



Health Industry Distributors Association (HIDA) Profitable Pricing Management

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Agenda

- introduction and objectives
- distribution industry environment
- profitable pricing tools
 - i. price differentiation
 - ii. customer value equation
- implementation

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Introduction and objectives

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Introduction and Objectives

Profit is highly-sensitive to small changes in pricing.

		<u>Revenue</u>	<u>EBIT</u>	<u>New EBIT</u>
		\$40.0M	\$1.2M	\$1.5M

% price increase applied to: % of sales	3%	5%	7%	10%
25%	\$300K	\$500K	\$700K	\$1,000K
20%	\$240K	\$400K	\$560K	\$800K
15%	\$180K	\$300K	\$420K	\$600K
10%	\$120K	\$200K	\$280K	\$400K

A 5% price increase on 15% of sales increases EBIT 25% (\$300K)

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Introduction and objectives

Grant Thornton's profit maximizing pricing experience:

Traditional Thinking

Pricing is an art.....
Sales department driven.....
Customers focused only on cost.....
Lowest cost wins.....
You're a commodity.....
My cost model is accurate and complete.....

GT Experience

Pricing should be **disciplined** yet adaptive
Cross-functional ownership is vital
Many factors included in customer decisions
Highest **customer-perceived value** wins
No such thing as a commodity
Cost models often **omit 7% to 12% of actual costs**



Distribution industry environment

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Distribution industry environment – excerpt from 2009 Survey

- over half of distributors indicated their productivity (cost per order) remained the same or increased in the past year
- distributors indicated cost increases:
 - 65% - equipment
 - 67% - IT
 - 71% - labor
 - 79% - logistics/transportation
 - 85% - healthcare

Source: *Distribution 2008, Executive Summary*, sponsored by Grant Thornton, is an update to the 2007 Census of Distribution survey, conducted by The MPI Group, Industry Insights, and Material Handling Management

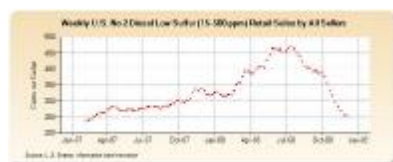
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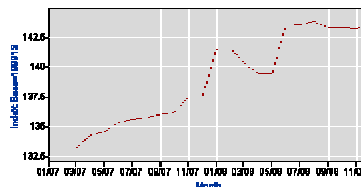
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Distribution industry environment

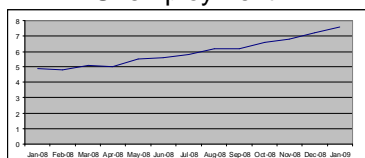
Diesel Fuel



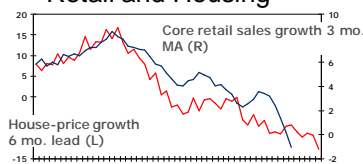
Plastic Resin



Unemployment



Retail and Housing



Sources:

Diesel: *Energy Information Administration, official energy statistics from the U.S. Government.* Data based on retail sales
Unemployment and Resin: *Bureau of Labor Statistics.* Retail and Housing: *Census, Realtors*

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Pricing tools

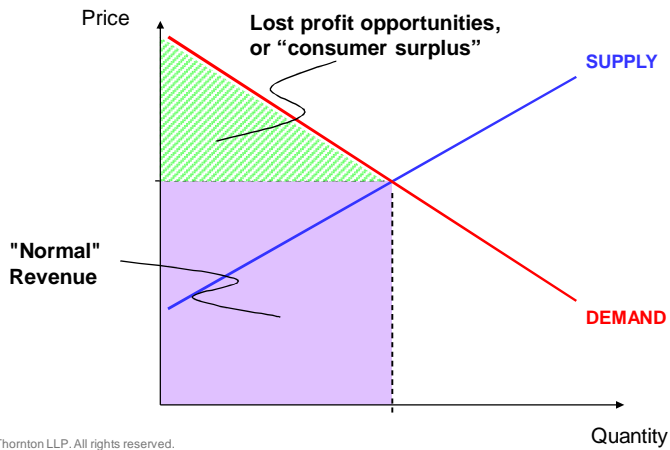
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Pricing tools

Tool # 1: price differentiation

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Pricing tools – price differentiation



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Pricing tools – price differentiation

Step 1: identify **least** price-sensitive situations

- infrequent / low "visibility" items with customers:
 - lower volume products
 - small dollar orders / frequency
 - small customers

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Pricing tools – price differentiation (examples of when to apply)



Customer Attributes

High % of your BusinessLow % of your business
(Large customers)(Small customers)

Generally easy to work withGenerally difficult to work with

Watch every penny....."Bigger fish to fry"

Product Attributes

High volumeLow volume

High frequencyLow frequency

High velocityLow velocity

CommodityExclusivity ("monopoly")

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Pricing tools

Tool # 2:
Increasing demand
via customer value equation

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Pricing tools – *the Cicero principle*

*“If you wish to persuade me,
you must think my thoughts,
feel my feelings, and speak
my words.”*

Cicero

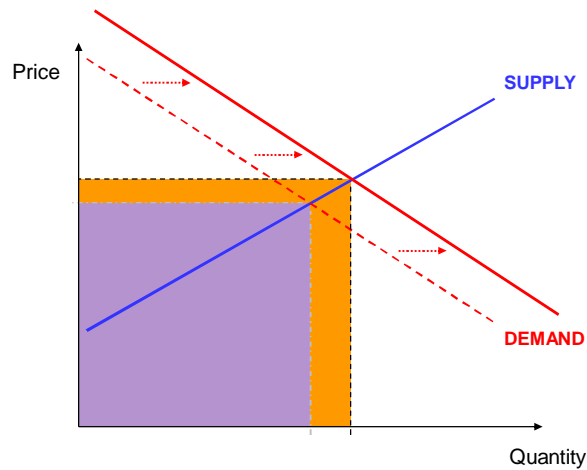


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Pricing tools – value equation



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Pricing tools – value equation

Leverage your competitive advantages / strategies, as applicable:

- exclusive brand, quality or technology
- faster delivery
- guaranteed minimum inventory levels
- value-added activities
 - safety seminars
 - training
 - personal deliveries
 - stock guarantees

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Pricing tools – value equation for value managed inventory

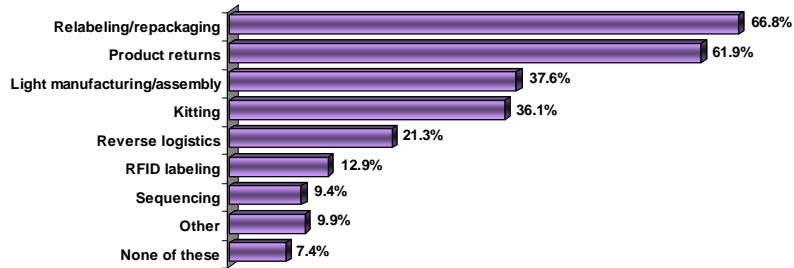
Tool to analyze, understand, and communicate your product / service **from your customer's viewpoint**

Customer Method	Proposed Method (NME)
<p>Redesign made to part</p> <p>Technical field training Redesign work support Redesign 2D/3D/4D/5D/6D/7D/8D/9D/10D/11D/12D/13D/14D/15D/16D/17D/18D/19D/20D/21D/22D/23D/24D/25D/26D/27D/28D/29D/30D/31D/32D/33D/34D/35D/36D/37D/38D/39D/40D/41D/42D/43D/44D/45D/46D/47D/48D/49D/50D/51D/52D/53D/54D/55D/56D/57D/58D/59D/60D/61D/62D/63D/64D/65D/66D/67D/68D/69D/70D/71D/72D/73D/74D/75D/76D/77D/78D/79D/80D/81D/82D/83D/84D/85D/86D/87D/88D/89D/90D/91D/92D/93D/94D/95D/96D/97D/98D/99D/100D/101D/102D/103D/104D/105D/106D/107D/108D/109D/110D/111D/112D/113D/114D/115D/116D/117D/118D/119D/120D/121D/122D/123D/124D/125D/126D/127D/128D/129D/130D/131D/132D/133D/134D/135D/136D/137D/138D/139D/140D/141D/142D/143D/144D/145D/146D/147D/148D/149D/150D/151D/152D/153D/154D/155D/156D/157D/158D/159D/160D/161D/162D/163D/164D/165D/166D/167D/168D/169D/170D/171D/172D/173D/174D/175D/176D/177D/178D/179D/180D/181D/182D/183D/184D/185D/186D/187D/188D/189D/190D/191D/192D/193D/194D/195D/196D/197D/198D/199D/200D/201D/202D/203D/204D/205D/206D/207D/208D/209D/210D/211D/212D/213D/214D/215D/216D/217D/218D/219D/220D/221D/222D/223D/224D/225D/226D/227D/228D/229D/230D/231D/232D/233D/234D/235D/236D/237D/238D/239D/240D/241D/242D/243D/244D/245D/246D/247D/248D/249D/250D/251D/252D/253D/254D/255D/256D/257D/258D/259D/260D/261D/262D/263D/264D/265D/266D/267D/268D/269D/270D/271D/272D/273D/274D/275D/276D/277D/278D/279D/280D/281D/282D/283D/284D/285D/286D/287D/288D/289D/290D/291D/292D/293D/294D/295D/296D/297D/298D/299D/300D/301D/302D/303D/304D/305D/306D/307D/308D/309D/310D/311D/312D/313D/314D/315D/316D/317D/318D/319D/320D/321D/322D/323D/324D/325D/326D/327D/328D/329D/330D/331D/332D/333D/334D/335D/336D/337D/338D/339D/340D/341D/342D/343D/344D/345D/346D/347D/348D/349D/350D/351D/352D/353D/354D/355D/356D/357D/358D/359D/360D/361D/362D/363D/364D/365D/366D/367D/368D/369D/370D/371D/372D/373D/374D/375D/376D/377D/378D/379D/380D/381D/382D/383D/384D/385D/386D/387D/388D/389D/390D/391D/392D/393D/394D/395D/396D/397D/398D/399D/400D/401D/402D/403D/404D/405D/406D/407D/408D/409D/410D/411D/412D/413D/414D/415D/416D/417D/418D/419D/420D/421D/422D/423D/424D/425D/426D/427D/428D/429D/430D/431D/432D/433D/434D/435D/436D/437D/438D/439D/440D/441D/442D/443D/444D/445D/446D/447D/448D/449D/450D/451D/452D/453D/454D/455D/456D/457D/458D/459D/460D/461D/462D/463D/464D/465D/466D/467D/468D/469D/470D/471D/472D/473D/474D/475D/476D/477D/478D/479D/480D/481D/482D/483D/484D/485D/486D/487D/488D/489D/490D/491D/492D/493D/494D/495D/496D/497D/498D/499D/500D/501D/502D/503D/504D/505D/506D/507D/508D/509D/510D/511D/512D/513D/514D/515D/516D/517D/518D/519D/520D/521D/522D/523D/524D/525D/526D/527D/528D/529D/530D/531D/532D/533D/534D/535D/536D/537D/538D/539D/540D/541D/542D/543D/544D/545D/546D/547D/548D/549D/550D/551D/552D/553D/554D/555D/556D/557D/558D/559D/560D/561D/562D/563D/564D/565D/566D/567D/568D/569D/570D/571D/572D/573D/574D/575D/576D/577D/578D/579D/580D/581D/582D/583D/584D/585D/586D/587D/588D/589D/590D/591D/592D/593D/594D/595D/596D/597D/598D/599D/600D/601D/602D/603D/604D/605D/606D/607D/608D/609D/610D/611D/612D/613D/614D/615D/616D/617D/618D/619D/620D/621D/622D/623D/624D/625D/626D/627D/628D/629D/630D/631D/632D/633D/634D/635D/636D/637D/638D/639D/640D/641D/642D/643D/644D/645D/646D/647D/648D/649D/650D/651D/652D/653D/654D/655D/656D/657D/658D/659D/660D/661D/662D/663D/664D/665D/666D/667D/668D/669D/670D/671D/672D/673D/674D/675D/676D/677D/678D/679D/680D/681D/682D/683D/684D/685D/686D/687D/688D/689D/690D/691D/692D/693D/694D/695D/696D/697D/698D/699D/700D/701D/702D/703D/704D/705D/706D/707D/708D/709D/710D/711D/712D/713D/714D/715D/716D/717D/718D/719D/720D/721D/722D/723D/724D/725D/726D/727D/728D/729D/730D/731D/732D/733D/734D/735D/736D/737D/738D/739D/740D/741D/742D/743D/744D/745D/746D/747D/748D/749D/750D/751D/752D/753D/754D/755D/756D/757D/758D/759D/760D/761D/762D/763D/764D/765D/766D/767D/768D/769D/770D/771D/772D/773D/774D/775D/776D/777D/778D/779D/780D/781D/782D/783D/784D/785D/786D/787D/788D/789D/790D/791D/792D/793D/794D/795D/796D/797D/798D/799D/800D/801D/802D/803D/804D/805D/806D/807D/808D/809D/810D/811D/812D/813D/814D/815D/816D/817D/818D/819D/820D/821D/822D/823D/824D/825D/826D/827D/828D/829D/830D/831D/832D/833D/834D/835D/836D/837D/838D/839D/840D/841D/842D/843D/844D/845D/846D/847D/848D/849D/850D/851D/852D/853D/854D/855D/856D/857D/858D/859D/860D/861D/862D/863D/864D/865D/866D/867D/868D/869D/870D/871D/872D/873D/874D/875D/876D/877D/878D/879D/880D/881D/882D/883D/884D/885D/886D/887D/888D/889D/890D/891D/892D/893D/894D/895D/896D/897D/898D/899D/900D/901D/902D/903D/904D/905D/906D/907D/908D/909D/910D/911D/912D/913D/914D/915D/916D/917D/918D/919D/920D/921D/922D/923D/924D/925D/926D/927D/928D/929D/930D/931D/932D/933D/934D/935D/936D/937D/938D/939D/940D/941D/942D/943D/944D/945D/946D/947D/948D/949D/950D/951D/952D/953D/954D/955D/956D/957D/958D/959D/960D/961D/962D/963D/964D/965D/966D/967D/968D/969D/970D/971D/972D/973D/974D/975D/976D/977D/978D/979D/980D/981D/982D/983D/984D/985D/986D/987D/988D/989D/990D/991D/992D/993D/994D/995D/996D/997D/998D/999D/1000D/1001D/1002D/1003D/1004D/1005D/1006D/1007D/1008D/1009D/1010D/1011D/1012D/1013D/1014D/1015D/1016D/1017D/1018D/10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HIDA - Profitable Pricing Management

Pricing tools – value equation

World-class distribution centers have adopted value-added activities.



Source: *Distribution 2008, Executive Summary*, sponsored by Grant Thornton, is an update to the 2007 Census of Distribution survey, conducted by The MPI Group, Industry Insights, and Material Handling Management

HIDA - Profitable Pricing Management

Pricing tools – price differentiation (examples of when to apply)



Strategic

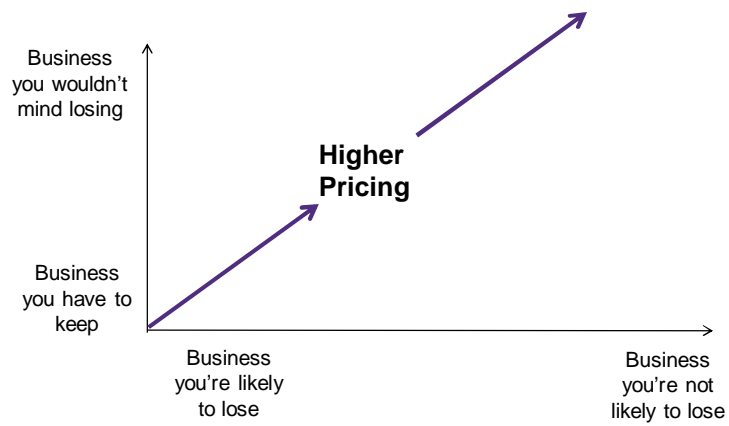
- Commodity.....Exclusive "brand name"
- Quality issues.....High quality
- Few service advantages.....Services / delivery advantages
- Few value-added activities.....Other value-added activities

Your customer has to agree

Implementation

HIDA - Profitable Pricing Management

Implementation



HIDA - Profitable Pricing Management

Implementation

Dedicated resources rule of thumb: target recovery in range of 3 to 5 times compensation

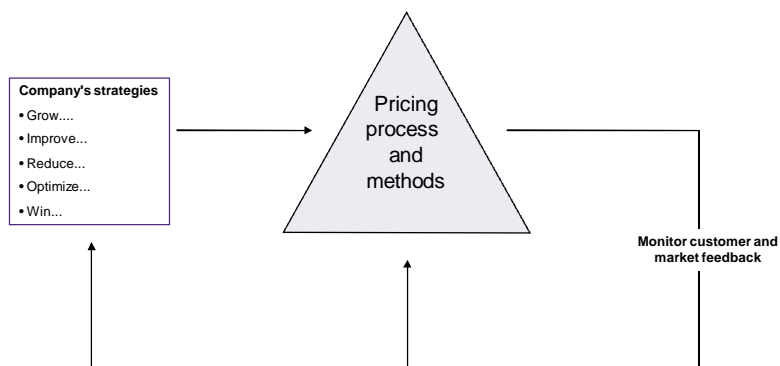
Small distributors	An executive / manager (part-time)
Mid-sized	One or more dedicated resources
Large	Dedicated resources and a pricing team

System requirements vary: there are some ERP systems that have strategic pricing modules

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Implementation

The feedback loop

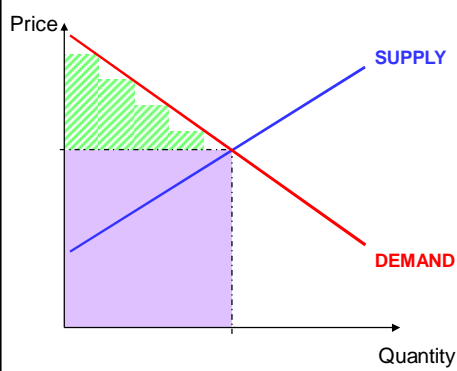


Conclusions

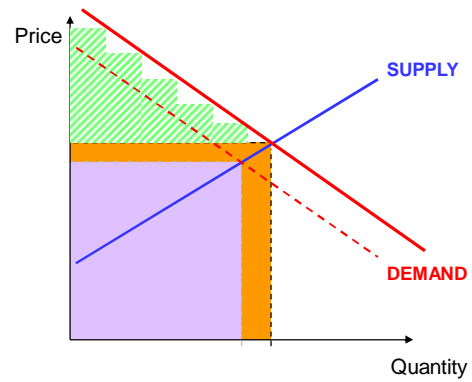
HIDA - Profitable Pricing Management

Conclusions

Price differentiation



Price differentiation and customer value equation



HIDA - Profitable Pricing Management

Conclusions

Well thought out and supported pricing strategies are more important than ever in our challenging environment where productivity improvements alone are inadequate and there is underlying cost volatility and increased customer sensitivity to pricing.

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Q & A

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