“The Pricing Optimization program really opened my eyes to a holistic approach to pricing strategy. This program is about more than just pricing—it makes you consider the cost-to-serve, which products to sell, and how to use your resources to build more Core customers, serve them better, and be more profitable doing it.”

Duane Van Dyke, Vice President Sales, Womack Machine Supply Co.

“This program is a detailed examination of the world of pricing. It has been developed from real data. This should be part of the future of distribution.”

Charlie Henry, Manager of Pricing, Kirby Risk Electrical Supply

“The Pricing Optimization conference provided an expert level of analysis and insight that every distributor needs but few have the time or resources to produce on their own. It was both timely and valuable.”

Paul Sommerfeld, Director, Applications & Training, CSC

Key Take-Aways
- Multi-criteria Pricing Model — Item, Customer, Geography and Time
- Stratifying & moving customers to ‘Profit Zone’
- A practical & effective ‘Cost to Serve’ model
- Rules for Profitability (Risk vs. Reward)
- Educational Pricing Game
- A best practice approach to pricing

Benefits
- Sales Force Dashboard — Information for Better Negotiation
- How to leverage on existing and readily available system information?
- Why and how to link inventory and customer classifications?
- Structured and easy-to-understand approach
- Optimal allocation of sales force resources
# Pricing Optimization

**Methodology and Deliverables**

## Transaction Data
Customer, Item, Geography, and Time

## Analytics
1. **Customer and Item Analysis**
   - Customer stratification
   - Item stratification
   - Customer’s item visibility
   - Item unit cost level
   - Customer-item GM level

## Optimization
2. **Pricing Rules Engine**
   - Recent price/margin
   - Recent cost
   - Customer max price/margin
   - Group max price/margin
   - Overall max price/margin

## Execution
3. **What-if Analyses**
   - Potential GM$ improvement
   - System aided decision-making
   - Augmenting Factors
     - New Customer
     - Competitor price, etc.

## Pricing Rules & Group Exercise

\[
\text{NEW MARGIN} = \text{RECENT MARGIN} + \frac{\text{TARGET MARGIN} - \text{RECENT MARGIN}}{\text{OPPORTUNITY GAP MULTIPLIER}}
\]

## Applying Pricing Rules

**Scenario - 1**
Customer - Marginal
GM Level - High
Item Rank - B
Unit Cost - D

\[
\text{NM} = \text{RM} + \frac{\text{OMM} - \text{RM}}{30}\%
\]

**Scenario - 2**
Customer - Marginal
GM Level - Low
Item Rank - C
Unit Cost - E

\[
\text{NM} = \frac{\text{OMM}}{1+26.2\%}, \quad \text{GM} = 26.2\%
\]

## Customer Stratification Model

![Customer Stratification Model Diagram]

## What-If Simulation Results

<table>
<thead>
<tr>
<th>SCENARIO</th>
<th>CUSTOMER</th>
<th>ITEM RANK</th>
<th>VISIBILITY</th>
<th>UNIT COST</th>
<th>GM $</th>
<th>GM %</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
<td>CORE</td>
<td>A</td>
<td>High</td>
<td>Low</td>
<td>87%</td>
<td>20%</td>
</tr>
<tr>
<td>S2</td>
<td>OPPORTUNISTIC</td>
<td>B</td>
<td>Medium</td>
<td>High</td>
<td>50%</td>
<td>15%</td>
</tr>
<tr>
<td>S3</td>
<td>SERVICE DRAIN</td>
<td>C</td>
<td>Low</td>
<td>Low</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>S4</td>
<td>MARGINAL</td>
<td>D</td>
<td>High</td>
<td>Low</td>
<td>2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>S5</td>
<td>NEW</td>
<td>E</td>
<td>Medium</td>
<td>Medium</td>
<td>78%</td>
<td>19.4%</td>
</tr>
</tbody>
</table>

## pricing rules & group exercise

\[
\text{NEW MARGIN} = \text{RECENT MARGIN} + \frac{\text{TARGET MARGIN} - \text{RECENT MARGIN}}{\text{OPPORTUNITY GAP MULTIPLIER}}
\]