

A smiling male worker with a beard, wearing a white hard hat and an orange safety vest over a dark blue shirt, is holding a tablet. He is standing in a warehouse with tall shelves of cardboard boxes in the background.

The 6 Best-Kept Secrets of Pricing Control for Distributors

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In June 2022, **the Consumer Price Index for All Urban Consumers increased by a whopping 9.1 percent**, the highest YoY increase in over 40 years. For distributors already on relatively thin margins, **high CPI is eating profits faster than they can keep up**. That is, unless they've been employing these 6 key pricing strategies.

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Focus on Segmentation for Pricing and Customers

Many distributors struggle with both customer and product segments. Customer segments often simply follow basic line cards without regard to profit or volume, such as industrial categories, geography, or worst of all, size (e.g., small, medium or large). These segments fail to provide meaningful pricing guidance because they are not based on real, profit-driving behaviors and attributes.

Even customers in the same industry and of the same size may buy from you for different reasons. Some may be price sensitive while others may simply buy from you because of your convenient location. In either case, understanding why a customer purchases is the first step to increasing spend with you later via pricing adjustments in either direction.

With product segmentation, sales data gives you the info needed to segment your products. Many distributors simply group products together based on how their manufacturer lists products. Your customers are likely willing to pay different prices depending on availability, brand recognition, niche requirements, their own client preferences, and more.

For both product and customer segmentation, customer data is essential. While you can attempt to manage endless spreadsheets for segmenting, epaCUBE's Segment Optimizer provides a much easier, faster, and more accurate path. epaCUBE Segment Optimizer allows you to analyze, adjust and create new segments in a matter of minutes.

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Introducing Data-Driven Pricing Strategy

Many distributors make pricing decisions based on the whims of sales reps, rumors of competitive pricing, or customer complaints. That can be a race to the bottom in terms of profitability, especially in times when costs are so high across most industries. Broad-based changes to pricing records attempting to correct outdated pricing can lead to lost customers and unmeasured results. Pricing based on anything other than data only leads to low profits and unanswered questions.

The good news is, you can get started immediately with data-driven pricing in a matter of weeks. epaCUBE's built-in best practices and profit plays immediately help you identify simple pricing changes to drive new profit on a daily basis. The epaCUBE performance scorecard gives you clear reporting on the success of all of your pricing changes.

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Limiting Pricing Overrides

Pricing overrides may seem like a surefire way to win deals, but winning deals this way almost always translates to losing profits. Statistical analysis of price discounting shows that **a 1% price discount kills so much profit that you'd need to increase your sales volume by 20% just to break even.** With that math, most distributors would be better off eliminating pricing overrides altogether.

When sales reps override pricing, they are revealing an underlying mistrust in the pricing matrix, and in many cases, they're not entirely wrong. Is your pricing up-to-date and based on data? If not, pricing overrides are only a symptom of the problem. If so, you should be able to comfortably limit overrides, as it shouldn't often be necessary. When you get the pricing matrix right, your prices systemically drive profitability based on corporate strategy, not on thousands of individual data-free pricing decisions.

Pricing strategy should systemically drive profitability, making overrides nearly obsolete.

Internalized Pricing Strategy

Pricing is the most important element of your profitability and customer relationships, but many distributors fall prey to outsourced consultants or companies who simply don't understand the customers. Your company's customers and market position are completely unique, and consultants typically make changes based on their own black-box segmentation methodology. In one of our surveys, one CEO revealed that **their prices were placed 40% over market.** The prices set by outsiders are almost always wrong unless you have a very simple set of products and markets.

Data-based pricing optimization software and internalized long- and short-term strategy provide the best path forward for distributors, but that doesn't mean you can't get help. With epaCUBE, you get industry-leading price optimization software and a team of experts who meet with you regularly to make sure you are constantly and quickly driving new profit improvement. Instead of waiting months for your pricing consultant to suggest incorrect pricing, you can apply your own knowledge of customers and markets and use epaCUBE's statistical guidance to improve profit on a daily basis.

A consultant's black-box methods will likely get prices wrong.



Keeping Up with Contracts

Individual pricing contracts can help you win strategic deals, but how often do you go back to analyze and manage those contracts? Our studies show that about 60% of the individual pricing contracts a distributor offers essentially turn into permanent price discounts because they are never changed. With the rapid rate of inflation likely to continue for a time, outdated contracts can spell significant losses for your company. Under normal market conditions, pricing becomes outdated and goes underwater by about 7% within two years. In our current market turbulence, a contract can be 7% underwater in a matter of weeks or months depending on when it was written. That means for every \$1MM of sales you have locked into old pricing contracts, you're losing \$70,000.

Contract management is an essential part of pricing strategy. epaCUBE's Contract Manager allows you to track all of your contracts, set notifications, and make sure they are priced profitably using the power of epaCUBE Profit Optimizer.

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Constant Monitoring

When making changes to pricing, tracking the impact of all decisions is absolutely essential. Especially in times of market volatility, you need to know what works and what doesn't at all times, so you can react quickly on an individual and collective level. Profit isn't always about raising prices or increasing volume. You need to know the score to continuously improve.

As an example, epaCUBE offers our users a Performance Scorecard that allows you to track the most important measures of your pricing success on one screen. You can instantly view profit increases week over week, progress in reducing pricing overrides week over week, actual dollars added per week, and the expected benefit of deeper price analysis on your total sales.

Accurate pricing depends on quick reactions on an individual and collective level.



Don't Just Survive. Thrive.

Distributors employing the strategies we outlined above have consistently outperformed those that didn't, especially over the last couple of years. According to our research, 79% of customers applying these practices have avoided losing margin, even throughout 2021 and 2022's rampant price increases.

If you want to learn more about these 6 best-kept secrets, please feel free to reach out to us anytime. epaCUBE's solutions are designed BY distributors FOR distributors, and our precision pricing tools and services can help you achieve sustainable profitability even during the toughest market conditions.

“ Our margins have increased at least 5% with consistent pricing using epaCUBE. That's huge for a company our size. We've been leaving a lot of money on the table. With five locations, we're looking to grow, and we want to grow with epaCUBE.

- Kevin Hunter, CEO

Johnstone Supply Oakland Group

About epaCUBE

epaCUBE is the leading profit optimization solution built for distributors by distributors. We understand the challenges facing distributors, because we've been there ourselves. epaCUBE Profit Optimizer was created using a combination of years of wholesale experience, best-in-class software, and the goal of growing with our customers. epaCUBE allows users to manage entire inventories in just a few clicks, using historical data to maximize profits.

For more information or to inquire about how epaCUBE can help your company with some of the solutions described above, contact us at (972) 931-8423 or sales@epacube.com.



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