



Distribution Company Finds Millions in Gross Margin Using Hosted Price Management Tool

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Hosting provides a new twist on price management that delivers an excellent return on investment without the infrastructure and technology costs.

The Bottom Line: A \$5B distribution company found millions in gross margin by using a hosted system to address price management issues. The product provides specific account and product advice directly to salespeople in a format that they can apply immediately.

The Problem: The company was suffering from margin erosion, but could not pinpoint the cause. Forecasts showed it was entering a time of significant price fluctuations. Its prime product line experienced numerous price increases that could not be easily passed on to customers. IT and business resources were already strapped with other projects, so the company had to be creative in its approach to price management.

The Resolution: The company picked two divisions to participate in a price management pilot using a combination of products and services from **Advanous**. These divisions were chosen because the team leader believed that they would be open to change and be willing to put forth the effort associated with a new program.

There was an initial concern over the safety of the data because the system was hosted, but the company put contract terms in place to ease its concerns. The vendor tapped into the company's existing data warehouse to collect information from its operating platforms. Data included customer, inventory, vendor, and invoicing information.

Its product mix was especially complex because the same product is sold in multiple units (cartons, skids, weights). This made apples-to-apples comparisons very difficult. The vendor helped the company create a base unit for comparison to strip out the additional complexity that had hampered its internal attempts to compare contracts and deals. The tool was designed to be used by sales to target four important opportunities: pricing, costing, lost sales, and margin erosion.

The pilot ran for two months in the beginning of 2004, with a 12-month plan to roll out the tool to more than 100 divisions following.

The Results: The results from the pilot turned out to be so compelling that the company cut six months from the implementation plan and delivered it to the remaining divisions in half the original time.

In many price management implementations, there is resistance to the new tool from sales. At this company, the tool was positioned as a way to help salespeople improve their performance rather than as a management tool. The 1,400 sales professionals viewed the tool as a significant plus given the impact to their bottom line and the detailed information that could help them manage their business overall. Salespeople like (and use) the data because it is focused, presenting specific opportunities across thousands of products to reduce margin erosion and address lost sales.

The project manager attributes millions of dollars in additional gross profit to the implementation and usage of the tool. The company invested approximately \$1M in the application and services.

At the beginning of the project, Advanous performed data cleansing, tool development, training, and management presentations regarding the project. Today, the company uses the vendor only for data analysis and tools. Paying a monthly service fee, the company believes that it can reduce its spend with Advanous over time as it becomes more savvy itself.

Conclusion: The project manager shared two pieces of advice about the price management project:

- **Make sure that accurate data is available.** The company had to do a significant amount of data cleansing, but was helped by the centralized data warehouse.
- **Find a business partner that cares about the project and your business.** The company formed a collaborative relationship with the vendor in which the vendor continually provided best practices and pointed out potential pitfalls throughout the pilot and enterprise-wide implementation.