

Industrial Distributor Fine-Tunes Pricing for Millions in Profit

A multibillion-dollar distributor of industrial metalworking supplies struggled to find the optimal prices for its catalog of more than 1 million products. Given that the company serves thousands of customers, even the smallest margins left on the table from every deal translated to millions of dollars in unrealized profit.

Challenge

This distributor faced three key pricing challenges:

1. Inside sales associates frequently gave customers unnecessary discounts, a practice that was reinforced by a culture that refused to lose business regardless of the cost. At times, inside sales associates even drove the price lower than customers requested.
2. With most customers typically purchasing large numbers of products, the distributor relied on customer price agreements to set prices for groups of products along with corresponding discounts for individual accounts. Because creating customer price agreements was time-consuming and difficult, outside sales associates often simply copied and applied existing customer price agreements to new customers.
3. Though the distributor's process for setting catalog prices was sound, execution was time-consuming, error-prone and did not allow product management teams to collaborate.



Solution

PROS provided the distributor with a strategic, science-based pricing solution to deliver key business benefits:

1. A robust discovery process that revealed significant margin leaks and their root causes
2. The capability to use the distributor's own data to ensure immediate value and encourage user adoption

The PROS solution was implemented in phases, first by using analytics to: pinpoint discount-related margin leaks; effectively measure profitability; and highlight margin improvement opportunities. With these high-quality insights, the distributor took immediate and effective action to close profit leaks.

Next, PROS helped generate floor, target and stretch prices that are displayed in the distributor's existing pricing screen at the time of the transaction. Inside sales associates could then access powerful, market-based pricing information to help them improve the profitability of pricing decisions.

The PROS solution also automated and streamlined the price-setting process for more than half a million items in the distributor's product catalog.

Results

Before implementing pricing guidance, this distributor operated at more than \$4 million below its monthly target revenue.

With PROS, the distributor instead generated \$4 million above target revenue and anticipates an annual gross profit lift of \$18 million. In addition, quote turnaround time was reduced, sales force confidence boosted and sales compensation better aligned with pricing goals.

Conclusion

Armed with PROS science-based pricing guidance, the distributor's product managers can set appropriate prices and then preview those prices to check for errors and eliminate margin loss before publishing the catalog. One-size-fits-all pricing and blanket discounting are things of the past with PROS best-in-class algorithms automatically optimizing prices.