



2021 B2B Distribution Pricing Survey

In 2014, Donny Novak and John Gunderson were leading the pricing team at a \$2B B2B Distributor, and they designed a survey for sales facing associates (counter, inside, and outside account managers) to get direct feedback on “price”.

This initial survey established a statistical baseline that delivered key feedback to help “price” more effectively and get paid more as a business for the value they delivered.

The survey also established a baseline of responses to build on for future surveys. Over the past 7 years thousands B2B distributor sales facing associates have taken this survey to help create industry leading research on price perception in B2B Distribution.

The summary results and trendlines are highlighted in the following executive summary.

epaCUBE Survey Overview

The survey delivers feedback for B2B Distributors in 5 keys areas-

Market Level

(What is the perceived market level according to your sales teams)

- How competitive Non-Commodity & Commodity prices vs competitors?

Fair Price

(What does your sales team consider a fair price for the products they sell?)

- What is your most commonly used margin level on Commodity & Non-commodity products?

Customer Responsiveness

- When a customer asks you for a price concession how often do you lower the price?

Behavior & Management

- When you change a price what method of price changing do you use?
- How involved is management in your pricing decisions?

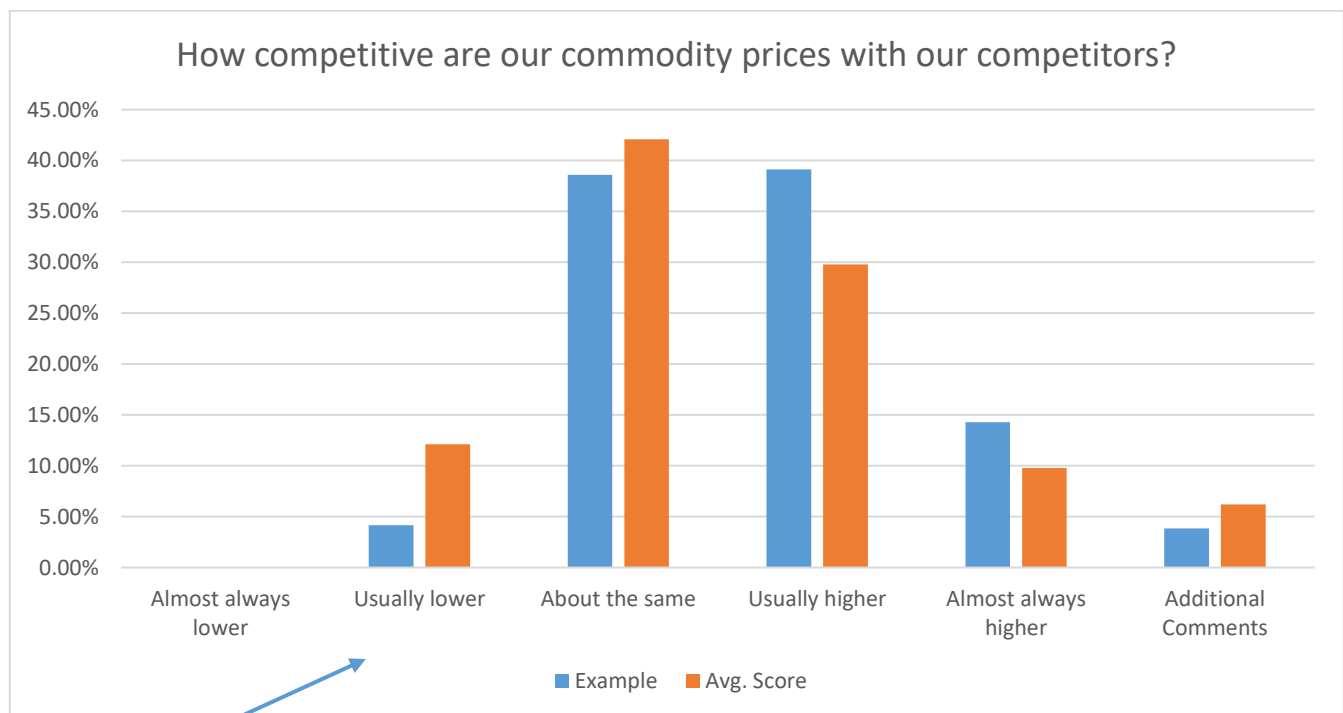
Qualitative Feedback

- What are the most successful ways you have seen to grow margin and profits?
Open Ended - Comments from Associates

epaCUBE Survey Methodology

Survey Overview- Thousands of Sales facing B2B Distribution associates have taken the anonymous epaCUBE survey to better understand their own unique pricing culture. It generates direct feedback and allows each company to benchmark their scores against a wider distribution audience.

- The survey is anonymous to deliver quality direct feedback from sales facing associates.
- The overall survey audience is approximately 70% Construction Distribution and 30% Industrial distribution. The following report contains the combined Construction and Industrial results with trending where applicable.
- 8 key questions are asked in each survey to create benchmarking for quantitative and qualitative analysis. The survey is weighted towards quantitative analysis.
- Distributors participating in the survey average a 95% confidence level with a 5% confidence interval.



Market Level - A key variable in your Market Level pricing is driven by your sales associate's perception of their competitive price position vs. the competition. In the last 12 months the survey results have shown an increase in the **Usually Higher** and **Almost Always Higher** response categories.

In **Non-Commodity** the **Usually Higher** and **Almost Always Higher** responses have climbed **+6%** in the last 12 months (May 2020 – May 2021 timeframe)

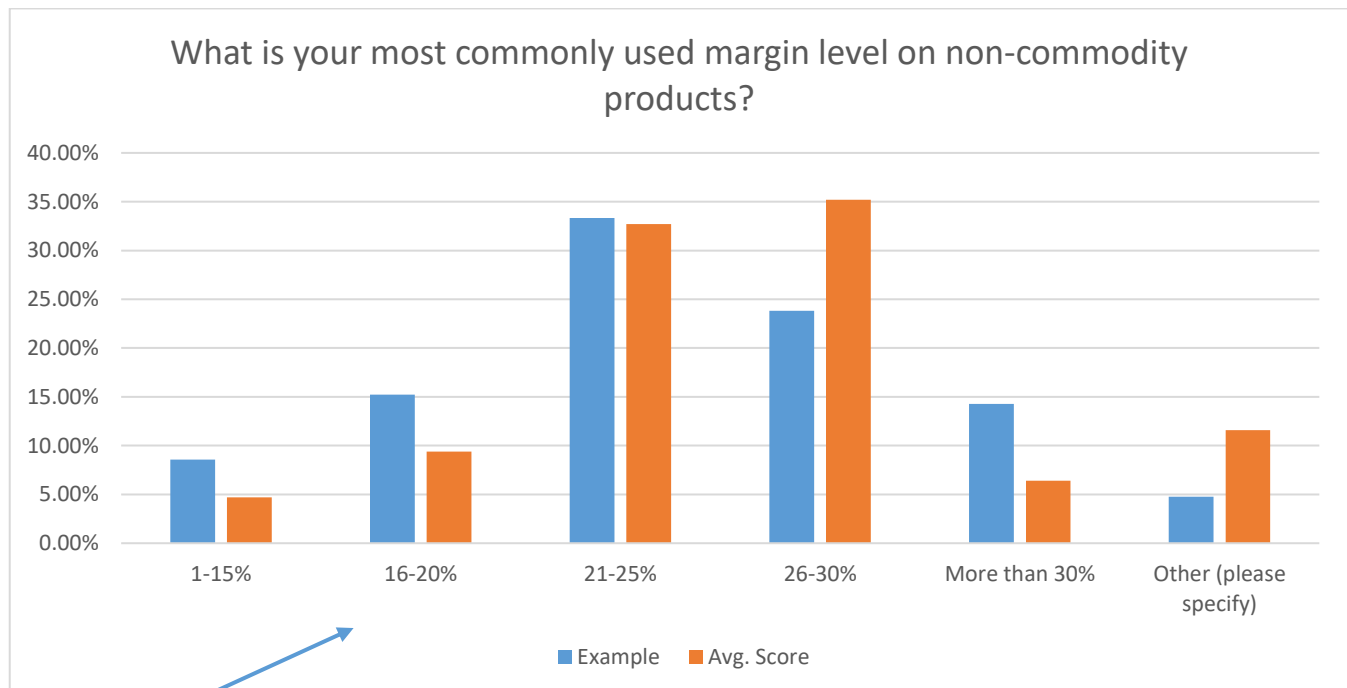
In **Commodity** the **Usually Higher** and **Almost Always Higher** responses have climbed **+8%** in the last 12 months (May 2020 – May 2021 timeframe)

These increases in negative answers overall the last 12 months are a direct reflection and reaction to the cost increases that distributors are seeing from their suppliers. The COVID effect that curtailed relationship face-to-face selling has also created additional price pressure.

The survey results for Industrial and Engineered Solution focused Distributors show that Market Level is a key margin governor if a distributor's sales team feels they are over-priced vs the competition (more than the epaCUBE averages) Their overall GM% will normally be less than their channel competitors.

For example- If the Industrial Average Distribution GM% was 29.9% in 2020. An Industrial focused distributor sales teams that have higher percentages of **Usually Higher** and **Almost Always Higher** than the epaCUBE average, will usually have lower margin %'s than that industry average.

Market Level pricing perception has also proven to be a key **margin ingredient** for relationship driven distributors where project business is a large focus. (e.g., outside sales driven distributors in the construction distribution space where relationship building has been a cultural cornerstone of their business).



Fair Price – What your associates consider is a “fair price” is a key margin ingredient for relationship focused distributors. For example- If your counter associate standing in front of a customer sees a system price for an item that associate sees as being an “unfair” price, they will often override and lower that price to the “fair” price they feel is justified.

The survey results for relationship focused Distributors show that Fair Price is a key margin governor if a distributor's sales team feels they are unfairly pricing at the item level.

For example- If the average electrical Distribution GM% was 18.9% in 2020. A construction focused electrical distributor sales teams that have higher percentages of answers in the lower ranges e.g., 1-15, 15-20% will usually have overall margins less than the 18.9% industry average.

Fair Price perception has also proven to be a key margin ingredient that is often tied to experience and who places the order for the customer. For example – If an inside salesperson with 20 years of experience is making the price decision at the line level. They will often price that item at the fair price they feel that item should be sold at.

Industrial or Engineered Solution Distributors **Fair Price** perception is an important measurement, but it is not as impactful as **Market Level** on overall margin. These distributor sales teams generally are more focused on bundling and overall solution price vs the competition than what is a fair price.

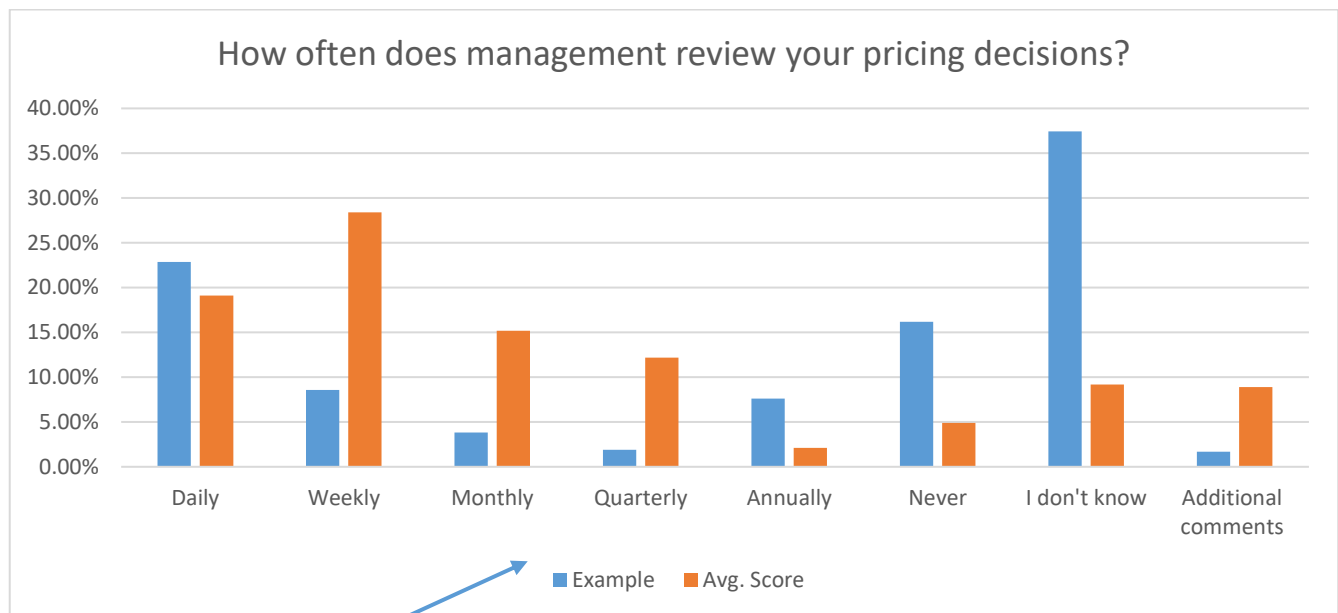


Customer Responsiveness – This measurement has high variability and can be a double-edged sword for many distributors. For example – if your distribution business has a high focus on customer service and relationships, your sales teams will often be very responsive to a customer asking for a lower price. The positive may be strong long-standing relationships with top customers that helps drive top-line sales growth, but a potential downside may be tighter overall margins and net profitability of the business.

Relationship Driven distributors **Customer Responsiveness** Scores (All Three Times, and 2 out of Three Times) are typically in the 40-50% ranges.

Engineered Solutions and Value Based distributors **Customer Responsiveness** Scores (One out of Three or None) are typically in the 60- 70% ranges.

This is a key measurement to understand its effect on your overall GM% if your sales team has high override authority for system or contract prices.

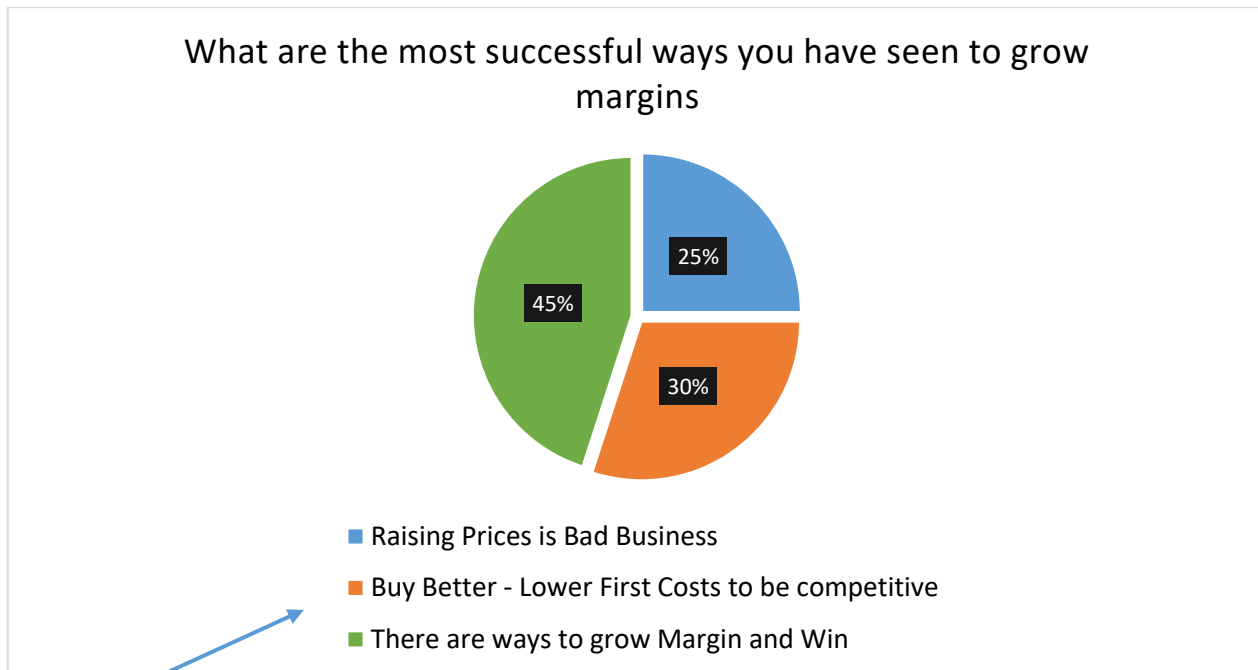


Management Involvement– This measurement has proven to be the most variable measurement from distributor to distributor who have implemented the epaCUBE pricing survey. Relationship focused distributors often have higher **Never** and **I don't know** response levels than the epaCUBE average.

epaCUBE distributor partners have found in general that if they can lower their **Never** and **I don't know** numbers they will improve price compliance and margin % over time.

This has also proven to be a measurement that will vary by distribution location. For Example – A district manager with a focus on margin who has his team more involved in margin oversight will have much higher Daily, Weekly, Monthly scores than a district that does not provide much margin overview at the associate level.

Management involvement measurements should be viewed in context to your business strategy. For Example – If you have a “hire good people and let them do their job” culture with high over-ride authority at the order writer level than your management involvement scores will reflect that philosophy.



Feedback from associates on ways to improve profitability – This open-ended comment question where the sales facing associate provides their feedback can uncover key insights for your business. We have grouped the average responses into 3 categories for this report as follows-

- **Raising Prices is Bad Business** – e.g., Sell more at current Margin %, nothing can be done, leave me alone and let me do my job, etc.
- **Buy Better – Lower First Costs** – e.g., our purchasing team needs to buy better, we are too high versus the competition, etc.
- **There are ways to grow Margin and Win** – e.g., Improve product mix (sell higher margin lines or products), improve customer mix (grow medium and small accounts which have better GM%'s), improved processes and training, matrix pricing, etc.

Historically If a distributor can lower their scores in the “Raising Prices is Bad Business” or the “Buy Better” responses they will improve price compliance and overall profitability over time.

Overview

The 2021 epaCUBE pricing survey saw a significant upward trend in **Market Level** price perception. The significant increase YOY in the **Usually Higher** and **Almost Always Higher** responses we attribute to the significant cost increases distribution has faced, and the COVID effect where face-to-face and relationship selling was severely curtailed.

The combination of price increases and decline in relationship selling has created unique pricing pressures for distribution to face in 2021.

epaCUBE Pricing Survey Summary

- Voice of Associate Pricing Surveys with proper benchmarking unlock valuable feedback and opportunities.
- Benchmarking internally without an outside measurement on “price competitiveness” is difficult.
- Pricing Surveys create management involvement and support, and a feedback loop for your pricing and operational teams that can help you unlock profitable growth.

If you have questions about the 2021 B2B Distribution Pricing Survey, please contact John Gunderson at jgunderson@epacube.com.

About the epaCUBE Pricing Research Team

- **John Gunderson** – 23 years’ experience executive in pricing, marketing, category management analytics, and sales leadership for Crescent Electric Supply, HD Supply White Cap Construction/Brafasco, HD Supply Power Solutions/Anixter, EIS-INC/Motion Industries and Modern Distribution Management.
- **Donny Novak** – 25 years’ pricing and operations leadership experience for HD Supply Facilities Maintenance, HD Supply Power Solutions, and Anixter. Donny has led the epaCUBE price leadership team working with leading North American Distributors since 2018.
- **Sharon Newlin** – 30 years’ pricing, product data, and operational leadership experience for Bradco Supply and Wickes Lumber (now part of ABC supply). Sharon has led the epaCUBE product data leadership team working with North American Distributors since 2008.
- **Hunter Hicks**- 19 years’ experience as a pricing, purchasing, SPA contracts & claim backs, product data and procurement leader for Anixter & HD Supply Power Solutions.
- **George Dunham** - 20 years’ pricing and product data leadership experience at epaCUBE leading our efforts in B2B distribution.

