

5 Tips for Killer Price Management

How manufacturers
move from quick fixes
to profits that stick

Manufacturers can all agree that setting and managing prices requires constant effort in order to achieve results and profits.

This doesn't just mean understanding your target markets, or even how your competitors' price their goods week-to-week and month-to-month; it also means following a pricing strategy that incorporates clear intelligence and clear objectives. Yes, the right technology is vital, but a well-reasoned methodology is even more critical.

1. Nurture a pricing strategy team from the beginning
2. Examine pricing scenarios with established pricing teams versus not
3. Ensure through pricing strategy that your numbers are adding up
4. Remember: contract expiration dates and bid cycles impact price management
5. Identify the critical role of software



1. Nurture a pricing strategy team from the beginning

A manufacturer's revenue generation plan can be roughly defined as earning the highest possible margins while running a sustainable business (i.e., maintaining minimum production volumes and a satisfactory customer retention rate, plus achieving your new customer target goals). And your ideal price setting clearly plays a role in this.

However, we've seen that price decision making is too often relegated to a gut-feel approach, relying on ad hoc analyses. This only grants you so much mileage before these questions emerge:



Price Management Team

How do you know if your price management team is looking at the right trends, or keeping up with renewals for contracted volume discounts?



Instant Price Scenarios

What if their current management efforts don't enable them to generate multiple, instant price scenarios to determine the most effective strategy to follow?



Oversight

What level of oversight is your team applying to your entire product catalog, rather than a selective subset?

The more successful approach for manufacturers that regularly meet and exceed their cost-volume-profit goals incorporates price planning. The practice of price planning analyzes potential product prices and their impact on margins, volumes, and customer reactions. Price planning uses modeling tools with predictive analytics and machine learning. With price planning (and not just price setting), the focus moves from subjective and reactionary pricing to an objective and strategic process that involves deep analyses. This empowers your team with a new level of insights into existing conditions, while responding to changes in customer behaviors and market dynamics.

This is easier said and often not done. A recent study by the MPI Group found that less than half of all manufacturers report the ability to effectively link their operations data to their business analytics efforts. The non-profit group ITAC, which is part of the Manufacturing Extension Partnership, did a study that found just **61% of the IndustryWeek 500 companies** have dedicated pricing titles or roles within their ranks. So nearly 40% of these industrial enterprises, which represent more than \$5 trillion in sales revenues, are parsing the price management responsibilities to existing team members, or to an individual who was hired to serve other roles...adding up to a lot of lost revenue because of immature or undeveloped pricing strategies.



2. Pricing scenarios: Pricing Teams vs. No Teams

Let's look at some common pricing scenarios. How will it play out with a company that has a holistic price planning approach that is formalized? Can a company that informally disperses pricing tasks to multiple departments and team members in an ad hoc manner realize success?

- A price management team is organized and tasked with considering all relevant facts. These include inventory, manufacturing capacity, and overall demand—elements that should factor into your price setting. But, if the **economic conditions impacting your target** markets do change, only the formalized pricing team can pivot and readjust pricing accordingly. This is because an ad-hoc or distributed group tends to work in silos, and manufacturing capacity just isn't on the radar for a sales-oriented pricing team. They are motivated to sell inventory—until, that is, the inventory has sold out.
- The ad-hoc team is unlikely to have a **comprehensive business process** to coordinate information and ensure adequate response to economic conditions. It either won't recognize the changes soon enough, or it will assume someone else is responsible for it. This may also mean that you won't be able to quickly run and evaluate exhaustive price models to identify the right plan to help your company ride out the storm.
- The **type of products** you make also matters. Selling a commodity often means your price management team has less control and serves more of a watch dog role, to make sure your prices keep pace with your competitors. However, when you negotiate the price on a new order, the company with the dedicated pricing team will be better prepared to compare the new deal to other relevant deals. They will consider factors like win rates, market share, and whether to let the minnows go today in order to catch the walleye later. Our experience shows that commodity manufacturers without a formalized pricing approach are often content to automate pricing based on competitor references or cost-plus models, with little motivation to manage the long game.



- Choosing the **right mix of promotional components**, like discounted pricing, rebates, or bundled deals, can have a significant effect on how the supply chain and the end customer perceives and pays the net purchase price. Price changes (up or down) may or may not be absorbed within the supply chain—and your distributors and retailers might be counteracting your pricing strategy. Which company will do a better job finding the right pricing strategy: the skilled team with the ability to sense your level of pricing power, or the makeshift team with “day jobs” who might be guessing the right price?
- If you have a unique or **premium product**, you might have more control over your price and margin due to less influence from direct competitors. But then, you are challenged with more complex analyses to determine the right price for your specialized product, because there may not be a comparable benchmark set by competitors. Who will do the market research to determine an appropriate price that is more likely to be accepted in the market?
- We have also observed that many companies without true pricing professionals allow prices to be set by a product manager. The potential pitfall with that scenario is the **dependence on the product manager** to understand how the company’s competitors are selling, in addition to managing a variety of other product-related specifics, from product messaging to product packaging. The product manager is the product expert, not necessarily a pricing expert.



3. Pricing strategy: Ensure your numbers are adding up

Product demand and pricing can vary by industry, where some markets see little price variance, and others have great variability in setting prices. Understanding your products' cyclical, seasonal, or sporadic sales frequency—or biases toward certain market regions or customer groups—can help define a **more profitable pricing strategy**.

Established pricing professionals understand that a proper pricing strategy depends on having the **appropriate analyses** to inform price setting. A successful team accounts for this and complements it by increasing prices during peak periods. A company without the right dedicated team is likely to cave to drastic discounting during low periods—which is about as effective as discounting snow boots during a summer heat wave.

Another way that your price management team and pricing data work together is in setting up **guidelines** to limit your sales representatives from discounting products too much or too often. But again, if your company focuses on sales more than profits, the likelihood that they are enforcing corporate goals with a consistent pricing strategy shrinks like your margins with every sales exception that your sales representatives are eager to hand out.

With a dedicated pricing professional, your company will know when to immediately—and with the proper perspective—announce, “We’ve already reached our **maximum level of sales exceptions** for the month. We won’t offer any more until inventories recover or demand slows.”

Balancing the orders with sustainable margins and production limits is key to maximizing profits. Racing to collect orders at any cost kills margins and overwhelms production capacity. Too few orders, even if they bring great profits, can idle production equipment and balloon inventory.

A good pricing strategy with proper business process support allows you to choose the margin based on your organization’s appetite for each order, and then to balance margin and volume to optimize the order book, the factory, and the financial ledger.



4. Remember: Contract expiration dates and bid cycles impact price management

Don't forget, there can be multiple prices for the same product: list price, everyday price, and a contract/bid price for special customers who have different strategies and analysis pathways. Whose job is it to stay on top of these varied contract renewals and quickly respond to waves of RFPs and bids? Are they effective? If your organization's sales come in waves based on calendar cycles or portfolio/catalog turnover (new models replace the old models regularly), then you may find that your organization executes a lot of price setting in a short amount of time. If you have a dedicated team, then you can be confident that you are able to execute new bids, manage bid tracking, deliver analytics, and forecast opportunities and margins at any given point in time.



It's a guessing game for many companies. But for the well-appointed pricing team, they can score bids and look at your bid history, allowing you to estimate pricing based on real factors, including real-world constraints and accurate probabilities of winning the bid. You then make informed decisions about how to choose prices. The management of pricing via spreadsheet (or multiple spreadsheets), with an obvious lack of insight on the overall success or failure of business objectives, leads to a win-at-all-costs approach to each individual opportunity and a loss in overall profits, despite increased sales volumes.

5. Why software matters

Even if you are fortunate to have a team that is skilled in pricing strategies and able to apply leading-edge pricing science and analytics, you probably won't have enough of them to manage every price on every product. Most of the time, you will focus them on the newest or most important products and/or customers, leaving other products or programs to muddle along with guesses or outdated pricing.

So how do you scale up your price management capabilities and ensure that your organization has a repeatable, informed pricing analysis process in place?

Pricing management technology helps.

As we've established, a pricing team is critical for success, and yet even in the best of circumstances, isn't capable of effectively leveraging results in and of itself. The right technology is crucial for making sure that your manufacturing organization is not missing out on growth opportunities, as well as streamlining the ability to protect sales margins, both with upstream commodity pricing and downstream bidding and price management. Business process automation and software tools move you to a digital enterprise, and price setting is an ideal process to automate and manage effectively with the right tools.

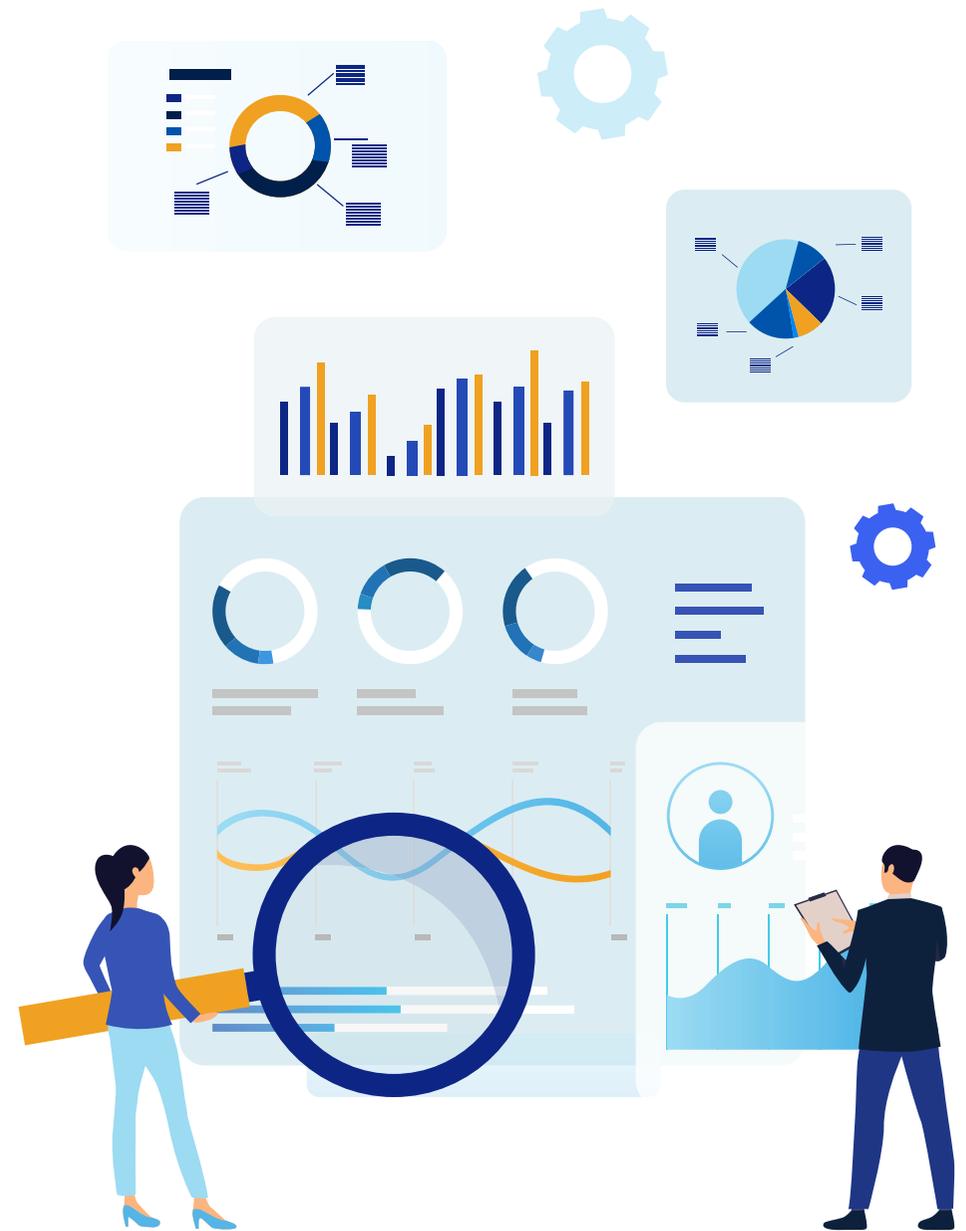


Vistex solutions effectively manage complex pricing challenges with ease and reliability, by identifying data patterns and enabling your price management team to get those updated results for the next bid you must approve or submit.

Vistex enables you to quickly modify your price points without having to pull new data, delivered to you how you need it, when you need it. And the solution can sense your pricing power and guide you to the optimal mix of discounts and rebates that make your offerings appealing in the market.

With a trusted price management team and tools in place, you benefit from guided selling. Regardless of your ability to field dedicated teams, or well-intentioned sales, accounting, or product professionals, your teams could quickly apply what is known about existing customers' trends to new, similar customers. An automated price management solution also helps segment customers so you can tailor a pricing strategy to groups of customers for faster optimization of prices and margins.

In the end, the right team, armed with the right tools, applying the best strategies, adds up to better margins and more profit for your business.





The critical role of software

Manufacturers who are supported by software that manages the full lifecycle of their pricing optimization programs will have a strategic advantage in the marketplace. By capturing detailed supply chain performance data in a structured repository with machine learning capabilities, manufacturers (and their supply chain partners) can get instantaneous answers, rather than enduring hours of searching for data, doubting its integrity, and manually studying its secrets. In the end, data leads to insights, and insights lead to profits.

Vistex software and pricing

Vistex software offers manufacturing clients a proven solution to address pricing challenges, such as providing discounts and on-order pricing to ERP, eCommerce and CRM systems. Our analytics solutions continue enabling our customers to decide the best pricing and to evaluate their margins, in addition to solving their long-standing issues with claims, funds tracking, and contract management.

About the Author

Matthew Hays is the Director of Product Management at Vistex. In this role he manages the roadmaps for new product development, supports marketing and sales functions, and maintains business partnerships. Matthew has a long history with manufacturing, supply chain, life sciences, software lifecycle management, project management, and customer engagement.

How Vistex Adds Value

Industrial manufacturers face increasing costs, price pressures, margin erosion from discounting & promotions, automation costs and complexities, reduced revenue from loss of market exclusivity and outright intellectual property theft. Vistex helps manufacturers better respond to supply chain challenges through revenue growth programs including pricing, sales rebates, contracts, co-op and MDFs, rewards, commissions, bids and quotes, claims, loyalty programs and royalties. Manufacturers benefit from a clearer picture of margins, returns on promotional investments, growth opportunities, and improved revenue management for sustained business growth.

About Vistex®

Vistex solutions help businesses take control of their mission-critical processes. With a multitude of programs covering pricing, trade, royalties and incentives, it can be complicated to see where all the money is flowing, let alone how much difference it makes to the topline and the bottomline. With Vistex, business stakeholders can see the numbers, see what really works, and see what to do next – so they can make sure every dollar spent or earned is really driving growth, and not just additional costs. The world's leading enterprises across a spectrum of industries rely on Vistex every day to propel their businesses.

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