



# The Distributor's Guide to 2023

Transforming challenges into opportunities.

Over the last several years, there have been rapid changes to the way distributors and wholesalers do business. Thanks to challenges associated with inflation, supply chain disruptions, rapid employee turnover, and price instability, the distribution sector has undergone a great deal of pressure. In 2023, we expect to see many of the trends from the last couple of years continue while new ones emerge alongside, **but if you're prepared, a lot of these challenges can be transformed into opportunities.**

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## What Our 2023 Recommendations Give Distributors:

- Gross profit improvement of 2% or higher
- Customer segmentation in minutes instead of weeks
- Added resilience against recession and customer churn

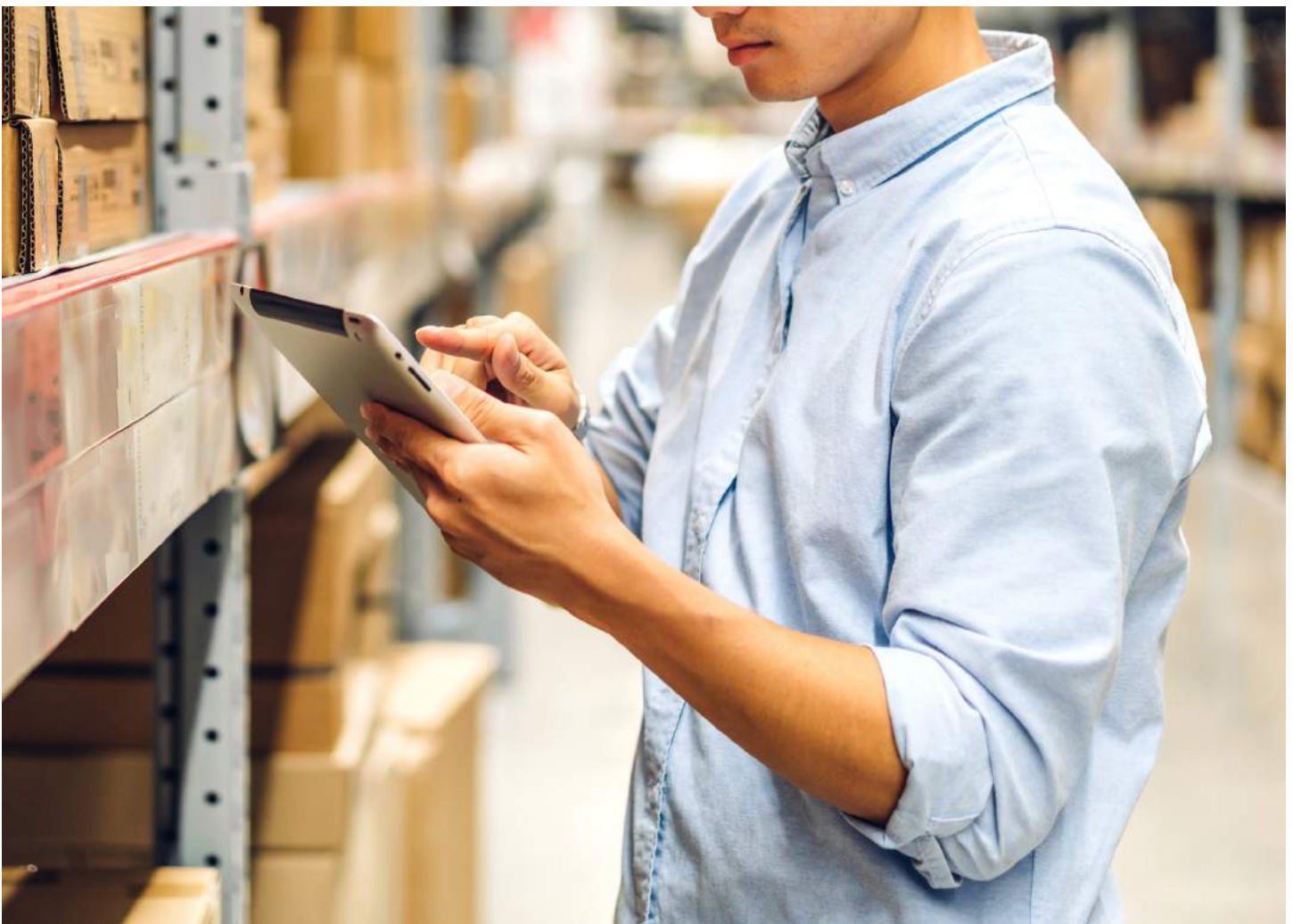
# Profit Optimization

One of the most common problems we heard from distributors and wholesalers this year was that revenue is up, but margins are down. Because of rising costs and general unpredictability due to supply chain problems and inflation, maintaining profit margins has become a chief concern that many distributors still do not have a handle on.

In fact, 40% of distributors who don't employ pricing optimization technology and practices are completely eating rising costs. 27% are eating some costs but managing to pass some to customers. That means only 33% of non-optimized distributors are passing costs on. Of the 33% of non-optimizers passing costs on, many are likely still not taking advantage of the opportunity to increase margins in this "fog of war" environment.

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With costs shifting as quickly as they are, it's impossible to maintain and grow margins long-term without a pricing optimization strategy in place.





Customers are conditioned to accept price increases and pricing optimization systems allow for distributors to be very nimble, responsive and strategically increase margins in this period of volatility.

### **So what can you do in 2023 to bring profit optimization into your operation?**

- Use data to determine what your prices should be
- Start segmenting and grading your customers
- Move your pricing adjustments from spreadsheets to a central management software
- Limit price overrides and equip your sales team with precise pricing data

While you may be able to handle an item or two off this list on your own, we recommend working with a partner, as any of these individual items can be incredibly time-consuming and difficult and spreadsheets simply won't do the job.

## **Keeping Pace with Rapid Price Adjustments**

Cost changes are coming your way faster than ever before. Many of our customers are reporting they're adjusting prices 4-5 times over the course of a month, whereas in previous years, they adjusted once or twice annually. This increase in frequency of price changes is causing a major realization for distributors: in order to keep up with cost changes, adjustments need to be made to full product lines in real time.

Most distributors don't have all their prices available in one place. Many companies still store their prices in spreadsheets that require manual adjustment when prices need to change. When price changes were an annual or biannual task, spreadsheet management was much more sustainable, if a bit clunky. Now that prices are changing 4-5 times per month, keeping up with spreadsheet-based pricing is all but impossible. Central management has become a necessity in order to remain competitive.

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Now that costs are changing multiple times per month, keeping up with spreadsheet-based pricing is all but impossible.





### What you can do to keep pace with price changes:

- Move price management from spreadsheets to a platform, so you can manage all your prices in one program
- Minimize price overrides. Even a 1% price decrease can seriously hurt margins and profit; 1% change in price equates to an 11% change in profit
- Minimize lag time between manufacturer prices and your prices via real-time adjustments
- Present customers with your optimized prices at the point of order entry

Price adjustments in spreadsheets can take a long time and lack the accuracy of data loaded in a centralized platform. We recommend switching to a central management platform as soon as possible, using available data to quickly adjust prices en masse.

# Identifying and Segmenting Customers

Customer segmentation is the process of dividing your customers up into groups based on common characteristics, such as buying power, profitability, cost to serve, industry, location, or more advanced attributes. In distribution, segmentation has always been a vitally important part of maintaining distributor margins, but in our current economic climate, there's no room for error. At best, customer segmentation helps distributors maintain business relationships while keeping profit margins protected. When segmentation is an afterthought, distributors may find that they're losing customers to competitors and/or operating at much thinner margins than they ought to.

Customer segmentation has come a very long way over the last 5 years, and until recently, distributors haven't been reaping the full benefits. Segmentation can now be handled using customer data that reveals the grade of each customer. One of the most common "aha!" moments our customers describe is when they discover that grade-D clients are receiving grade-A prices; with proper segmentation, this can be completely avoided. High cost-to-serve customers can be identified in seconds and assigned a new grade in minutes. This also makes pricing decisions a proverbial snap, as margins can and should be established based on segments.

## How you can roll out better segmentation for your pricing:

- Use a CRM to score and track your customers
- Deploy pricing guidance in your ERP order entry for real time "data-based" pricing decisions
- Establish set margins for each customer segment based on your data, and stick to them
- Keep a close eye on price changes, as they'll need to be factored into segments

Segmentation solves a lot of pricing problems for distributors, but it can be difficult to maintain without a dedicated solution. Dedicated pricing and segmentation solutions usually pay for themselves incredibly quickly.

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For example, epaCUBE's Price Optimization tools and practices typically yield 10X ROI or better, integrating with all major ERPs and making CRM adoption easier and better.



## Improving Customer Retention

Customer churn isn't anything new to distributors, but that doesn't make it unavoidable. Customer relationships are often based on a complex web of pricing, service, and relationships that can be difficult to manage. As costs continue to rise and ecommerce enters the distributor space across verticals, even the most dedicated customers may start looking for more competitive options. Finding a new customer costs about 5 times more than retaining an existing customer, so churn can pose much bigger problems than simply lost revenue.

Overall, customers are coming to expect more from distributors, and many distributors have been slow to adapt. Fortunately, the practices that can help distributors better meet customer expectations and improve retention are relatively straightforward and intuitive.

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Finding a new customer costs about 5 times more than retaining an existing customer.

## What you can do to meet expectations and improve customer retention:

- **Standardize your prices across channels.** In most cases, customers should receive the same prices from every branch and sales rep, as well as online. Consistency is key.
- **Introduce ecommerce.** Using segmentation and pricing tools, you can create unique online stores for different customer grades and verticals
- **Communicate proactively with customers.** Once you've segmented and graded your customers, tell your customers what they can do to get better prices

For some distributors, these recommendations might seem unattainable. Introducing an ecommerce presence might seem as though it will leave sales reps feeling out of the loop, not to mention the difficulty of implementing an entire online store. With the right partners and technology, an ecommerce presence can be created with ease. As far as keeping sales reps happy, technology solutions like ecommerce can and should work in tandem with the sales team. Which brings us to our final recommendations.

## Enabling Your Sales Team with Tech Solutions

In some organizations, the sales team and the pricing team aren't exactly on the same page. Sales might be handing out price overrides like candy to get new customers, and the pricing team might constantly be working to reign in sales to keep margins healthy. Historically in healthy distribution and wholesale organizations, sales and pricing work together to establish prices, but most organizations are reporting that price changes are happening much too quickly for this process to occur.

Pricing management solutions don't just establish prices for sales teams. They give the sales team access to relevant data about customers, including historical prices, margins, customer grades, and other important parameters. While some sales teams prefer dealing directly with customers the old fashioned way, there's no longer any margin for error in establishing prices.

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For most distributors, sales enablement ultimately proves to be a benefit for margins and salespeople alike.





Technology needs to be introduced to help manage customer relationships as well as prices. For most distributors, this technology ultimately proves to be a benefit for margins and salespeople alike.

### What the sales team needs to stay ahead of competitors:

- Detailed customer profiles with all the data and information they need
- Price optimization solutions with ERPs, as ERPs on their own may just prove frustrating
- Ironclad pricing to refer back to. Salespeople shouldn't have any guesswork on the prices they present to customers.

While there are always some growing pains, pricing management solutions should ultimately make the sales team's lives easier. We suggest using purpose-built pricing software and services to minimize friction and significantly shorten implementation times.

“ 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 provides a suite of price optimization solutions and services designed BY distributors FOR distributors. For over 20 years, we've used our industry experience to help distributors maintain and grow profit margins, even during times of economic uncertainty. Our solutions integrate with all major CRMs and ERPs, ensuring easy implementation. Our customers typically experience 10x, 20x, or 30x ROI on our solutions, and we're ready to help you achieve sustainable profitability.

If you'd like to learn more about our solutions or pricing in general, please feel free to reach out to us today or watch a [demo here](#).



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