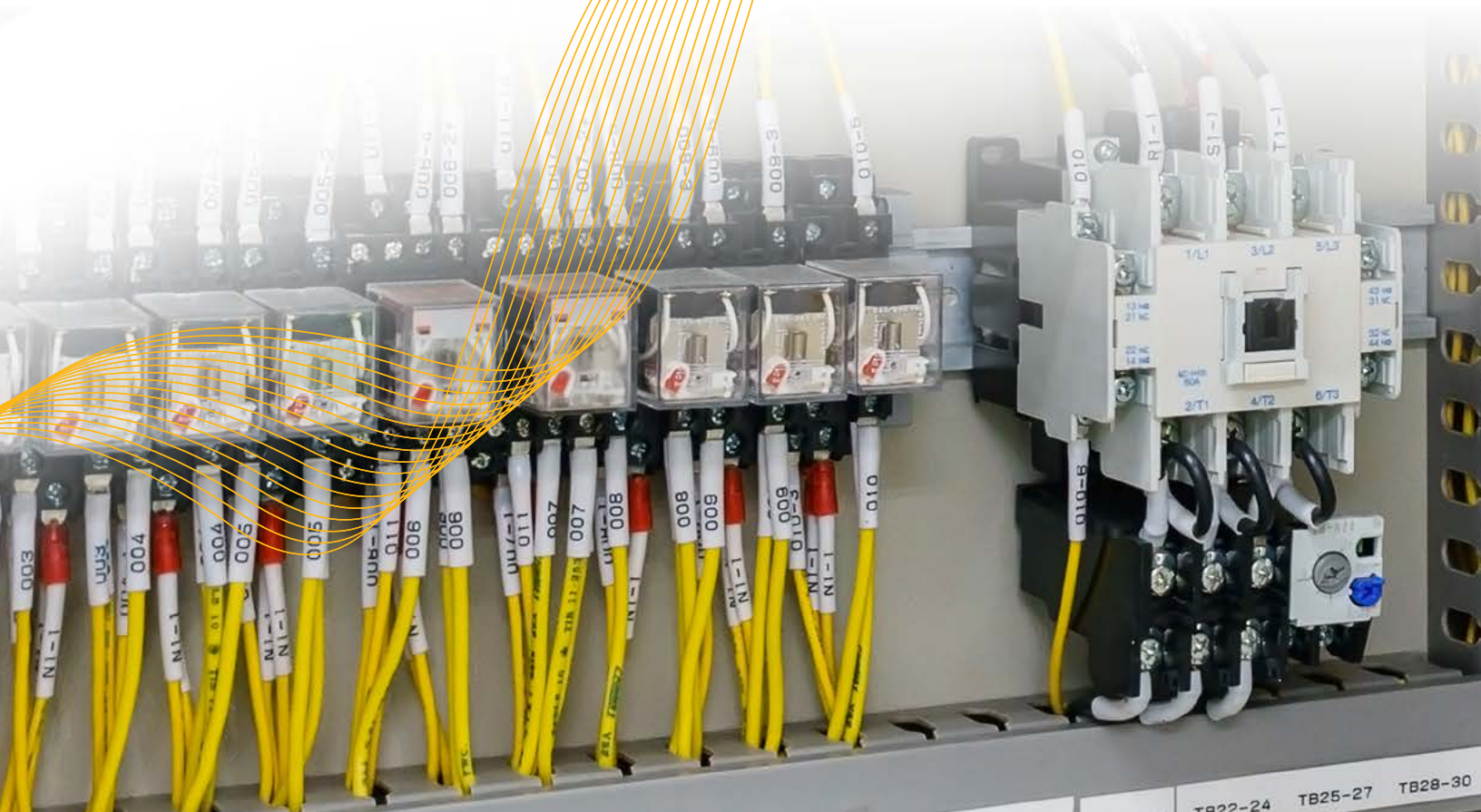




HOW ELECTRICAL PRODUCTS MANUFACTURERS CAN STREAMLINE THE QUOTE LIFECYCLE, MANAGE COST INCREASES AND CHANGE THE PRICE NEGOTIATION GAME

WHITEPAPER



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Ensuring profitability in the electrical products manufacturing industry is a complicated matter. Complex, lengthy sales processes, raw material cost volatility and cumbersome negotiation processes each provide openings for margin loss. In this whitepaper, we'll dive into these dynamics and share a reimagined approach to streamline the quote lifecycle, manage cost increases more effectively, and change the price negotiation game.

ELECTRICAL PRODUCTS MANUFACTURING DYNAMICS

The complex and lengthy nature of the sales process makes profitability a constantly moving target. It's common for negotiations to start with a budgetary quote and continue with multiple follow-up quotes as prices descend on each round. This poses a unique conundrum: How is it possible to price competitively without a race-to-the-bottom on price that results in winners' remorse?

INADVERTENT PRICE QUOTE CANNIBALIZATION

Further complexities for electrical products manufacturers make this process even more challenging. It's not uncommon for multiple contractors in the same geography to bid on the same project. From a process perspective, this often means several unique quote requests with the same blueprint get assigned to different engineers, and thus pricing teams, in one company. Each unique engineering/pricing team creates slight variations with respect to pricing, and thus several unique bids with different prices for what is ultimately the same project are brought to market. Without a clear line of sight into this phenomenon and market-aligned pricing guidance to begin with, companies inadvertently end up competing against themselves. It happens when contractors realize a competitor's bid (made by another internal team) is lower and request a price reduction. It helps the contractor win the bid, yet the manufacturer is competing against itself, lowering prices and losing margin along the way.

FLUID COSTS ON THE OPEN MARKET FURTHER ERODE MARGIN

Negotiation process aside, dealing with raw material cost volatility is an ongoing challenge. Copper pricing has soared; according to Fastmarkets, three-month copper futures on the London Metal Exchange rose to an eight-year high of \$8,238 per tonne. According to Barrons, "Steel prices are on fire, rising about 67% over the past three months. Higher commodity prices mean bigger profits for producers, whose cost bases remain relatively fixed over short periods." Aluminum is also in a "seller's market," recently hitting a 52-week high, per Markets Insider. With such fluid costs on the open market, this can also create major headaches on the project side, given the lag time between bid and project execution. Many manufacturers only update their standards costs in their ERP once annually, meaning mid-year material cost inflation must be absorbed, resulting in further margin erosion. Simply put, electrical products manufacturers must have a faster means to update prices when costs change.

THE NEGOTIATION GAME: COMPLEX, CUMBERSOME AND COSTLY

Finally, intelligently managing price negotiations through multiple channels is an immense challenge. Consider the day-to-day negotiations of an electrical products manufacturer. How many transactions take place daily? In which channels are pricing negotiations taking place? Through dealers, wholesale distributors, contractors, direct sellers, eCommerce, or another self-service portal for customers? What's the average quote turnaround time? How long does it take to gain internal approval on a pricing exception request?

These questions are the tip of the iceberg in terms of the complicated, cumbersome and costly negotiation process. Company dynamics can vary widely, but the pains (and potential opportunities) of internal and external negotiations are acute and universal.

Electrical products manufacturers have grown to quite a large scale via mergers, acquisitions and organic growth. Larger companies are processing an incredible amount of order lines daily. It's not uncommon for 10,000 to 15,000 or more order lines to flow through one company in a day's time. These transactions are numerous, to be sure, but they are also complicated. Multiple sales channels such as in-person sales reps, eCommerce, online self-service portals, and deal desks each factor into how quickly a new order or quote request for project bid can be routed, reviewed, approved and ultimately finalized.

Finally, the pricing negotiation process itself (aside from channel and order type) can be cumbersome and complicated. When customers request price exceptions, reps must route those to a manager or pricing team for approval. If pricing is broadly misaligned to the market, which is highly common in B2B, this pricing exception queue is all but guaranteed to bog down internal teams and slow down quote turnaround times, frustrating customers.

To improve quote turnaround times, companies commonly add more people to the internal teams, but quickly discover that adding more people doesn't get to the root of the problem. With complicated pricing approval and order processes and a lack of reliable pricing guidance, an already-cumbersome process is prone to human errors in judgement and calculation. The outcome is a large administrative overhead cost from a process perspective and pricing that fails to meet the P&L targets of the business.

Certainly, the costs of the price negotiation process can be significant. Compounding matters, customers grow frustrated with prices that are consistently misaligned to their expectations and long quote turnaround times.

In the following sections, we'll share a reimagined approach to streamline the quote lifecycle, manage cost increases more effectively, and change the price negotiation game.

STREAMLINE THE QUOTE LIFECYCLE

As highlighted, it's highly common for project bids to go through numerous quote cycles between the contractor and the manufacturer. Each quote cycle presents a new opening for margin loss while complexities in multiple bids result in companies inadvertently competing against themselves on price.

A one-two punch of leading price optimization and price management software can effectively solve both challenges. Price optimization simultaneously accounts for all the factors that influence price, measures price elasticity, and rationally aligns prices in accordance with business rules to produce optimized price guidance for each unique selling circumstance. The approach can ensure rational

price alignment between good/better/best prices while solving the “bidding against yourself” phenomenon with scientifically derived target prices and a centralized means to keep prices consistent across teams.

Price solutions enable more profitable prices throughout the quote lifecycle by using the Start/Target/Flooring range of optimized prices and matching them to the various stages of the quote lifecycle. For example, the first budgetary quote may be the highest price (Start) within the price range, the next quote cycle would parachute down to the mid-range (Target) pricing, and finally drift down to the best price (Floor), if necessary, to make the final offer. With this structure, engineering and pricing teams have a range of prices to negotiate within that reflect the price elasticity and market dynamics of each unique quote request.

MANAGE COST INCREASES MORE EFFECTIVELY AND EFFICIENTLY

Manufacturers widely rely on manual tools to set and update pricing, which results in overly broad pricing that doesn't satisfy complex demands of the business. Internal teams are left to negotiate with end customers, with little more to guide them than their individual experience and intuition. As a result, manufacturers globally experience an annual margin loss of 0.51% to 7.47%. The culprit? Misaligned market pricing, inconsistent pricing and inefficient pricing practices.

Specifically, misaligned pricing refers to transacting business at prices that fail to align rationally to customer size, order size, product value (good-better-best) and other key value dimensions. For example, a small customer may receive a better price than a large customer for the same product, all else being equal. It also includes pricing that does not quickly and accurately account for cost changes. Risk exposure to the latter is only increasing as cost changes occur more frequently and unpredictably.

It is possible to manage cost increases more effectively and efficiently. Advanced price optimization and management tools can set more granular, scientific cost pass-through strategies and dynamically update pricing across the business as costs change. By doing so, manufacturers can enhance their pricing functions with a variety of capabilities that include:

- Allowing pricing teams to set optimized, market-aligned prices that are contextually relevant for every selling circumstance.
- Addressing all price types or modes, including list, matrix, negotiated, into stock, override, customer specific, project and configured pricing.
- Empowering pricing what-if scenarios to determine the predicted revenue and margin impacts of different pricing strategies and decisions.
- Enabling pricing teams to intelligently respond to market conditions and cost changes in real time, better meet customers' expectations, and deliver prices directly in CPQ, commerce or ERP systems.
- Accurately measuring the impact of pricing strategies on business performance.
- Scaling to support large product assortments in highly dynamic pricing environments.

The net result is market-aligned pricing that meets customer expectations, the ability to immediately address material cost increases, among other market triggers that necessitate a price change, and a potential margin increase of 1-3%.

CHANGE THE GAME WITH INTELLIGENT AUTOMATED NEGOTIATION

Instead of cumbersome processes, exposed to human error from start to finish, enterprising electrical products manufacturers have taken the lead in blending the art of negotiation with the science of data-driven decision making and leading technology. The outcome of this approach – Intelligent Automated Negotiation – automates internal and external negotiations in a more intelligent manner.

From a technology perspective, the approach connects leading price optimization, price management, and sales effectiveness solutions to your existing internal and customer-facing applications via a highly available, scalable REST-based API.

The automated approach sets pre-defined rules on which prices can be auto approved without human intervention – giving engineering teams, pricing teams and customers the flexibility to negotiate within a range of prices that still maintain necessary margin levels, and escalates quickly and efficiently when needed.

The potential for B2B companies to remove the human element when not necessary and reserving that highly-skilled workforce to review, counter-negotiate and ultimately close the deals and proposals that fall outside of acceptable margin bounds presents an incredible opportunity. By reimagining what's possible, there are significant operational and margin gains to be had from automating your internal and external negotiations in a more intelligent manner ... one that's informed by data science and significantly accelerated by technology.

For more information, visit www.zilliant.com.

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