

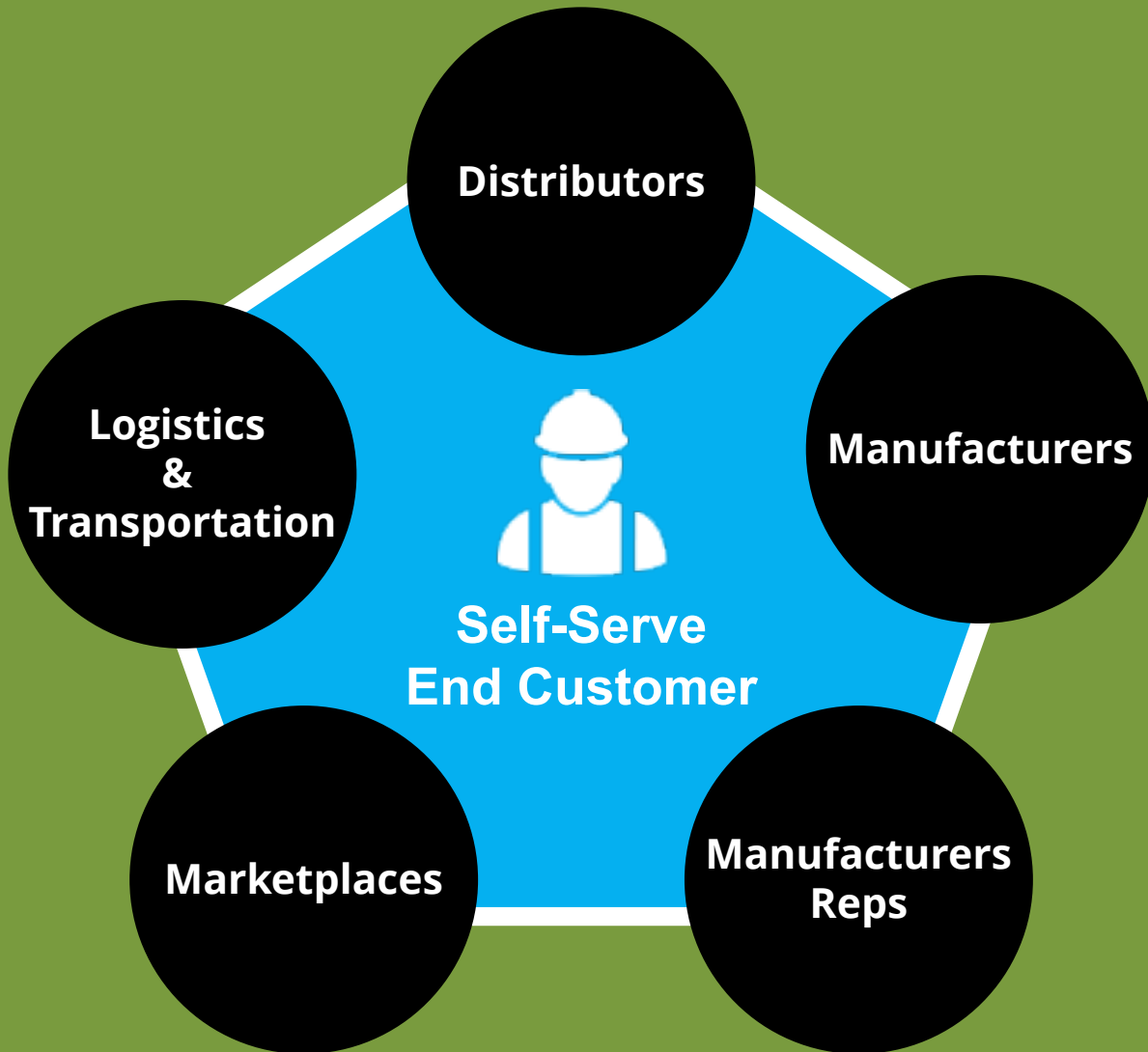
# Modernizing Pricing Strategies for the Industrial Companies: **Unleashing Profit Potential**

John Gunderson



# Critical Profitability Trends in 2023

Self-Serve Ecosystem: hub and spoke model centered around and controlled by the end customer



- Price increase fatigue has set in – end customers seeking cost-reduction solutions
- Lack of time and resources (end customers are short staffed) is making it harder to get quality appointments with customers
- Installation time is precious for end customers. Deliver it to me don't make me waste money picking it up
- Digital interaction are growing, and face-to-face interactions are declining
- In-person training is declining – lack of time and desire. On-demand training on the rise
- Relationships still matter, but they matter less today. Transactional experience is becoming differentiator



# Critical Profitability Trends in 2023

Areas of focus for Distributors and Manufacturers

## Distributors

Demand is slowing. Backlog of larger equipment is strong. Resi-Construction is slow. Commercial and Industrial business is stable but not high growth

Pricing wave has crested. The ability to have double-digit price increases to drive sales growth has ended

Rebate dollars declining (20% growth last year delivered rebate % increases for incremental sales growth). Where you got 5% for growth back to dollar one in 2022 you may only get 2% this year

End customers are at optimal inventory levels and managing their inventory more closely. Distributors are protecting inventory for end customers. Backlogs are still strong (engineered equipment)



## Manufacturers

Slowing growth in unit sales. Growth must come from taking share from competitors and introducing more new products, programs and innovation

Inflation has come down and price increases are slowing. Deflation of certain commodities has occurred. End customers are starting to create price pressure

Rebate payouts for growth will be reduced for many distributors. Growth will not be fueled alone by programs and rebates alone in 2023.

Distribution is starting to tighten the inventory strings and work on optimizing inventory and reducing stocking levels

### Demand

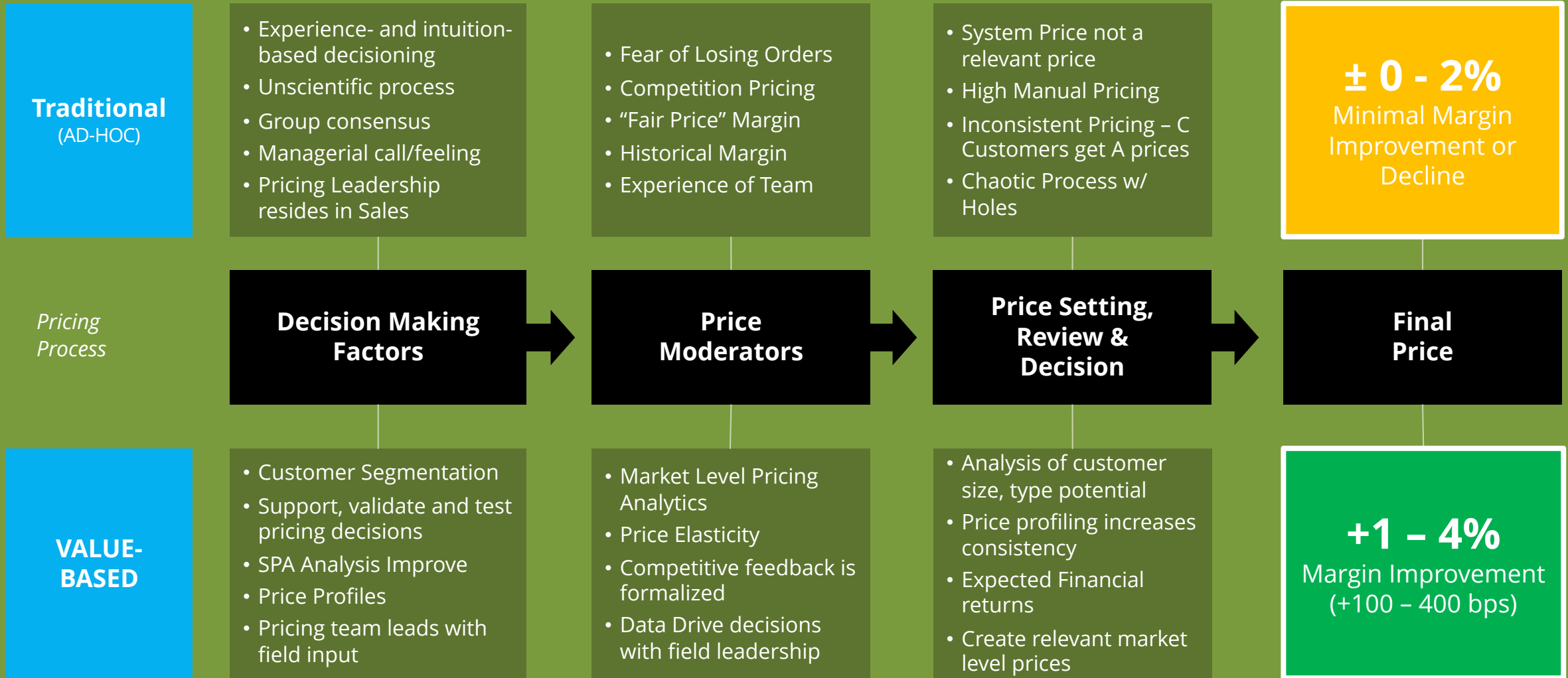
### Pricing

### Rebates

### Inventory



# Pricing Improvements: Traditional to Value-Based



# Key Actions

1

## Demand

- Market size has grown. Growth is flattening and will potentially shrink (market specific)
- Seek ways to steal market share (organic and inorganic)
- Compare your growth to market and competition to determine if you got your fair share and how
- Adjust your strategy accordingly — knowing that bigger competition has already shifted to stealing share

2

## Pricing

- Play defense: improve product mix and protect gross margin % by selling higher gross margin product categories and engineered solutions
- Play offense: identify ways to partner to deliver more customer value
- Minimize price increases (accept partial increases). Be proactive in helping end customers with cost-reduction solutions

3

## Rebates

- Achieving last year rebate targets requires becoming more important to fewer partners to maintain profitability (conversion programs, etc.)
- Focus on strategic joint planning that shares data
- Build joint-selling playbooks using value-added solutions, data, conversion programs, tools, SPAs, training, etc.

4

## Inventory

- Manufacturer – Distributors – IMRs and end customers are working to optimize inventory for 2H23
- Inventory carrying costs are becoming a huge focus for CFOs
- Right amount of same day and next day inventory near the customer is path to share gain in Q423 and 2024



# 3 Dimensions of Protecting & Improving Profitability

## Buy Side

Improvements in Procurement and Purchasing, Special Pricing Agreements,

**We have buyers...we don't have a real purchasing team**

## Sell Side

Improvement in sell pricing GM% with improved customer and product segmentation and mix

**Our prices are higher than the competition, we need better pricing**

## Program Side

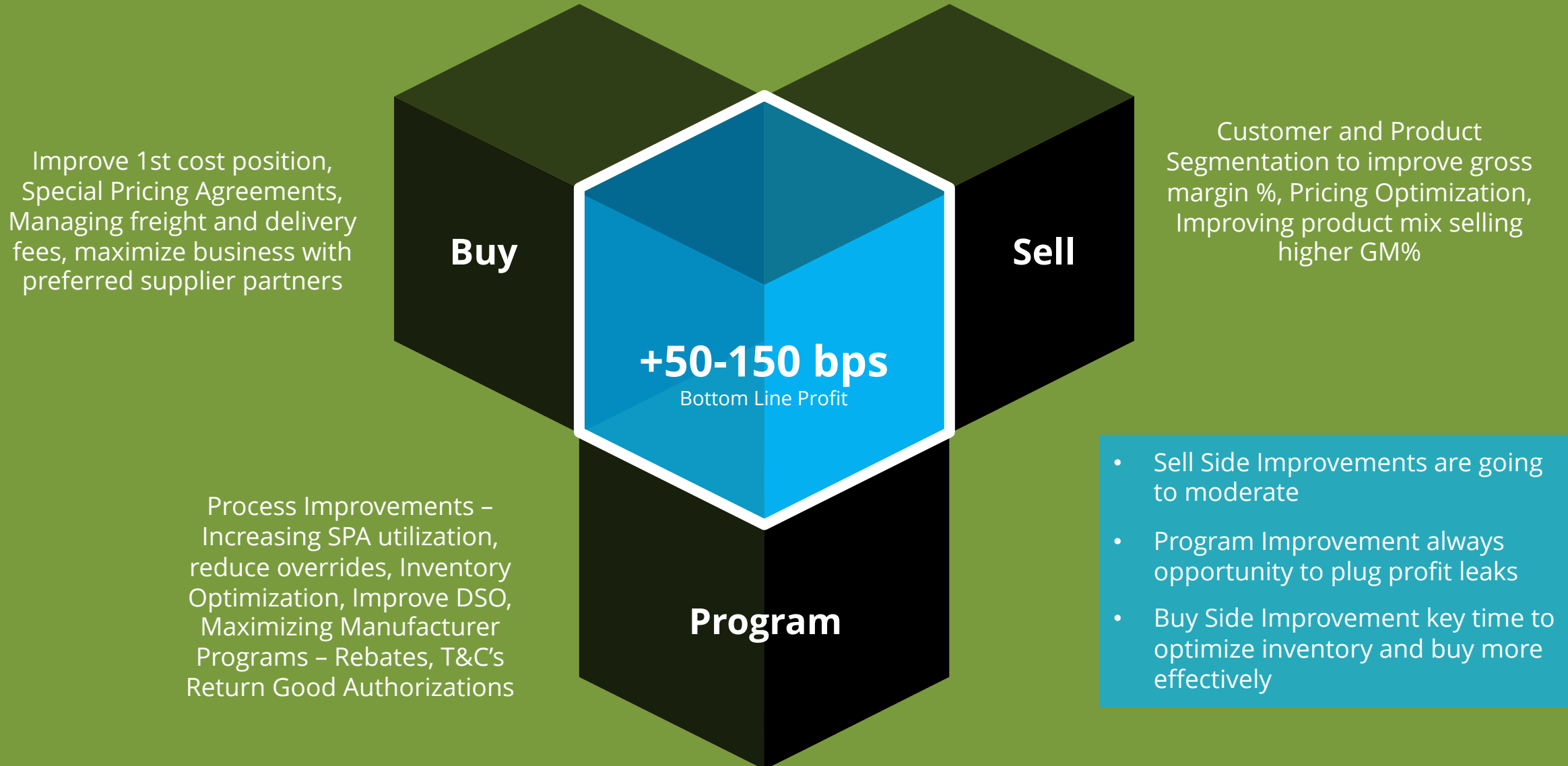
Maximizing Manufacturer Programs Rebates, T&Cs, Reducing Overrides, Eliminating profit leaks, Inventory Management and Optimization

**We don't have the right inventory with the right partners**

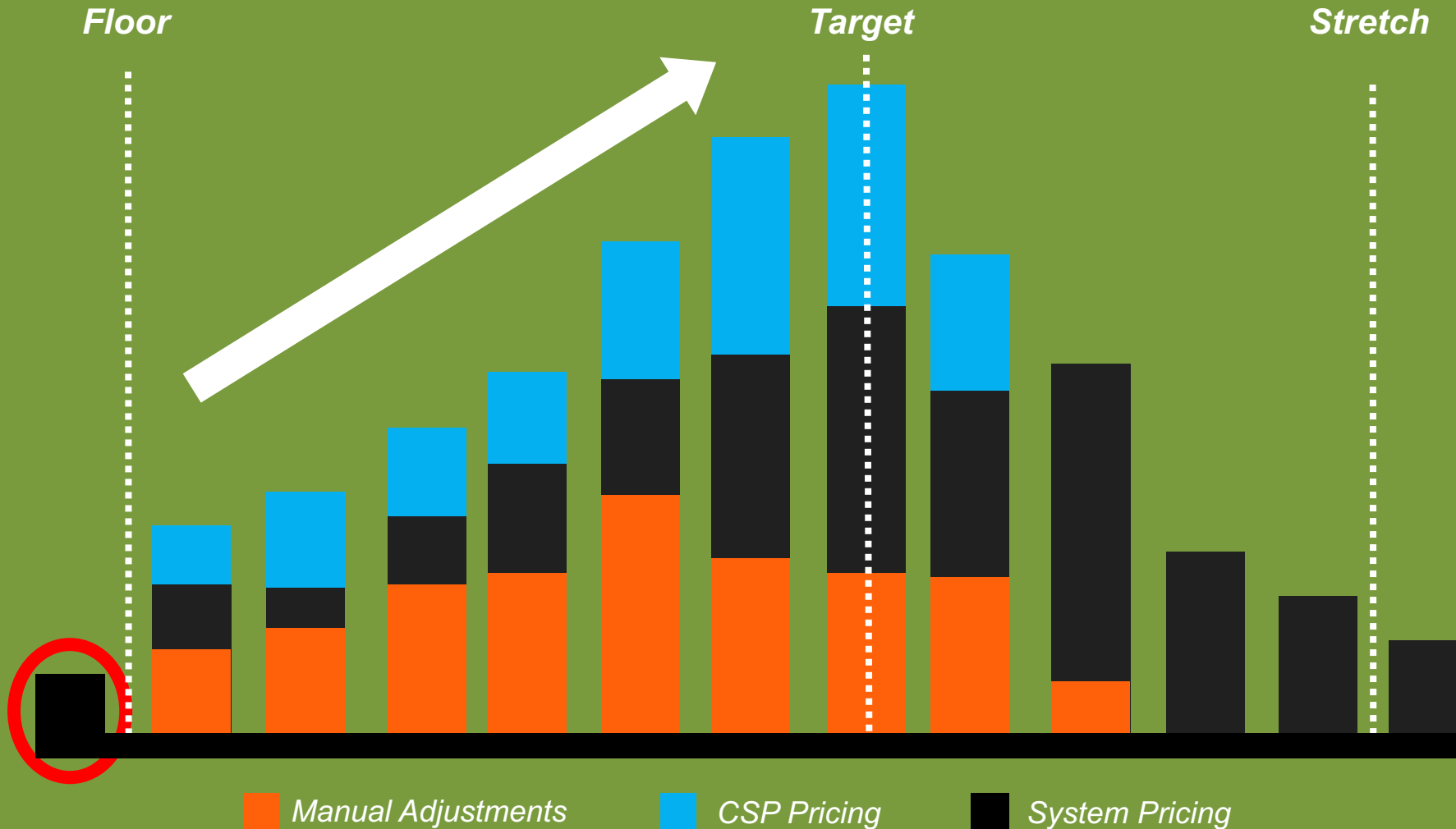


# 3 Dimensions of Protecting & Improving Profitability

Sell Side programs implementing inflationary price increases have been the major driver of profit gains in 2021 - 2023



# Sell-Side Pricing Schematic Example



## Price Analysis on Industrial SKUS

- Identify all CORE SKUS Price Type and Price behavior
- Some % of customers that are paying lower prices build system to “buy up” to Target which boosts GP\$ and GM%
- Below Floor pricing 5-10% of Total Sales - move above floor



# Manual Cost Override Analysis & Processes



Identify Manual Transactions



Pareto Top overrides by Sales Dollars, Number of Transactions, 3X Hits, Items Sold – Create Tracking System



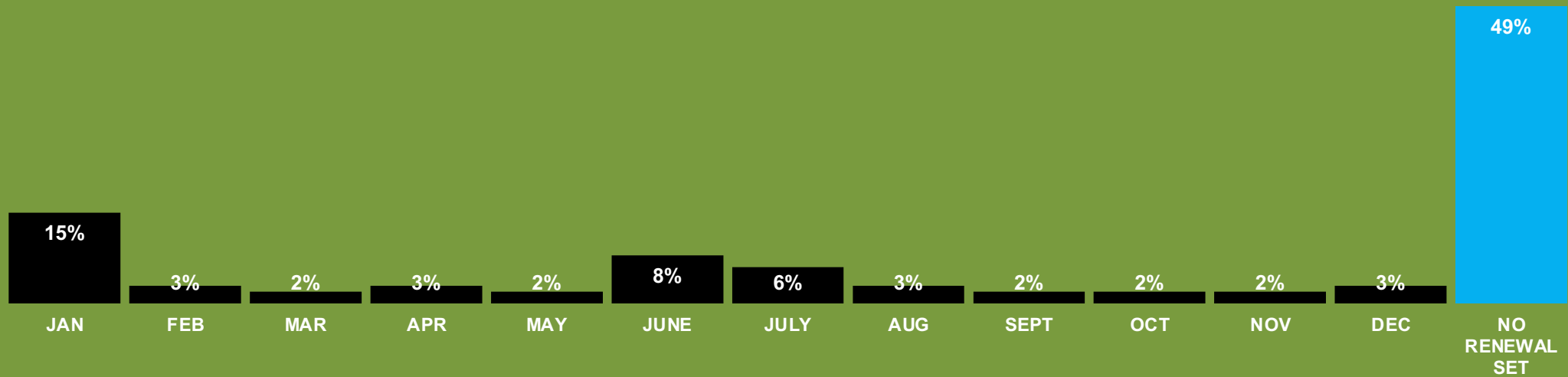
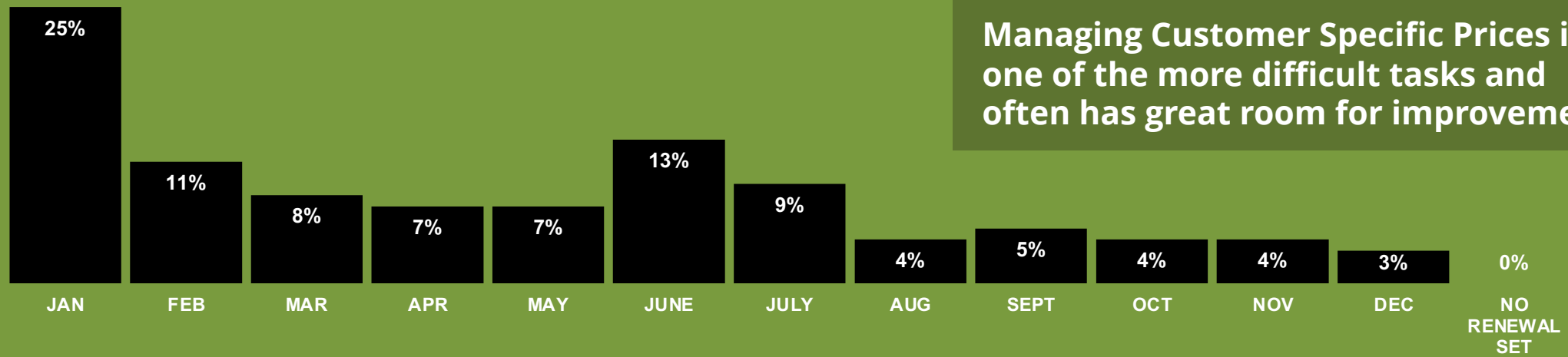
Create new reporting on overrides at or below floor pricing for the sales team



Add in Override Best practices to project plan sheet



# CSP Contract Renewal Example



# Buy-Side Improvements

## Manufacturer Partnerships

- Become more important to fewer people
  - Manufacturers want partners who give them confidence they can grow
- Use MDF and Marketing Funds on Growth programs
- Win-Win may require moving purchases and some line conversions to your key manufacturer partners
- Relationships still are critical in distribution, but they matter less today. Use data and best practices to help all parties grow above market – Manufacturer, Rep, and Distributor

### Dorn CM Recommendations - Goals

**Core SKU Model - Goals**  
 -Develop a segmented approach based on preferred suppliers and top SKU's

Category Leadership  
Distribution & Control

Category Leadership  
Lighting

### Dorn CM Recommendations

**Core SKU Purpose-**

- Assists in Consolidating and **Maximizing Spend with Strategic and Preferred Partners**
- Influences (**but does not dictate**) stocking behavior to **Drive customer SKU selection to Higher profitability**
- Drive Inventory efficiencies by **Consolidating SKUs and Increasing Turns on Remaining SKUs**

SKU Types	Definition	Criteria
<b>Core SKU</b>	Minimal Number of <b>Top or High</b> Selling SKUs that drive a significant portion of sales	Sourced from preferred suppliers SKU Leases grade of "W" or "B"

### Dorn Recommendations

**SKU & Strategic and Preferred Supplier Purchasing Focus**

- Develop a process where we examine hits and sales dollars and volume in A,B,C,D ranking
- Provide Formal Guidelines to Maximize Consistency across Product Categories
- Focus limited purchasing team time on SKUs and Products that matter

### Dorn SKU Definition

### SKU Grade

- A
- B
- C
- D

**Purchasing, Pricing and Supplier Management Best Practices**

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# Program Side Improvements & Best Practices

Improve Manufacturer Programs - Rebate \$, Freight allowed, Inventory RGA's and Optimization

## Executive Sponsor

Business knowledge, coaching & removing barriers

## Category Management

SBA management, tracking and reporting, Maximize T&C's, SKU Management

**+20-200 bps**  
Bottom Line Profit

## Finance Leadership

Work closely with CFO and FP&A team to maximize rebate \$ and T&C improvement

## Supplier Workbench & Process

Create process flow with supplier scorecards, Strategic and Preferred Supplier communication program external and internal



# Profitability Playbook for the Post-Boom Era

## 5 Commercial Capabilities for Managing Profit

<i>Post-Boom Challenge</i>	<b>1. How to maintain record-high profits?</b>	<b>2. How to maintain unit volume sales?</b>	<b>3. How to prevent lowering prices?</b>	<b>4. How to maintain rebate dollars?</b>	<b>5. How to maintain cash flow and operating capital?</b>
<i>Counter Measure Capability</i>	<b>Enterprise Profitability Controls</b>	<b>Market Development (share stealing)</b>	<b>Pricing Controls</b>	<b>Active Category Management</b>	<b>Inventory Optimization Best Practice Programs</b>
<i>Objective</i>	Develop and resource an end-to-end strategy to maintain & grow revenue and profit	Plan to grow revenue and take share with customer and product expansion	Build Pricing programs that maximize GM% without curtailing top line sales growth	Manufacturer Incentive Program Improvement goes straight to the bottom line	Inventory Optimization increase turns, improve high moving A item position
<i>Key Actions</i>	<ul style="list-style-type: none"> <li>- Process evaluation where are the cost and price process breaks that we lose margin</li> <li>- SPA Expansion and utilization improvements</li> <li>- Manufacturer workbench to claim every dollar earned</li> </ul>	<ul style="list-style-type: none"> <li>- Grow share with existing customers with new products, new lines, improved services, market level pricing</li> <li>- Partnering with strategic manufacturers with customer specific programs and pricing</li> </ul>	<ul style="list-style-type: none"> <li>- Customer and product segmentation. A,B,C,D approach to product and customer pricing</li> <li>- Use data to increase customer level growth</li> <li>- Build better reporting and processes to support your sales team to make the best commercial decisions</li> </ul>	<ul style="list-style-type: none"> <li>- Build process that claim every dollar earned</li> <li>- Supplier scorecards that focus on customer activity and sales growth</li> <li>- Development Stock support programs for your strategic partners that drive preference</li> </ul>	<ul style="list-style-type: none"> <li>- Optimize inventory and increase depth in A items by optimizing slower moving inventory</li> <li>- Focus on Turns to maximize cash flow</li> <li>- Build processes that focus on freight allowed that reduce first cost positions</li> </ul>



# Key Takeaways & Actions

TAKEAWAYS

1

## Buy, Sell, & Program Side Processes

- All 3 are crucial to success
- Many distributors and manufacturers are not going to change or drive real growth and share gain. Spend your time, investment dollars, and effort with those partners that can drive above market growth

ACTIONS

2

## Data + Process

- Find opportunities: look in the mirror and do an evaluation on where you are falling short – Purchasing, Pricing, Programs and Process?
- No time for theory – Use industry best practices that fit your business

3

**DIST > MFG > REP**

## Partner in New Ways

- Invest in your key preferred partners with investments that grow share
- Focus on strategic joint planning that shares data
- Build joint-selling playbooks using: value-added solutions, data, conversion programs, tools, SPAs, training, etc.





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