

Improved Visibility into Pricing Data from INSIGHT2PROFIT Helps Manufacturer Reach **\$2.0+ Million in Additional Profit** Over 12 Months

Choreographed Approach to Pricing Helps Manufacturer Plug Price Leaks and Delivers \$2.0M profit

Summary:

A mid-sized manufacturer and distributor of pharmaceutical and medical use products had not managed pricing on its 20,000+ products in more than three years. Product managers, sales personnel and customer service representatives worked independently of one another, often contradicting pricing guidelines with deep discounts. No one owned the pricing strategy, and the bottom line suffered.

The North American-based manufacturer had recently been purchased by a private equity firm. The company was encouraged by the PE firm to work with pricing and profit experts INSIGHT2PROFIT (INSIGHT) to implement the company's first global price increase.

INSIGHT brought more standardization to the company's pricing structure. With the newfound visibility into the company's data, a strategy was developed to take pricing to the next level for the company.

INSIGHT consultants analyzed the on- and off-invoice discounting structure, recommended process and controls, drafted pricing communication and set a measurement range of 12 months. The company expects an additional \$2.0+ million in profit at the end of that timeframe.



KEY STATS

- More than 3 million unique customer-product prices
- Cost increases outpaced price increases over a 4-year period
- **\$2.0+ million profit improvement over 12 months**
- Visibility to \$3.5 million revenue loss due to price overrides



BACKGROUND INFORMATION

The mid-sized manufacturer at the center of this story focuses on innovation and value in the healthcare industry. The company is a leading supplier of pharmaceutical and medical use products, operating in North America, Europe and Australia.

A leading private equity firm purchased the manufacturer in late 2014. The firm had worked with INSIGHT in the past and—based on previous experience—key partners encouraged the manufacturer to work with INSIGHT to identify profit opportunities.



The Challenges:

Because the company had not strategically raised prices on its 20,000+ products in more than three years, several challenges presented themselves.

- The company had grown extensively through acquisitions; however, the team never reconciled the disparate pricing structures. This creates a risk, in addition to an **unorganized and inefficient pricing structure**.
- The company's **pricing process was decentralized and pricing ownership was unclear**. While department heads were in charge of pieces of pricing, nobody had a full view of the pricing as a whole. Oftentimes, final pricing decisions were made by customer service reps.
- While the flat or falling prices were a large issue, the challenge causing more anxiety was the **lack of data visibility**. The company had no idea how much revenue was being lost through discounts.
- Additionally, there were **no checks or balances**: a product manager might raise prices, but sales reps would simply discount those prices. While product managers increased catalog prices by approximately 3 percent annually, through discounts the actual **pocket price had remained flat or even decreased** in some cases.
- Finally, the ERP system used was nearly 20 years old. It tracked list price, the highest price and the invoice price. But trying to analyze trends based on just these elements was complicated. Reports included simple revenue and margin trends; **there was no pricing or mix analysis**.

Additionally, each executive had their own challenges they thought could be overcome with a clear pricing strategy:

CEO & CFO:

The CEO and CFO were seeking to increase profitability, especially with company ownership changing to private equity. They were also concerned about potential lost accounts due to price increases.

National Account Sales Team:

This team was concerned the company would lose customers through a price increase. In fact, for some accounts, they had been actively lowering prices where they felt there was risk.

Marketing Lead & Product Managers:

The company sells about 24,000 active products, and the pricing was done manually for the most part. Traditionally, the product managers increased price when cost increased, but did not have a value measurement.

Lead Pricing Coordinator:

His main concern was validating all the pricing changes since the process is fairly manual.



The Process:

INSIGHT worked with the company on a global scale to determine pricing recommendations for 2015 implementation. During a kickoff meeting with the CEO and Marketing Lead, the team was given the green light to use as many internal resources as needed. **Having buy-in from the CEO from the beginning of the project was imperative to its success.** Because the CEO had been with the company for about 25 years, this buy-in had a strong trickle-down effect.

To begin, INSIGHT used technology to ascertain and measure true price realization. With the help of the INSIGHT technology, the INSIGHT team was able to show stakeholders that **while they thought prices were being improved, in many instances there were discounts, mix changes or other variables that kept prices stagnant.**

INSIGHT then dissected the manufacturer's pricing waterfall to close leaks and significantly improve pocket price. **Stakeholders were able to see discounts being applied to products and customers—an eye-opening range of 0 to 50 percent—and what the true net price for products was.**

It was discovered that price overrides amounted to a whopping \$3.5 million in lost revenue. Since there was no approval flow, the team had disproportionate power over pocket prices. INSIGHT implemented a new process and control mechanism to **manage price overrides and decrease unnecessary loss of revenue.**

Next, INSIGHT restructured the company's price setting process to assure value based on differentiation and restricted distributor discount strategies to improve growth and simplify the pricing process.

INSIGHT also helped with developing communications for the price improvements, including drafting a letter to customers and preparing direct communications with the internal sales force.

Moving forward, the INSIGHT team will continue to receive the company's data monthly then clean it, analyze it and provide back exactly how many matched pricing dollars the company gained versus new sales, lost sales and mixed.



“It was clear this was not INSIGHT2PROFIT's first time helping a manufacturer / distributor get better visualization of its pricing structure. We appreciated the thoroughness of their research and empathy for our business.”

- Marketing Lead



“Our existing ERP and processes made it extremely difficult to perform broad price increases in previous years. INSIGHT2PROFIT was able to give the entire team a clear picture of our pricing structure, helping us take price improvements to the finish line.”

- Product Manager



The Results:

Perhaps the biggest accomplishment of INSIGHT's work was bringing the company together with a cohesive pricing strategy—something the company had never had before. INSIGHT worked collaboratively with the product managers and the sales force to ensure control over every part of the pricing puzzle. The team is still bought in and active in making pricing a core competency in their business.

This visibility of the company's discounting structure allowed INSIGHT to recommend best practices and processes for improving profitability and efficiency. INSIGHT also provided recommended strategic, data-based pricing for all of the company's products, including catalog prices and pricing for key accounts.

One of the most important elements of the project was the actual implementation of the price changes. **INSIGHT was able to make improvements in days rather than months.**

When all was said and done, **the team targeted \$2.0+ million in additional profit over a 12-month span.**



Takeaways

There are several takeaways your company can implement for stronger EBIDTA:

- 1. Define Your Rules of Engagement:** Especially in a decentralized customer environment without a pricing leader, it's vital to define pricing area ownership early on, including catalog / list price, discounting, key accounts, geography and business divisions.
- 2. Follow the Money:** Obtaining clear visibility to your discounting structure through a Pricing Waterfall is a powerful way to determine pricing leakage and non-value added discounts.
- 3. Build Confidence:** INSIGHT provided the company with analytical justification for taking a price increase, such as index trending of price, cost and macroeconomic factors. The team analyzed product value to balance price increase sensitivity and risk. Additionally, for key accounts, INSIGHT compared each individual price to the peer index to ensure pricing consistency. Finally, the company was able to tweak the prices based on competitive threats.
- 4. Get the Facts:** INSIGHT encouraged the company to use the available public market pricing information (catalogs, websites, etc.) to evaluate each competitor's strengths and estimated market share by product family.

Gaining valuable data visualization is the first step in improving your bottom line.

Ready to get started? [Contact INSIGHT2PROFIT today!](#)



INSIGHT2PROFIT is a fast growing company specializing in pricing and profit excellence and customized data-driven solutions for B2B manufacturers and distributors. Since opening its doors, clients such as Timken, Crosby, CertainTeed and Capsugel have benefited from its unique blend of expertise, technology, and sales effectiveness to achieve sustainable profit growth.

Dedicated to upholding the highest standard, the company guarantees results. INSIGHT2PROFIT is located in Cleveland, Chicago.

For more information about how INSIGHT2PROFIT can answer your questions about pricing, visit: www.insight2profit.com
