

The Challenges of Bracket Pricing

Through our work, helping clients review and implement bracket price structures, we have come to learn the reasons these projects are challenging and the difficulties faced along the path to success.

Reviewing Bracket Structure

When was the last time you evaluated the relationship between your bracket prices and logistics cost structure, or the effectiveness of your customer pricing incentives? For many manufacturers, the last review of their bracket price structure was “a long while ago”. Because compelling reasons to review one’s bracket structure do not happen frequently, executives tend to lose sight of the occurrence and timing that should trigger bracket pricing reviews. Our experience has uncovered some reasons to review bracket prices.

- **Things Change!** Bracket pricing and logistics costs gradually become unaligned when supply chain costs are reduced, when mergers, divestures, or acquisitions occur, or when customers shift order patterns. Any of these can lead to bracket pricing that no longer accurately reflects actual costs.
- **Customer Demands!** Customers frequently request cost efficiency sharing. To address, Sales may develop a supply chain incentive program. Without an accurate analysis, you can easily “over promise” and provide unwarranted incentives.
- **Unintended Consequences Happen!** Many reasons support price increases — raw material prices, competitor actions, and supply and demand levels. When trying to judge customer acceptance and/or competitive response, it is easy to assume the implications to bracket structures are immaterial, when they are not.
- **Demanding Work Required!** Bracket pricing reviews are demanding to complete due to the sheer manpower and systems challenge of getting it done. Your people have day jobs. Finance, IT, Logistics, Sales Operations, Supply Chain — whoever is going to be involved in the task — will have to devote numerous resources. Huge amounts of data have to be integrated, analyzed and interpreted, and for most manufacturers much of that process is manual and requires the development of price/cost modeling.
- **Risk Management Needed!** Many pitfalls exist when changing bracket pricing, as many as there are benefits to changing or leaving the structure alone. Mistakes in cost allocation can result in creating inaccurate brackets that can cost you money. Unaligned bracket structures or poorly designed incentive programs can make you uncompetitive, or worse, treat a class of customers unfairly.



Calling for a review of bracket structures is not an exact science, but in our experience the more of these reasons that apply to a company's situation, the more likely a review is justified. We believe that it is prudent for most companies to conduct a comprehensive bracket price review every 4-5 years.

Quandaries Faced

Once a company decides to review their brackets, they will typically face a number of challenges. Our bracket price experience has helped us recognize a core set of principles that guide successful implementations. The principles, unfortunately, are not always easily addressed. The following principles have helped our clients.

- **Recover the incremental costs required to ship smaller, less efficient orders.** Small orders generally cost more to ship. But many companies combine multiple small orders onto a full truck, achieving efficiencies not generally associated with small orders. An effective bracket pricing analysis needs to analyze and understand the mix of small, independently shipped orders vs. small, consolidated shipments and recover the appropriate level of costs associated with small orders.
- **Provide incentives to encourage efficient customer behaviors.** Customers vary widely in their logistics efficiencies (number of truckload orders, handling time, ordering in full pallets, honoring appointments, etc.). An effective bracket pricing program will provide incentives for efficient customer behavior, but not unfairly reward any particular customers. Achieving a clear definition of efficient behavior is not always easy, but it is crucial for success and high levels of productivity.
- **Gain competitive advantage, if possible.** Competitive advantages related to bracket pricing can manifest themselves in two primary ways: lower customer pricing or higher profit margins owing to lower logistics costs. Crucial to completing any bracket pricing structure analysis is a comparison to competitors, an estimate of competitive responses, and clear consensus about the delivery of any expected advantage.
- **Implement without disruption.** Bracket prices are a critical element of the relationship between a manufacturer and customer, thus, any adjustments to bracket pricing have to weigh the implications to the existing sales volume and customer relationships. Cost savings and legal compliance assessments have, at their core, assumptions about customer behavior, thus it is critical to involve Sales in making the proper assumptions. Supply chain savings, profit improvements, or legal risk reductions matter less if customer relationships are negatively impacted.



- **Mitigate legal risk.** A legal review is a critical element of any bracket pricing review (think Robinson-Patman). The legal risk of any change to a bracket structure or to a customer logistics efficiency program must be fully understood by and discussed with your legal team. The interplay between pricing structures and efficiency programs can have unanticipated effects, because, they are most often developed independently. Conducting legal reviews of historical results and future expectations is paramount to defining feasible alternatives and selecting the best solution.
- **Encourage supply chain innovations.** Supply Chain and Logistics departments work hard to reduce the company's shipping costs. They consolidate orders, establish multiple stop shipments, optimize pallet configurations, optimize DC locations, and streamline order picking and handling, to name a few. However, cost saving activities do not always proportionally affect customer orders — some savings apply to full truckload orders, and other cost savings do not. Therefore, cost savings activities do not always affect profit margins as anticipated.
- **Balance conflicting principles.** Bracket pricing structure projects often have conflicts among the principles companies wish to achieve. Efficiently resolving the issues requires that all parties have common sets of data and projections from a single comprehensive model using one set of assumptions. Only then, can the senior management group assess each alternative's risk and reward and make their decision.

Over the course of our bracket pricing project work, we have developed [proprietary tools and models](#) to handle the voluminous data required for accurate analysis and to enable us to address the core principles and underlying corporate goals. Additionally, we have highly skilled consultants who have extensive experience helping companies assess and revise their bracket pricing. The end goal is to determine whether brackets are equitable, and if incentives are optimum, while developing practical execution plans that minimize trade disruption and unnecessary sales volume risk.