

Foodservice Distributor Lifts Margin Rate 50 bps, Year-Over-Year with Price IQ™

Learn how this leading U.S.-based company used price optimization to overcome cost volatility and empower customer-facing sales reps to become more consultative.



The Challenge: Volatile Costs & Manual Processes Hindered Profitable Growth

For this broadline foodservice distributor, customer relationships are the key to success. Despite the company's rich history spanning nearly a century, and its standing as one of the top 10 foodservice distributors in the U.S., volatile product costs made it impossible to hold the line on margin. For instance, if a bad storm decimated tomato crops in Florida, the cost of tomatoes would jump significantly. While the company could theoretically charge a premium for product scarcity, some of its customers simply could not pass on those costs.

On the surface, it sounds simple to identify when to pass on costs in the case of one product and one customer, but this distributor has tens of thousands of customers and products, hundreds of sales reps and millions of transactions. The product catalog ranges from fresh foods to janitorial supplies and the customer base ranges from restaurants to hospitals to casinos to “mom and pop” operations. Setting the correct price for every selling circumstance was impossible, especially when food costs change weekly. In fact, this company only had two centralized pricing people to determine millions of price points. Most of the prices were set in the field by sales reps.

Key Outcomes



Faster, smarter response to cost volatility



Customers receive fair prices that meet expectations



Company receives a fair profit for their efforts



Sales reps take a consultative, order-taking approach

Manual Pricing and Guesswork On-the-Fly Further Eroded Margins

As part of the pricing process, the company’s price lists were published weekly. The price lists reflected the current costs and sales reps were given high-level margin targets for orders. Sales reps manually adjusted prices down from the price lists each week based on their own personal experience with customers.

However, due to the high volume of products and customers, they couldn’t adjust prices across their entire book of business, and instead, focused on only the top 10 percent of their customers. For the remaining accounts, they typically set each price based on the product’s cost and the last price paid by the customer, aiming for the overall margin target for the order. As a result, many products were sold at a much lower price than necessary, leaving money on the table.

Ultimately, there were too many moving parts and sales reps ended up simply guessing when it came to what price to charge. The final price paid by the customer in no way reflected the market and making matters worse, new sales reps were taught the same pricing practices.

When it was time to tally the P&L, it was evident to company executives that a new solution was needed to reverse the squeeze on margins. They tried a few in-house solutions, but it quickly became evident that the problem was simply too complex to be handled by manual means. As the company was about to roll out an updated order guide to the salesforce, the timing was perfect to introduce a new solution to price setting.

Why Pricing Was Challenging

- 33,000 unique SKUs
- 395 sales reps servicing many accounts
- 14,000 customers of all sizes
- Weekly fluctuations in supply costs

“Our sales reps have to make 1000s of decisions in a day. Without intelligent guidance, they had to make those decisions based on limited information or a previous experience that may not have anything to do with the customer, question, or problem at hand.”

- Director of Enterprise Sales Operations





The Solution: Actionable, Real-Time Pricing Intelligence to Accelerate Profits

Ultimately, company executives chose to partner with Zilliant to deploy an actionable, real-time pricing intelligence solution that could address company pricing complexity at scale. Price IQ, an engine on the Zilliant IQ platform, utilizes a company's data to continuously identify the optimal price for every transaction circumstance.

The solution generates price micro-segments, then performs two types of optimization: alignment optimization to ensure rationalization of good, better, best price relationships within and across segments, and measurement of price response through elasticity optimization to determine customers' sensitivity to price. This reveals which customers can tolerate price moves and which cannot. Even better, market-aligned price guidance is put directly into the company's new order guide and prices are refreshed on a weekly basis, making this a natural fit for the foodservice distributor.

Thoughtful Change Management Boosts Pricing Confidence

Knowing they were asking sales reps to transform their approach to working with customers, the company worked closely with the Zilliant Customer Success Team to take a strategic and deliberate approach to change management.

The approach included: active and visible executive sponsorship to communicate the change, training on how the pricing guidance was generated, and how it would help them still win the business without leaving money on the table. A train-the-trainer concept, where sales managers were trained and then trained their sales teams, was also effective to gain buy-in from reps.

As a result, reps quickly understood how prices were optimized to numerous variables such as customer price sensitivity, current product costs, competitive dynamics, customer relationship and much more. In fact, customer price response made sense. The reps intuitively knew that a salad bar restaurant would be more sensitive to tomato prices than a restaurant specializing in Asian cuisine. Conversely, that same Asian cuisine restaurant would be more sensitive to the price of soy sauce than the salad bar restaurant.

The Results

Thanks to their innovative thinking around pricing processes, this foodservice distributor now has an efficient, scalable solution to managing cost volatility. The results from a margin performance perspective have been impressive: 50 bps in incremental margin rate improvement, or \$5 million in profit dollars.

“Manually re-pricing products each week wasn’t enough... now optimization keeps prices fresh.”

- Regional Sales Vice President

“Price IQ allows us to offer a price that’s the right price, that’s fair, that will allow us to earn the business, but at the same time allows us to make a fair profit for our efforts. The more we can automate the pricing piece, the more we can train our reps to be consultative in nature and be working with their customers on their business and not worry about the order entry and price management piece. It’s really been a game changer for us.”

- Director of Sales Enablement