



# MDM Webcast: Strategies to Stay Ahead of Cost/Price Volatility

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**Nelson Valderrama**  
*Founder and CEO*  
*Intuilize*

**Tom Gale**  
*CEO*  
*MDM*

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# Speakers



**Nelson Valderrama**  
Founder & CEO  
Intuilize



**Tom Gale**  
CEO  
MDM

## Quote of the Week

“For the first time in Dollar Tree’s 35-year history we are lifting the \$1 price point cap at all Dollar Tree stores on the majority of our assortment.”

-Dollar Tree CEO Michael A. Witynski

# Annual WD Revenue % Change YTY

Major Sector (Largest to Smallest Sector Revenues)	2019 Revenue	2020 Revenue	2021 Forecast	2022 Forecast	2023 Forecast
Electrical and Electronics Wholesalers	-4.1%	-0.3%	8.2%	4.7%	5.4%
Industrial Distributors	0.6%	-2.2%	17.5%	15.9%	-4.5%
Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers	5.0%	6.2%	12.2%	-0.9%	-2.5%
Building Material and Construction Wholesale Distributors	0.3%	5.5%	28.4%	-2.3%	-2.9%
Office Product Wholesalers and Paper Merchants	-3.4%	-3.1%	12.3%	10.9%	5.7%
Total Wholesale Distribution Industry	-0.2%	-4.3%	21.3%	8.0%	2.5%

Source: U.S. Census Bureau, Monthly Wholesale Trade; MDM 2021 Wholesale Distribution Economic Trends Report.

# Annual Revenue % Change YTY by WD Sector

	3Q21 Revenue Growth	3Q21 Pricing	4Q21 Forecast	2022 Forecast
<b>Overall</b>	<b>16.3%</b>	<b>5.6%</b>	<b>8.7%</b>	<b>7.1%</b>
OEM Fasteners	24.5%	6.4%	10.0%	10.0%
Electrical	24.0%	7.9%	11.7%	6.2%
Datacomm	22.1%	1.7%	12.3%	4.7%
Waterworks Products	20.3%	8.9%	9.3%	7.6%
Pool & Spa	19.0%	5.4%	7.8%	8.4%
Plumbing	18.4%	10.3%	8.5%	6.9%
Lumber & Building Materials	16.8%	8.2%	7.3%	5.7%
Wallboard/Gypsum	16.1%	10.0%	9.2%	8.4%
Metalworking/Cutting Tools	15.3%	2.2%	8.0%	7.9%
HVAC	15.1%	7.6%	9.4%	7.5%
General Industrial (MRO)	14.1%	4.3%	8.5%	7.2%
Mechanical/Power Transmission	14.0%	3.0%	9.1%	6.6%
Hoses & Accessories	13.6%	4.8%	8.4%	6.1%
Industrial/Energy PVF	12.6%	6.4%	7.1%	6.5%
Welding Hardgoods	11.8%	6.7%	7.5%	7.2%
Safety	10.1%	4.2%	6.6%	6.2%
Landscape Supplies	9.9%	1.0%	6.7%	5.5%
Gases & Cylinder Rental	9.8%	4.7%	7.1%	8.3%
Facilities Maintenance/Jan-San (MRO)	7.6%	2.2%	6.9%	9.1%
Roofing	6.8%	8.4%	6.0%	5.3%



# POLL #1

**How has the rate of supplier price increases changed in 2021 for your company?**

- ☐ Less than 2020
- ☐ About the same as 2020
- ☐ Up 10% +
- ☐ Up 25% +
- ☐ Up 50% +
- ☐ Up 100% +
- ☐ Up 200% +

# Uncharted Territory

**Supply-chain disruptions, inflation, and labor shortages emerge as risks to domestic growth as concerns about the COVID-19 pandemic recede.**

**Potential risks to economic growth in respondents' countries,  
Next 12 months, % of respondents**



Source: McKinsey (2021).



# Agenda

**1**

Methods to evaluate cost pass-through strategies & policies

**2**

Predictive analytics to reduce price volatility impacts

# POLL #2

## What is your strategy for cost pass-through?

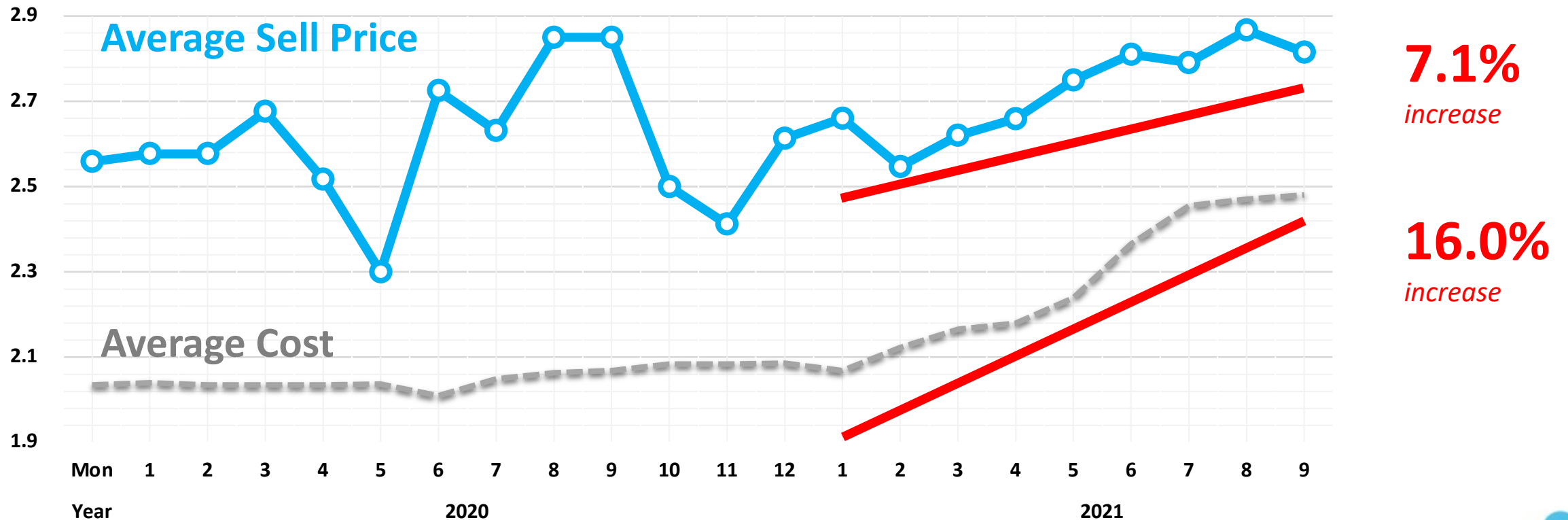
- ☐ We are talking about doing something in 2022.
- ☐ We are increasing prices as we get cost increases.
- ☐ There are conversations between Finance and Sourcing about this in our company.
- ☐ Our strategy and execution is rock solid.

The background of the slide features a dark blue, semi-transparent image of a person's face, specifically the eyes and nose area, which is overlaid with a fine grid pattern.

# 1

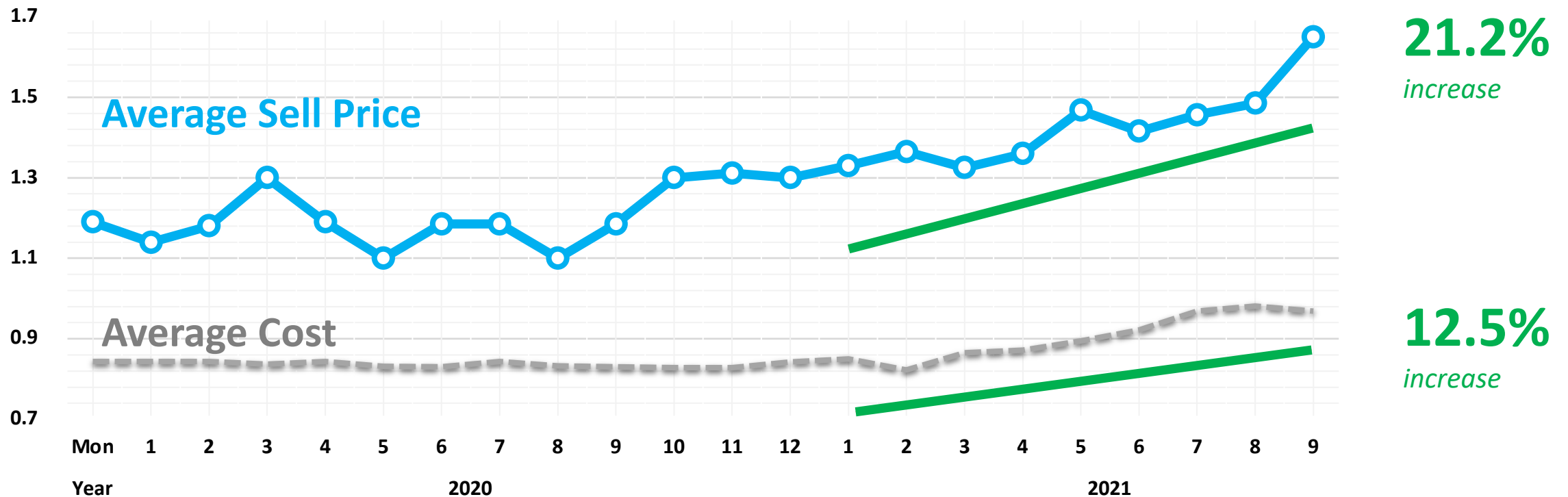
**Methods to evaluate cost pass-through strategies and policies**

# Bad Cost Pass-through (SKU Level)







Source: Intuilize (2021).

# Good Cost Pass-through (SKU Level)



Source: Intuilize (2021).

# Cost Pass-through Strategy

Strategies	Level of Difficulty	Considerations
1. Average cost		Anchoring business to the past.
2. Manual cost increase > price increase		Potential margin erosion.
3. Cost based on inventory valuation LIFO or FIFO		Predicting rising vs falling costs is challenging.
4. Standard cost based on replenishment cost		Improving margins and providing flexibility during cost volatility.

Source: Intuilize (2021).





# Quantify Cost Pass-through Using Excel

# Quantify Cost Pass-through Using Excel

Product Group	Product	Year	Month	Average Cost	Average Sell Price	% Cost Change	% Price Change	Standard Cost
ACME Bolts	SKU #1	2018	March	0.459	0.550			0.565
		2018	April	0.481	0.550	4.6%	0.0%	
		2018	August	0.481	0.650	0.0%	15.4%	
		2018	September	0.507	0.650	5.1%	0.0%	
		2018	October	0.511	0.650	0.6%	0.0%	
		2018	November	0.527	0.650	3.1%	0.0%	
		2019	March	0.522	0.650	-0.8%	0.0%	
		2019	June	0.522	0.650	0.0%	0.0%	
		2019	July	0.522	0.650	0.0%	0.0%	
		2019	August	0.522	0.650	0.0%	0.0%	
		2019	October	0.522	0.650	0.0%	0.0%	
		2019	November	0.532	0.650	1.8%	0.0%	
		2020	January	0.541	0.650	1.8%	0.0%	
		2020	June	0.542	0.650	0.1%	0.0%	
		2020	July	0.541	0.650	-0.1%	0.0%	
		2020	September	0.541	0.650	0.0%	0.0%	
		2020	October	0.550	0.650	1.6%	0.0%	
		2021	January	0.541	0.650	-1.6%	0.0%	
		2021	February	0.541	0.610	0.0%	-6.6%	
		2021	April	0.561	0.650	3.5%	6.2%	
		2021	October	0.564	0.650	0.5%	0.0%	

Source: Intuilize (2021).





# Standard Cost Building Blocks

# Standard Cost Building Blocks

## 1. Be transparent with vendors and gather data

- ☐ Understand how your company gathers basic information (e.g., price, lead time, and delivery).
- ☐ Be proactive. Can your vendors provide you with price list?
- ☐ Map sourcing and purchasing processes
- ☐ Understand how your cost impacts your pricing and P&L (you can “pad” pricing without affecting your P&L).

## 2. Build your playbook and implement in your ERP

- ☐ Your standard cost should include:
  - ☐ Replenishment cost (vendors)
  - ☐ Freight
  - ☐ Duties
- ☐ Where and how the standard cost will be stored in your ERP?
- ☐ Define frequency of updating the standard cost [e.g., once per month].

## 3. Automate and measure

- ☐ Automate replenishment cost data gathering
- ☐ Develop/implement business rules to extract the most value from PO historical data: gap buys/preferred vendors
- ☐ Automate weekly data refresh in ERP



# Bonus: Standard Cost Policy Questionnaire

A dark blue background featuring a faint, high-contrast image of a person's face, possibly a woman, with a grid-like pattern overlaid on it. The face is centered and occupies most of the upper half of the image.

# 2

**Predictive analytics to reduce  
price volatility impacts**

# Rethink Pricing Strategy



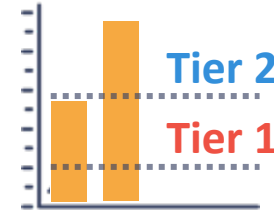
## 1. Manual

Relies on every sales individual to make decisions on pricing.



## 2. Cost-plus

Won't help you attract new customers if your competition is working to acquire customers rather than growing profits.



## 3. Tier-pricing

Segment the prices of your products and services based on specified target markets



## 4. Dynamic

Maximizes profits by considering competitor pricing, demand, and other factors on pricing.

Complexity

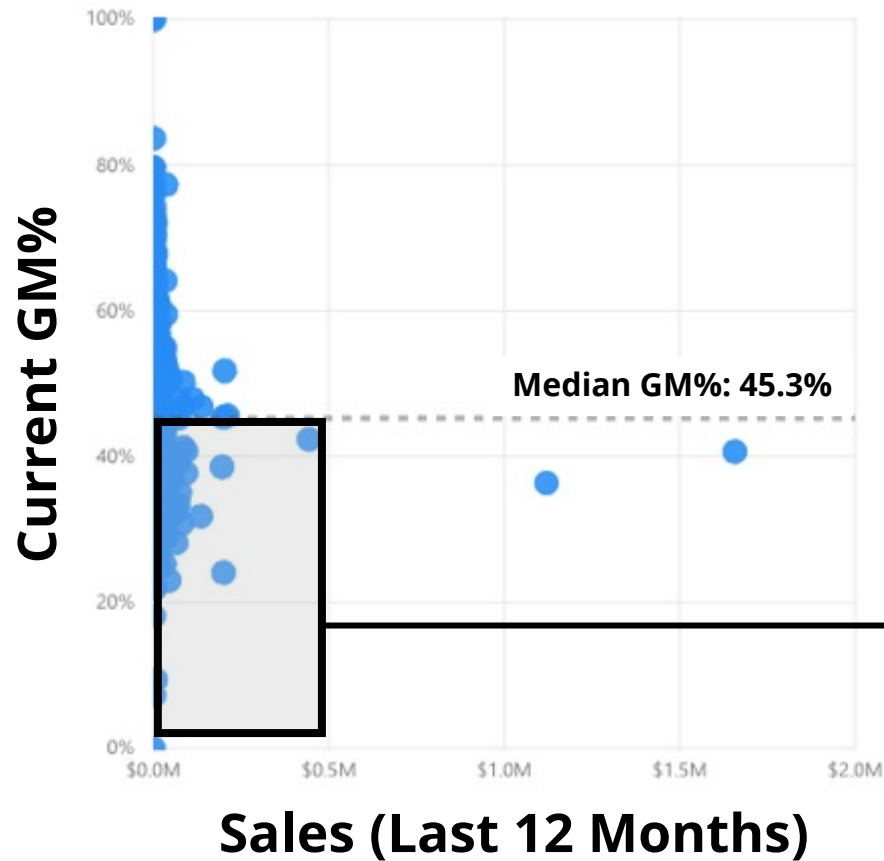
Source: Intuilize (2021).

# POLL #3

**What is your current pricing strategy?**

- ☐ Manual
- ☐ Cost-plus
- ☐ Tier pricing
- ☐ Dynamic
- ☐ I don't have a clear strategy.

# Manual Pricing = Margin Erosion



## • Main Challenges

### 1. MANUAL PROCESS

Sales teams follow a 3-7 step manual process to provide pricing on the fly.

### 2. LACK OF VISIBILITY

Daily pricing decisions made without having a suggested price for a customer/part.

### 3. COMPLEXITY

Too many combinations between customers, parts, and quantities.

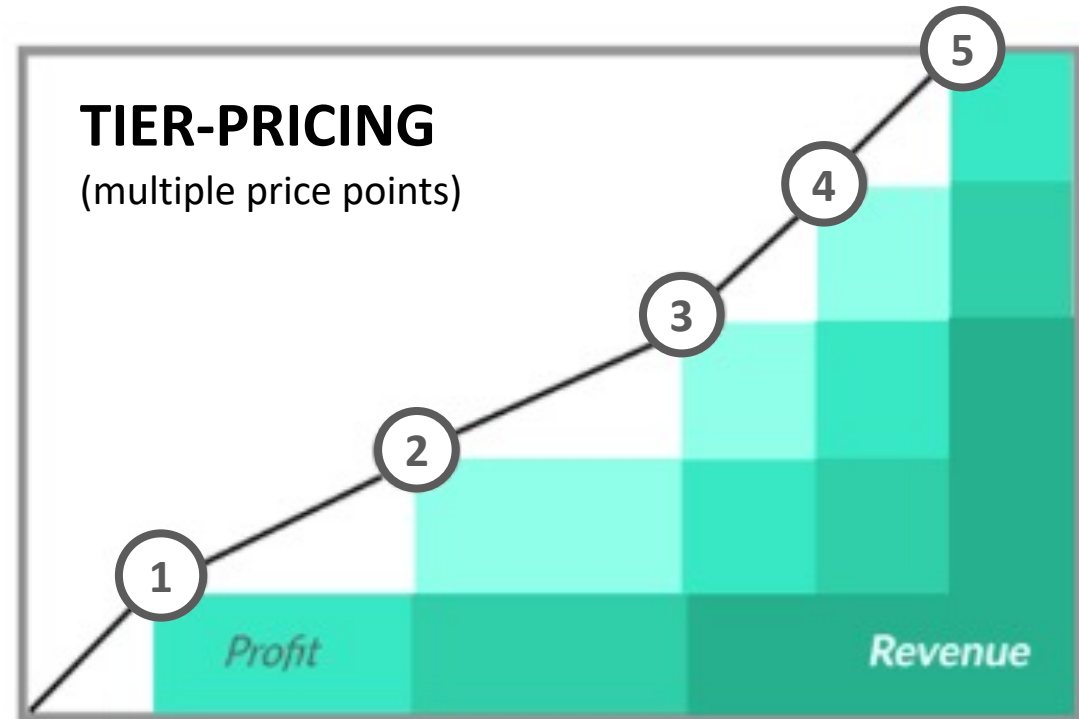
Source: Intuilize (2021).

GM% erosion can account for **1%-3% margin points!**

# Pricing Module in Your ERP

## Multiple price points based on:

- Customer segmentation
- Product segmentation
- Quantity break
- Region





# Tier-Pricing Example in Excel

Quantity Breaks	CORE	VIP	STANDARD	DRAIN	EXCEPTION
Up to 5	129.938	138.285	146.632	157.116	162.653
Up to 10	127.390	135.574	143.757	154.035	159.464
Up to 15	124.892	132.915	140.938	151.015	156.337
Up to 20	122.443	130.309	138.175	148.054	153.272
Up to 30	120.043	127.754	135.466	145.151	150.266
Up to 50	117.689	125.249	132.809	142.305	147.320
Up to 100	115.381	122.793	130.205	139.514	144.431
Up to 250	113.119	120.386	127.652	136.779	141.599

Source: Intuilize (2021).

# Dynamic Pricing

## RFQ from Customer

- ☐ Product
- ☐ Customer
- ☐ Quantity

## Artificial Intelligence [ learning from every action ]

- ☐ Demand
- ☐ Competitor's public pricing
- ☐ Customer specific behavior
- ☐ Product behavior
- ☐ Supply chain visibility
- ☐ Factor A
- ☐ Factor B
- ☐ Factor C
- ☐ Factor D

## Predictive Pricing & Win Probability

Order#	QuoteID	ProductID	CustomerID	Quantity	NetPrice	CutomerCategory	Predicted Outcome	Win Probability
1828094	2541	A123	311114	250	\$ 9.75	STANDARD	Win	67.2%
1890114	7825	A123	201565	5,000	\$ 232.51	VIP	Win	97.8%
1891051	10341	A123	201565	2,500	\$ 114.06	VIP	Win	97.8%
1890683	15718	A123	201565	3,750	\$ 175.56	VIP	Win	97.9%
1831797	15606	A123	321770	1,250	\$ 61.75	DRAIN	Loss	16.8%
1811087	5111	A123	300123	15,000	\$ 692.25	STANDARD	Loss	15.1%
1823199	10087	A123	313466	5,000	\$ 227.50	NEW	Loss	19.6%
1885629	12326	A123	323896	250	\$ 13.00	DORMANT	Loss	18.9%

Source: Intuilize (2021).

# Recap

## 1. Quantify GM\$ impact of cost pass-through

- Evaluate current cost pass-through strategy
- Build a playbook to calculate standard cost that works for you
- Automate standard cost in ERP

## 2. Reset pricing strategy based on current condition

- Quantify how much money you are leaving on the table
- Use the capabilities of current ERP system

## 3. Evaluate resource allocation

- Are you working in silos?
- Do you have the right people assigned to the right project?
- Ask for help if needed: ERP vendors, SaaS providers, etc.

# Q&A

# Let's Connect on **LinkedIn**



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