



DYNAMIC FORMULA PRICING IN SPECIALTY CHEMICALS MANUFACTURING

WHITEPAPER



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Change is the name of the pricing game in specialty chemicals manufacturing. More specifically, cost change. Manufacturers that mix chemicals to formulate an end product are regularly buying the raw ingredients that make up those products on the commodities market. Rather than finding ways to inch up price to maximize margins, manufacturers in this industry are forever in a rat race to stay on top of cost fluctuations. This means closely monitoring commodities indices and fashioning smart agreements with customers that allow for price changes that keep up with the market. Sounds simple, right?

For many specialty chemicals manufacturers, not so much. Most rely on a manual process to gather cost changes and then build out formulas in complicated spreadsheets. When the system that receives cost change data is disconnected from the tool that delivers the final calculated price, many labor hours are wasted on rote tasks with an increased potential for error. In addition, the frequency of cost change often outpaces the ability – both practically and contractually – to adjust end customer prices.

Consider a plastics manufacturer that is buying resin, crude oil, cellulose and salt on a monthly basis. Their product offerings are made up of these raw materials in varying amounts, depending on customer need. If resin goes up by 5% in the index the company tracks, the downstream price changes that must be made will vary wildly. Resin may make up 10% of the cost of one product and 80% of another. The 5% increase will have minimal impact on the first product but will cause the latter's price to skyrocket. Some customer contracts may allow for an immediate price change to account for the new cost, while others may only allow for one change per month or quarter. This is how the mechanics behind a seemingly simple price adjustment often become overwhelming at scale.

Customers in this space have the same access to the same publicly available indices that the manufacturer does – sometimes raw material prices go up and sometimes they go down. The key to success in a landscape of accelerated cost fluctuation is an airtight formula-based pricing (or components-based pricing) strategy driven by automated tools.

CENTRALIZE AND AUTOMATE

Broadly, formula-based pricing relies on mutual acceptance of a math equation. Both the customer and the manufacturer enter agreements knowing that price will change often as raw material cost fluctuates. Thus, included in those agreements are clauses for how often price can be adjusted (weekly, monthly, quarterly) and often with a cap on how much price can move at any given time. The formula that determines what the customer pays does not change, but the values inputted into the equations are changing all the time.

What this means in practice is many, many hours spent by a manufacturer's pricing team to

- Monitor cost changes and pull cost data from an index
- Recalculate formulas for each product based on the agreed-upon formula (specific to each customer)
- Cross-check customer agreement contracts for price change frequency terms
- Deliver new prices to sales teams by uploading item prices in a CRM or CPQ

There are inherent inefficiencies throughout this arduous process. A sales rep only sees the final product, with no insight into which components caused the price change. This leaves them without guidance as to how best to advise their customer. Meanwhile, the pricing team has been heads down doing arithmetic and plugging numbers into systems that don't talk to one another. The contracts which hold the formulas often live in a pdf format that is not system-readable. Now we can throw "meticulously deciphering contracts" onto the pile of pricing analyst tasks.

There is a better way. Rather than performing these tasks offline before aggregating and inputting the item price into a system, what if the entire process flow was centralized? What if each data source and price delivery system were connected in real-time? With **Zilliant Price Manager™**, the complex and time-consuming formula pricing tasks become intuitive. Specialty chemicals manufacturers stand to isolate these common pain points and simplify the process of building and updating formula pricing by:

- Storing each component (including raw materials, freight, labor, fuel, etc.) that goes into a formula price in a customizable workbook.
- Storing customer contracts in a centralized hub for easy reference.
- Creating a process flow for easy real-time calculation with each step designed to execute a very specific component of a price change.
- Automatically calculating the updated item price with the ability to filter down into any level of granularity necessary to show your work.
- Immediately surfacing the number of items and customers impacted by a specific component price change.
- Leveraging a cloud-native platform that easily connects via high-availability REST API to an unlimited number of data sources like ERP and market indices, as well as quoting tools, eCommerce and CRM.

Price Update

Items Impacted
1,378

Customers Impacted
226

Resin Price Updates

Corrugate Price Update

Freight Update

Labor Update

FES Update

Amortization Update

Fuel Update

Mileage

Component Price Updates

Item Updates

Resin Type	Price Change Index	Resin Origin	Change Type	Change Value	Effective Date	Expired Date	Reason Code	Items Impacted	Customers Impact
HDP	CDI	PCR	Per Lb	\$0.05	07/01/2020	12/31/2020	MC	1	
HDP	CDI	VIRGIN	Per Lb	\$0.03	07/01/2020	12/31/2020	MC	1,153	
HDP	CDIQ	PCR	Per Lb	\$0.05	07/01/2020	12/31/2020	MC	2	
HDP	CDIQ	VIRGIN	Per Lb	\$0.03	07/01/2020	12/31/2020	MC	183	
HDP	CDIQST	VIRGIN	Per Lb	\$0.03	07/01/2020	12/31/2020	MC	4	
HDP	CDIST	PCR	Per Lb	\$0.05	07/01/2020	12/31/2020	MC	5	
HDP	CDIST	VIRGIN	Per Lb	\$0.03	07/01/2020	12/31/2020	MC	30	

Current Filters

Resin Type equals HDP

Price Change Index begins with CDI

Resin Origin equals VIRGIN

Resin Origin equals PCR

PROVIDE VISIBILITY INTO PRICE CHANGES

As mentioned above, the sales team has very little, if any, visibility to what is going on behind the scenes to change their customers' prices. Generally, when a sales rep looks into any of the enterprise systems, all he or she is seeing is the new item price.

With **Zilliant Deal Manager™**, the rep can easily access the following information:

- What triggered the price change (an uptick in fuel price, a change in a market index, increase or decrease in labor cost, etc.).
- How each trigger impacts price at the component level and, ultimately, the item level.
- The relevant contract terms that explain when, why and by how much price can be adjusted.

Price Update					
Items	Price Changes	Contractual Excluded Changes	Average Price Change	Revenue Impact	Items to Publish
2,707	2,333	374	0.3%	\$14,174,251	2,706

Item Info >		Timing >		Item Pricing & Revenue >		Workflow >	
ID	Item Number	New Effective Date	New Item Price	Publish	Notes		
> ...	008BU1N0188003	07/01/2020	\$114,6822	☐	-		
< ...	032COMW001D001	07/01/2020	\$262,5289	☒	-		

Component Info >		Timing >		Component Pricing >		Overrides >	
Component Number	New Effective Date	New Component Price per Item UOM	Override Price	Changed Price			
032COMW001	07/01/2020	\$112,5750		No			
RAWCOLW089	07/01/2020	\$0.1222		No			
RAWPBD03864	07/01/2020	\$40.0000	\$40.0000	Yes			
RAWPBD001	07/01/2020	\$0.0000		Yes			

This wealth of information is also readily actionable. For instance, once the rep digests the price updates and goes back to their customer with the newly calculated prices, there might still be some pushback around a line item price or two. The rep can go back and quickly request an override price within Deal Manager that is automatically routed for approval back to sales management or the pricing team. Once approved, the agreement price is changed in real-time and can be sent to the customer.

FORMULA PRICING, REIMAGINED

In an industry in which cost is driving pricing all the time, specialty chemicals manufacturers can't continue to rely on disconnected systems between component and item, market index and ERP, spreadsheet and sales quoting tool. It becomes a process nightmare for the modern manufacturer and leaves pricing teams overwhelmed, sales teams uninformed and customers unsatisfied.

Reach out to Zilliant today to learn more about how we can bring your relevant systems together, dynamically calculate formula price updates and provide a new level of price visibility for sellers and customers.

To speak with an expert, visit www.zilliant.com