E-Commerce Pricing for Distributors:
Essential Data Analysis for the Digital Age

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E-Commerce sales, for the wholesale distribution sector, are estimated at 25% of all orders.[1] However, this differs significantly by industry as some industries have 10% or less of their purchases processed by e-commerce.[2] Most wholesalers, however, believe the distribution industry will make significant moves toward e-commerce in the next five years[3] as 75% of wholesale C Level executives disagreed with the statement "E-Commerce is not a part of future solutions for growth."

E-Commerce capabilities will need integration with existing ERP platforms and the overall functionality will require new management and new techniques to prosper in a digital marketplace. Research shows that the majority (88%) of B2B buyers would be willing to conduct purchasing online if their suppliers had adequate e-commerce capabilities.[4]

This article focuses on the pricing function and ability of wholesalers to deliver coherent and profitable pricing through the internet. Pricing has been well-explored as a discipline in the past decade with numerous books, articles and seminars to the wholesale trade on the subject. However, we believe pricing for the distribution sector will change immensely and especially with e-commerce. We outline these changes and give insight into new services and dynamic data analytics that are custom made for high transaction volume industries.

Distribution Pricing from Functional to Dysfunctional in a Decade

In 2001, Benfield Consulting released the first book in the distribution sector dedicated to pricing.[5] What followed the book, in the past decade, was a number of pricing software firms that worked with industry members to drive pricing gain. These software firms worked well with an industry that was primarily a BIBO platform (Box In/Box Out) but the distribution firm has changed considerably and much of the current pricing software answers only a small part of the modern wholesaler's pricing needs. In Exhibit 1 below, we depict the change in the business mix undergone by the wholesale firm, a definition of the business, and the needs for pricing functionality.

Referring to the Exhibit, distribution pricing has been rendered largely dysfunctional because of changes in the business mix. In the last decade, distributors have moved further into the value chain with assemblies, professional services, and expanded ordering of special (non-stock) products. Our recent growth research finds that a full 45% of industry firms offer assemblies and professional services. Too, as e-commerce has become a reality, the nature of BIBO pricing requires different tools than were cutting edge merely a decade ago.

In traditional BIBO distribution, pricing can be complex but the general model layout, from our work in 2001, is still prevalent including dividing customers into segments, ranking product sales and "hits" within segments for pricing variation analytics, ranking customers by size within segments, and taking advantage of products that are less pricing elastic. Much of the pricing software does not go outside the basic marketing-based architecture from years ago. The software and logic behind it provides statistical analysis on where to set price to maximize profitability. For other pricing needs, however, the software is not an answer and distributors need to develop new software and approaches to maximize profitability.

	Distributor Pricing Software:	**Exhibit 1**
	Needs in the Digital Age	
Business Mix	**Definition**	**Pricing Needs**
BIBO (Seller Transacted)	Box In/Box Out via Sales Interface	Current Software is Functional
BIBO (E-Commerce Transacted)	Box In/Box Out via E-Commerce	Existing software is dysfunctional
		Need dynamic data benchmarking
		from Online Shoppers
Assembly	Assembled products	Current software is dysfunctional,
		need manufacturing cost accounting
		structure for labor and overhead costs
Professional Services	Field services for customers	Current software is dysfunctional. Need
	(Maintenance, repair, etc.)	service based software that captures labor,
		material, travel cost, and other charges.
Special Order Products	Products not stocked but ordered	Current software has limited functionality.
	special	Need specific design changes for expanded
		e-catalogs.

Product assemblies are the result of combining customer needs, differing products, light manufacturing and wholesaler engineering and design for a solution. Assembled products are the outgrowth of solution selling and the push by wholesalers to further develop value for key customers. Their pricing, however, requires systems that can use manufacturing cost accounting standards including labor, overhead, and materials tracking and allocations. Most standard ERP systems do not have these capabilities and wholesalers who develop assemblies often have to acquire a bolt on software to do the work. Without accurate costs and accepted cost allocations, wholesalers are often at a loss to know which assemblies are profitable at the gross margin level and which are not.

Professional services are also areas of growth for wholesalers. In the last three years, we have worked with wholesalers that have professional services for sanitation and janitorial equipment repair, construction tool maintenance and repair, and oil-field equipment maintenance and repair. The problem, with all these businesses, is that they had no capable software to track their service costs per event including labor, material, travel, and other costs. Without this, they were reduced to manual systems often involving paper records which were entered in the system. Their pricing, without accurate

ability to track costs per event, was less than optimal. We found no ERP software, used by these distributors, with software specifically for professional services.

Special order or non-stock products are, typically, difficult to develop a pricing system for. The issue is that most of these products cannot be assembled in the wholesaler product database as they are impossible to forecast with any ongoing accuracy. Some wholesalers have developed pricing systems for these items based on order size, customer size, and broad product category. However, order history of these products has to be "wiped" on a regular basis as the costs on a particular sku can vary over time. We often find obsolete cost history for special order items in systems that are not cleaned on a regular basis. Wrong costs, of course, lead to errant pricing for what are historically high-cost to process transactions. Too, as the ability to add these products to the e-catalog grows, wholesalers are faced with the need for a comprehensive way to store these sku's in the e-catalog while uploading pricing from the vendor. To date, we have found no optimal solution for special order items and the problem is compounding as e-catalogs are expanding.

Product assemblies, professional services, and special order items are new challenges for distributor pricing and many of the current ERP packages used by distributors. Most of these challenges are tracking costs specific to the customer order. Without accurate costs, pricing becomes a guessing game and many distributors are missing profit making opportunities without correct software. E-Commerce pricing, however, poses different risks to the distributor including the need for dynamic ordering and search patterns by buyers. We address this need in the next section.

Dynamic Pricing and the Need for Real-Time Data

E-commerce pricing is a combination of traditional pricing practice and real-time analytics from the web. Initially, e-commerce was a transaction engine between wholesalers and their key accounts. Pricing was specific to the account and once customers accessed the website, they were often directed to account specific pricing. While account specific pricing still dominates wholesaler pricing through the web, Millennial buyers are staging a quiet revolution by using technology to price shop. Wholesalers who ignore this trend will increasingly find they are losing orders because of inflexibility and poor analytics for their e-commerce pricing.

Services now exist for the B2B buyer to comparison shop for pricing. Services such as WayPart (www.waypart.com) allow buyers to shop prices on specific items. These services are emerging in a space where, traditionally, relationship selling dominated. However, distribution research shows Millennial buyers are less influenced by relationships and, over half of the time, are driven to price compare as a first evaluation for potential suppliers.[6] Given this trend, it is essential that wholesalers understand how their pricing comparisons look to the e-commerce buyer.

E-Catalogs give wholesalers the chance to change prices immediately, view which items are popular, and which item bundles are most common. Because of the ability to change prices and analyze information instantaneously, wholesalers need real-time data to help set pricing. In Exhibit 2, we have given an example of Market Snapshot,[7] a pricing service by WayPart, and specific to Affiliate members.

				Exhibit 2						
Manufacturer	Part Number	Description	# of Distributors	Min. Price	Avg. Price	Max. Price	Z Distributor Price	Z Distributor to Min. Price	Z Distributor to Max. Price	Z Distributor to Avg. Price
Ordnance Electric	BR334HB38	600 Volt Breaker, 30 A, 3W, Hazard Location	5	$ 3,317.80	$ 4,577.89	$ 6,755.43	$ 5,677.89	71%	-16%	24%
Signal Distance	SSV3-HY67	Explosion Proof Siren, 15 7/8 In. Width	8	$ 1,344.56	$ 1,877.56	$ 2,133.76	$ 1,988.77	48%	-7%	6%
Positron	3384-90	1 Gang Face Place, Friction Fit Mount	5	$ 118.98	$ 156.77	$ 178.99	$ 178.99	50%	0%	14%
Positron	3398-76A	Quick Module, 10-Pack	12	$ 5.45	$ 3.44	$ 7.88	$ 4.45	-18%	-44%	29%
Bell and Howard	946678	Cable Rivet, Drive Mount, with Grid-Strap	7	$ 12.34	$ 15.48	$ 19.88	$ 17.66	43%	-11%	14%
Pierce Modulation	FZ1043-IA	White Modular Frame, Face Mount	4	$ 21.67	$ 26.77	$ 34.55	$ 29.88	38%	-14%	12%

In the Exhibit, we see Distributor Z's Market Snapshot[8] versus online competitors. For instance, in the first row, product BR334HB38 has min, max, and average prices as compared to Distributor Z's price of $5,677.89. Furthermore, five distributors are used in the comparison from a database of 17 million industrial parts. From the report, Distributor Z's price on the 600 volt breaker is 71% above the minimum price, 16% less than the maximum price and 48% more than the average price. Will Distributor Z get the order for the breaker at a 48% premium? The obvious answer is not likely and it is also not likely that they would get a call from the prospective buyer to see if there was any discount beyond the listed price.

Too often, we find where distributors assume that the pricing policy and mechanisms they have for traditional transactions are the same for e-commerce transactions. This assumption is dangerous to make, given the nature of Millennial buyers to price shop on the internet and investigate competitive suppliers for discounts beyond those posted. In our example, Distributor Z may have gotten consideration if they were close to the average price, however, since their price is so far out of line, it is likely they would not be considered as a potential source. Furthermore, as the buyer becomes experienced, they would classify Distributor Z as not worthy of attention as there would be a general assumption that their pricing is above average.

E-Commerce pricing involves different rules for a different generation of buyers. Dynamic pricing with real-time data is essential in setting a winning and viable pricing policy. As more commodity buying is done over the internet, the need for data comparison(s) are real to understand how one is viewed in a market where buying decisions are often made, silently, from information on the web.

Summation

Wholesaler pricing, enhanced by software and statistical analytics, has changed drastically in the last decade. Ten years ago, most wholesalers operated from a BIBO platform where existing software and pricing logic was sufficient. Today, however, wholesalers have integrated further into the value chain and the need for pricing of assemblies, professional services, and non-stock items needs software specific to these transactions. Wholesalers and their pricing management should review the options of both their ERP systems and outside software or services that can help fit the changing environment.

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Market Snapshot is a service of WayPart.com. WayPart is an internet service provider of data and analytics for distributors and their services can be seen at www.waypart.com.

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[1] U.S. Census Bureau E-Stats, 2011 at: http://www.census.gov/econ/estats/2011reportfinal.pdf
[2] Hybris E-Commerce Audit of Power Transmission Industry, October 2013 at: http://www.industrialsupplymagazine.com/pages/News-100113-Audit-PT-distributors-lack-online-ordering-capability.php

[3] Benfield, S. "Growth Research on Wholesale Distribution," Preliminary results from distribution industry research, October 2013.
[4] Hybris, State of B2B E-Commerce, 2012.
[5] Benfield, S., Baynard, J. "Pricing Management: Capturing Value for Distributors," LNC Press, 2001.
[6] Poulson, A. "Study: 58% of Millennial Buyers Look Online First," Shttp://www.mdm.com/blogs/13-online-marketing/post/30857-study-58-of-millennial-buyers-look-online-firsteptember 2013, at:
[7] Market Snapshot, is a fee-based service for affiliate members of WayPart. Inquire at www.Waypart.com, Via Contact Information
[8] Items and information disguised from actual report.