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Distribution & Pricing Techniques
THE EXECUTIVE SUMMARY

# B-to-B Marketing…In A Recession
# Competing With Price Cutters

This is the last in a series of four *Executive Summaries* designed to help manufacturers of B-to-B products successfully navigate the recession.

The first three addressed *"Selecting and Managing the Right Team," "Focusing Sales and Marketing Resources on Profitable Growth,"* and *"Reducing B-to-B 'Go to Market' Costs."*

This one offers suggestions for competing with desperate competitors, those that dramatically cut prices in an, often unsuccessful, effort to survive.

Remember, substantial changes in market share occur more frequently during recessions than during periods of prosperity. Also, irrational pricing strategies adopted during recessions often prove fatal when prosperity returns.

Pricing is important. The average U.S. B-to-B manufacturer can increase its profits by 11.1% by increasing their average selling price by only 1%. The formula for computing the price/profit relationship is below.

$$\frac{\text{GPM\%}}{\text{GPM\%} \pm \text{Price Change \%} - 1} = \text{Unit V \% Change}$$

First, your pricing strategy. There are 13 B-to-B pricing strategies. The one you select depends, in priority order, upon,

1. ***Your corporate position.***
2. ***The strength/coverage of your distribution process.***
3. ***The strength of your value proposition.***
4. ***Your cost structure/capacity.***
5. ***The value of your brand to your distribution channels.***
6. ***The competitive environment.***

Which strategy do you choose in a recession? A market share strategy, one focused on cash flow. At minimum this means,

- ***Walking away from customers that are unprofitable*** (even if you need to cut back office staff and production).
- ***Policing your payment terms.***
- ***Monitoring the financial condition of your channel partners/distributors monthly.***
- ***Communicating why your product offering is both different and valuable.*** Remember undifferentiated product offerings are the primary cause of price competition.

What shouldn't you do? You shouldn't,

- ***Reduce prices for single orders*** or for multiple-month pricing agreements.
- ***Subsidize your channels*** by extending terms.
- ***Attempt to buy market share*** via lower prices.
- ***Work with factory costs*** that are an "educated guess."

What should you do right now?

- ***Know your unit sales costs*** at three or four different volume levels.
- ***Train your salespeople.*** If they haven't been professionally educated in negotiating, then they are at a disadvantage.
- ***Establish a pricing exception approval process.*** Don't force your salespeople to either lose an order (and their commission) or sacrifice your profits. Insulate them from the temptation to lower prices too quickly.

***The Point:*** Pricing is important. Changes in pricing affect your profitability and cash flow more immediately and dramatically than any other marketing strategy.

Recommended reading: *The Strategy and Tactics of Pricing,* ISBN-13: 9780131856776 (4th edition), authors Thomas T. Nagle and Reed K. Holden

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