

# Pricing Best Practices That Drive Profitability

- The difference between the **20%** of companies that succeed in increasing prices as planned and the **80%** that fail lies in the approach. Key points for success include:
- **IMPACT:** Understanding the implications of price increases.
- **Leadership:** Setting the direction and holding people accountable.
- **Follow through:** It is not a one and done.
- **Accountability:** From the CEO down.
- **SALESPEOPLE:** Involving the sales force.



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## Objectives and Goals



DISCUSS STRATEGIES FOR  
EFFECTIVE PRICING



HIGHLIGHT THE ROLE AND  
IMPORTANCE OF A PRICING  
OR MARGIN CZAR



PROVIDE ACTIONABLE BEST  
PRACTICES TO OPTIMIZE  
PRICING PROCESSES



EXAMINE THE IMPACT OF  
COST TO SERVE ON PRICING  
STRATEGIES



OFFER INSIGHTS ON  
ACHIEVING SALES TEAM  
ADOPTION OF PRICING  
STRATEGIES

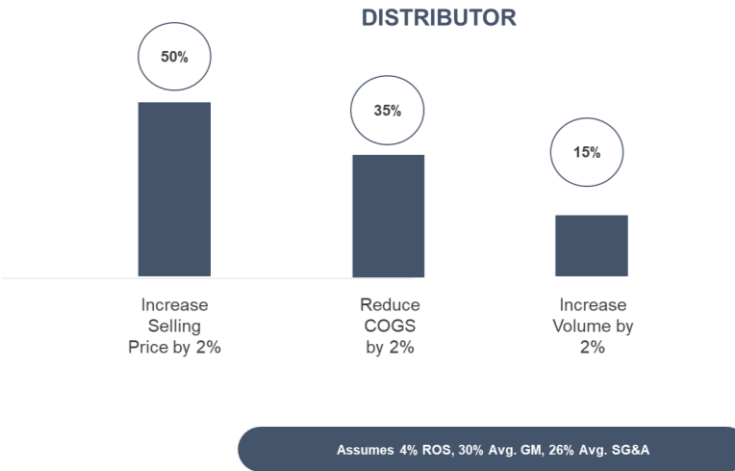


ARE YOU MEASURING THE  
CORRECT METRICS FOR  
SUCCESS?



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# Profit Drivers within B2B Distribution



## Pricing Strategy Alignment: Addressing Key Questions

- Are we using Data to help answer critical pricing questions that significantly impact profitability?
- Are we strategically pricing items based on true market sensitivity and inventory strategy?
- How should we price customer segments that purchase much differently?
- Are our distributors' special pricing agreements priced and managed optimally?
- Are we managing overrides?
- Do we compensate to encourage profit behavior?
- What processes are in place to protect margins?
- Are we measuring performance to plan?



## Pricing Strategies

### “It is a journey”



Strategic Pricing Matrix (Typical three-dimensional model)

COGS view (Replacement, Last paid, AVG, Landed, none or Construct a COGS.)

Explanation and introduction of puffing factor

No COGS view (By authorization)

## “It is a journey”

Sales Overrides

Data shows us the vast majority use GM ending in 0's and 5's

Cost Plus vs. List Down (list down 100-200bps)

Sell Groups (Generally incorrect)

Good-Better-Best verses a single matrix price recommendation

Lock or limit the ability to change prices

SPA Special Pricing Agreements

## The Critical Role of a Pricing/Margin Lead in Driving Profitability

**Strategic Profitability Control:**  
Pricing significantly impacts profitability, making it essential to have a dedicated lead focused on pricing and margins to maintain strategic alignment with revenue goals.

**Market Responsiveness:** This role enables agile responses to market changes, competitive pressures, and customer expectations, ensuring pricing strategies remain relevant and effective.



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## Reporting Structure

**Direct Reporting to CEO, CFO or Head of Revenue Operations:** The pricing lead should report to a senior executive, such as the CEO, CFO or Head of Revenue Operations, to ensure alignment with broader financial objectives and operational oversight.

**Collaboration with Sales and Product Teams:** They should work closely with sales, product development, and marketing teams to ensure pricing strategies reflect market value and customer needs.



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# Key Responsibilities



**Pricing Strategy Development:** Design, implement, and monitor pricing strategies that align with business goals and market conditions.



**Margin Analysis and Optimization:** Continuously analyze margins across products/services to identify opportunities for improvement without sacrificing customer satisfaction.



**Competitive Benchmarking:** Monitor competitor pricing to maintain market positioning and capitalize on gaps.



**Data-Driven Decision Making:** Utilize analytics and market intelligence to recommend pricing adjustments that optimize profitability.



**Internal Training and Support:** Educate and support the sales team on pricing structures and value articulation, promoting consistency in customer interactions.



# Pricing Strategies

## Gross margin on non-stock products

- Increase today by 500bps
- Put a program in place that measures and encourages sales to hit a GM target

## C & D items

- Run product sales report.
- Calculate the total number of products
- Divide the products into four groups based on their rank sold.
- Group A top 25%
- Group B next 25%
- Group C next 25%
- Group D bottom 25%

## Selective Price Increases

- 1.5% on all items (Today)
- C&D, proprietary products (Scalpel)

## Lock pricing or (limit override by percentage)

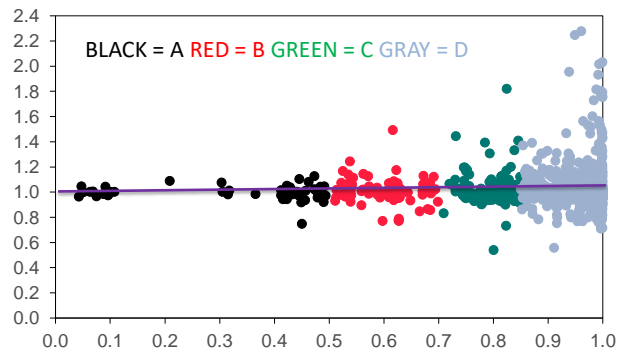
- Gradual Implementation (start with counter sales)
- Not Applicable to Commodities
- Commit to change or it will not work
  - Benefits
  - Improved Margin
  - Knowledge of Salespersons habits. (Who is reacting because they were asked)
- Exception Control – Who will it be, sales leader be careful.



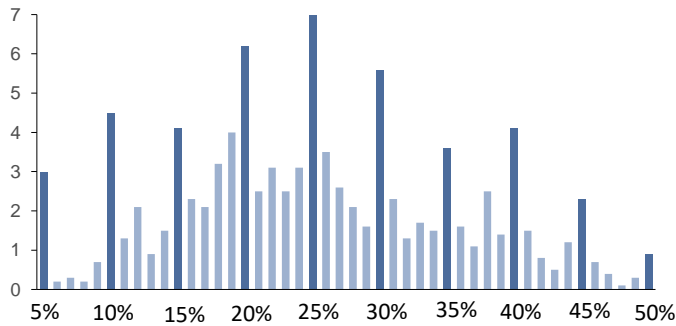
## Impact of an undisciplined pricing process



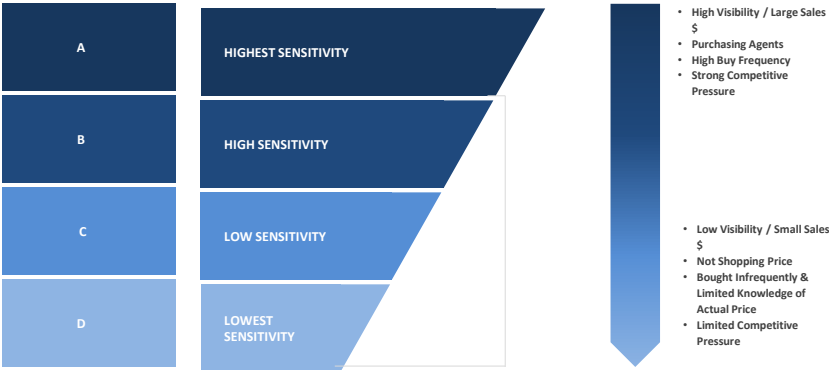
## The impact of undisciplined pricing Product Price Sensitivity vs. Price Point



Break the salesman habit: target precise margins for optimized profitability



PRODUCT SEGMENTATION: PRICE SENSIVITY PROFILING





## Sales COGS Puffing - Overview

- Definition Sales COGS Puffing refers to adding a small margin premium to certain SKUs, enhancing pricing flexibility and revenue and margin potential within the matrix.



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## Puffing

### Purpose of SKU Sensitivity and Puffing Factors

- **SKU Sensitivity:** Identifies products for potential margin increases.
- **Puffing Factors:** Applied selectively to enhance matrix pricing and sales COGS view in the system.

### Defining Sales COGS Makeup

- **Average, LIFO, FIFO or Replacement Cost:** Determines base COGS.
- **Puffing and Burden Rates:** Factors added to create flexibility in pricing.



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## Benefits of the Premium Factor (Puffing)

Small Margin Premium: Typically applied to low-ticket items.

Revenue Gain: Can lead to a 2% increase in revenue.

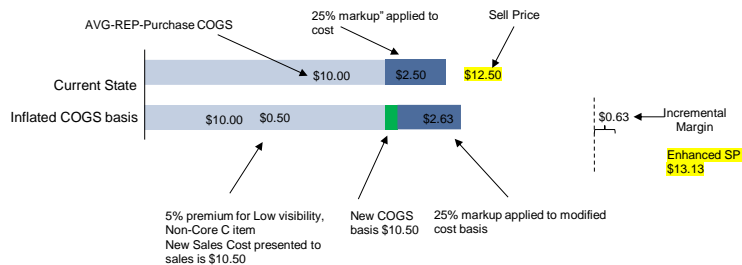
Calculation: Premium factor integrates with the matrix and COGS view to optimize margin.

Revenue Contribution: Small puffing adjustments collectively impact stock items, contributing to overall revenue growth.



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## Impact of Inflating – Sales COST in a COST-PLUS environment



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# Customer profitability the key to doubling your EBITDA



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## Cost to serve



Your optimal bottom-line profitability depends on a lot more than just gross margin.



Do we know our customers' true cost to serve?



Which accounts and products are draining profits?



What is causing specific accounts and products to be unprofitable?



What is our remediation playbook for unprofitable accounts and products?



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# Customer/product profitability

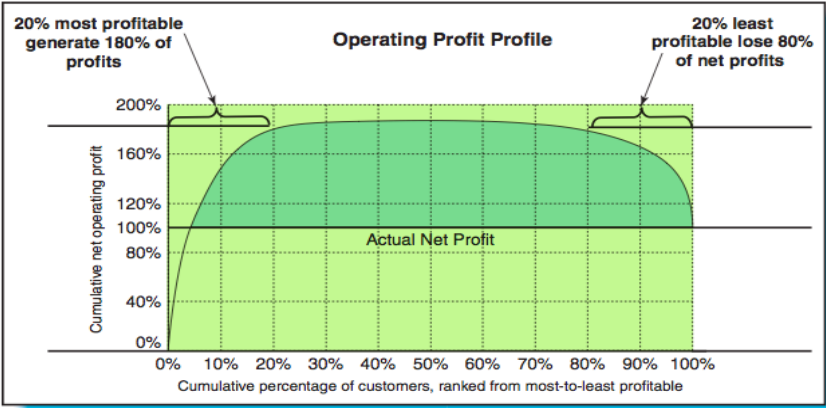
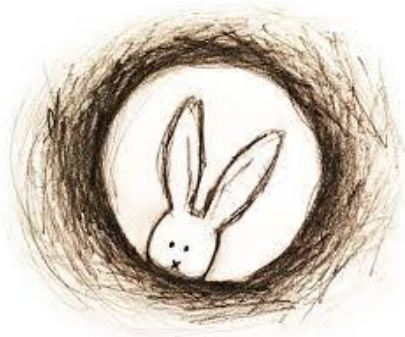


Chart courtesy of Waypoint Analytics

## Cost to Serve Analysis

- Net Value of Top Customers: Understanding their cost to serve
- I have analyzed hundreds of distributors data 50-65% of their invoicing loose money
- Don't go down the Rabbit hole



## Best Practices in Utilizing SPA

- SPA Utilization: How they can reduce your cost basis across a diverse group of customers
- Product Cost Optimization
- Increased Margin
- Increased revenue
- Increased marketshare



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## Engaging the Sales Team in Matrix Pricing



- **Objective:** Increase sales team involvement in the matrix pricing program to drive revenue, increase margins, increase commissions while growing and improving pricing consistency.



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# Comprehensive Training and Education

- Conduct Training Sessions: Ensure the sales team understands how matrix pricing works and its benefits.
- Explain the Why: Communicate the value of matrix pricing in terms of competitive positioning, consistency, and profitability.

**#1 complaint inconsistent pricing**



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## Leadership Support and Alignment

Executive Endorsement:  
Secure visible support from CEO and senior management to underscore the importance of matrix pricing.

Role Modeling: Encourage leadership to actively discuss and apply matrix pricing principles to set an example for the sales team.



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## Incentives and Recognition

- Performance-Based Incentives: Offer rewards tied to adherence to matrix pricing, such as bonuses or recognition for ROA goals.
- Recognition Programs: Celebrate team members who excel in implementing matrix pricing effectively.
- Help Desk and Support: Offer dedicated support for any questions or challenges related to matrix pricing.



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## Continuous Improvement and Feedback Loops

- Regular Feedback Sessions: Gather feedback from the sales team to continuously refine the matrix pricing model.
- Collaborative Culture: Foster an open environment where the sales team feels empowered to share insights or challenges.
- Emphasize Customer Benefit: Highlight how matrix pricing leads to fair, consistent pricing for customers, enhancing trust and loyalty.



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## Clear Communication and Change Management



**Structured Rollout Plan:** Implement matrix pricing in stages to allow the sales team to adapt gradually.



**Transparent Communication:** Keep the team informed of updates or adjustments to the pricing model.



**Change Champions:** Designate team members as advocates for matrix pricing to help answer questions and offer support.



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## Demonstrating Quick Wins

- **Early Success Stories:** Share examples where matrix pricing has resulted in improved sales outcomes or customer satisfaction.
- **Personalized Coaching and Mentoring:** Provide coaching to help sales team members understand how to leverage matrix pricing effectively.
- **Peer Mentoring:** Encourage seasoned team members to mentor others on best practices for using the matrix pricing model.



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## Tracking and Reporting Progress

- Dashboard and Analytics: Create a dashboard to track adherence to the matrix pricing structure and report on performance metrics.
- Regular Updates: Share progress reports with the team to reinforce the impact and drive continued engagement.



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### Key Performance Indicators (KPIs)

- From simple to complex KPIs
- How KPIs influence pricing behavior
- Measure what matters
- Measuring just GM is not enough
- Provides information that drives behavioral change

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# Project Performance Dashboard/KPI

Revenue Pricing Mix			
	RP Sales	RP Mix %	GM %
Customer Specific	\$10,000,000	7.1%	15.4%
Contract	\$6,000,000	4.3%	22.3%
Matrix	\$45,000,000	31.9%	48.4%
Override	\$80,000,000	56.7%	36.0%
Total	\$141,000,000		



Customer Specific Contract Matrix Override

KPI	Selected period	Measurement Period	Baseline Period
	Aug-22	Jan 1, 22 - Aug 22	Jan, 21 - Aug 21
Total Sales			
Total GM Dollars			
Total GM %			
Matrix \$/s			
% of Matrix Sales			
% of Matrix GM %			
% of Matrix Trx			
Override Sales			
% of Override Sales			
% of Override GM%			
% Override Trx			
Impact Dollars			

Scatter plots

Ranking of sales											
Rank	Sales Writer	Total Sales	Matrix Sales	ROA	Gap	Manual Override %	Matrix %	Matrix GM %	Non Matrix GM %	Overall GM%	
1	Greg S	20,000,000	\$ 10,000,000	50%	\$ 8,000,000	45%	38%	43%	52%	36%	



# Measuring success

