



TERREAL LEVERAGES PRICE IQ TO PERFORM ABOVE THE MARKET IN VOLUME AND PRICE

CASE STUDY



Challenges

- Lack of control over selling price
- Overuse of price deviations
- Margin leakage due to misalignment

Key Outcomes

- ▲ +150 bps margin (3-year cumulative)
- ▲ 75% of prices above floor recommendation
- ▲ Increased market share

DYNAMICS OF BUILDING PRODUCTS MANUFACTURING

The building products manufacturing industry is extremely competitive, fragmented and complex. As countless suppliers battle over the same pool of projects, prices tend to follow a downward trajectory. Often, sales reps face the choice of either losing the bid or slashing the price to a point that decimates profit margin. This is a big problem as material costs continue to rise.

For discrete products manufacturers, who sell standard products through distributors and other third parties, it's important to find the right mix of system/matrix and customer-specific pricing while minimizing deviations.

GROWING PAINS IMPACT THE PRICING PROCESS

Each of these industry undercurrents ring true for TERREAL, a €376 million French manufacturer of clay building materials, that employs nearly 2,500 people around the globe. Known for its specialty in terra cotta, TERREAL provides solutions for the entire building envelope, most notably roofing, structure and façade/decoration.

More than 150,000 homes are built or renovated with TERREAL tiles each year, and another 20,000 are built with TERREAL bricks. The company's rapid growth and expanded global footprint introduced more layers of go-to-market complexity, as customers could buy from regional depots, distributors, eCommerce sites and retail stores. Aligning prices across sales channels and enforcing rational price guidance among sales reps became a heavy burden.

TERREAL used spreadsheets to manage and set prices based on their experience within a decentralized model. The company knew it had to not only modernize its tools, but also address its processes. Matrix (grid) prices were underutilized, customer-specific yearly contracts were negotiated without price guidance and job-specific deals were often being sold well below the price floor. More troubling yet, misaligned job-specific pricing started to become standard across the board.

LACK OF CONTROL BROUGHT PRICES DOWN OVER TIME

TERREAL's pricing team struggled to govern price with so many regions, customer types and go-to-market channels to account for. The global nature of the business became a recipe for inconsistent and misaligned market pricing. While each distributor did have its own price list from TERREAL corporate, they were able to renegotiate (without guidance) at the local depot level. Often these negotiations took place outside of the purview of pricing analysts and prices began decreasing over time.

The decentralization was further exacerbated by sales reps, who had the autonomy to make price exceptions for customers and create special job-specific quotes, circumventing the more profitable matrix. Inevitably this process led to margin leakage. Most sales reps are compensated on revenue, so it's understandable that they'd sell low to get a competitive deal done. It doesn't change the fact that margin continues to leak, however.

TERREAL approached Zilliant with a goal: Leverage price to increase overall margin without sacrificing market share. Additionally, the team wanted to significantly reduce the number of spot/exception prices being offered and sell more off the matrix. The big question: How could they regain that control?

PRICE OPTIMIZATION POWERS A REIMAGINED APPROACH

Zilliant invested the time to learn TERREAL's business and analyzed its historical transaction data to reveal areas of margin leakage and opportunities for immediate improvement. In addition to the quantitative evidence gathered, Zilliant interviewed TERREAL employees to understand customer buying behavior, workflow dynamics, and the goals of both pricing and sales management.

A trusted relationship developed as TERREAL found a significant opportunity hiding within its own four walls.

To achieve this, it was crucial to 1) get the pricing science right and 2) drive sales adoption of the new optimized prices. The catalyst chosen by TERREAL to drive a new pricing approach was Zilliant Price IQ, the only price optimization application with the ability to simultaneously account for all the factors that drive price, rationally align price/customer/order/product relationships, and statistically measure what drives price response in the market. This solution enforces necessary guardrails and produces price guidance for all the different ways price is expressed in a B2B business.

By placing each product and customer into a specific segment and scientifically measuring price elasticity, TERREAL pricing teams were able to structure the matrix rationally, with target and floor price guidance delivered automatically to sales via its quoting tool.

CONVINCING SALES REPS TO TRUST AND ACT ON THE NEW PRICING GUIDANCE

Once the new pricing approach was established, the hard work of change management and sales adoption could then begin. After all, the most precise and scientifically derived prices in the world are meaningless if they are met by a disinterested sales team.

With this in mind, TERREAL followed a creative change management plan to drive price adoption. Prior to putting Zilliant prices into market, the pricing organization spent three months educating the sales team about how the tool derives price, how and where guidance would be delivered, and how to communicate price changes with customers. As the reps got up to speed, Zilliant continued to hone the pricing model. When Price IQ went live, a thoroughly prepared salesforce found the new prices relevant and easy to adopt.

The result is active collaboration between pricing and sales at TERREAL. Sales reps are no longer guessing on price or using outdated methods like rule-of-thumb and cost-plus pricing. Rather than a yearly percentage-based blanket price increase, TERREAL pricers are now aware of the price elasticity of each pricing segment and can raise or lower prices accordingly. The dynamic price guidance sets strict price targets, with built-in reporting to hold the sales team accountable.

With Price IQ, TERREAL is empowered to price strategically. Prices that had decreased over time below floor have been moved back up to a fair and profitable level. Using price elasticity awareness as a guide, TERREAL has been able to run campaigns that spread out price increases throughout the business. TERREAL is now getting fair value for its products, without losing volume or facing customer pushback.

Terreal has been above market performance in terms of volume and price!

Want to learn how you can take back control of your pricing? Get in touch with www.zilliant.com