

McKesson Medical-Surgical Primary Care Improved Pricing and Insight Generated Millions in Gross Profits

OVERVIEW

The Need

A changing healthcare landscape and an increasing shift of customers to online channels created the need for modernized solutions that could provide competitive, market-relevant pricing across 2.5 billion buying combinations.

The Solution

PricingPRO empowers pricing teams to formulate winning pricing strategies, enhances control over execution, and provides prescriptive recommendations for sales teams.

The Benefit

With competitive online pricing, McKesson Medical-Surgical Primary Care significantly reduced the number of pricing exceptions and enabled sales teams to focus on value-added selling.

CHALLENGE

For McKesson—the oldest and largest healthcare services company in the U.S. with \$190 billion in revenue—the drive to be the foundation for better health continues to be as important as it was back when the company started in 1833. While company values remain consistent, the surrounding healthcare market has faced a lot of change in recent years with unprecedented consolidation across the industry as companies seek to find efficiencies to better serve their price-sensitive customers in this highly regulated environment.

The price pressure was concerning, and McKesson's Senior Director of Pricing Peter Barr recognized that the company's peanut butter approach to pricing set it up for potential "lose-lose" situations. "Either we're losing sales with prices that are too high, or we're losing margins by underpricing," he says. With more and more purchasing happening online, McKesson teams needed to seek a new solution that would enable them to provide competitive, profitable pricing to both current customers and first-time buyers.

SOLUTION

McKesson turned to PROS to explore the best way to manage pricing in its medical-surgical division, which includes 900 salespeople and a catalog of more than 150,000 products—everything from bandages to exam tables. "PROS price guidance and pricing science is the foundation for our pricing," says Barr, explaining that PROS is a critical part of their business in three core areas: for exception price setting, for online ordering and for identifying price outliers. Two key components of the PricingPRO have been essential to McKesson's solution:

- Its comprehensive price management platform that provides consistency, logic and accuracy in pricing.
- Dynamic price guidance derived from patented segmentation science and delivered across sales and online channels.

Since there was no systematic way to provide teams with guidance prior to PROS, most pricing requests were handled as time-consuming exceptions. The existing strategy set margin targets at broad category levels and overlooked the dynamics of varied customer segments. McKesson teams acknowledged there was opportunity to improve their revenue and profit attainment. Barr mentions that "with online ordering, we really needed specific pricing for specific customers, and we really wanted to have a better understanding of what market levels were so we could be pricing appropriately."

Applying Science to 2.5 Billion Buying Combinations

Using PROS patented segmentation science, McKesson was able to remove the manual effort in providing customer-specific pricing and provide pricing guidance for 2.5 billion possible customer buying combinations. With recommended guidelines on premium, target and floor pricing fed directly into McKesson's internal systems (they use Salesforce.com for CRM and SAP for ERP), marketrelevant pricing is easily accessible and integrated into their sales tools.

Consistency and Efficiency

"Our teams can see what the customer is paying along with the price guidance from PROS," says Barr, adding that "we now have insight into market levels, so when we're setting prices, we can see what similar customers are paying for those items." As a result, pricing exception requests have been greatly reduced, quote turnaround times are faster and more efficient, and customers have expressed satisfaction with being able to access competitive pricing as well as negotiated rates through online channels. The PROS pricing foundation, which supports and maintains consistency across both sales and eCommerce channels, is "contributing to a better online purchasing experience and ensuring competitive, logical pricing on every item for every customer," Barr says.

Empowering Teams to Identify Outliers and Profit Leakage

With unprecedented price pressure, it's necessary for McKesson to stay aware of and ahead of margin decline. PricingPRO's capability to provide guidance at broad or narrow levels gives reference to where prices are below market levels, whether that's an entire product line, a single customer, or a specific SKU. This capability allows McKesson to put a plan in place to correct negotiated prices that are identified as outliers because they are significantly below market. "We have very specific, very targeted pricing capabilities," Barr says, explaining that PROS provides solid science-based, peer-based pricing that shows pricing for a particular item that is below margin for a particular customer. "It's really easy for teams to see the below-market prices across their accounts with visual cues that show them where specific prices are off," Barr says. With PricingPRO, McKesson Medical Surgical is able to:

- Fight downward margin pressures, working in partnership with its sales teams.
- Use peer-based comparisons to identify price points below market levels.
- Establish specific goals for improvement based on target pricing guidance.
- Empower teams to find best-fit solutions to achieve and maintain market-level pricing.

RESULTS

As a result, McKesson significantly reduced quoting time and increased its quote-to-close ratio, which led to increased gross profits and margins. "We are realizing and exceeding all expectations for what we're trying to do with pricing," Barr adds. "Our performance has been exceptional." The journey to improve the customer quoting experience never ends. With McKesson's acquisition of PSS (another PROS customer), it has been able to merge product and transaction data from the two companies into a singular pricing platform. With this integration, McKesson has experienced excellent sales force retention, seen preferred suppliers growing three times faster, and improved cost and payment terms with suppliers. With a preexisting foundational pricing platform for both companies, McKesson has been able to accelerate its realization of profit synergies through the acquisition.