



**BUILDING PRODUCTS
DISTRIBUTOR IMPROVES PRICE
CONSISTENCY TO REDUCE
DEVIATIONS AND LIFTS MARGIN
RATE 120 BASIS POINTS**

CASE STUDY



Challenges

- Frequent input cost changes
- Overuse of price deviations
- Lack of relevant price guidance

Key Outcomes

- ▲ +120 bps margin lift
- ▲ Increase in system price usage
- ▼ Fewer deviations/exceptions

DYNAMICS OF BUILDING PRODUCTS DISTRIBUTION

The dynamics behind the building products distribution industry – specifically managing frequent cost changes – continue to grow more challenging. Significant, weather-driven seasonality and growing instances of unpredictable events paired with ongoing inflation are just two of the many factors contributing to a highly fluctuating cost environment.

There was a time in this heavily project-driven industry when supplier cost changes, and all the downstream pricing processes triggered by them, happened once or twice a year. No more. Building products distributors now receive supplier cost changes quarterly or even monthly, and scramble to keep up.

FREQUENT COST CHANGES LED TO OVERLY-GENERAL PRICING ... AND MILLIONS OF DEVIATIONS

The same was true for this U.S.-based midsize distributor of building products. Historically, the company received cost changes from suppliers on an annual basis, toward the end of the year. This gave the internal teams ample time to incorporate the new costs into national price lists, adjust system prices, notify sales teams and customers, and bring adjusted list and system prices to market by January the following year.

However, as the frequency of supplier-driven cost changes intensified, so too did the company's ability to ensure that prices were rational and relevant for each unique transaction. Manual price changes were time-consuming, and the company's cost-plus strategy was out of step with the market.

This led to overly general system pricing that didn't reflect each customer's unique relationship with the company. Unsurprisingly, over time members of the company's large sales team trusted the prices less and less, leading them to deviate from the system prices more and more.

To help address the lack of relevancy within the system prices, this distributor gave reps autonomy to set customer-specific prices that were rarely questioned. The problem with this common remedy is two-fold:

First, sales reps had no way of knowing the ideal price for each unique selling circumstance. For example, they could look at a \$10 price and intuitively know it was too high. Then, a customer-specific price of \$4 was set with no way of knowing that \$6 would have been an acceptable price for the customer while maintaining the necessary margin rate.

Second, customer-specific prices, once created, were locked in for indefinite periods of time. Meaning, that customer's price could be \$4 for that item for years, regardless of cost changes, opening wide the opportunity for future margin leakage. On top of sales reps setting customer-specific prices that inadvertently leaked margin, branch reps had the authority to deviate from system prices at the counter as well. This posed the same issue – it was impossible for reps to know the right price point that the customer would accept and that would earn a fair margin for the company.

In all, this building products distributor came to the realization that there were millions of such deviations and customer-specific prices that existed. Not only was margin rapidly leaking, but with no guidance on price deviations and overrides in place, prices lacked rationality in terms of how each price reflected each customer's unique relationship with the company. This meant that small customers often received better prices than large customers, or big orders received the same discount as tiny orders.

PRICE OPTIMIZATION DELIVERS MARKET-ALIGNED PRICING & SIGNIFICANT MARGIN RATE IMPROVEMENT

Executives smartly began exploring price optimization to improve consistency, reduce deviations and better manage cost changes. The forward-thinking executive team began researching the means to reach their desired end: delivering prices to customers that were reflective of their valued relationship with the company while reducing the deluge of margin-leaking customer-specific prices and deviations.

Ultimately, the team chose **Zilliant Price IQ®** to deliver the market-aligned price guidance the company needed to optimize system prices while providing reps with negotiation guidance for occasional instances where deviations were necessary.

Price IQ® is a price optimization application that enables companies to generate price guidance in alignment with their pricing strategy and revenue and margin goals across products, customers, geographies, and channels. It measures price elasticity at the micro-market level and uses that to predict the impact of pricing strategies before they are executed in the market. Prices are delivered in the system(s) where reps quote or enter orders.

In addition to the data science capabilities, the leadership team at this building products distributor appreciated that the Zilliant team took the time to understand the unique problems facing their business – including from the very first conversation – and delivered a tailored solution designed to meet their needs.

Within three months market-aligned system pricing was deployed, allowing the distributor to be live with new system prices ahead of the anticipated new-year cost changes. Working closely with a dedicated Zilliant Customer Success team comprised of pricing scientists and industry experts, the company fine-tuned Price IQ® to ensure the price optimization model accounted for all the unique factors that drive price in their business.

With system prices now market-aligned, no longer were small customers receiving better prices than large customers, or big orders receiving the same discount as tiny orders. Sales began adopting the system pricing again, which was integrated directly into the ERP system they already used.

Now, with system pricing in hand that already accounts for the unique factors of each selling circumstance, deviation requests have been significantly reduced. Not only is the pricing guidance more relevant, reps receive a range of prices – start, target, and floor – giving them the ability to negotiate within a profit-maintaining range.

Less than two quarters later the results were apparent – 120 basis points of margin rate improvement!

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