

# USING DATA TO ESTABLISH PRICE POINTS TO PROTECT YOUR DISTRIBUTORSHIP'S PROFIT MARGINS



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Distributors can leverage data to overcome their biggest pricing-related challenges, improve their profit margins and boost their bottom lines.

The right pricing strategy is a critical component that companies can't afford to overlook and is one of the most important aspects of maintaining profitability in wholesale distribution. Add the rigors of B2B online selling, the distributor's role as "middleman" and increased competition to the equation, and the need for a consistent, effective pricing strategy becomes even more mission-critical.

In the manufacturer-distributor-customer value chain, one of the wholesale distributor's most pressing challenges is being able to

mark up prices in a way that helps maintain profitability while not pricing that distributor out of the market. This balance is getting harder to achieve in the current B2B business environment, where the next competitor, price comparison or huge online retailer is literally one mouse click or screen tap away.

Put simply, staying profitable and competitive isn't getting any easier for distributors. "If you set your prices too low, your margins will erode—set them too high, and sales will suffer," consultancy CFO Edge points out in [Pricing: Finding the Profitable Middle Ground](#). "Often, wholesalers and manufacturers think they have price flexibility, but in the ongoing challenging economy, this isn't always true."

## Addressing Key Pricing Challenges

Distributors encounter pricing challenges for numerous reasons, including:

- A lack of visibility over competitive and/or prevailing market pricing trends.
- Losing deals to competitors because prices are too high.
- Not promoting higher margin/more profitable offerings.
- Not seeking out lower component acquisition costs (e.g., by optimising buyer contracts and processes).
- Ongoing vulnerability to price changes (a reality that directly impacts inventory values).
- Inability to mark-up costly inventory investments when dynamic pricing (e.g., on electronic products, LED lighting, etc.) exerts downward pressure on market prices.

These and other market realities can create significant challenges for wholesale distributors that need to balance out their own profitability with their ability to remain competitive.

“Today’s markets are as competitive as ever, and many buyers are still shopping with a price-first mentality—especially for commodity products,” CFO First points out, noting that a major challenge for wholesalers is establishing value in the customers’ minds for their products (so customers don’t view them through the “commodity lens”).

What value-added product or service features can you emphasise to customers that will justify a higher price than your competitors?

## Quiz: Is a Poor Pricing Strategy Holding Your Distributorship Back?

If you’ve never taken the time to develop a cohesive, optimised pricing strategy, then you may not even know how much money, time and effort you’re losing as a result. Here’s a short quiz that will help you better understand whether your pricing strategy is holding your company back?

1. Do you spend a lot of time extracting data from multiple sources?
2. Is much of that work performed manually, and on a case-by-case basis?
3. When determining price points, are the results of your data search already “old” by the time it comes to share that information with your customers?
4. Are your prices subjective and often based on “gut feel” versus actual data and analytics?
5. Are you setting market prices and then realising later that customers have received numerous discounts for no apparent reason (i.e., without regard to revenue potential, pay history or customer size)?
6. In the heat of competition, is your first reaction to drop prices in order to win the business?



If you answered “yes” to more than half of these questions, then your company will definitely benefit from an automated platform that helps formalise the process and that takes into account numerous variables to come up with market-appropriate price points for your products and services.

### **The Business-to-Consumer Twist**

With B2B buyers acting more and more like B2C customers every day, distributors are sharpening their pricing pencils and finding new ways to position themselves for success in the market. In its [Wholesale Distribution Disrupted report](#), Deloitte points out that the expectations in B2B commerce are increasingly informed by developments and experiences in B2C, and that customers want experiences like transparent pricing; a rich, tailored user experience; and communities and social connections.

The problem is that B2B pricing has traditionally been highly complex and somewhat opaque, “with the negotiated, customer-specific, tiered price bearing little relation to the list price,” Deloitte notes. “The growth of B2B ecommerce and the expectation that the ‘price you see is the price you pay,’ along with the ability of buyers to leverage digital tools to quickly price shop, have increased pressure for greater pricing transparency.”

The digital selling world is also driving greater pricing and availability transparency. “Some distributors have thrived in market niches with a certain level of pricing and availability opaqueness,” Deloitte notes. “However, digital is enabling customers to

more efficiently ‘shop’ for items from various suppliers, and for distributors to offer an endless aisle of products.”

Amazon, for example, enables B2B buyers to compare their negotiated price for specific items with that of other Amazon sellers, giving the former the chance to buy at a price below their negotiated price. Concurrently, B2B buyers are utilising analytics to research the price they pay for items, Deloitte concludes in its report, “and are demanding that suppliers disaggregate costs into product, freight, handling and other categories to allow for more direct comparisons.”

### **How are You Really Pricing Your Products?**

Focused on serving their customers while maintaining healthy profit margins, wholesale distributors have to effectively balance the price they paid for a product with the profit that they’ll make on it—a goal that’s hard to attain if the company isn’t using solid pricing strategies. In [Top 5 Pricing Strategies for Distribution Companies](#), BlackCurve, a price management and price optimisation software company, advises companies to keep these five elements in mind when optimising their pricing strategies:

- Fixed and variable costs
- Competition
- Your business objectives
- Your proposed positioning strategies
- Your target group and willingness to pay



“Setting your prices too high could mean your customers look elsewhere. At the same time, setting the prices for your products too low could make a business relationship not worthwhile, especially because it’s difficult to increase the price later after setting those initial terms.”

“The pricing decisions you make can have a significant effect on the success or failure of your distribution company,” BlackCurve writes.

In most cases, pricing is based on one or more of these core strategies:

- **Competitive pricing/price matching.** What is the competition charging? You can set your pricing at above or below this level.
- **Cost-based pricing.** Look at total business costs plus current market conditions, and use that data to set your pricing.
- **Psychological pricing.** What can you do to entice a thrifty customer (i.e., pricing items at \$49.99 instead of \$50.00)?
- **Value-based pricing.** Figure out how much money or value your product will generate for your customer (i.e., increased productivity or efficiency, saved time, etc.) and then work the cost of that “value” into your price approach.
- **Penetration pricing.** Setting a relatively-low introductory price in order to attract new customers (similar to the “loss leader” approach that retailers use).

Ultimately, good price management can promote your distribution business to the next level. “If you are pricing smart then you’ll keep an eye on your customer’s maximum willingness to pay and the differential value to those customers of your products,” BlackCurve concludes in its report. “You should also keep a close eye on the competition and price according to what is acceptable in current market conditions.”

## Using the Oracle NetSuite platform, distributors can more effectively:

- Organise their data in a single system (thus eliminating the need for different process flows).
- Assess their data.
- Gain deep insights into price and profitability.
- Fully leverage a cloud-based/role-based platform.
- Understand the root cause of poor financial performance.
- Gain visibility into key pricing indicators (via KPI dashboards and both standard and customised reports).
- Make better informed decisions.
- Proactively manage their profits.
- Leverage analytics to set pricing policies.
- Use that intelligence to explore new pricing opportunities.
- The list goes on...

## Making Data Your Best Friend

As data continues to proliferate right along with the number of technology tools to help harness that data, companies are learning how to leverage that information across multiple departments for maximum success. One of the most important exercises that wholesale distributors do on a daily basis,

setting prices is one of the many operational areas that can benefit greatly from good data management.

Having a centralised, cloud-based system that manages these and other activities not only helps distributors identify their most profitable price points, but it also helps answer questions like: When can we stop offering this customer steep discounts? How much money are we really making off this product line? And, are we really benefitting from our manufacturer rebates, or not?

“The key to pricing success is a flexible, cloud-based software system that factors in the price that distributors are paying for their inventory, current market conditions, and what customers are willing and able to pay,” says Michelle Davidson, Oracle NetSuite’s wholesale distribution industry principal. “With an automated system, you can hit on all three of these points and then feed that data into everything else you do—from quotations to sales orders to work orders.”

And when you can clearly see your profit margins in a centralised system, you gain unprecedented visibility into your business. “Instead of constantly having to run reports and hope that they’re current, accurate and relevant,” she adds, “you can hone in on a pricing strategy that not only improves your bottom line, but that also helps you better serve your current and prospective customers.”

### **Gain an Edge on the Competition Now**

Even those distributors that think they have the pricing game under control will surely face a new competitor, get hit with a new market trend or face another economic challenge in the near future.

These forces of change are inevitable, but the good news is that distributors that leverage technology platforms like NetSuite and that take the time to develop viable pricing strategies will be well braced for success in the future.

Distributors of the future will also understand that effectively engaging customers requires true innovation in executing the value chain. Traditional approaches to inventory, logistics, pricing and rebates will be reimaged through the application of advanced analytics and technology innovations. “Given the importance of data, analytics and technology to both engaging customers and executing the value chain,” Deloitte points out in its report, “distributors will also need to leverage IT to truly energise—not just enable—the business.”

NetSuite’s powerful native capabilities, for example, help distributors establish multiple price levels; customer and currency-specific

“Now, instead of spending hours or days trying to analyse data or guess at what your customers are willing to pay—and whether those price points support your profitability goals—you gain true insights into costs, margins and target pricing. With just a couple of mouse clicks or screen taps to get to the criteria you need to make the best possible pricing decisions and improve your competitive position in the market.”

**Michelle Davidson**, Oracle NetSuite's Wholesale Distribution Industry Principal

pricing; dollar and percentage discounts; promotion costs; and transaction-level gross profit analysis for a quick double-check on the effectiveness of a pricing strategy. Add embedded ecommerce offerings to the

equation and distributors can confidently offer website pricing that is updated in real-time, thus ensuring accuracy and avoiding even the slightest of pricing errors that can quickly become a costly problem to overcome.





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