



FOOD PRODUCER ESTABLISHES CULTURE OF CONTINUOUS PRICING IMPROVEMENT

CASE STUDY



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DYNAMICS OF FOOD PRODUCTION

Food producers operate in a contract-heavy environment that relies on commodity future prices and volume selling. It's a delicate balance between pricing and plant utilization that must be struck in order to maintain profitability. Additionally, when booking contract business for the next fiscal year, food producers must take into account plant capacity, overhead costs, commodity price fluctuation and the best price for each deal, among other considerations. In a business with generally low transaction volume, data sparsity makes traditional price segmentation nearly impossible. This means that pricing departments within these companies are forced to get creative to arrive at the right price for each customer to secure the target amount of profitable contract business in a world of thin margins. Many food producers also must navigate long periods of over- and under-supply, further muddying the costing and pricing waters.

ADDITIONAL COMPLEXITIES FACING THIS BUSINESS UNIT

On top of the traditional pricing challenges in food production, one business unit at a global food manufacturing company had even more pricing complications to address. For starters, even within this single business unit, the product variety ranged from commoditized to highly specialized with the foundational ingredient varying widely in commonality.

The business unit also converts many disparate raw materials into a final recipe, each with different cost structures and demand patterns in the market. Each component of the recipe has to be factored into the final price build, which was made more difficult by an outdated quoting system and aging ERP.

Finally, the data sparsity is especially acute in this particular type of food production. The resulting abundance of segments with just one or two customers in them. Some customers require immediate delivery while others are buying now for delivery 18 months into the future. It became just as difficult to correctly forecast cost and price as it was to segment customers.

Ultimately, the business leaders came to the realization that a creative pricing segmentation structure to deliver highly relevant price guidance to sales reps was the key to improving profitability.



STARTING THE PRICING JOURNEY

Zilliant has been helping food producers optimize pricing decisions and standardize pricing processes for the past decade. Thus, this particular food producer brought in Zilliant to kickstart its own pricing journey.

The team implemented **Zilliant Price IQ™** and saw some immediate improvements, but also uncovered intricacies in the business that required some further model optimization. This first foray was instructive, however, as it helped establish a culture of continuous improvement.

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BUSINESS UNIT EXPERTS, PRICING TEAM AND ZILLIANT MAKE A WINNING TEAM

Together, the pricing team worked with Zilliant on a model that would produce consistent guidance, reduce manual work, simplify price setting, provide an optimal and practical price segmentation structure and better differentiate long-tail value propositions. After detailed interviews with category managers to fully understand where value was driven in the business, the combined team worked backwards from there to streamline the pricing model.

It was also determined that upcharges needed to be implemented to better execute against forward curves in the business. **Zilliant Price Manager™** was brought into the fold to enable simple implementation of upcharges where relevant.

Upcharges became the missing link. With Price Manager complementing Price IQ and a better understanding of value on the business side, the joint customer-Zilliant team was able to creatively solve a number of challenges. Not only did upcharges become the primary means of maintaining portfolio spreads without expanding the segmentation tree, this new tactic could be used to actually replace some segments to solve data sparsity issues. This approach also helped capture the appropriate market value for the long tail product features.

This outside-the-box upcharge strategy and simplified segmentation approach are now automated within a pricing process that produces market-aligned price guidance.





GAINING MARKED PRICING IMPROVEMENTS, CONTINUOUSLY

The redesigned pricing solution was rolled out to the sales team, with enhanced benefits such as:

- A significant reduction in manual price exceptions
- Guidance updates turned around in seven days, reduced from six to eight weeks previously
- 100% transaction coverage in the segmentation tree

The successful solution has freed up the pricing team to focus on pricing rather than system administration and data headaches, at a time when agility is crucial due to COVID-19-induced market shocks. A culture of continuous improvement and collaboration with both internal teams and Zilliant has put the pricing function on a positive trajectory.

“We really worked with the Zilliant science and technical team as an extension of our team,” said the strategic pricing leader. “We found we are able to solve problems better together.”

For more information, visit www.zilliant.com