DISTRIBUTION PRICING JOURNAL

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

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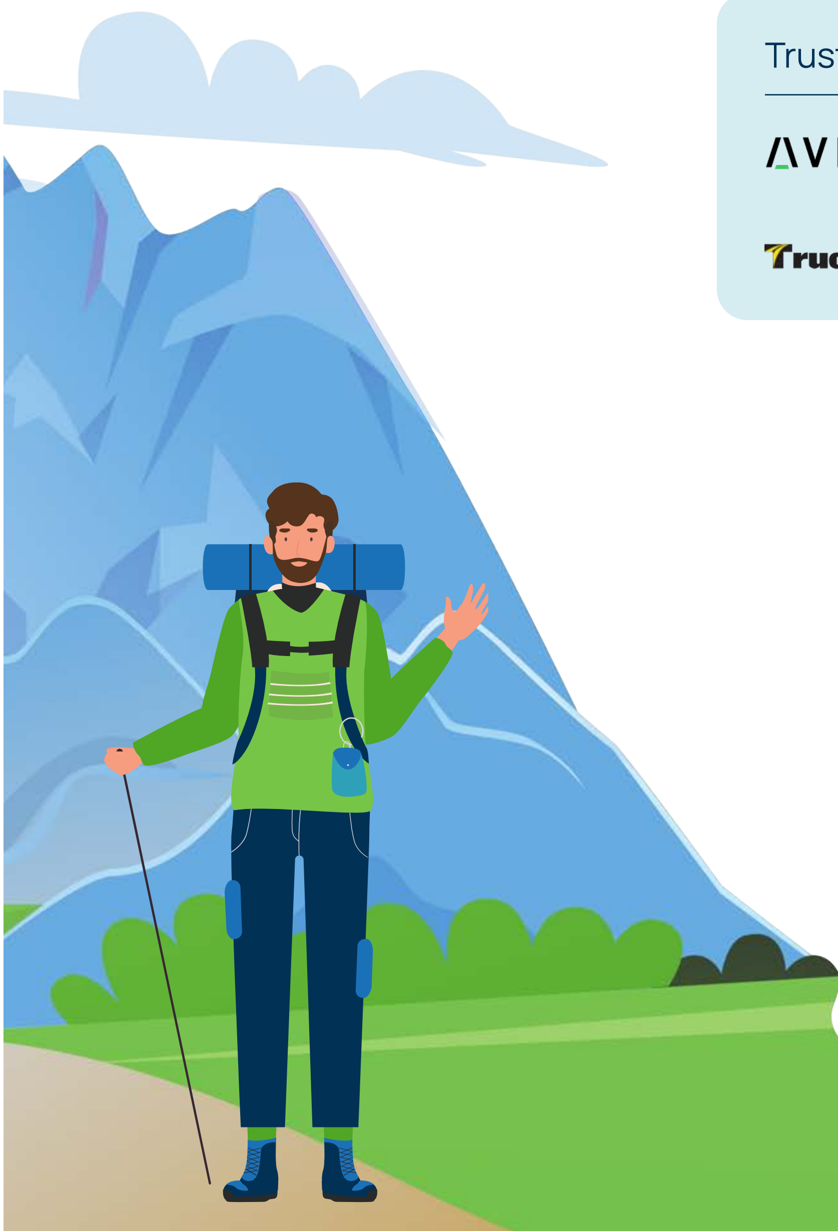

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Welcome

Editor's Letter

We are elated to present the newest edition of the Distribution Pricing Journal - our most comprehensive issue to date. Hailed by subscribers as the premier platform for industry pioneers, our journal offers a wealth of knowledge on the latest trends, strategies, technologies, and superior customer outreach methods.

Our contributors provide in-depth articles, detailed case studies, and exclusive interviews with industry luminaries, arming professionals like you with the necessary resources to stay at the forefront of this ever-changing sector. Additionally, our editorial board, rich in pricing and distribution experience, stands ready to offer invaluable guidance and support to our subscribers.

We would like to express our heartfelt appreciation to our contributors, editorial board members, and subscribers for your steadfast support as we continue to evolve and expand this journal.

-- Campbell Frazier, Editor-in-chief

4 Ways Distributors Can Unlock Revenue Growth with Cross-Sell and Upsell

As we enter the second half of 2023, pricing teams at B2B distributors are facing a critical turning point. Over the last few years, distributors have grown used to across-the-board price increases that customers had no choice but to accept. For better or worse, the significant inflation during the pandemic that enabled these huge “peanut butter spread” increases have subsided. The Bureau of Labor Statistics reported that year-over-year inflation as measured by the Producer Price Index (PPI) has fallen to 1.1% in May of 2023, a far cry from the peak of 11.7% seen in March of 2022.

Moreover, the supply chain is generally back to pre-pandemic efficiency. Costs related to ocean shipping, over-the-road transportation, and warehousing have dropped below pre-pandemic levels, resulting in increased availability, ease of transport, and in some instances lower prices of supplies.

The two main justifications for increasing prices over the past three years, namely high inflation and rising costs caused by supply chain constraints, are typically no longer valid. In case it isn’t clear, the window for broad, all-encompassing price increases has closed. Distributors must go back to the drawing board to find other ways to grow.

Fortunately, they have a built-in growth trajectory that is often overlooked. Namely, distributors can sell more to their current customers via cross-selling. Recommendations can be generated by leveraging a distributor’s transaction history, customer master, and product master to identify customers that look the same, purchase the same type of products, but have holes in their product spend with you.

When done right, cross-selling provides many benefits for distributors. Capitalizing on cross-selling opportunities help distributors grow average order value, increase share of wallet, drive customer stickiness, and improve ease of business. Not to mention, it establishes distributors as a one-stop-shop. Competent cross-selling is a differentiator that shows distributors know their customers’ business and can help them succeed.

Cross-selling and upselling are powerful strategies for boosting revenue in the distribution industry. By leveraging data analytics, training your sales team, personalizing offers, and optimizing your supply chain, you can maximize these opportunities and drive business growth. Remember, the key to successful cross-selling and upselling is understanding your customer needs and delivering value at every interaction.

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 how to go after new cross-selling and up-selling opportunities.

1. Leverage Data Analytics for Customer Insights

“Data analytics is a game-changer in the distribution industry,” said Cakora. “Data provides valuable insights into customer purchasing behavior, preferences, and patterns.” By leveraging these insights, distributors can identify potential cross-sell and upsell opportunities. For instance, predictive analytics can help you identify which products are frequently bought together, enabling you to develop effective cross-sell strategies.

But isn’t the data you currently track inside of your ERP’s purchasing history enough? Cakora advances that there is a very high return on creating high-resolution, holistic customer profiles.

“I think many distributors still think of a data-driven approach to sales as a little bit cutting edge,” said Cakora. “But the truth is that all buyers now have an expectation that you will anticipate their needs and become more customer-centric in your sales. Understanding your customers isn’t a luxury, it’s a necessity.” One effective method to gain this insight is by building high-resolution customer profiles. These profiles are comprehensive representations of your customers, combining both internal and external data to provide a holistic view. They go beyond basic demographic details like age and location, delving into behavioral patterns, preferences, and even predictive insights.

“High-resolution customer profiles allow businesses to understand their customers on a deeper level,” said Cakora. “These richer profiles reveal what product lines are resonating with particular customers to give you insight into how new sales opportunities could come together and what potential future actions sales reps may want to initiate.” This in-depth knowledge enables businesses to tailor their offerings and communications to individual customer needs, improving engagement, loyalty, and ultimately, profitability.

It all starts with your ability to leverage your own data. Your customer data forms the foundation of high-resolution customer profiles. You should consider transactional data, interaction data, and customer feedback.

- Transactional Data:
  - Sales History
  - Purchase Frequency
  - Volume
- Interaction Data:
  - Website Visits
  - Click-Through Rates
  - Social Media Engagement
- Customer Feedback
  - Voice of Customer
  - Surveys
  - Focus Groups
  - Interviews
  - Ride-Alongs

Analyzing this data can uncover valuable insights about customer behavior, preferences, and satisfaction levels.

You can enhance your customer picture with external data as well. “While internal data provides a wealth of information it only shows part of the picture,” said Cakora, To build truly holistic customer profiles, businesses should also integrate external data. Cakora points out that there are many external sources a distributor can use to support their cross-selling and up-selling activities. “External data can include market trends, economic indicators, social media sentiment, and seasonal patterns—any external factor that could influence customer behavior. By incorporating these broader context elements, businesses can better predict customer needs and respond proactively.”

The Power of Predictive Analytics

By leveraging advanced analytics and machine learning algorithms on this combined data, businesses can generate predictive insights, forecasting future customer behavior. For example, they might identify which customers are most likely to respond to a cross-sell offer or predict when a customer might be at risk of churning. These predictive insights enable businesses to take proactive measures, enhancing customer experience and driving revenue growth.

Building high-resolution customer profiles is a powerful strategy for any business seeking to enhance its customer understanding. By combining internal and external data, distributors can gain a 360-degree view of their customers. As we’ll see later, this allows you to deliver more personalized, effective interactions and drive larger, more profitable orders.

2. Train Your Sales Team to Identify Opportunities

"Your sales team is on the front line and plays a crucial role in identifying cross-sell and upsell opportunities," said Cakora. "Invest in training your team to understand customer needs better and recommend relevant products or higher-value alternatives." Role-playing exercises and customer scenario analysis can be effective training methods based on the connections uncovered in your data.

There are as many different distribution sales models as there are distributors. Cakora provided three specific strategies that distributors can employ to maximize their revenue from existing customers:

- Cross-selling
- Up-selling
- Unit up-selling

Each offers unique opportunities to increase sales and strengthen customer relationships.

Cross-Selling: Enhancing the Customer Experience with Complementary Products

Cross-selling involves suggesting complementary products or services that enhance the value of the item a customer has purchased. Certain products naturally fit together to provide a more comprehensive solution for the customer.

Cross-selling can increase sales but just as importantly it helps your customers get the most out of their main purchase. That expands customer satisfaction and loyalty. "You're actually improving your customer experience by suggesting complementary products, because their use of those products will be improved."" said Cakora.

"Imagine that a landscape contractor has just purchased a set of outdoor garden lights," said Cakora. "A smart cross-sell opportunity would be to suggest they also purchase weatherproof covers for the lights or motion sensors that would automate the lights' operation. Another option could be recommending compatible dimmer switches that enhance the usability and ambiance created by the lights. These complementary products are a win-win because they increase the ability for the contractor to serve their clients, enhance your relationship with the contractor, and increase the overall sales for the distributor."

Up-Selling: Encouraging Premium Purchases

Up-selling is the practice of encouraging customers to purchase a more expensive, premium version of the item they're considering or to add on features or services that increase the value and profitability of the sale. This strategy operates on the premise that customers may be willing to pay more for additional features or superior quality that meets their needs better.

"When done correctly, up-selling not only boosts revenue, it can also help your customer choose a product that more accurately fits their needs," said Cakora. "Think about that same landscaping contractor and now they want to buy some basic LED light bulbs for the garden lights he just purchased. An up-selling opportunity here would be to suggest premium energy-saving smart bulbs that can be controlled remotely via an app. Again, this provides value to the end-user as well as the contractor. It is a higher value sale for the distributor that also provides the contractor with an up-sell and the end user with added convenience and potential energy savings."

Unit Up-Selling: Increasing Sales Volume

Unit up-selling is aimed at increasing the quantity of the product that a customer is purchasing. This could be achieved by offering discounts on bulk purchases, incentives on buying more, or showcasing the convenience and value of purchasing in larger quantities. In addition to increased revenue, the individual profitability of each order increases when you add more lines.

"Up selling boosts your profits in more ways than just sales," said Cakora. "You improve the immediate revenue of the sale, you improve the overall profitability of the order, and you improve your inventory turns."

"Imagine that our landscape contractor was going to purchase a single pack of light bulbs," said Cakora. "A unit up-sell strategy here could be to offer a discount if the customer buys a larger pack of bulbs instead. Maybe the contractor has multiple clients to sell to and wants to take advantage of a larger purchase." This encourages the customer to buy more units in a single transaction, increasing the distributor's sales volume and providing the customer with better value for their money, as they'll have spare bulbs on hand to serve other clients.

3. Personalize Your Offers

"Personalization is key to successful cross-selling and upselling," said Cakora, "and using customer data guides you in creating personalized offers that meet individual customer needs and preferences." This could mean offering complementary products based on past purchases or suggesting premium versions of items they frequently buy. Personalized offers increase sales and enhance customer loyalty.

“Many distributors try to be everything to everyone,” said Cakora, “but customer expectations of service have grown far beyond a one-size-fits-all sales strategy.” A more effective approach involves creating discrete, distinct customer growth missions. This strategy centers on identifying and targeting specific pockets of opportunity where potential for growth is greatest.

“Access to data insights allows you to concentrate your resources and efforts on targeted customer segments or product lines,” said Cakora. “This approach allows for more personalized and relevant offers, which can significantly boost your cross-sell and up-sell success rates.”

The first step in creating personalized sales offers is identifying your pockets of greatest opportunity. This involves analyzing your customer data to understand purchasing behaviors, preferences, and needs. “You might find that certain customer segments are more receptive to cross-selling or up-selling,” said Cakora, “or that particular product lines have untapped potential for bundled offers. By pinpointing these opportunities, you can tailor your strategies accordingly.”

After identifying the opportunities, you want to plan out your personalized approach. This could involve developing personalized marketing campaigns, designing special product bundles, or offering exclusive incentives. “The key is to ensure each offer is clearly defined, focused, and your customer feels that their specific needs and preferences are being uniquely address,” said Cakora. “That creates cross-sell and up-sell opportunities and also improves customer loyalty.”

Creating personalized strategies is an ongoing process. “The whole point of a personalized strategy is that you are helping your customer with the right offer at the right time,” said Cakora. “It requires ongoing measurement and refinement. Access to evolving data insights allows you to continuously refine and optimize your offers, ensuring they remain effective and relevant.”

4. Build a Repeatable Model

With the help of technology, you can create a structured framework for your cross-selling and up-selling efforts, ensuring consistency and efficiency. Creating a repeatable model allows opportunities for continuous improvement, as you can tweak and optimize the model based on real-world results. Moreover, a repeatable model is scalable, enabling you to apply successful strategies across different customer segments or product lines.

“One of the most important elements in scaling up your cross-selling is testing,” said Cakora. Having easy access to data insights allows you to try small changes and see what works. “Start small, perhaps with a specific product line or customer segment. Implement cross-selling or up-selling strategies, then monitor their performance closely. What made your early wins successful? Can these factors be replicated in other scenarios? Use these insights to refine your model and increase its effectiveness.”

As you learn from your early wins, you’ll likely identify areas where you need to build new capabilities. This could involve training your sales team on cross-selling techniques, investing in data analytics tools to better understand customer behavior, or enhancing your CRM system to track cross-sell and up-sell opportunities more effectively. Building these capabilities is crucial for scaling your repeatable model and achieving long-term success.

“No model is perfect from the get-go,” said Cakora. “There will always be challenges and obstacles and it will be important to iron out some kinks along the way.” Maybe a particular cross-sell strategy doesn’t resonate with a certain customer segment, or perhaps the up-sell process is too complex and deters customers. Monitoring your data, your performance and your customer feedback helps you identify any issues and adjust your strategies for constant improvement.

Utilizing Technology for Cross-Sell and Up-Sell Opportunities

While the concept of cross-selling and up-selling is straightforward, the execution—particularly the ongoing analysis and adjustments in response to market fluctuations—is a complex task for many businesses. This complexity is often magnified when companies attempt to perform these analyses using traditional tools like spreadsheets or simple ERP reports.

“Spreadsheets are a powerful tool and one that I use every day,” said Cakora, “But they fall short when it comes to calculating and identifying optimal cross-sell and up-sell opportunities.” The process of pulling together data from multiple sources using lookups, index matches or other functions can be cumbersome and often ineffective. Companies frequently encounter issues with exceeding a spreadsheet’s data limits or failing to identify the white space—potential sales opportunities that are not immediately apparent—in a sea of data points. Simply put, spreadsheets are not designed for this specific purpose.

This is where specialized pricing software steps in. Solutions like Vendavo Sales Optimizer are designed to handle the heavy lifting associated with implementing cross-sell and up-sell strategies.

For cross-sell strategies, Vendavo Sales Optimizer performs the necessary groupings, conducts the calculations, and generates applicable opportunities for each customer. These opportunities can then be followed up by your sales team, who can either add them to a quote or an order or choose to dismiss them if they deem it inappropriate.

When it comes to up-sell opportunities, another solution, Vendavo Pricepoint, comes into play. It operationalizes the rules that define the 'good', 'better', and 'best' opportunities and delivers value-based pricing based on various attributes and other influencing factors.

"Implementing cross-sell and up-sell opportunities can be challenging," said Cakora, "especially when relying only on spreadsheets. By leveraging specialized software like Vendavo Sales Optimizer and Vendavo Pricepoint, distributors can help streamline the process, making it more effective and efficient."

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.

Overcoming the Chaos of Pricing Overrides

We recently received this note from a reader:

Our sales team has this habit of slashing prices and giving discounts to customers left, right, and center without any real strategy behind it. They think it's a quick way to make a sale, but it's making life tough for us folks trying to manage pricing. I'm trying to get my sales manager to see the bigger picture and understand that this random discounting is causing chaos in our pricing system. Any ideas on how to get this point across? Can you help me win this argument? Appreciate any advice you can throw my way.

The Problem with Pricing Overrides

When sales representatives override system prices and provide discounts to customers without pricing guidance, it can create several challenges for pricing managers. Discounts can win deals, but profit should come first. Discounting should be seen as a strategic move that requires careful consideration and data-driven insights. However, when sales representatives are empowered to override system prices and offer discounts at their discretion, it often results in decisions that lack this data-driven approach.

Sales reps are typically focused on closing deals and meeting quotas. While these are crucial aspects of a sales role, they don't necessarily equip reps with the skills or resources needed to make optimal pricing decisions. Without access to or understanding of relevant data, sales reps might base their discounting decisions on subjective judgment or gut feeling rather than objective, data-driven insights.

This approach can lead to suboptimal pricing decisions. For instance, a sales rep might offer a larger discount than necessary just to close a deal quickly, missing out on potential revenue. Or they might give a discount where none was needed, undermining profit margins. Without the backing of data, it's difficult to determine the most profitable price point or identify the right opportunities for discounting.

You need to share with your sales manager that price optimization isn't just about maximizing profit and revenue, although those are important goals. It's also about understanding customer behavior, market trends, and the impact of pricing decisions on overall business performance. You can help your reps identify the trends that demonstrate price sensitivity, cross-selling opportunities and purchase timing. These insights can inform more strategic, effective pricing decisions.

The bigger picture is that you need to lead your company to foster a culture of data-driven decision-making. This could involve providing sales reps with training on how to use data in pricing decisions, or implementing pricing software that uses algorithms to recommend optimal prices. By doing so, businesses can ensure that any pricing overrides are strategic, informed, and contribute positively to the company's bottom line.

Pricing Overrides and the Erosion of Profit Margins: A Closer Look

When sales representatives have the power to override system prices and provide discounts at their discretion, one of the most significant risks that arise is the potential erosion of profit margins. This issue is so much bigger than most sales managers want to admit. It is helpful to use price optimization solutions to track your overrides and show the erosion of profit that can result.

Without a firm pricing strategy or guidance in place, sales reps are often motivated by the desire to close deals quickly. While this can be good for meeting short-term sales targets, it can lead to a dangerous trend of excessive discounting.

At first glance, a discount may seem like a small sacrifice for securing a sale. We can you're your sales reps now. "This is my best customer and the long-time value of their purchases will make up for any discounts." However, when these discounts become too steep or are given too frequently, they can significantly reduce the company's overall profit margins. Sales reps don't have to think about all of the other rising costs in your organization, they're focused on getting deals closed.

Discounts tend to be habit forming for both the reps and the customers. Continual price overrides can set a harmful precedent. Once customers become accustomed to receiving heavy discounts, they might start expecting them all the time. Customers develop a habit of expecting discounts and that actually undermines your sales and profit performance in the future.

We think it is crucial for distributors to establish clear guidelines on pricing overrides and ensure sales reps understand the long-term implications of their decisions on the company's profitability. By doing so, they can strike a balance between making competitive offers and maintaining healthy profit margins.

Pricing Overrides and the Perils of Inconsistency

When sales representatives override system prices on a whim, they unwittingly pave the way for pricing inconsistency. Price inconsistency may appear harmless, but it affects your brand and reputation.

Maybe your customers know they can get a better discount just by calling around to different reps. Without consistent pricing, customers may receive different quotes for the same product or service depending on the sales representative they deal with or the channel through which they make their purchase. Over time, this discrepancy becomes noticeable and can lead to confusion among customers. They might start questioning the fairness and integrity of the company's pricing policy.

Maybe customers talk to each other and don't like the difference in treatment. Have you ever had a situation where a customer who has paid full price discovers that another customer has received a hefty discount for the same product or service? Such instances can make customers feel unfairly treated, leading to dissatisfaction and mistrust towards the company.

We live in a world powered by smartphones and social media. Word travels faster than ever. Negative stories travel faster than positive stories. Stories of inconsistent pricing can deter potential customers and even cause existing ones to take their business elsewhere. Pricing inconsistency damages the perceived value of the company's products or services. If discounts are given out too frequently or are too deep, why would your customers think there is much value in what you provide? You will become the distributor they go to for cheaper brands and discounts rather than quality. Now, that might be your strategy. If so, great. But it is not an easy strategy to maintain, and you shouldn't accidentally fall into that position because of too many discounts.

To maintain a strong, positive reputation and ensure customer satisfaction, distributors need to enforce a consistent pricing policy. This involves setting clear guidelines around pricing overrides and training sales representatives on the importance of adhering to these guidelines. You want a fair, transparent purchasing experience for all customers, and in turn you will build customer loyalty and purchase frequency.

Pricing Overrides Undermine Your Pricing Strategy

The power of pricing overrides, when used without restraint or strategic consideration, can significantly undermine a company's overall pricing strategy. This issue goes beyond immediate profit margins; it affects the company's market positioning and how customers perceive the brand.

Pricing is about value. It's a delicate balancing act that aims to maximize profitability while also attracting and retaining customers.

However, when sales representatives frequently override system prices and offer unregulated discounts, they essentially disrupt this balance. Each discount given without a strategic basis chips away at the integrity of the pricing strategy. Over time, these sporadic and unplanned discounts can distort the price-value relationship in the eyes of the customer.

Customers might start perceiving the company as a 'discount brand'. While discounts can initially attract customers, being seen as a discount brand can have long-term repercussions. If the company's intended market positioning is one of premium quality or luxury, this perception can create a significant disconnect.

If you discount all the time, customers can never understand the true value of your products and services. They might question why they should pay full price when discounts are regularly available. This could lead to customers waiting for discounts before making purchases, which can make the company's revenue more unpredictable and harder to manage.

Therefore, it's crucial for distributors to limit pricing overrides and ensure that any discounts given align with their broader pricing strategy and market positioning. Regular training for sales representatives on the importance of maintaining pricing integrity can also go a long way in preserving the company's brand image and financial health.

Price Optimization Reduces Overrides

Price optimization solutions play a crucial role in managing sales rep pricing overrides and discounts effectively. Here's how:

1. Data-Driven Pricing: Price optimization solutions use advanced algorithms and machine learning models to analyze historical sales data, customer behavior, market trends, and competitor pricing.

This analysis allows them to suggest optimal prices that maximize revenue and profit. By providing data-backed pricing recommendations, they eliminate the need for sales reps to make subjective pricing decisions.

2. Pricing Consistency: Price optimization tools help maintain consistency in pricing across various channels and customer segments. They ensure that pricing rules are applied uniformly, preventing any unplanned or excessive discounts given by sales reps.
3. Real-time Adjustments: These solutions can adjust prices in real-time based on changing market conditions, inventory levels, and customer demand. This dynamic pricing approach prevents sales reps from offering unnecessary discounts during periods of high demand or when inventory is low.
4. Strategic Discounting: Price optimization solutions can also help manage discounting more effectively. They can identify which products are more price-sensitive, suggest appropriate discount levels, and even determine the best time to offer discounts. This strategic approach to discounting ensures that any price reductions align with the company's overall pricing strategy and market positioning.
5. Performance Tracking: These tools often come with reporting and analytics features that allow distributors to track the impact of their pricing decisions on sales, profits, and customer behavior. By monitoring these metrics, distributors can hold sales reps accountable for their pricing decisions and ensure they adhere to the recommended prices.

By leveraging price optimization solutions, distributors can take control of their pricing process and minimize the risks associated with sales rep pricing overrides and unregulated discounts.

Working with Suppliers on Cost Relief

It is more important than ever to work closely with your suppliers on cost relief. Inflation has shown signs of easing lately, but its impact is still being felt across all areas of the distribution industry. Increased prices are the new normal as the general prices of goods and services is rising for manufacturers, distributors and product end users. There are lingering structural elements in the economy that are complicating cost increases for distributors.

- **Supply Chain Disruptions**: The pandemics effect on global supply chains is still being felt. Manufacturers and distributors are still facing shortages of raw materials and components in various industries as parts of the economy are still rebalancing. This leads to increased production costs which ultimately flow through the distributor and to the end users. Add to this issues with shipping delays, port congestions and other logistics backlogs and you still have a bit of a pricing dilemma for distributors.
- **Changing Demand Patterns**: All of these factors have led to shifts in purchasing behavior. Remote work has shifted demand for new building in suburban areas, and demand for home appliances, electronics, and furniture has surged. There are many imbalances due to shifting demand patterns combined with delays in supply that are driving up prices in many areas.
- **Labor Shortages**: The durable goods distribution industry is heavily reliant on human resources for manufacturing, warehousing, and transportation. While there are some signs that labor is losing some leverage in certain markets, much of the economy still faces labor shortages across the durable goods sector. Fewer workers mean higher wages and that can contribute to increased production and supply chain costs.

This is why it is more critical than ever to maintain good relationships with your suppliers to seek cost relief in completive situations. Your suppliers will typically take a long view and will not seek to gouge you in the short run, especially they see you as a long term, data-driven partner in navigating this tricky economy. Like you, your suppliers want to mitigate the effects of inflation and adopt new pricing and competitive strategies to hold and grow market share. You can work together to stay informed about the latest economic trends and developments and collaboration with your suppliers only becomes more crucial for distributors to navigate the challenges posed by inflation.

Open Communication: Laying the Foundation for Supplier Collaboration

Open communication is the cornerstone of any successful collaboration. By initiating a transparent and honest dialogue with your suppliers, you can create an environment where both parties feel comfortable discussing the challenges they face due to inflation and increased competition.

Don't wait until problems escalate. Reach out to your suppliers as soon as you notice signs of inflationary pressure or increased competition impacting your business. Clearly communicate your objectives and expectations regarding cost relief efforts. Ensure that your suppliers understand the reasons behind your request and the potential consequences if a solution is not found. Suppliers rely on you for data and insights – things like such as market trends and consumer preferences – to help them better understand the challenges you're facing and the need for cost relief measures. Be open to listening to your suppliers' concerns and challenges as well. Understanding their perspective will help you identify opportunities for collaboration and build a stronger relationship.

Be A Thought Leader for Your Suppliers

You play a crucial role in building a bridge between manufacturers and end-users. You are essentially the link that connects manufacturers with their target customers You make sure that products reach the right audience at the right time. Distributors have access to valuable data and direct end-user behavior, making them essential assets for manufacturers to gain insights into the market and its trends.

1. **Provide financial data**: Share relevant financial information, such as profit margins, operating costs, and sales figures, to show how inflation and competition are impacting your business. This can help suppliers understand the

urgency of your request for cost relief.

2. **Benchmark against competitors**: Gather data on competitor pricing and market trends to demonstrate how your current costs affect your competitiveness in the market. This can help suppliers see the need for cost relief to maintain a competitive edge.
3. **Explain the impact on sales**: Clearly articulate how high costs are affecting your ability to sell products and meet customer demands. Provide specific examples of lost sales opportunities or declining market share due to pricing pressures.
4. **Highlight industry trends**: Present information on industry-wide trends, such as increased raw material costs, labor shortages, or global economic factors that contribute to the need for cost relief. This can help suppliers understand the broader context of your request.
5. **Showcase efficiency efforts**: Demonstrate the steps you have already taken to reduce costs and improve efficiency within your own operations. This can help reassure suppliers that you are not solely relying on them for cost relief and are actively working to address the issue internally as well.
6. **Present a long-term vision**: Share your strategic plans for the future, including growth projections and market expansion goals. Instead of talking about one-off discounts, emphasize the role that pricing collaboration can play in your long-term vision for your partnership.
7. **Offer mutual benefits**: Propose ways in which cost relief can provide benefits to the supplier, such as increased order volumes, long-term contracts, or joint marketing initiatives. This can help create a win-win scenario and make the supplier more inclined to consider your request.
8. **Share customer feedback**: Provide testimonials or feedback from customers expressing concerns about pricing or affordability. This can help suppliers understand the direct impact of their pricing on your end customers and the need for cost relief.
9. **Provide a detailed action plan**: Prepare a comprehensive proposal outlining the specific cost relief measures you are requesting and the expected impact on your business. This can help suppliers see the tangible benefits of providing

cost relief and make it easier for them to evaluate your request.

10. **Maintain open communication**: Keep the lines of communication open with your suppliers and engage in ongoing dialogue about your needs and challenges. Building a strong, collaborative relationship can make suppliers more receptive to your requests for cost relief.

Working Together on More Than Just Costs

Suppliers want a real strategic partner. Presenting real strategic ideas to your suppliers, rather than just focusing on obtaining lower pricing, is one of the best ways to show your suppliers you are a high-quality partner. By focusing on strategic initiatives and not just cost relief, distributors can demonstrate their commitment to mutual success and establish trust with their suppliers, which ultimately leads to a more productive and profitable partnership.

By demonstrating a commitment to long-term success, businesses can build stronger relationships with their suppliers. This encourages suppliers to invest in the partnership, leading to better collaboration, improved product quality, and increased reliability. When distributors present strategic ideas to suppliers, it encourages both parties to think creatively and explore new opportunities together. This collaborative approach can lead to innovative solutions that help both the business and the supplier stay ahead of the competition.

Suppliers know that you need cost relief in many different situations, but they want to take a sustainable long-term approach, not just discounting in one-off deals. While seeking lower pricing may result in short-term cost savings, developing strategic partnerships with suppliers can lead to more significant savings over time. Suppliers who feel valued and engaged are more likely to work with businesses to identify opportunities for cost reduction and process improvements. By working closely with suppliers and sharing strategic ideas, businesses can better anticipate and plan for potential risks in the supply chain. This proactive approach can help minimize disruptions and ensure that both parties are prepared to respond effectively if issues do arise. A focus on long-term success and mutual growth helps create a more sustainable business model. When suppliers see that you are committed to their ongoing success, they are more likely to support your growth plans and provide resources to help achieve those goals.

Here are some areas we've seen distributors propose to their suppliers.

1. **Review bulk purchasing**: Offer to increase your order volume in exchange for a reduced price per unit. This can help suppliers achieve economies of scale and grant you cost relief.
2. **Propose long-term agreements**: Propose entering into a long-term contract with your supplier, which can provide them with business stability and potentially lead to lower prices for you as a loyal customer.
3. **Joint cost-saving initiatives**: Collaborate with your suppliers to identify areas where you can work together to cut costs, such as streamlining logistics, reducing packaging materials, or implementing energy-saving measures in manufacturing processes.
4. **Alternate payment terms**: Negotiate more flexible payment terms, such as extended payment periods or discounts for early payments. This can help alleviate cash flow issues and make it easier for you to absorb cost increases.
5. **Product substitutions or modifications**: Explore the possibility of using alternative, less expensive materials or components without compromising product quality. This can help reduce production costs for your supplier and lead to cost relief for you.
6. **Consolidating suppliers**: Consider consolidating your purchases from multiple suppliers into one or a few strategic partnerships. This can lead to better pricing due to increased order volumes and reduced logistical costs.
7. **Maximize your performance-based incentives and rebates**: Use technology to make sure you are doing everything you can to maximize your rebates.
8. **Sharing market intelligence**: Share information about market trends, competitor pricing, and customer preferences with your suppliers. This can help them better understand the competitive landscape and the need for cost relief.
9. **Regular reviews**: Schedule periodic meetings with your suppliers to discuss performance, cost-saving opportunities, and areas for improvement. This ongoing dialogue can help maintain a strong relationship and encourage suppliers to be more receptive to your cost relief requests.

Developing a collaborative and transparent relationship with suppliers is imperative for distributors seeking long-term success. By working closely with suppliers on cost relief strategies, maintaining open lines of communication, and presenting long-term strategic plans for growth, businesses can foster mutually beneficial partnerships that extend beyond mere one-off discounts. These strong relationships lead to improved innovation, increased efficiency, and a shared commitment to sustainable growth. By prioritizing the cultivation of lasting connections with suppliers, businesses can enjoy a competitive edge in the market and ensure a prosperous future for all parties involved.

For Your Next Vendor Meeting

Discussion Points

- Provide financial data
- Benchmark against competitors
- Explain sale impact of pricing
- Highlight industry trends
- Showcase efficiency efforts
- Present your long-term vision
- Offer mutual benefits
- Share customer feedback
- Provide a detailed action plan
- Maintain open communications

Possible Action Plan Areas

- Review bulk purchasing
- Propose long-term agreements
- Joint cost-saving initiatives
- Alternat payment terms
- Product substitutions or modifications
- Consolidating suppliers
- Maximizing incentives and rebates
- Sharing market intelligence
- Scheduling regular reviews

Elevate Your Rebate Game with Technology

Rebates and incentives play a vital role in fostering relationships among customers, sales teams, vendors, and various trading partners. Many distributors manage their rebates through manual processes, general purpose software, or a combination of both. Unfortunately, rebate programs often involve substantial overhead, vary depending on customer contracts, and are frequently susceptible to risks and errors.

Rebate incentive management programs should span across agreements, catering to the needs of the entire organization – from pricing analysts and sales representatives to rebate managers and finance teams. After your company has signed contracts and established programs, managing the rebate process should be seamless – from inception to completion. This includes automated payments, audit trail access, partner portals, on-demand reports, and deductions management.

We asked Mike Bernard, Chief Marketing Officer at Vendavo, a global market leader in B2B pricing, selling, and rebate management solutions, to provide some insights on rebate management.

Rebate Management is a Necessity

“Rebates are an important part of a distributor’s business model,” says Bernard. “Using a specific rebate management solution has become imperative for leading distributors.” Efficiency and accuracy are often what leads distributors to implement rebate management. “Managing rebates manually can be time-consuming and labor-intensive. Software automates many processes, streamlining rebate management and freeing up resources for other essential tasks. Rebates are also prone to human errors, which can lead to incorrect calculations, missed payments, and discrepancies.” Software reduces the risk of errors by automating calculations and tracking relevant data.

Rebate management software also helps you with compliance and scale. “Rebate programs often involve complex agreements and terms that must be adhered to,” says Bernard. “Software helps distributors maintain compliance by ensuring that rebates are calculated, tracked, and paid according to the agreed-upon terms.” And rebate management only gets more complex with growth. "As a distributor grows and manages more customers, products, and rebate programs, manual processes often become unmanageable. Software solutions, like those offered by Vendavo, can easily scale to accommodate increased complexity and volume, ensuring efficient rebate management regardless of business size." These abilities also improve your relationships with customers and vendors. "Timely and accurate rebate processing is crucial for maintaining strong relationships because your partners prefer to work with distributors who carefully manage their rebates. It promotes trust across the board."

It can also be difficult to stay on top of rebates if you're using spreadsheets and standard ERP systems without a specific rebate management solution. "Rebate management software provides a centralized platform to monitor all aspects of the rebate program, offering real-time insights into performance, accruals, and payments," says Bernard. "This visibility enables distributors to make informed decisions and identify areas for improvement. Software can generate comprehensive reports and analytics on rebate program performance, helping distributors identify trends, assess the effectiveness of various incentives, and make data-driven decisions to optimize their programs."

Effective Vendor and Customer Rebates Start with Deal Management

"Rebate programs are about rewarding desired behavior," says Bernard. By effectively managing rebates, distributors can optimize their incentive programs, drive sales, and enhance customer satisfaction. The more effectively you can streamline vendor and customer rebate management through deal creation, automated approval workflows, status reviews, and communication tools, the more deals you can influence through your rebate program.

Customizable Deal Creation

"The first step in effective rebate management is creating deals based on agreements that cater to your unique business," says Bernard. With the right solution, these agreements can be custom or templatized, allowing you to define various rebates, allowances, payments, and formulas. "We like using templates for speed as distributors can quickly and efficiently set up new deals, saving time and reducing the potential for errors. But there are times when you need to adjust based on the situation as well."

Automated Approval Workflows

"Streamlining the approval process is key to efficient rebate management," says Bernard. "Setting up automated approval workflows helps ensure that all relevant parties review and approve deals before they go live. This not only speeds up the approval process but also enhances compliance by ensuring that each agreement aligns with company policies and guidelines."

Reviewing Rebate Statuses, Summaries, and Activities

Monitoring the performance of your rebate programs is essential for optimizing incentives and driving sales. "It is very important for distributors to regularly review rebate statuses, summaries, and activities," says Bernard. "This kind of review provides valuable insights into the effectiveness of each deal, allowing you to identify areas for improvement and make data-driven decisions to enhance your rebate programs."

Enhancing Communication with Comments and Notifications

Effective communication is key to successful rebate management. By adding comments and sending notifications on deals and user activities, distributors can keep all stakeholders informed and engaged throughout the rebate lifecycle. "Transparency fosters collaboration, ensures timely actions, and maintains strong relationships with both vendors and customers," says Bernard. "Many companies forget about closing the loop with effective notifications, but this is a critical element of a comprehensive approach to rebate management."

Bid Analysis, Margins, and Price Lists

When you have an open bid that you are working hard to close, it can be easy to forget about rebates, margins and profitable pricing. Your energies become focused on what it takes to be competitive in your bid. That's where a great rebate management solution comes in, helping you stay focused on the elements of your rebate program that can keep you competitive and profitable with margin analysis, bid review and current price lists.

Reviewing Bids and Protecting Net Margin

"It isn't easy to stay on top of your bids. But when you get to the stage of the deal where you have an open bid you've already done a lot of the hard work in sales and now it is time to maximize that work," says Bernard. To optimize profitability and ensure a healthy bottom line, distributors need to carefully review bids and quotations, focusing on net margin protection. "With a system to thoroughly analyze each open bid, distributors can identify potential risks, assess the feasibility of the proposed terms, and make informed decisions that safeguard their net margins."

Analyzing Margin Impact and Authorizing Bid Requests

"Of course, sales management needs to help in this process," says Bernard. Before approving any bid request, it's essential for distributors to evaluate the potential margin impact of the proposed deal. This involves comparing the expected revenue against the associated costs, considering any related rebates, allowances, and other incentives. Doing this work manually can take so much time that it can negatively affect sales response times. Unfortunately, distributors without rebate management systems often skip over this analysis. "When a sales manager has rebate management capabilities, they can let the sales reps sell and authorize bid requests that ensure each deal aligns with their overall business objectives and profitability goals."

Maintaining Price Lists and Approving Margin-Driven Price Changes

Price list maintenance is another critical aspect of effective rebate management. "The real point of an optimized price list is that it is too much to ask each of your reps to know everything they need to know about current market conditions, product availability, and customer demand," says Bernard. Price optimization and list management ensures you maintain your margins in each deal. "If you can easily stay up to date on your price lists, you become much more agile in approving any necessary price adjustments to win deals while protecting your margins. And customers generally prefer that you are proactive with competitive bids rather than just responding to external factors."

Flexibility to Match Your Rebate Programs

"One of the biggest challenges with managing rebates is dealing with the many types of rebate programs distributors work through," says Bernard. "Your software solution needs to allow you to centrally create and manage channel and vendor incentive programs for your customers or products respectively. We've seen everything from flat rebate programs, volume-based incentives, growth-oriented rebates, delivery-based incentives, retention goals, ship-and-debit, and much more."

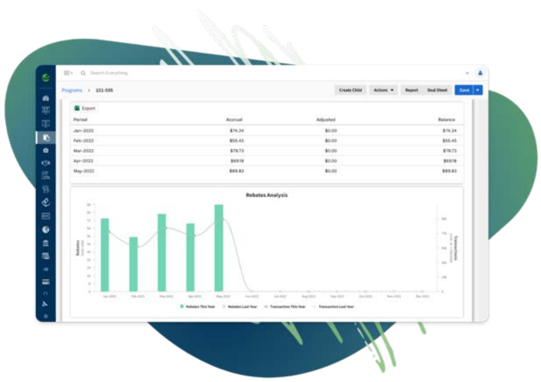
For example, distributors often work with ship-and-debit rebates. It is very common for a durable goods distributor to purchase items from a vendor at a negotiated in-stock price. However, when working a large bid, that in-stock price may be higher than what is required to win the deal. “You can’t always approach a deal with simple volume targets in mind,” says Bernard. “There are many reasons why a distributor needs more immediate assistance to be competitive in a big deal and a ship-and-debit structure can help with short-term cash flow and predictability.” In a ship-and-debit rebate structure, the distributor works with vendors for pricing support to be able to sell items for less than their in-stock pricing. Then after shipping, the distributor creates a rebate claim based on the amount sold and the vendor can issue a rebate.

“There are so many moving parts in rebate programs that I can’t imagine how a distributor would even try to maximize their rebates and incentives without software,” says Bernard. Enormous complexity arises when a manufacturer has multiple types of rebates and incentives applicable to a single transaction. For instance, a manufacturer may offer volume, mix, and growth rebates to the distributor while also providing volume rebates to the end-user. Additionally, the ship-and-debit claims outlined above might be involved in the same transaction. In such scenarios, calculating the net price for these sales becomes challenging as it requires considering all the applicable rebates and incentives.

“You don’t want to be guessing about your pricing and profit margins, especially when margins are thin to begin with,” says Bernard. To accurately determine the net price, distributors must carefully track and manage each type of rebate, ensuring that all relevant discounts are factored into the final calculation. “It’s too much to do manually, but with a rebate management system you have automation around your programs and record-keeping. This helps distributors maximize their rebates while offering accurate pricing, maintaining healthy profit margins, and fostering strong relationships with both manufacturers and customers. There is a very high ROI from investing in a robust rebate management software which can greatly assist in streamlining this process, automating calculations, and reducing the risk of errors.”

Making Your Rebate Management Easier and More Profitable

As you can see, manual rebate management presents significant challenges for distributors. To maintain strong relationships with vendors and customers, optimize incentive programs, and safeguard profit margins, it is crucial for distributors to invest in a robust rebate management solution. A solution such as Rebate and Channel Manager from Vendavo streamlines the entire process, from deal creation and approval workflows to tracking performance and ensuring accurate calculations and payments. By automating many of the time-consuming tasks associated with rebate management, distributors can allocate resources more efficiently and focus on growing their core business.



Moreover, a rebate management solution enhances visibility, compliance, scalability, and effective decision-making by providing valuable insights and analytics. This empowers distributors to make data-driven choices that improve their rebate programs and ultimately drive sales. By leveraging a comprehensive rebate management solution, distributors can successfully navigate the intricate world of rebates and incentives, fostering long-lasting partnerships with vendors and customers while ensuring sustained growth and profitability.

About Mike Bernard

Mike Bernard, Chief Marketing Officer of Vendavo, is a seasoned B2B marketer with a wealth of experience spanning over 15 years. He has a deep passion for driving revenue and leveraging marketing technology to accomplish growth. Mike is also well-versed in building high-performing teams that deliver value and propel brands towards exponential growth. As a member of the editorial board of the Distribution Pricing Journal, Mike shares many insights and ideas on pricing, e-commerce, and marketing strategies for distributors.

The Big Guide to Timing Your Mass Price Updates

As you know, we're big proponents of using price optimization solutions to keep your pricing continuously updated and optimized. But there are many reasons why distributors might go through occasional mass price updates: e-commerce platforms, catalog publications, new product line introductions and more. Here is a big guide filled with factors you should consider along with insights into how to determine frequency around mass price updates.

Market Dynamics and Pricing Factors

When determining the ideal frequency for mass price updates, it's important to delve into the realm of market dynamics and external pricing factors. How well do you really understand the economic conditions you operate in, your competition and your cost structure? More knowledge means better decisions and a better competitive position. Not to mention the fact that you'll be positioned as a well-rounded strategist on your team by bringing in external data to the pricing conversation.

Economic Conditions

As we mentioned above, pricing managers need to understand how inflation, exchange rates, and other economic factors can affect your pricing strategy. Here are some key aspects to consider.

- **Inflation**: Inflation is unpopular for a very good reason – it erodes purchasing power and thus raises your costs. Many pricing managers are responsive to inflation but with more study you can be proactive. Monitor inflation rates and adjust your pricing strategy accordingly to maintain profitability and keep up with rising costs. Some companies have had success with different bundling strategies during times of inflation, increasing or decreasing unit counts or combining less profitable SKUs with more profitable SKUs.
- **Exchange Rates**: If your business relies on importing products or raw materials from other countries, fluctuating exchange rates can significantly impact your costs. Monitoring exchange rate fluctuations and adjusting your pricing strategy in response will help you maintain healthy profit

margins while remaining competitive in the market.

- **Interest Rates**: Changes in interest rates may affect the cost of borrowing for businesses, which in turn can influence the cost structure of your company. Keeping a close eye on interest rate trends can help you anticipate potential increases in operating costs and make proactive adjustments to your pricing strategy.
- **Government Policies**: Economic policies, such as changes in taxation, import duties, and regulations, can directly impact your business's bottom line. Staying informed about any upcoming policy changes and adapting your pricing strategy accordingly is vital to safeguarding your profit margins and staying ahead of the competition. Trade associations can be a valuable source of information as many provide reports and even have policy lobbying programs.

Competitive Landscape

It should go without saying that you need to be keenly aware of your competitors' pricing. Keep an eye on competitors' pricing strategies and adjust your approach accordingly. There may be no bigger factor that shapes your pricing strategy than your competition. Certainly, competitive pricing situations are evident any time you see increases in price overrides. That can signal that you need to dive in deeper into your pricing strategy. Here are some key aspects to consider when analyzing your competitive landscape:

- **Competitor Pricing**: Regularly monitoring the prices of your competitors allows you to identify trends and potential gaps in the market. By staying updated on their pricing strategies, you can make timely adjustments to your own prices, ensuring that you remain competitive and attractive to customers. It's important to use a solid distribution CRM package to track competitors in every deal.
- **Market Share**: Understanding your market share and the market share of your competitors can provide valuable insights into your pricing strategy. Many pricing strategies that distributors implement are solely aimed at gaining market share, investing in new markets and products or shutting down new competitors. Market share can be difficult to track. For larger companies, MDM provides interesting data. For smaller companies, looking in your CRM system for purchasing trends and complementary sales can be helpful.

- **Competitor Promotions and Discounts**: Keep an eye on any promotions or discounts your competitors are offering. To source this information, you should frequently "shop" your competitors and ask loyal customers to share flyers, emails and other marketing they've seen.
- **Product Differentiation**: Assess how your products and services differ from those of your competitors. If your offerings provide added value, you may have more flexibility in your pricing strategy. However, if your products are similar to those of your competitors, it's crucial to stay competitive with your pricing and consider more frequent updates.
- **Customer Perception**: Be aware of how customers perceive your brand compared to your competitors. The more you are valued the more flexibility you have in raising your prices. However, if customers view your offerings as comparable to your competitors', it's essential to stay competitive with your pricing. Most distributors do a very mediocre job of understanding their customers' loyalty and satisfaction. We recommend working with Boston Turner Group for regular surveys and loyalty measurement as well as strategies for improving customer satisfaction.

Cost Structure

Regularly review your cost structure, including raw materials, labor, and overhead costs, to determine if price adjustments are necessary. This is particularly true during uncertain times of inflationary pressure and supply chain disruption. You know, like right now. It's great opportunity for pricing experts to work with purchasing and finance to broaden your knowledge, influence and exposure in your company.

Here are some key aspects to consider when reviewing your cost structure:

1. **Into-stock Costs**: The cost of your actual stock and raw materials is often subject to fluctuations due to factors such as supply chain disruptions, changes in demand, or geopolitical events. Regularly monitoring purchasing and replenishment trends can help you identify trends and make timely adjustments to your pricing strategy. You purchasing department is your best friend here. If you're company is using any kind of demand planning solutions working together may help you get ahead of trends.
2. **Labor Costs**: Labor costs can vary depending on factors such as wage rates, employee benefits, and productivity levels. Keep track of these costs and ensure that any

increases in labor expenses are accounted for in your pricing strategy. This may require more frequent price updates to maintain profitability. Labor trends have fluctuated more in the last two years than in the last ten.

3. **Overhead Costs**: Overhead costs include expenses such as rent, utilities, insurance, and administrative salaries. Most pricing managers operate without a clear knowledge of overheads, it's just not in their area of management. Failure to account for increasing overhead costs could result in reduced profit margins and in ways that a lot of pricing managers are not used to tracking. Work closely with your CFO and controller to help stay ahead of changes you that aren't in your data sets.
4. **Economies of Scale**: As your business grows, you may experience economies of scale, which can lead to reduced costs per unit. Be sure to factor in these cost savings when determining the frequency of your mass price updates, as they provide an opportunity to increase profitability without raising prices. You might count volume rebates in this category as well and of course inventory turns matter.

The Role of Technology in Pricing Decisions

The biggest issue that keeps distributors from updating their pricing on a regular basis is that manual processes in pricing are fraught with problems. These include things like:

1. **Human error**: Manual pricing updates are prone to mistakes, such as incorrect data entry or calculation errors, which can lead to significant financial losses or customer dissatisfaction.
2. **Inefficiency**: Manually updating prices is a time-consuming process that requires significant effort and resources, taking away valuable time from other important business tasks.
3. **Difficulty in maintaining consistency**: Manually updating prices across multiple channels, products, and locations can result in inconsistencies and discrepancies, leading to confusion for customers and potential lost sales.
4. **Lack of real-time data**: Manual pricing updates do not consider real-time market fluctuations, competitor pricing, or changing customer demand, making it difficult to stay competitive and responsive to market changes.
5. **Inability to scale**: As businesses grow and expand their product

offerings or enter new markets, manually updating prices becomes increasingly complex and unmanageable.

6. **Limited analytics**: Without pricing software or AI, businesses lack the ability to analyze pricing data effectively, making it difficult to identify trends, optimize pricing strategies, and make data-driven decisions.
7. **Inadequate price optimization**: Manual pricing updates may not consider factors such as price elasticity, customer segmentation, and seasonality, resulting in suboptimal pricing strategies that fail to maximize revenue or profit.
8. **Difficulty in managing promotions**: Manually updating promotional pricing can be challenging, especially when coordinating across multiple channels or locations, increasing the risk of errors and inconsistencies.
9. **Delayed response to market changes**: Manually updating prices often results in slower reaction times to market changes, allowing competitors to gain an advantage by adjusting their pricing more quickly.
10. **Increased risk of non-compliance**: Businesses operating in regulated industries may face increased risk of non-compliance with pricing regulations if they rely on manual processes, potentially resulting in fines or other penalties.

By using pricing software or AI-powered solutions, businesses can overcome these challenges and benefit from increased efficiency, accuracy, and data-driven decision-making, ultimately leading to more optimized pricing strategies and improved profitability. You can also take advantage of simulation and modeling to make sure your pricing strategy is optimized.

Determining the Optimal Frequency of Mass Price Increases

There are many factors that determine when and how often you should conduct mass prices increases. The three most common considerations we've seen include industry standards, customer impact and the availability of internal resources.

Industry Standards

Industry standards are an important consideration when deciding on how frequently to update your pricing because they provide valuable insights into the market dynamics and competitive landscape. For example, if you primarily sell to landscaping companies who are planning a lot of spring purchasing, they may expect you to publish and stick to one catalog each year for consistency. Alternatively, if you support repair operations you may want to be as up to date as possible to guarantee availability, profitability and customer coordination. Researching industry benchmarks and best practices for the frequency of mass price increases can have several benefits:

1. **Understanding customer expectations**: Familiarizing yourself with industry standards and practices helps you understand what customers expect in terms of pricing changes. This, in turn, allows you to align your pricing strategies with customer expectations and minimize any potential backlash or dissatisfaction. Many price managers forget that they are actually holding the keys to the most important aspect of their customers' experiences. Try to create opportunities to spend more time with customers to understand their patterns and needs. How often do you help at the counter or go along on sales calls? There are a lot of opportunities around you to learn more about the voice of the customer.
2. **Maintaining competitiveness**: By staying informed about industry benchmarks, you can ensure that your pricing changes are in line with those of your competitors. Many distributors are reactive to industry changes, and this results in their lines being either overpriced or underpriced. If you become the proactive company with regard to trends, you can grab market share and profitability that is hidden to other companies.
3. **Adapting to market trends**: Industry standards often reflect prevailing market trends and conditions. Regularly updating your pricing in accordance with these standards ensures that your business remains responsive and adaptable to changing market dynamics. Vendors may be able to help share trends that you can take advantage of before your competitors. This is why distributors should always include price managers in market planning with top vendors.
4. **Optimizing pricing strategies**: Researching best practices in your industry can help you identify optimal pricing strategies and techniques, such as dynamic pricing, promotional pricing, or value-based pricing. This knowledge can help you maximize revenue and profit while maintaining a competitive edge. Pricing managers cannot know all the various strategies out there and the market is constantly evolving. Don't be afraid to borrow from your competitors or companies in other industries.

5. **Ensuring compliance**: In some industries, there may be regulations or guidelines governing pricing practices. Being aware of these requirements and adhering to industry standards will help you maintain compliance and avoid potential legal issues or penalties.
6. **Building credibility**: Following industry benchmarks and best practices demonstrates to customers, partners, and competitors that your business is professional, reliable, and knowledgeable about the industry. This can enhance your brand reputation and foster trust among stakeholders.
7. **Facilitating performance measurement**: Comparing your pricing practices to industry standards allows you to assess your performance relative to your peers and identify areas for improvement or opportunities for growth.

Customer Impact

Price is the most important aspect of your customer experience. Price changes can significantly impact your customers, and understanding these effects is crucial when determining how often to adjust your pricing. Here are some ways price changes can influence your customers:

1. **Price sensitivity**: Customers may be sensitive to price fluctuations, particularly for commoditized, non-essential (non-urgent) or highly competitive products. Frequent price changes could lead to customer dissatisfaction or drive them to seek alternatives. Each industry has varied price sensitivity and each product in each line you sell has varying price sensitivity. For example, just because a particular product line may be less price sensitive, it doesn't mean that every product in that line shares the same demand curves. For example, a known big-name brand that is popular with end users like Kohler could demand higher pricing more consistently than an unknown brand; however, that is probably truer for their fixtures than their shower rods.
2. **Perceived value**: Price changes can alter customers' perception of the value of your products or services. Sudden or frequent price increases may create a perception of reduced value, while frequent price reductions could signal lower quality.
3. **Budgeting and planning**: Customers, especially seasonal contractors or other businesses, often plan their budgets and spending based on expected costs. Frequent price changes can make it difficult for them to budget accurately, potentially causing

frustration and negatively impacting their purchasing decisions.

4. **Customer loyalty**: Consistent and fair pricing can contribute to building customer trust and loyalty. Frequent price changes, especially without clear communication, can undermine that trust and lead to customer attrition. Many distributors rely on pricing contracts for their best customers, so don't forget to review those contracts regularly as well.
5. **Promotional fatigue**: Regularly changing prices through promotions or discounts can desensitize customers to these offers, reducing their effectiveness over time.

Internal Resources

Price changes can also significantly impact your internal users, such as employees and sales reps. Here are some ways price changes can affect them and why it should influence how often you change your pricing:

1. **Complexity**: Frequent price changes can increase the complexity of managing product catalogs and pricing structures, making it more challenging for employees to stay informed and up to date. There is nothing more confusing to a customer than calling two employees and getting a different price.
2. **Sales performance**: Changing prices too often may create confusion and uncertainty among sales reps, which can hinder their ability to effectively negotiate deals and close sales. Keep an eye on your overrides.
3. **Customer relationships**: Price fluctuations can strain the relationship between sales reps and their customers, especially if reps are unable to provide clear explanations for the changes or if customers feel that they are being taken advantage of.
4. **Training and onboarding**: Frequent price changes require additional training and support for employees to ensure they understand the new pricing structure and can communicate it effectively to customers. Having standards for when you do mass price updates can ease the training burden.
5. **Incentive alignment**: If prices change frequently, sales reps' incentives, such as commissions or bonuses, may be misaligned with the company's objectives. One of the most common complaints we hear about a lack of alignment between pricing and sales isn't overrides, it's a focus on short-term gains instead of long-term growth and customer satisfaction.

6. **Administrative workload**: Regular price adjustments can increase the administrative workload for employees, who must update systems, marketing materials, and other documentation to reflect the new prices.

The Rest Is Up to You

No two distributors are exactly alike, so determining the optimal frequency for mass price increases is a complex and multifaceted decision that cannot be universally prescribed. This guide is really just a starting point. We gave you some of the blanks you need to fill in and gave you some ideas where to look for data. But in the end, only you can gather the pieces together to make informed decisions.

Market dynamics play a significant role in guiding pricing decisions. Factors such as supply and demand, competitor pricing, inflation, and changing customer preferences all contribute to how frequently distributors should reassess and adjust their pricing strategies. Staying attuned to these market shifts enables distributors to respond proactively and maintain a competitive edge.

Leveraging technology is another crucial aspect of optimizing pricing strategies. Distribution-specific price optimization solutions, including advanced analytics tools, artificial intelligence, and machine learning algorithms can help distributors gain deeper insights into their customers' behavior, preferences, and willingness to pay. You need to become more data driven and take advantages of the efficiencies and agility the latest technology can bring.

Implementing best practices is also essential for striking the right balance in pricing strategies. Distributors should establish a structured process for monitoring and reviewing their pricing decisions, including setting clear objectives, gathering relevant data, and conducting regular evaluations. This systematic approach ensures that pricing decisions are grounded in sound reasoning and are continuously refined based on the latest market trends and company performance metrics.

So, the rest is up to you. By staying responsive to market dynamics, embracing technological innovations, and adhering to best practices, distributors can strike the right balance and ensure their pricing strategies drive sustainable growth and profitability.

Why Some Distributors Don't Talk About Price Optimization

I've made many friends with executives and founders of price optimization software and consulting businesses and one of the most common jokes we share is, "the first rule of price optimization is don't talk about price optimization." This may surprise regular readers of the Distribution Pricing Journal who know that setting the right prices can make an enormous impact on your profitability and competitive advantage. Unfortunately, many distributors are reluctant to discuss their price optimization techniques, tools and strategies. Their caution stems from several misconceptions about how people will respond to their use of price optimization solutions.

Fear of Customer Backlash

One reason distributors are reluctant to talk about price optimization is fear of customer backlash. Price optimization is terrific from the distributor's point of view because it allows them to fine-tune their pricing based on a range of variables, such as customer segmentation, market demand, competitor pricing, and supply chain costs. It's obvious why leading distributors are using price optimization to stay competitive and maximize their profits. Yet their customers are understandably not as enthusiastic about optimized pricing.

Customers can feel that optimized pricing is taking away their own profitability and reducing their ability to negotiate a good deal. This is especially true during times of inflation when prices seem to be rising everywhere and no one is sure what is real and what is opportunism. So, distributors often keep quiet about their price optimization strategies for fear that customer perceptions will lead to negative feedback or even a loss of trust in the company.

It's worth noting here that price optimization isn't necessarily about getting the highest possible price. It's about matching the value you provide to market demand through any number of models and strategies. Distributors who use price optimization might very well have some of the lowest prices in the market because their analysis inspired a decision to grab more market share, maximize rebates or offer discounts to loyal customers.

Tipping the Hand to a Competitor

Part of price optimization involves competitive intelligence and an analysis of what your competitors are planning with their pricing. But almost all your pricing strategy involves things you don't want to share with a competitor at all like demand patterns, purchasing frequency, inventory levels and more.

Distributors are often worried that if a competitor is aware of their price optimization initiatives, they can lose their competitive edge or expose information they don't want to share with a competitor. They are concerned that a competitor might be able to reverse engineer their pricing decisions to pick out weak spots in their strategy or go head-to-head with pricing strategies.

When it comes to competitors who are far behind the technology adoption curve, it is hard to predict how they will respond. These competitors haven't invested in price optimization solutions or even basic business intelligence, so their reactions may be impulsive. If such competitors learn that a distributor is using price optimization, they may feel pressured to lower their prices in response and try to start a price war. Don't fall into that trap. Let them run their pricing data-free, you should stay the course and continue to optimize your pricing with your pricing solution.

Fear of Outside Scrutiny

Distributors are typically very private in their operations. They don't like any kind of spotlight on their business especially if it involves any kind of potentially negative outside scrutiny. This could come from media or association sources, customer groups, vendors or regulators. Some distributors are concerned that revealing their pricing strategies will attract undue attention.

In today's digital age, information travels fast through social media channels, networking and association platforms and forums. One complaint about price optimization can hamper a distributor's ability to grow business in a particular area. If a customer group or association starts complaining that price optimization is affecting their buying experience, it can be difficult to combat negative online momentum.

Distributors should not be concerned about regulatory scrutiny when it comes to price optimization. Leading price optimization solutions are widely adopted, and their advanced algorithms ensure that they are not creating unfair practices, discrimination, or monopolistic behavior. Price optimization software is designed to help companies set prices that reflect market conditions, demand, and competition. It uses sophisticated data analysis to determine the optimal price for a product or service. Unlike price-fixing, which involves collusion between competitors to artificially inflate prices, price optimization is a legitimate pricing strategy that can benefit both companies and consumers.

While there is absolutely nothing unethical or illegal about using price optimization, some distributors are worried about incorrect assumptions made by groups they deal with. Customers and partners may perceive the use of pricing optimization tools as unethical and violating fair competition practices, even though nothing could be further from the truth. Paradoxically, one of the primary reasons for this concern is the lack of transparency surrounding the use of these tools. Customers and associations may not fully understand how price optimization works and may believe that it is used to take advantage of them.

Fear of Employee Backlash

This may or may not surprise you, but some distributors don't share their pricing information with all their employees. This is especially true if their sales organization is not tightly managed. We've heard of many distributors have different cost and price levels that are shared with sales team to keep them from discounting too much or keep them in line with compensation levels and quotas.

Some sales reps are concerned that price optimization tools don't reflect their customer's needs or may feel like part of their input is being devalued. They may believe that price optimization will disrupt their sales because they fear that setting more accurate and optimized prices may make their products less competitive or less appealing to customers who are used to paying lower prices. This is a misconception. Price optimization benefits sales reps by improving customer satisfaction and loyalty by offering fair and consistent pricing.

By using price optimization software, distributors can ensure that their prices are always within an acceptable range for consumers, helping to prevent customers from feeling like they are being overcharged or undersold. This is one less thing for a sales rep to worry about and customers know they can trust them for fair pricing.

The Solution: Transparency and Consistency

We believe the solution to these concerns is not to keep your price optimization a secret, but to overcommunicate with your customers, employees and partners. Be transparent. Communicate regularly.

Honesty and transparency are appreciated by customers and employees alike. It is important to be upfront about the reasons behind them. That can mean explaining your pricing strategy along with other factors such as changes in the economy, a price update from a vendor, a supply chain interruption or even a pricing error.

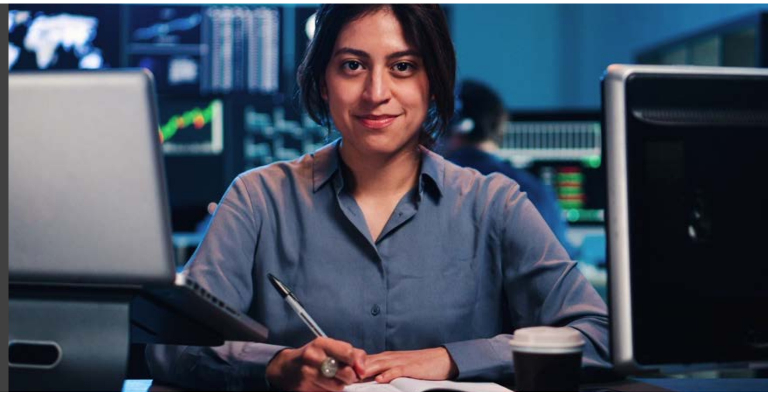
Will some customers complain when their prices increase? Of course, they will. But by explaining your price optimization strategy with them you can emphasize that you are offering fair and accurate pricing that is best for them while keeping your business healthy. You deserve to make money, too, it's why you are in business, and they should want you to run a profitable business so they can count on your supply down the line.

What if a competitor tries to match your pricing or undercut you? Stay the course. While competitive price cuts could mean that you need to reconsider the value you offer, more than likely your competitor is not making a decision that should impact your business. Who knows what their cost levels or loss-leader strategies might be? The information that is available to them may not always be complete or up to date. Inaccurate data can lead to poor decision making, leaving a competitor at a disadvantage in the market compared to distributors who are using more advanced analytics.

About Matthew Turner

Matthew Turner has made a career of managing hyper-growth companies. He is the Founder and President of Boston Turner Group., a consulting firm focused on providing entrepreneurs with a proven, systematic and repeatable approach to achieving and maintaining growth. Readers of The Distribution Pricing Journal probably know him best through his history in distribution technology as the top marketing executive for organizations like the Infor Distribution Group, Accellos, NxTrend, Mercury Payments, Atrium Capital Group and others. He's also the leader of the American Mensa special interest group Marketing Genius and sits on a couple of marketing think tanks, namely Prodigy Works and the Mensa Process.

How Pricing Managers Can Help Maintain Sales Momentum



It's hard for a distribution sales team to keep their momentum going after the excitement of the first quarter wears off. Maybe your managers held a great kickoff at the beginning of the year, but now that we're in the thick of the second quarter sales reps have forgotten some of that motivation. Your company might be in-between busy seasons as we run through springtime. Sales reps might be exhausted after starting the year fresh and hitting the ground running. Your customers might have been working bigger jobs at the beginning of the year, but now economic uncertainty is stalling their business.

There are ways that a distribution pricing team can help keep sales momentum going all year long.

Sales Incentives Tied to Profitability

Work with your sales managers to create sales incentives tied to profitability goals. These incentives are powerful tools for maintaining sales momentum throughout the year and you can lead the momentum with the profitability analysis you are already doing daily. When you offer sales incentives around profitability targets, it keeps your reps thinking about the overall health of the business and not just pounding away on new sales. If there is a slowdown, they can still focus on raising profitability and steer customers toward higher margin items. This keeps your reps aligned with the long-term success and profitability of your company, but it also keeps them engaged even when the market is harder to penetrate.

It is important that you have a distribution CRM system to help you define specific goals and activities and track progress on a regular basis. Plus, a little healthy competition amongst your sales reps can be a good thing. Analytics and data from both your profit and pricing solution and your sales management solution helps reps see the bigger picture. CRM drives accountability and ownership that helps your sales team operate at a higher level.

Lead Them to New Opportunities

Pricing managers are in a unique situation to help sales reps find new opportunities. You understand the behavioral triggers that lie behind your customer segmentation. You can help them understand which customer segments are buying more, increasing their behavior or seem less price sensitive. You can help your sales reps by running product scorecards from a distribution CRM system like SMP. These scorecards show your reps which customers are buying product A, but not a complementary product B. Tied into your pricing data, customer segmentation and demand data, you can lead your sales team to opportunities they may not have considered without data.

Focus on Loyalty and Account Penetration

When sales are a little bit harder because of economic uncertainty or down times, focusing more on customer loyalty and account penetration can help you maintain sales momentum. Existing customers are always easier and less expensive to work with than finding new customers. Use your data to help them understand which of their customers might be ready to increase their purchasing frequency or are less price sensitive. Help your reps customize their outreach based on data that will build trust with their customers through targeted offers and tailored proposals.

Two things happen when you help a customer increase their spend with you. First, that customer becomes more profitable for you in a few ways. Every increase in lines per order is a direct increase in the profitability of that order. Second, it helps the customer reduce costs as well. They would usually prefer to work with one distributor and consolidate their purchasing. So cross-selling and increasing account penetration increases customer satisfaction, loyalty and even word of mouth.

Help With Sales Training

Most pricing managers don't realize the many interesting elements they can add to a sales training program. Pricing experts in any company are close to real-time data that can help your sales team successfully price and sell your products and services. Sales reps sometimes see pricing managers as the team making their sales more difficult by raising prices. By offering training and data, you can instead be seen as a sales ally.

- **Pricing Guidance**: Pricing should not be governed by a gut feel in each deal, it should be governed by data. Pricing managers have real insight into strategies that lead to higher close rates. You have data to share that demonstrates demand patterns, customer segmentation behavior and even competitive pricing.

- **Training Materials**: You probably work on price books, e-commerce data and catalog pricing in some fashion already. Have you considered taking your published pricing information a step further with cheat sheets for reps that have strategic pricing plays, pricing models and negotiation tactics? You can develop playbooks, case studies and even video coaching that can help your sales reps help you reach your profitability goals while increasing sales momentum.
- **Help with Individual Analysis**: You are already conducting analysis of different segments and strategies for profitability and volume. This fosters success with the greatest number of customers through data. What if you offered to help with targeted pricing data and pricing for large opportunities, bids, quotes and jobs? Your data could help each sales rep understand the best pricing they need to win large deals.

Pricing managers can be a valuable partner to sales teams by providing pricing guidance, developing pricing training materials, conducting pricing analysis, fostering communication, and tracking pricing metrics. Take the initiative to work closely with your sales team and together you will be more effective and efficient all year long.

About 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.

How to Increase Prices Without Alienating Your Customers

Over the last several months, the question on the minds of most pricing managers is not, “should I raise prices,” it is, “how do I raise prices without alienating my customers?” Inflation has driven price increases and energy costs have increased cost to serve for many distributors. And despite increasing interest rates aimed at cooling inflation, the job markets remain fairly strong making distributors compete more aggressively in the job market.

Here’s the bottom line: price increases are a standard part of business in our industry.

Yet it is hard to raise prices without compromising customer loyalty, especially since many buyers have become accustomed to low inflation and price sensitivity over the past several years. However, there are ways you can make this much easier for both you and your customers.

Here are some expert tips to manage price increases while still maintaining the best interests of your customers.

Provide a Market and Data Based Rationale

Before attempting to pass on a price increase, make sure you have a solid market-based explanation for it. Explain the need for higher prices in terms of increased costs for raw materials and labor, or any other relevant factors. Often, vendors publish price increases so you should never fail to share that information. Try to demonstrate that any additional cost is balanced out by value-added features or benefits for your customers. This will be particularly useful when it comes to procurement professionals and buyers who are tasked with controlling costs.

If you find yourself in a situation where you must pass along a price increase to a customer, we think it is essential to have a valid and airtight business case that not only addresses the underlying cause of your need for higher prices, but also emphasizes the value-added features or benefits that will come with this cost. By providing data to back up your argument, you can help disarm any client who is opposed to the increase solely because they don’t want to pay more. This makes it easier on your sale team as well. Having a comprehensive understanding of the situation and being able to effectively communicate it will go a long way with customers whose priority is controlling costs.

Find Ways to Adjust Your Value Adds

There may be ways to remove some costs out of your orders by working with customers to decrease some value-added services that they don’t need or see value in using. Alternatively, there may be opportunities to increase the value you provide without greatly increasing your cost structure thereby making it easier to raise your prices.

As a distributor, you have the unique advantage of being able to promote your value-added services in ways that don’t necessarily increase your costs. Things like personalized support, online or chat support, unique product packaging, customized discounting and promotions to your best clients, flexibility in order and delivery times, VIP order expediting and custom payment plans. Maybe you have better educational programs and materials than your competitors. Or your work with vendors allows you to provide new research insights or consulting services. Remind your customers of the additional value you provide any time you have to communicate a price increase. You aren’t the only company having to raise prices, so by promoting your value-adds, you will also position yourself above your competitors. ƒ

When it comes to communicating a price increase to your customers, emphasizing the wide array of services and solutions you offer is key. This is especially important when dealing with long-term clients, as it can help to remind them that there are other compelling reasons for continuing business with you beyond just pricing. By taking the time to explain the value of your additional services and solutions, you can help your customer to understand why they should continue investing in your products or services despite an increase in cost. It’s also an opportunity to draw their attention to any new features, functions or capabilities you may have recently added that could benefit them too.

This emphasizes the need for data-driven customer segments. Selling your products in data-driven price tiers can be a great way to satisfy customer needs while maintaining profitability. If you have customer segments based on purchasing behavior, cost to serve and profitability, then your models can help you proceed. Price optimization solutions help guide you to the groups of customers that are price sensitive. Incorporating these multiple tier pricing systems has the added benefit of potentially reducing the service burden on your company by allowing some customers to move to a lower price tier if necessary.

Another approach when attempting to pass on a price increase is to soften the blow by enrolling customers in a VIP program that rewards them for their purchases and performance. This could involve offering them a discount, or even rebates back to the client at the end of the year, reducing your total cost to serve them. This can be an effective way of negotiating with clients who are opposed to a price increase, as they may be able to negotiate other terms such as cycle time or payment terms. This method allows customers to feel more involved in the process and provides an incentive for loyalty spending.

Become Even More Data Driven Across Your Culture

Salespeople will typically oppose price increase citing the risk of losing customers. You should also care about doing the most you can to keep customers, so it's important to ask your sales team to provide evidence that supports these claims. Are customers really pushing back hard? Is buying behavior decreasing as a result? If possible, further research can be done within your industry to gain a more in-depth understanding of the actual elasticity of your prices. Just as you should be concerned with pricing's impact on sales, you should encourage your sales team to take ownership of profitability. A good way to do this is to transition from revenue-based commissions to margin-based commissions. If reps have an incentive to maintain profit margins and successfully negotiate for better prices on behalf of their customers, it helps keep everyone on the same page.

We all sympathize with sales reps anytime they must notify a customer of increased pricing. Even though the price increases are just being passed along because our own costs have increased, it is never an easy conversation to have. To make this process as straightforward and seamless as possible, it's essential for sales reps to have data and evidence at their disposal that supports the reason for such an increase. Good data not only helps to ensure that sales reps are well-equipped with knowledge before speaking with customers, but also allows them to provide their customers with reassurance that the price increase is necessary and justified.

Don't Wait So Long to Make Price Changes

You should maintain regular price changes as part of the normal course of business. That teaches your customers that you are doing your best to stay sensitive to market pricing and that makes your pricing more believable in the long run. In other words, they won't see a sudden price change as an anomaly, and instead they will view it as a standard part of your pricing practices. If customers express any concern over consistency in their pricing, consider offering them a special contract with locked-in rates is one way to demonstrate that you are committed to providing them with reliable service at an agreed-upon price.

We recommend that distributors maintain pricing on a regular basis because it helps to build customer loyalty, as customers are reassured that they can depend on you to provide consistent and reliable service. This sense of trust is invaluable when it comes to customer relationships, as customers feel secure and valued knowing that you will always meet their expectations. Let your team and customers know that you are fast and responsive to market fluctuations because it means you are open to adapting to changing conditions. That shows that you prioritize customer experience above all else.

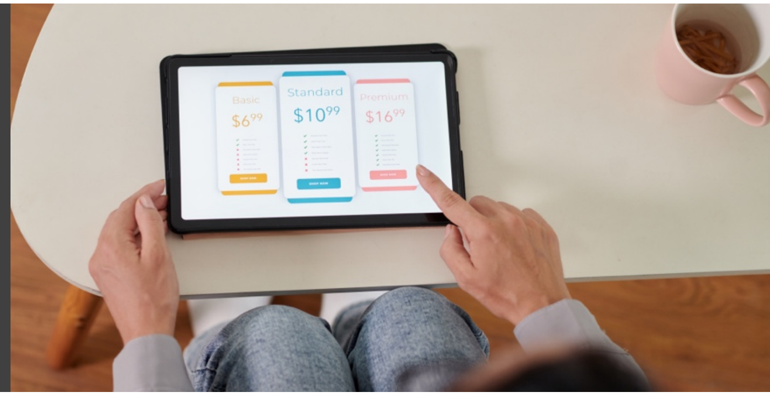
Kind Words from Subscribers

"The Distribution Pricing Journal is an invaluable resource for me as a CEO. The insights offered are always on point and help guide our pricing strategies."

"As a pricing manager, I find your advice and hands-on tips invaluable, practical, insightful, and immediately applicable. It's become my go-to for industry trends and strategies."

"I'm constantly amazed at the depth and breadth of information available in the Distribution Pricing Journal. The vendor listings alone are worth the read."

Price Modeling Software



Price modeling software offers a range of features that can help businesses make smart pricing decisions and maximize their profits. Not all price optimization solutions offer price modeling, which gives you the ability to model customer behavior, analyze pricing data, simulate various scenarios, and optimize strategies to create practical pricing strategies that lead to higher profits or help you realize other strategic goals like market penetration or rebate maximization. This article is meant to provide an overview for distributors who are unfamiliar with price modeling software, so we'll give you a picture of the features, benefits and the potential issues associated with implementing modeling.

What is Price Modeling Software?

Price modeling software is a type of software that helps companies and organizations analyze, simulate and optimize pricing strategies. Typically, a distributor would want to model various pricing scenarios and pricing structures to maximize profitability. You might have other goals you want to achieve with new pricing, such as market penetration, rebate maximization, and vendor comarketing. A higher-end price optimization tool should provide distributors with the ability to test different price points to strike a perfect balance between revenue and profit. This allows you to put some prior analysis into changing pricing in ways that won't unexpectedly sacrifice customer purchasing frequency or send customer out the door to your competitors.

What are some of the things you might want to model? Every tool is different, but most of the distributors we talk to like to look at a blend of customer purchasing behavior and history, pricing and cost data, season demand patterns along with the ability to simulate and compare various pricing scenarios. You can do a what-if analysis of various price hierarchies to see which ones maximize revenue while reducing cost to serve. Some distributors use price modeling to look at inventory trends, trends in customer demand and identify new areas to balance stock or purchasing based on historical data. With some tools you can monitor your competitors' pricing and test out changes based on your own data. This is important because you can't always trust a competitor's published pricing. You have no idea what was behind their decision to change pricing; however, with price modeling software you can predict what a similar change would have on your business.

Benefits of Price Modeling Software

Price modeling software gives distributors valuable insights into customer needs and take strategic actions based on real-time information.

Improved Pricing Strategies

There are many price optimization solutions on the market that can help distributors better manage their pricing strategies so they can maximize their profits and reduce expenses. Price modeling take this a step further by allowing distributors to input or integrate to data such as competitor prices, past sales figures, market trends, and customer preferences to generate accurate forecasts for future price points. The end goal of the modeling is to identify the most strategic prices for their products or services that will attract more customers while also increasing profitability. That's not always obvious with simple optimization tools. Additionally, modeling solutions can provide simulations based on different pricing models that help you understand how different pricing options impact revenue and margins over time. By leveraging price modeling technology, distributors can be more competitive while also watching their bottom line.

Optimized Inventory Management

Price modeling software can help distributors optimize their inventory management strategies as well. It allows you to forecast customer demand and adjust prices accordingly, so you can keep your stock levels optimized and in line with demand patterns. Of course, many distributors take this a step further with specific inventory forecasting solutions as well. But many price modeling solutions can help you better understand the relationships between pricing, demand, purchasing habits and more so that you can avoid having too much or too little inventory. Monitoring trends in customer buying behaviors and adjusting prices to match your strategies can help you work more closely with your buyers. Every distributor is different – some require more sophisticated demand forecasting tools because they are in highly competitive and commoditized markets – but price modeling can help you kill two birds with one stone.

Increased Customer Satisfaction

At the end of the day, the right pricing is less about raising prices and more about improving the value you customers receive from your products and services. By using modeling software, you can determine the right mix of products, services, pricing and costs to maximize your profits while maximizing customer satisfaction. By understanding your customer preferences and patterns, you can offer optimized pricing that gives them a great value while taking your cost structure into account. Many modeling solutions allow you to monitor different sales data points and even compare with customer feedback or historical averages to make sure you stay competitive. Your goal should be to provide the best possible value to your customers, so they are satisfied, loyal and provide you with a higher-than-average customer lifetime value.

Competitive Edge

If you could monitor competitive pricing while also use your own historical sales information to adjust your pricing, you would be a step ahead of 99% of your competitors. You could respond to market changes more quickly, alert customers to changes that impact their business and be seen a market maker. It gives you an edge inside your business as well by helping you anticipate important new trends and adjust your sales and pricing accordingly.

Easier Decision Making

Price modeling software helps distribution companies make quicker, more informed decisions when it comes to pricing their products and services. By utilizing advanced technology like AI and mathematical algorithms that would be difficult to set up in simple business intelligence packages, distributors can analyze pricing data, simulate scenarios and optimize pricing structures to identify the most cost-effective prices that still ensure customer satisfaction. Price modeling software can help distributors save time by automating tedious tasks such as calculating prices and tracking sales figures, allowing them to focus more on other aspects of their business-like vendor relationships, sales management, inventory levels, warehousing and more.

As you can see, solid price modeling software provides a range of features that help distributors gain insights into their pricing structure to optimize their profits while still delivering excellent customer experience. By using this type of software, companies can establish sustainable prices that are more aligned with their goals while satisfying customers’ needs at the same time. However, there can still be some downside to look at.

Issues with Price Modeling Software

While price modeling software can provide several benefits, there are some potential issues that must be considered as well.

One of the main concerns is data accuracy and reliability. Price prediction models rely heavily on historical data, so it's important to ensure that the data is accurate and up to date. Additionally, if distributors use external sources for their pricing data, they need to make sure that these sources are reliable and comprehensive enough to yield meaningful results.

Compliance with local laws and regulations is another issue to consider when using any kind of price optimization, especially in regulated markets or markets with few competitors. Distributors need to make sure that their pricing strategies comply with applicable legal requirements, or they may face fines or other consequences.

Finally, companies should also be aware of potential ethical considerations when using any kind of price optimization. Your intention may not be to collude with competitors or discriminate against certain groups of buyers, but the data can lead you to decisions that appear to be unethical regardless of your intentions. It's very important to have robust customer segmentation based on data established to help guide your price changes.

Fortunately, many of these issues can be addressed by properly analyzing the data used for price predictions and adjusting models accordingly if necessary.

If you're looking to improve your pricing strategy and gain a competitive edge in the market, price optimization and modeling software is an effective tool to consider. There are many different types of software available that can help you analyze market data, simulate scenarios and optimize pricing structures to identify the most cost-effective prices that still satisfy customer demand. Our Price Optimization Solutions Guide provides an overview of some of the top solutions in this area, as well as helpful advice on selecting the right software for your needs. Alternatively, our experts are always available for more personalized assistance with selecting the right price optimization software for your business.

Help! My Boss Only Cares About Industry Pricing

We received a question from a subscriber recently that made us laugh:

Help! Our CEO insists that industry pricing is all that matters, and we should just try to stay in the middle to be competitive. We're not running some kind of all-you-can-eat buffet line where our customer just loads up regardless of profitability. How do I explain this to him without getting [expletives deleted] fired?

Industry pricing can be relevant for distributors, although we appreciate the above pricing manager's insight that many other factors lead to profitable price setting far beyond industry norms.

We're guessing that the CEO wants to use industry pricing to set baselines for goods and services that fit your markets and locations. That is not a terrible idea, although we would prefer to use it as a starting place rather than the end goal. It's always a good idea to look at your industry pricing with factors like competitor prices, regional market conditions, local cost-of-living adjustments, production costs, and other data to determine the competitive price point for a given product or service.

Certainly, industry-wide issues related to shortages, recalls, inflation, new product launches and more all have impact on your ability to price correctly.

The problem we have with only using industry pricing instead of analyzing your customer segments, buying behavior, demand pattern and other data-driven pricing strategies is that you will fail to maximize your profitability. You may be comfortable where you are in your markets with industry pricing, but you will leave money on the table. It can also lead to an overemphasis of your competitor's prices. How do you know they have their pricing correct? How can you respond quickly to changes and customer needs by using such a broad brush? How do you maximize your success in niche markets? Remember, profitable pricing isn't always about charging more, it's about meeting your customers' needs at a fair exchange of value.

There is a way forward for pioneering pricing managers who work for traditionalist industry-focused bosses.

Know The Competition

How often do you shop your competitors? If you want to really present a picture of what your industry is doing, you're going to need to understand your competitors' real prices. What are the really getting on the invoice, not what are they charging online or in ads. Making an argument for more sophisticated pricing must start with real street-level data.

Know Your Local Branches

Industry-pricing isn't a nationwide standard. If you want to get to the heart of what your industry thinks is a pricing norm, you need to also consider things like regional adjustments, cost of living, transportation issues and more. Some of your branches can and should charge more for a variety of factors. Each location has a different set of trends, local businesses, infrastructure, they grow or decline at different rates and for different reasons. One branch might be benefitting from a local building boom while another is suffering from floods. Even with industry pricing, you still face a significant amount of complexity just in localizing your pricing strategies.

Understand Your Real Costs

Just because a competitor is priced at a certain level, it doesn't mean you should. There are a whole bunch of reasons why your price may differ from your competitors You must take all your own costs into account to stay profitable with industry pricing – replacement costs, costs to serve, labor, shipping and more.

Get Clear on a Profit Target

If your CEO is insisting on industry pricing, it could be that he or she feels they are in a totally commoditized market, and it is hopeless to maximize profit beyond industry norms. Or it could also be they've just never thought about it. Help them set goals for better profitability and you might slowly bring them along. Help them see that their business isn't just a passive price-taker, but it is their biggest investment in their portfolio. Why would they want to grow it bit by bit with better data?

Share Anecdotes

Often executives are a little bit removed from the actual customers to understand what customer needs are and what they can mean to your profitability. Rather than shoving a bunch of data at someone, it can be helpful to share customer stories that illustrate how different needs and expectations can drive different pricing. At the end of the day, pricing is about both sides getting good value. If one customer prefers your locations because of convenience, they're getting more value and are willing to pay a little more than your competitors. Customer feedback should be an important aspect to your industry pricing. And if your CEO really wants to be informed about what the distribution industry is doing with pricing, you can also share some of our articles about how distributors are using advanced technology to drive price optimization. Or share our distribution pricing optimization solutions guide to get a flavor for the solutions we feel comfortable recommending.

Experiment and Track Discounts and Promotions

If you are only using industry pricing, then what happens to strategies like discounts and promotions? Most distributors use discount regardless of their pricing strategy. Tracking and analyzing the data from these promotions give you an opening to discuss further how various pricing strategies can impact profitability. This is an area where your CEO is probably comfortable with varying from industry norms so use it as a data set. Any place you are changing your price points over time for any reason is an opening to discuss how better analysis of pricing could lead to enhanced profitability.

We certainly don't envy the subscriber's dilemma presented in their question. Talking about pricing to an experienced distribution CEO is never easy, and it gets harder if they are married to a particular idea about how pricing should work. So, keep at it, emphasize the importance of regional differences, cost structures and unique customer situations. Ultimately, the more experience people have with a new strategy, the more likely they will support and expand it in the future.

No, Artificial Intelligence is Not Coming to Take Away Your Job

Pricing managers are increasingly aware of the potential for AI to improve their work – even to the point that some are worried that AI will replace them in their jobs. This has left a lot of pricing managers feeling anxious and uncertain about the future. It's true, AI systems can analyze and process data faster than humans, easily identify trends and automate certain data processes with greater efficiency. And with its powerful computational power and ability to learn from past data, AI can offer pricing and profitability proposals quickly and accurately – something that is worrying for many who work in this profession.

So, does artificial intelligence spell the end of your job? Of course not. At the end of the day, AI is just another tool. Workers had similar fears about the introduction of the steam engine and the personal computer.

Artificial Intelligence Can Create New Jobs

In fact, according to Daniel MacDonald, Chair of the Economics Department at California State University San Bernardino, advances in technology most likely contribute to job growth in the field of distribution pricing.

"AI is playing an increasingly important role in distribution pricing, which has led to the emergence of new job roles and professional skills in areas such as data science and model development," says MacDonald. By utilizing AI algorithms, businesses can gain greater insights into pricing and demand trends, allowing them to make more informed decisions about product pricing. This increased efficiency has led to a growing demand for professionals with expertise in data science, machine learning, and development.

"It's true that AI can automate processes such as running complex pricing scenarios which used to require manual labor," says MacDonald. "But this is creating jobs that involve improving data analysis overall, monitoring the performance of existing systems or developing new ones. In this way, AI and all new technology is actually contributing to job growth by leading to new demands for jobs and skills in data science and modeling related to distribution pricing."

Humans Will Always Maintain Unique Advantages Over the Bots

As is the case with any new technology, AI is simply not sophisticated enough to do the complicated tasks of a distribution pricing expert. Although AI is advancing every day, there are uniquely human components to pricing that will not be replaced.

Humans have an innate understanding of what factors customers consider when making purchasing decisions, such as the perceived quality of a product, its competitive advantage, and its overall value. This is something that AI systems are still unable to replicate adequately, as machines do not have the same level of emotional intelligence or natural ability for customer empathy as humans do. Therefore, pricing managers can interpret customer preferences and behavior when assessing the value of a product more effectively than an AI system can.

AI will always be reactive in terms of strategy. AI can help to automate certain tasks and identify patterns in data; however, it cannot bring the same level of creativity to pricing strategies as a human can. While AI can help to assess past trends and develop basic pricing models, humans are still better equipped at crafting innovative strategies for market expansion or diversification. This requires an understanding of customer needs and preferences that only comes from extensive knowledge of the industry as well as creative problem-solving skills which machines simply cannot mirror.

According to Matthew Turner, a leading growth strategist and founder of Boston Turner Group, there is both an art and a science required in pricing strategies. "Pricing products in distribution can sometimes seem a little bit like jazz improvisation," says Turner. "You need a great instrument and a great knowledge of theory, both elements of a powerful AI." But according to Turner, humans will always be able to take that knowledge a step further. "AI algorithms are powerful tools for understanding customer behavior and predicting market trends, but they do not have the same ability to react quickly as a human does. Price managers can detect changes in the market faster than a machine as they draw on their experience and knowledge of customer preferences which an AI system cannot match. "I haven't yet seen a VP of Sales trying to spitball new job quotes or SPA ideas with ChatGPT."

Turner adds that it is still much faster for a human to come up with these improvisations and new ideas than it is to retrain an AI algorithm on new data. The speed and agility of human decision-making when it comes to pricing strategies can often give companies the edge they need in highly dynamic markets. “AI is a tool, and in the right hands with the right human minds, it leads to high profit and competitive advantage.”

Humans Understand Other Humans

The human element in price optimization cannot be overstated. There is a lot more to segmentation and pricing that just data. Segments and pricing must make sense on a human level, where purchasing behavior intersects with the data. This is something that humans understand deeply and immediately. Despite the capability of AI algorithms to detect patterns and automatically generate pricing models, there is still a need for human involvement when it comes to pricing decisions due to the complex nature of customer interactions. Price managers must be able to interact with customers to gain an understanding of their needs and preferences which simply cannot be replicated by an AI algorithm. The ability to build meaningful relationships and trust with clients is also essential for successful pricing strategies, and this can only be done by humans. Furthermore, price managers are better positioned to make quick improvisations when needed, as well as being adept at dealing with unexpected or unforeseen circumstances.

Making Your Job Better, Faster and More Accurate Through Technology

Nelson Valderrama, CEO of Intuilize, understands the fears surrounding AI. Intuilize leads in providing AI solutions specifically designed for the distribution industry and aimed at reclaiming lost profits in pricing and inventory. “Some distributors find it alarming and distressing that AI can analyze and process data faster than humans,” says Valderrama. “AI algorithms process and analyze data quickly to provide valuable insights. But it can seem disruptive to the legacy processes in place.” According to Valderrama, it is extremely important to demonstrate the accuracy and usefulness of AI. “Humans must still step in to make key decisions when needed. But when we demonstrate the accuracy and reliability of our AI algorithms, distributors see how machines accelerate their productivity.”

Valderrama notes that people naturally feel anxious about this shift in power. The people who have made decisions in the past may find it distressing to give machines control. But AI will provide distributors with information that would otherwise be difficult for them to discover. "AI algorithms sift through vast amounts of pricing data to identify trends which may be difficult for pricing managers to spot," says Valderrama. For instance, by leveraging machine learning, an AI system will quickly uncover the hidden correlations between data points in a dataset, connecting them in ways that would be difficult using legacy pricing and inventory methodologies.

"Pricing managers have a lot on their plate already," says Valderrama. This creates prioritizing difficulties, given the many different possible strategies at their disposal. "What should I target next? Should I optimize my quotes? Do I try to maximize rebates or quantity breaks with discounts? How much time should I spend analyzing price overrides?" AI will drive decision-makers toward the lowest-hanging fruit. But from there human experience takes over in terms of how to put those new strategies in place.

Software like Valderrama's Intuilize allows businesses to make more informed pricing decisions because it provides robust information to help identify the most profitable prices or discounts. AI will also capture dynamic changes in the market, offering tailor-made solutions based on real-time customer data, solutions leading to higher profits due to optimized product pricing.

Pricing Managers: AI is Not Coming for Your Job

The rise of AI has triggered hype and misinformation. But it is important to note that AI does not replace human creativity. It does not replicate human experience and interpersonal relationships, both of which remain critical to pricing strategy. AI will not take over jobs requiring complex problem-solving and creative solutions any time soon. Accepting and adopting AI may require some adjustment in thinking and the adoption of new skill sets, but intelligent machines pose no threat to workers. Humans will remain accountable for inventory and pricing decisions, but AI can ensure their efficiency, accuracy, and timeliness. People will decide what moves to make, but they will move with more confidence thanks to AI's robust predictive analytics and forecasting.

Distribution Pricing