next level partners

NLP Case Study

Distribution & Logistics Case Study

Business Problem:
Unrealized Strategic Pricing Opportunities

VERTICAL: Distribution & Logistics

NLP SERVICES: Commercial Excellence

CLIENT

A $50M automotive clips and fastener distributor, recently acquired by a private equity firm, sought to unlock value through price optimization. Diligence activities identified systemic price discrepancies across the entire product portfolio. Products that held the most value for customers had the lowest list prices. Discounts, applied to customers without a structured segmentation approach, further reduced margins and created the complexity of multiple price lists. The management team wanted to engage in a strategic pricing evaluation for a one-time reset of list prices, a reduction of the complexity caused by maintaining multiple price lists, and tighter discounting policies that would reduce casual discounting by the sales team.

After considering other pricing consulting firms, the client chose *NEXT LEVEL* Partners (NLP) to partner in a strategic pricing optimization engagement. They chose NLP because of the simplicity and affordability of our Pricing Excellence Growth Tool. By choosing our practical, hands-on approach, the client team anticipated the opportunity to 'learn-by-doing', building their own knowledge base on how to approach systematic pricing changes under the guidance of NLP's expert resources with real-world experience.

APPROACH

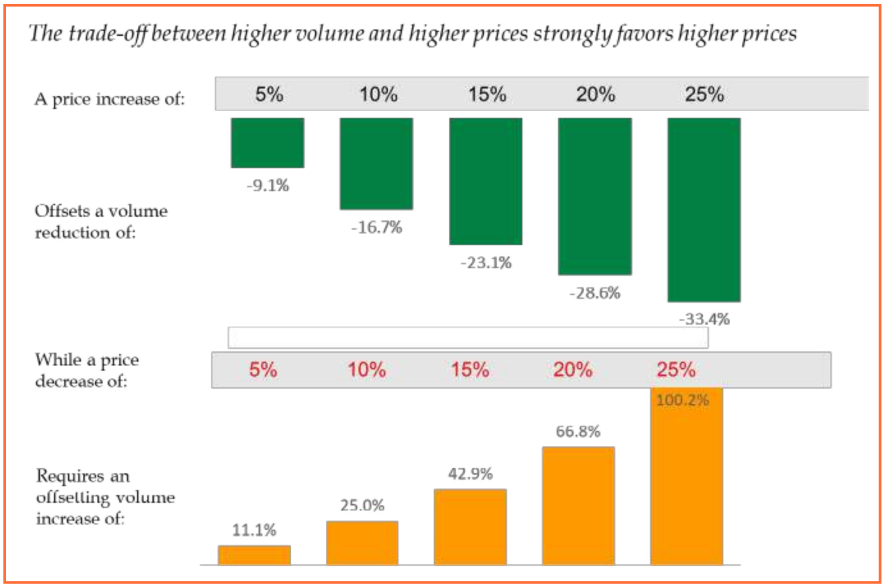
The approach in this engagement involved data analysis to identify customer segments that could sustain higher list prices, considering use cases and industry verticals. The client team ran the data analysis, addressing ERP issues as needed to get 'clean' data that truly represented actual costs and margins. A strategic pricing framework was then created based on best practices to better reflect the relationship between price and value for multiple customer segments. Next, based on the actual margins of the business, a clear correlation between price and volume was created to illustrate discounting's impact on profitability. Sales associates were educated on the volume/price tradeoffs of discounting to gain competitive business. Next, price lists were rationalized for simplicity, adhering to best practices of offering similar discounts to similar customers in the same segment. This streamlined customer service operations and reduced errors in changing price lists. Lastly, an implementation and communication plan was devised to transition customers to the new pricing structure effectively.

FINDINGS

- The analysis showed a reverse correlation of price and value. Products that provided significant value for customers were set at lower list prices than the average of the product line.
- Segmentation by application and usage showed a significant value created by certain applications. Products were priced equally across these different use cases.
- Many SKUs were sold below minimum acceptable margins, some as loss-leaders with large customers.
- Over 25 price lists were in effect burdening the team with complexity whenever prices needed to change.

RESULTS

- **The company executed on a one-time reset of list prices that delivered an effective 5% margin increase that fell through to the bottom line.**
- **Customers accepted the price changes because they clearly understood the added value they were receiving. They understood it was a one-time reset that would keep prices stable for at least one year.**
- **The price increase processes were greatly simplified. Standard work was established to routinely review margins against the new strategic framework.**
- **The private equity owners were impressed with the CEO and management team's approach to driving value within the business.**



Quantified Relationship Between Price & Volume

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