



ELECTRICAL PRODUCTS DISTRIBUTOR IMPROVES GROSS MARGIN WITH PRICE OPTIMIZATION AND HELPS REPS QUOTE WITH CONFIDENCE

CASE STUDY



The Challenge

- Cost of raw materials fluctuated daily
- Reps lacked relevant price guidance to make the best possible decisions
- Decentralized pricing processes couldn't scale
- Sales provided with guidance to prevent defections and grow footprint with customers
- Broad digitization effort required serving customers online with eCommerce

INDUSTRY DYNAMICS OF ELECTRICAL PRODUCTS DISTRIBUTION

Thriving in the electrical products distribution industry is a challenge due to its fragmented nature and dependence on raw materials whose costs constantly change. Daily price fluctuations in commodities mean profits are a moving target. From a pricing perspective, customers have plenty of options and expect a convenient and consistent buying experience, regardless of sales channel. For large distributors with dispersed sales teams and an eCommerce presence, these expectations require a sound holistic pricing strategy. After further analysis, it was revealed that the company was missing an additional \$10 million per year in expansion and recovery opportunities.

VOLATILE COSTS AND DECENTRALIZED PRICING LED TO MARGIN LEAKAGE

These challenges are very familiar for this company, an electrical products distributor with operations in the United States and various markets around the globe. As the distributor experienced significant growth, the existing decentralized pricing processes created ample opportunity for margin leakage.

Like many electrical products distributors, this company's business is heavily impacted by the cost volatility of various commodities.

Since commodity prices change daily on the futures market, it's a full-time job for a pricing analyst just to monitor cost and manually change customer-facing product prices. Given the cost volatility and the uniqueness of every negotiation with thousands of customers, pricing decisions were highly decentralized, with little guidance given to the sales teams.

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The sales team is the lifeblood of this electrical products distributor, as their expertise is critical to company success. As they grew rapidly, they had a difficult time maintaining solid pricing practices in each branch and struggled to fill new positions with people experienced enough to make pricing decisions on their own.

Management tried developing a rigorous pricing training curriculum to help their sales teams, but ultimately found it too challenging to cram all the pricing dynamics of their market into something so one-dimensional. Lacking specific pricing guidance, sales often positioned quotes with only the company's target margin as a guide, leaving money on the table in some situations while pricing themselves out of the market in others.

Company leaders knew there had to be a better way.

PRICE OPTIMIZATION SPARKS A PROFITABLE CHANGE

Executives at the company smartly began exploring price optimization to improve consistency, centralize pricing decisions and better manage changes in input costs. 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 price exceptions 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 at this electrical 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 designed a tailored solution to meet their needs.

Zilliant demonstrated how the pricing model would produce a deal envelope which would surface a range of acceptable prices within their order entry system. For the first time, management would have an effective benchmark against which they could measure the quality of individual quotes and the more inexperienced reps would have a tool to lean on to price with confidence. In addition to the technical solution, Zilliant showed how it could provide a framework that built upon the successful pricing strategies of the distributor's most effective salespeople. Rather than generic target-margin goals, market-aligned price guidance would help reps quote with more confidence.

MODERNIZING THE BUSINESS

In addition to modernizing this electrical products distributor's approach to price setting, by leveraging multi-tenant SaaS and API-based integration, Zilliant was able to seamlessly connect to the company's data sources, quoting tools and homegrown eCommerce system. Within six months post-implementation, the distributor saw a 250-basis point increase in its gross margin in the portions of the business relying on the price guidance.

Now, this distributor's less-experienced sales reps feel empowered to quote with confidence and work more independently. As the company continues to grow organically and through acquisition, the process of onboarding new sales reps has become easier, without the need for rigorous training on price.

In addition to price guidance for the reps interacting with customers, this electrical products distributor also integrates pricing into its homegrown eCommerce channel. New customers are served up list pricing, where customers with an existing relationship with the distributor can login and see prices that reflect their unique relationships with the company.

ONGOING PARTNERSHIP

Given the margin improvement via price optimization and the company's goals to modernize and digitize the company from end to end, this electrical products distributor has since expanded its relationship with Zilliant to include Sales IQ to increase organic growth with data science by serving up product cross-sell recommendations and opportunities to reduce churn at the product category level. Additionally, Cart IQ will further enhance their eCommerce channel by providing complementary product recommendations while customers are shopping online, helping to personalize the customer experience in this ever-growing sales channel.

For more information, visit www.zilliant.com