



Surface Price Leaks and Boost Profitability with Price-Down Analysis

When there's a pricing problem, you know it. But do you struggle to pinpoint what it is and how to fix it?

Price-down analysis brings visibility to pricing issues by tracking price concessions and identifying where pricing is deviating from standards.



What is Price-Down Analysis?

Price-down analysis breaks down the instances where customers received a lower price than prior transactions. Price-down reporting is built in 3 steps, typically using a pricing business application:

1. At a set frequency, such as weekly or monthly, extract data directly from your ERP system to aggregate transaction data over the last time period.
2. For each customer transaction, identify the last time the product was purchased by the same customer, and at what price.
3. If the previous transaction commanded a higher price, the current transaction becomes a “price-down.”

Example:

One of your customers purchases product X at a net price of \$45 per unit in May. Your data shows that the last time this customer purchased product X, in December, they paid \$50 per unit. This makes the May purchase a price-down transaction of \$5. Combining this price-down impact of \$5 with the number of units sold, you can calculate the overall impact to the business of allowing the price concession.

This data is fed into a report that aggregates all transactions, giving you a better grasp of the big-picture pricing environment. Also, the data can be filtered a variety of ways, such as by customer, product, or geography.

Price-down analysis and reporting is just the beginning of an ongoing conversation about pricing. However, armed with the insights price-down analysis can provide, you can begin making changes that will allow your company to evolve to the next level of profitability.



What is the Value of Price-Down Analysis?

Price-down analysis shows you where and when price leaks happen with impressive granularity. These insights allow you to establish accountability levels within your organization, helping to prevent ineffective pricing behavior and put profitability front and center.

Three key benefits of price-down analysis and reporting:

- Gain a better understanding of price concessions.** If you've established a market-appropriate price, the right discount structure, and sales guidelines, price deviations should be rare. If they're not, it's paramount to find out why. To that end, it's crucial to validate the transactions in your price-down reports. Some may have reasonable explanations, such as one-time promotions.
- Surface specific sales transactions in question.** Another valuable aspect of price-down analysis is the use of actual invoice data. This allows you to easily look up transactions in your ERP system to find specific sales order details and get more insight into why the price-downs are occurring.
- Create urgency with more timely, relevant information.** Unlike other reports that may highlight transactions that happened months or years ago, price-down analysis highlights transactions that may have happened as recently as a week or even a day ago. This timeliness can create the urgency your pricing organization needs to take action now.

Example Price-Down Report | Northwest Region, April 2023

Date: 5/3/2023

Customer	Product	Quantity	Current Unit Price Paid	Current Transaction Date	Last Unit Price Paid	Last Transaction Date	Impact from Price-Down	Sales Rep
Torphy Inc	TC-533399	110	\$56.21	3/31/23	\$58.22	02/28/23	-\$221.10	James Nielsen
DuBuque-Hills	56-L-77	500	\$27.95	3/31/23	\$30.05	09/30/22	-\$1,050.00	Pete Reyes
Kremmer Inc	LI-722364	225	\$99.80	3/15/23	\$110.68	01/15/23	-\$2,448.00	Kelly Guerrero
Nane Ltd	D-456	75	\$70.55	3/31/23	\$78.25	12/30/22	-\$577.50	Lucas Holder
Webler and Sons	TC-86521	200	\$8.45	3/15/23	\$9.05	02/15/23	-\$120.00	Pete Reyes
...
Total							-\$18,522.39	



How Does Price-Down Analysis Work?

Here's a scenario that illustrates the power of price-down analysis and reporting:

One of our clients, a leading global distributor, was struggling to meet its budget every month. Figures were down by both product line and by country. The company knew there was a problem but lacked the ability to find out exactly what was causing the problem and why.

Using INSIGHT's proprietary data engineering and analytics capabilities, we generated a custom-built price-down report. Additionally, we automated the data aggregation and visualization process such that reporting was refreshed and available on a monthly basis with very little lift from the distributor's IT team. As a result, management was able to drill down into specific problem areas to surface the root cause. Within the first report, the data showed that the largest customers were getting exceptionally large volume discounts, above and beyond the discount structure set by management.

While this was already an area of concern, the specific data becoming available made it possible for management to quickly implement key changes in a targeted, surgical manner. Country and regional managers are now responsible for reporting on price-downs to their sales team and central management team, and the company regularly measures the impact of pricing across the entire organization. Finally, management is now able to track month-over-month improvements in KPIs like pricing exceptions, price overrides, and customer profitability by region, sales rep, product line, customer size, and other factors.



As a result, the organization now enjoys increased accountability and data-driven pricing decisions.



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ACT**

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How Do I Generate and Utilize Price-Down Analysis and Reporting?

It can be difficult to run and produce price-down analysis and reports without the right pricing business application. Many companies don't have the ability to quickly or easily track and analyze transaction-level data—and adding this capability to your existing ERP system can be expensive and cumbersome.

The challenge lies within the way the data must be manipulated and interpreted from a pricing standpoint. Price-down analysis must incorporate your business rules and logic surrounding pricing and discount structures, as well as the full range of possible product configurations and other changeable factors that could influence the net price of a transaction. Finally, the data must be extensively cleaned and validated to ensure it's presented in the correct way for your company—and automated so the process is run at your preferred frequency.

This simply goes beyond the capacity of most ERP systems. To further add to the dilemma, large organizations that have grown through mergers or acquisitions must often contend with multiple ERP systems. Merging complex data from disparate systems into a single, consolidated view can be next to impossible, especially month over month.

Finding a pricing-specific business application can solve this problem. Of course, the process doesn't end there. Price-down analysis is just the beginning of an ongoing conversation about pricing. However, armed with the insights price-down reporting can provide, you can begin making changes that will allow your company to evolve to the next level of profitability. **Not sure where to start? Contact INSIGHT2PROFIT.**

INSIGHT2PROFIT™

INSIGHT2PROFIT is headquartered in Cleveland, OH with regional offices in Chicago and Columbus. INSIGHT delivers tangible results by developing and implementing data-driven pricing strategies and tailored software solutions to help clients achieve continuous profit improvement. INSIGHT employs more than 250 professionals and has appeared on the Inc. 5000 fastest-growing companies list in America for ten consecutive years.

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CREATED

12%

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IMPROVEMENT

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AVERAGE ROI
OVER 2 YEARS