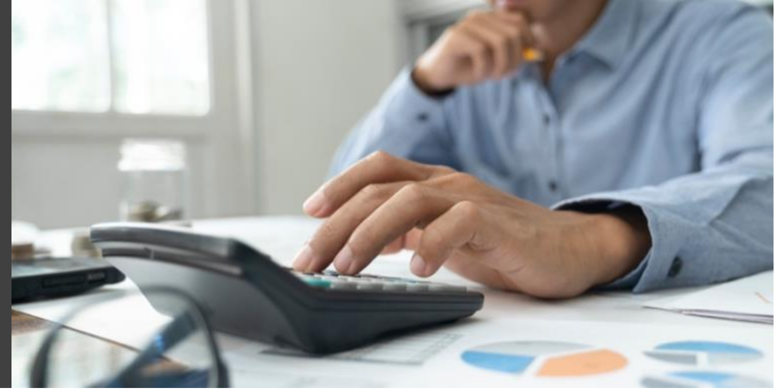
Product launches are a crucial part of any technology company's success, but unfortunately, they often fail. The lack of a comprehensive launch strategy can lead to disastrous results, as it is incredibly difficult to make up for lost ground. In fact, research from the Harvard Business Review shows that only 3% of new consumer packaged goods meet or exceed benchmarks for a successful launch.

How do you know if your product launch is failing?

- Are sales reps still talking about the old products?
- Is your website out of date?
- Did you update previously created email nurturing tracks and newsletters?
- Does your CRM system reflect what is needed for sales enablement and customer communication around the launch?

You don't have to stumble through new product launches. With the right planning and execution, you can ensure your product launch is a success.

Uncertain Times Call for Low-Risk Profitability Strategies



No matter your own personal outlook on the current economy, it is clear that distributors are operating in uncertain times and concerned about a number of volatile market factors. The business environment can be unpredictable, and some industries have brighter prospects than others. As eCommerce grows, commoditization expands and interest rates threaten to rise even more, distributors must stay abreast of new developments to remain competitive.

With data-driven insights and powerful analytics, leading distributors have found that price optimization is the best way to drive up profits in industries with tight margins. For those companies who lack the staff or resources to undertake a complicated pricing project, there exists a simpler path to improved outcomes. With less effort and investment, businesses can achieve significant profits with fewer headaches.

Another thing is clear. When you are entering an uncertain year, you need to find a smart, low risk path to margin optimization. When it comes to uncertain economic environments, many distributors take a wait-and-see approach to strategic initiatives. However, distributors who have the vision to implement a pricing project can be rewarded with improved margins and market share. The key is finding the right path; one that involves minimal risk yet still delivers measurable results.

How Should Distributors Proceed?

In times of uncertainty, distributors are a cautious bunch. They prefer to approach pricing projects with some data and a lot of their own intuition. Afterall, pricing is one of the most important aspects of your relationship with your customers. Can we trust something so important to price optimization solutions? As distributors look to maximize profits in 2023's uncertainty, pricing projects should be seen as an attractive option. However, the implementation of such projects requires great care and consideration; reactions from the sales team must be taken into account before proceeding. With the right strategy, these projects can offer significant rewards; but it takes executive buy-in, leadership and not a small amount of courage to guide a new pricing strategy in these uncertain times.

Data can help you make the right decisions and convince your entire team to back new pricing strategies that are low risk. One good example are commodity prices versus special stock items. Commodities tend to be less price elastic. Clients buy large amounts of them and are looking for the best deals. But special inventory that you keep for a client can be sold at higher profits without affecting buying behavior as much. An example of commodity stock and special stock in a durable goods business would be power tools. Commodity stock would include items such as drill bits, saw blades and other standard accessories that are widely available and used in many products and applications. Special stock would include higher-end tool sets or specialty accessories that are more specific to certain projects and may have limited availability or require more advanced skill to use effectively. In other words, the contractors you sell to have to have the right tool for the job and are willing to pay for it that one time they need it for a large job. But they'll burn through blades all the time and will shop around a bit for those.

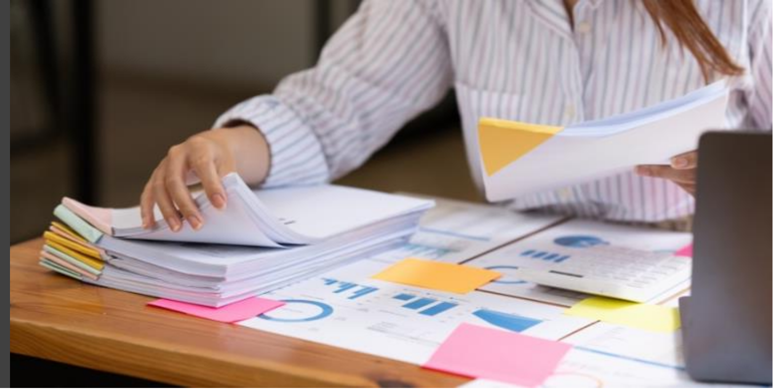
You Can Start Simply

Choosing your first strategic areas to tweak margin can be a great starting point for distributors. Unusual ("long-tail") products and those with a high cost to serve or unique value adds are particularly attractive targets for some lower-risk tweaking. But it's not easy to know where to start without the right data analysis.

That's why we so frequently recommend distribution-specific price optimization solutions. That way, you can identify new areas for price improvement in hours or days not weeks or month. And solutions that have integrations to common distribution ERP systems like Epicor Eclipse and Prophet21 make this process simple and seamless; sales teams do not need to alter their behavior when the new prices are right there inside your matrix, making it a win-win situation for all parties involved.

Starting a pricing optimization process does not need to be complex. There is no need for distributors to restructure their entire pricing matrix and retrain their sales team for more profitable price points. Utilizing existing ERP and data resources makes the process simpler, and change-management processes are unnecessary. Moreover, IT personnel do not have to take on any heavy lifting; all that is necessary is a few minor adjustments to the ERP system.

How Well Are You Managing Your Customer Pricing Contracts?



Do you offer special pricing contracts for some of your customers?

Many distributors create a special pricing contract for a customer to offer them more competitive prices than what is generally available in the market. This could help the customer gain a competitive edge while also ensuring that the distributor can still earn a fair profit. Additionally, offering custom pricing contracts helps build trust between the distributor and their customers, fostering stronger relationships and long-term loyalty.

There are all kinds of scenarios that prompt a customer pricing contract, including:

A very large volume end-customer may require additional services and the distributor wants to lock them into a price to keep their business.

Distributors must be able to hold a product-line position against competing new players, ensuring their products remain competitive in the market.

To enter a new market, distributors need to have a strong pricing structure and terms for customers – a pricing contract might lure a customer away from an existing competitor.

Distributors must also bear in mind any competitive pressure from other distributors when creating pricing contracts, so a pricing contract might be created to prevent encroachment.

When acquiring another company, the acquiring distributor may help maintain an end-customer's business by providing more options or special pricing arrangements.

Customer Pricing Contracts Are Full of Complexity

Any time you leave your price matrix – even when your strategy warrants it – you add complexity to your system. Variance from your pricing matrix creates many opportunities for lost profits. Some of these complexities include:

Scope: One of the elements to consider when constructing a customer contract is understanding the scope, or extent, of the agreement. Companies must carefully evaluate if they want their contract to encompass all of their products, a certain line or if it should be limited to one product. Depending on the specifics of the contract, this can have an impact on both the cost and length of time that it remains in effect. As such, businesses must consider how much flexibility they require before writing out any agreements.

Lack of data: Sales representatives may attempt to suggest a contract price in order to secure a deal, but oftentimes they lack the supporting data that is necessary to confirm the suggested pricing. This can be true even when it comes to understanding the competitive pressure of the market, which is an important factor in ensuring that customers are being offered appropriately priced products and services. As such, businesses should take care not to accept any pricing suggestions without independently verifying their accuracy first.

Expiration: One of the common oversights in managing customer contracts is failing to remain aware of expiry dates or any changes that may be made to the supplier's requirements. This can lead to contracts that remain in effect far beyond what was initially intended, or agreements that are no longer relevant due to circumstances outside of the company's control. As such, companies should make sure to regularly review their contracts and update them accordingly in order to stay in compliance with new pricing, inflation or changing strategies.

No database: Many Enterprise Resource Planning (ERP) systems lack the capacity to efficiently manage pricing contracts that go beyond a set matrix. As a result, businesses are put in a tricky situation of having to manually keep track of specific contractual agreements with each customer and supplier, a task that can quickly become overwhelming.

All these complexities can lead to lost profit:

Confusion over the scope of each contract could lead sales reps to discount all products for a customer well below market standards. One of the dangers of misunderstanding the scope of a contract is that sales representatives might offer discounts to customers that are well below the market rate. This could have a significant negative impact on the company's bottom line and hurt its relationships with other suppliers. To avoid this, it is crucial that all employees who are involved in creating or reviewing contracts have a clear understanding of the agreement's terms and conditions.

Without access to the right data, it is possible for a pricing contract to be set too low, potentially reducing profitability and in some cases, even falling below replacement cost in volatile markets. This highlights the importance of having the right resources in place when negotiating contracts – such as data analytics and market research – to ensure that deals are profitable and fair on both sides.

Expired pricing contracts should be opportunities to work with your customers in new ways, but if they aren't managed you may simply be carrying on discounted pricing that is no longer needed. Expired pricing contracts should be seen as chances to re-negotiate or develop new arrangements with customers, as continuing old, discounted pricing might not always be necessary. To ensure that this process is well managed, it is important to keep track of expiry dates and regularly review and update contracting agreements when needed.

Getting Proactive About Your Pricing Contracts

Many distributors simply react to problems with their pricing contracts when a problem arises. You wouldn't do this with the inventory in your warehouse. Imagine if you only responded to inventory level when you found out about unexpected shrinkage or misplaced items. Instead, you would put regular systems in place and conduct regular inventory physicals. You should manage your inventory of pricing contracts in a similar fashion.

At the very least, you can create your own database of pricing contracts. Even using a spreadsheet to track is better than nothing. Be sure to include customer names and numbers, type of discounts provided, creation dates, expiration dates and the scope of the contract with named products and lines. In this way, you can at least review your contracts weekly for expiration and margin impact. And when a vendor sends you a price increase, you can quickly identify which customers are impacted.

But if you're using a distribution-specific price optimization solution that tracks pricing contracts, you can manage your pricing profitability much more effectively.

According to Barrett Thompson, Zilliant General Manager of Commercial Excellence, distributors lack the resources to employ analytical methods and optimization approaches to maximize their contract profitability, leaving them stuck with manual methods. "Most distributors exhaust all their resources just keeping up with the overwhelming, manual mechanics of contract management and have nothing left for analytical methods and optimization approaches – when it comes to contract profitability, they're treading water at best," says Thompson.

Zilliant offers an agreement management solution – Deal Manager™ – that enables proactive management of customer-specific contracts and agreements. The centralized system allows pricing teams to see how many agreements exist within their business and the respective profitability of each, while removing cumbersome manual tasks from the sales team's plate when contract prices or terms need to move. It's a great example of the power of technology over manual processes.

"Recent breakthroughs in pricing software automation make it possible to radically decrease the time spent in contract mechanics, while simultaneously layering on analytics and optimization to surface powerful insights which have been lurking undetected for years," says Thompson. "This transforms the idea of increased contract profitability from a dream into a reality."

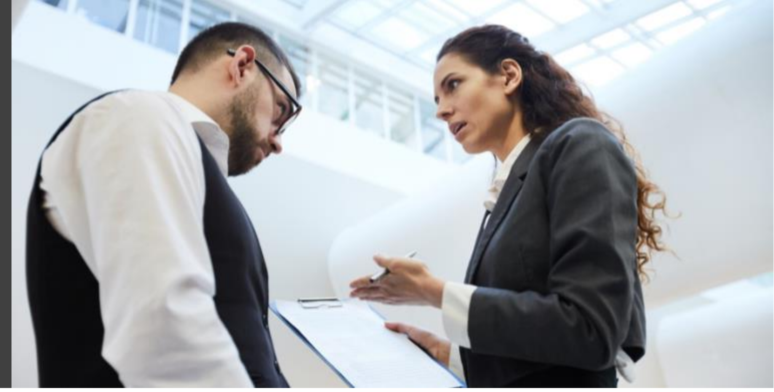
The complexity and potential for profit loss underscores the importance of using consulting and technology to optimize your pricing strategy across all your inventory. Please visit our solution guide of price optimization solutions to learn more.

"Without data, you're just another person with an opinion."
- W. Edwards Deming

"Information is the oil of the 21st century, and analytics is the combustion engine."
- Peter Sondergaard

"The goal is to turn data into information, and information into insight."
- Carly Fiorina

When Pricing Conflicts with Purchasing



One of the issues that always comes up with companies following our Enterprise Velocity program is the issue of conflicts between department leaders. This is especially true when the goals – or cost justification – of two departments seem to be in competition with each other. Conflicts can arise between any two departments, but when those departments share a common goal, it can be tricky to minimize conflict and maximize cooperation.

One common area of conflict is between pricing and purchasing. These conflicts can often be boiled down to the question, "who really drove new profit?" Did the profit come from better purchasing negotiations? Or did the profit come from price optimization and increased volumes?

Beyond that simple conflict, here are common disagreements that can arise between these two departments and some suggestions for keeping all your teams focused on profitability together.

Sales Volumes Vs. Product Line Profitability

Conflicts can arise between pricing and purchasing when different departments have competing goals. A pricing manager may be tasked with profitably increasing sales volume in a product line, while a purchasing manager may be focused on maximizing profitability in the same product line. When this occurs, there is potential for conflict as the pricing manager may want to lower prices to increase sales, but the purchasing manager may feel that doing so will lead to unnecessary profit loss.

Short-Term Gain Versus Long-Term Stability

Pricing managers may be incented to focus on short-term discounting to achieve quick sales gains, while purchasing managers often prefer longer-term negotiated contracts. This difference in focus can create a conflict that feels persona. The pricing manager may feel that the purchasing manager is not considering the best interest of their personal incentive and compensation plan. On the other hand, the purchasing manager may feel like they are being asked to give away too much margin which can affect their own compensation. Not to mention, purchasing managers see their vendor relations as a very long-term relationship that requires nuance, and they don't like to keep coming back for discounts based on short-term goals.

Differing Data Orientations

Sometimes it can feel like pricing and purchasing are trying to achieve profitability using entirely different languages. Conflicts between pricing and purchasing managers can arise due to their differing data orientations. Pricing managers often rely on statistical modeling, forecasting, and other methods of predicting future events to set or adjust prices. They feel their job is to predict and prescribe courses of action. Purchasing managers tend to be more focused on actual historical measures of purchasing price and vendor performance.

Rebates Vs. Discounts

How does your company prioritize rebates and discounts. Both can fall under the purview of pricing and purchasing, but they impact those departments goals in different ways. There can be a tug-of-war between reaching new volume rebates with lower costs that drive demand and tying discounts to customers and purchasing agreements. Your finance team might get in on an argument, too, if they don't believe the pricing team's demand projection or feel like increased invoicing and payment schedules further reduce profit levels.

So, what are some ways you can foster better collaboration between these two important teams and reduce conflicts?

Utilize Data to Set Team Goals

One of the core principals we emphasize in our practice and in the Distribution Pricing Journal is to employ analytics in difficult situations. Pricing and profitability are inherently complex. Utilizing data to set team goals can be key to a distributor's success. When you commit to collecting and analyzing good data, you create an atmosphere that allows your team to focus on achievable and measurable goals that align with your company's goals. We work closely with companies in setting both short-term and long-term objectives, as well as understanding market trends, customer feedback, and other important insights – all of which is improved with great data. Help your team make data-driven decisions and you will ensure everyone is working towards the same goals. You will also foster collaboration between teams. When your team knows you will be tracking progress with defined metrics, they will learn to adjust their strategies if needed to stay on track and reach their desired results.

Encourage Open Communication

Open communication is one of the most important aspects of aligning team goals with data and communication. When teams can freely exchange ideas, ask questions, and provide feedback, they can ensure everyone understands their role in achieving the company's objectives and stay on track. Additionally, having an open dialogue allows teams to identify any potential roadblocks before they arise and quickly find solutions. Distributors should also establish processes that make it easy for teams to communicate and keep up with progress across all channels. By encouraging frequent conversations centered around data-driven decisions, companies can ensure that team goals are aligned, and all members feel empowered to reach them.

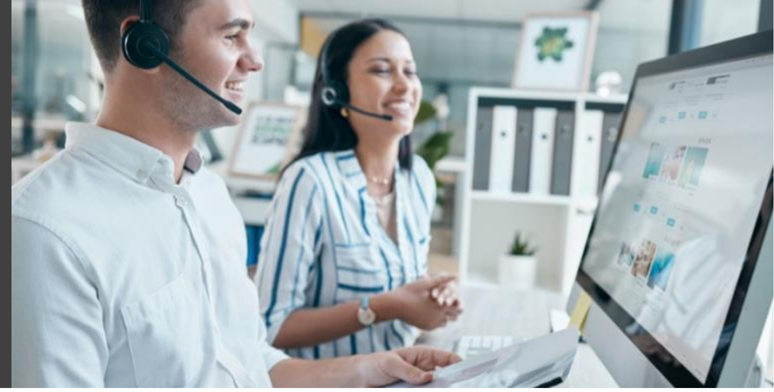
Track Progress Together

Tracking progress with metrics and other key performance indicators is essential to the success of any team. Tracking progress together can encourage deeper teamwork and creativity across departments. Frequent tracking allows teams to quickly identify any potential roadblocks or areas of improvement before they arise, giving them the opportunity to make necessary adjustments and reach their goals faster and more effectively. You will identify and address problems early rather than finger point to each other later. We always say, "winners like to see the scoreboard." Measurable results will keep teams motivated as they can visibly monitor their progress towards the desired outcome. Distributors should set up a system to regularly track progress so that they can identify any issues early on and provide resources for their teams in order resolve them. This will ensure everyone is on the same page and help teams stay on track as they work towards achieving their goals.

Establish an OKR Process

The OKR (Objectives and Key Results) methodology is a goal-setting framework that helps teams stay focused and driven. It encourages collaboration by allowing teams to come together to collectively define objectives and key results, as well as break them down into measurable chunks that everyone can work toward. The OKR structure is also designed to reduce conflict by providing clarity around team goals, roles, and expectations—ensuring everyone is on the same page and working towards the same objective. Additionally, the visibility of measurable progress allows teams to quickly identify any potential roadblocks or areas of improvement before they arise, giving them the opportunity to make necessary adjustments to remain productive and motivated.

Help Your Sales Team Become Profit Focused



Do you know the most common complaints we hear price analysts make against their sales rep counterparts?

- Our sales reps give too much profit away.
- Manual price overrides are killing us.
- Certain reps get stuck on the last price they sold.

Do any of those sound familiar? You're not alone. But fortunately, there are ways for you to work with your sales team to help them become more profit aware.

Utilize a Distribution CRM System

Utilizing CRM data to understand a customer's buying behavior is essential for sales reps to ensure that they are offering the optimal prices for their products or services. By analyzing past purchases and regular discounts, reps can better determine how much to discount without sacrificing profitability in each deal. This helps them maintain competitive market positioning while making sure they maximize their own profits as well. Additionally, analyzing customer purchasing history can help provide even more insight into the customer's needs and expectations, further allowing the rep to make informed decisions that benefit both parties. SMP's Distribution CRM system is fully integrated to your ERP system to make it easy for your reps to understand sales and product histories.

Schedule Time to Discuss Your Segmentation

Analyzing customer segmentation is a powerful tool that allows sales reps to gain valuable insight into the needs of their customers. By understanding the different segments, reps can create personalized offers and discount strategies based on customer preferences and buying patterns. This helps them minimize unnecessary discounting as they are better able to determine which discounts are truly justified to provide maximum value for both parties. Additionally, leveraging market intelligence tools can also help reps make informed decisions about discounts or promotional offers by gauging current industry trends and competitive pricing.

Unfortunately, the way a pricing analyst thinks of segmentation can be different from the way your sales and marketing teams think of segments. Pricing teams are looking at similar behavioral pattern, cost to serve, frequency, volume and more. Sales and marketing might be looking at simple demographic patterns like small electrical contractors, large contractors, builders, DIY, house accounts, and others. So, it is important to explain your methodology and help them identify your segments that exist within their segments.

One benefit of SMP's powerful platform is that you can create new customer lists directly from your data visualizations in just a matter of clicks. So, you and your reps could explore new customer categories (e.g., large contractors with the top frequency of purchases) and immediately create a sales and marketing list inside of SMP. That allows you to quickly strategize on messaging for new customer segments that helps to preserve your profitability.

Get Proactive with Sales Initiatives

Just because you're in pricing and not in sales doesn't mean you can help with new sales initiatives. You can use predictive analytics to help your sales reps identify new opportunities for negotiation or value-adds or loyalty plays instead of reflexively discounting.

Recognize That Discounts are Sometimes Necessary

Help your sales reps understand that you aren't just trying to eliminate all discounting behavior, but that you just want them to use data to be judicious in how they approach their discounts rather than entering manual overrides left and right.

Combining your use of SMP with your price optimization techniques allows you to create campaigns that target customers who are likely to respond positively to discounts. By utilizing data segmentation techniques, reps can pinpoint the customers who are more likely to respond favorably to discount offers and tailor their campaigns accordingly. Reps can personalize each offer based on the customer's individual needs and buying patterns while also ensuring that they maintain maximum profitability in each deal. Additionally, leveraging business intelligence tools built into SMP can give reps invaluable insight into current industry trends and competitive pricing, allowing them to adjust their strategy as needed to stay competitive and profitable.

Don’t Let Data Migrations Derail Your Pricing Initiatives

Accurate data is critical in price optimization. You need a reliable set of historical data to accurately forecast profitable pricing scenarios. Unfortunately, a data migration to a new system can throw a wrench into your pricing data. You may see inaccurate, duplicate or missing data that can skew your pricing analysis.

Many distributors are increasingly encountering data migration issues, whether due to a new acquisition or the desire to reduce cost of ownership and risk by migrating existing legacy ERP systems to a single platform. Migrating to a new platform such as Infor CloudSuite Distribution can immediately improve customer service and performance. However, this transition can be daunting as it requires careful planning and consideration to make sure that everything runs smoothly and efficiently during the migration process.

It can be very helpful to work with a strategically partnered managed services provider (MSP) when migrating data. For example, our team at Tridex Systems have become known as the leading experts when it comes to Infor Data Migration. If you are working on another ERP platform, ask your account manager for information they might have about their preferred MSP partners. An experienced MSP can provide distributors with an easy and reliable solution to their data migration needs, eliminating the worries that come along with such a big project. They provide fast and efficient migrations so you can focus on running your business without the hassle of manually moving your data.

Here are some of the basic services you want to look for when working with your MSP on data migration.

Data Preparation

Data preparation can be a time-consuming process and is essential for successful data migration. Over the years, our team has seen hundreds of different data structures in different systems and have the experience to quickly perform any necessary data transformations for faster migrations. By utilizing the expertise of a reliable MSP, distributors can rest assured that their data preparation process will be done quickly and accurately.

The Right Tools

Any experienced MSP in the distribution industry should employ data experts who have full access to the most advanced tools and hardware needed for successful data migration. The specific tools involved vary with the flavor of ERP, but typically include things like API calls, data queries and extraction, transformation, and more. With these specialized technologies, your data migration will be completed quickly and accurately without any of the additional challenges you might ordinarily face.

Accurate Configuration

Many of the distributors that we work with see data migration as an opportunity to assess existing data configurations and structures. Experienced MSPs can help you analyze your data, as well as identify and eliminate redundant elements. Working on accurate data configuration will make your migration faster and it results in a more optimized database that functions better long-term.

Remove Obstacles

Everyone distributor who has ever dealt with a. data migration knows that roadblocks can be hard to avoid. Distributors often lack experienced resources or IT bandwidth to take on and complete their project within a reasonable timeframe. However, a distribution-focused MSP should have the specialists and experience on board to meet even the toughest deadlines and keep productivity running smoothly during this process.

About Brandon Watson

Brandon Watson, VP of CloudSuite Solutions for Tridex Systems, has a long history of guiding distributors in their technology investments including ERP implementations, data and analytics, managed services, software training and more. As a member of the editorial board, his understanding of the importance of data and communications when it comes to distribution operations brings valuable insight to our readers.