



REVOLUTIONS PER MINUTE

How Heavy-Duty Truck Parts Distributors Can
Navigate the Year of Constant Change

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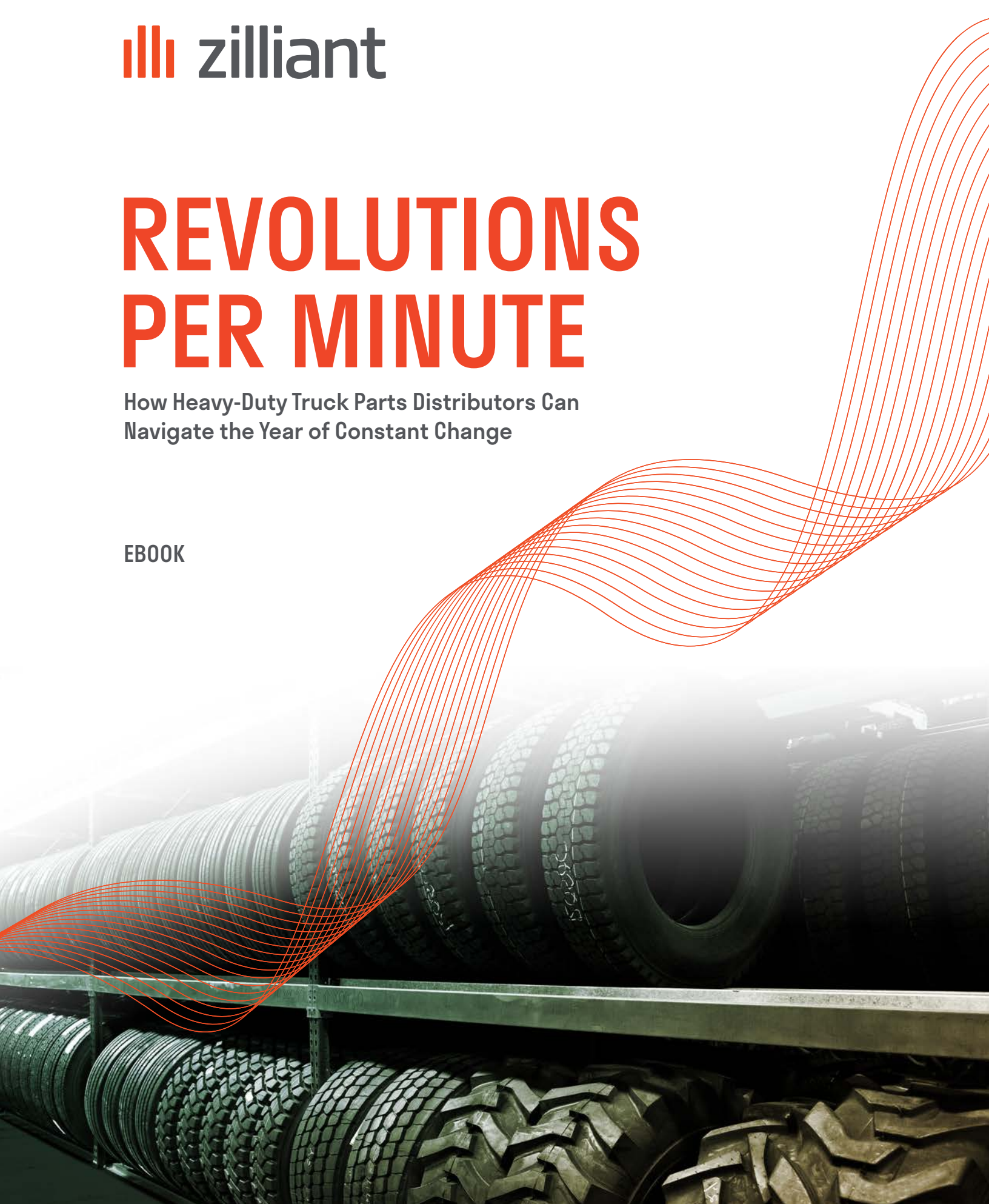
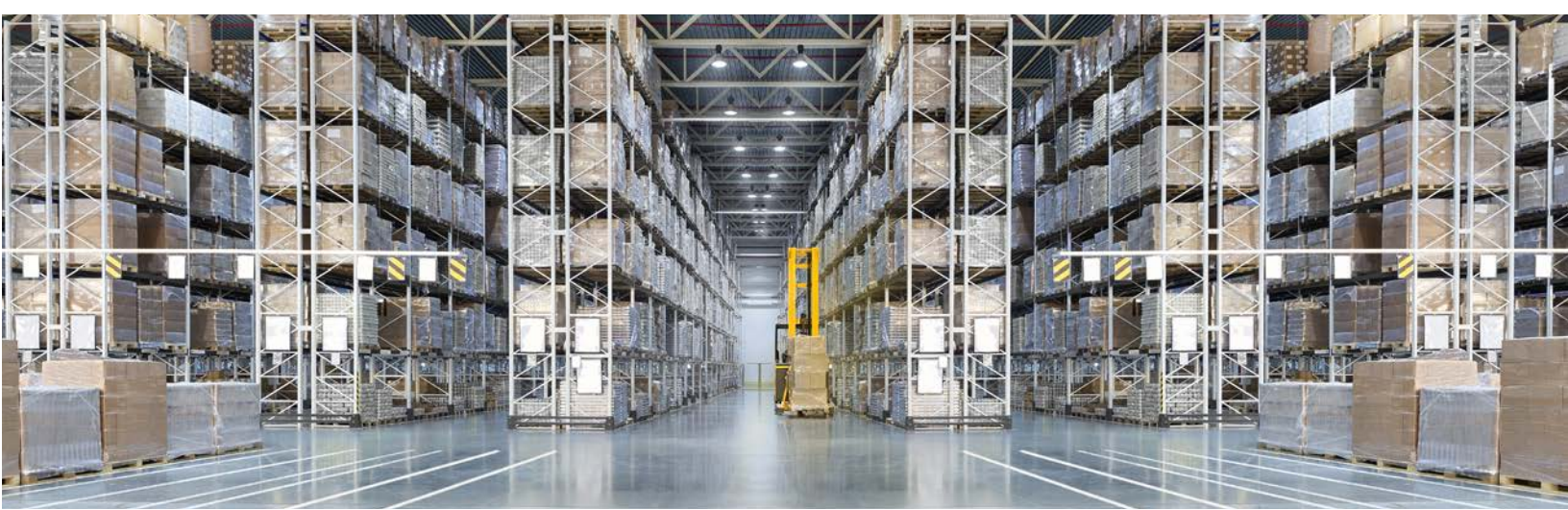


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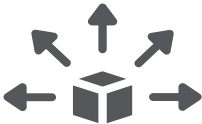

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I. THE INDUSTRY IN 2020: A CONTINUAL BARRAGE

The heavy-duty truck parts industry entered the new decade with its collective hands full. Hindrances to growth were lurking around every turn. In January, **Zilliant Chief Marketing Officer Lindsay Duran spoke at Heavy-Duty Aftermarket Week** in Grapevine, Texas, and warned attendees of the need to address:

- The emergence of online competitors such as Amazon Business. 
- An oil sector that had been underperforming in recent years, which loomed as an ominous leading indicator for the heavy-duty truck industry. 
- An aging workforce and the difficulty recruiting young talent and getting them up to speed. In particular, sales reps with years of tribal knowledge walking out the door creates a significant threat to future growth. 
- An increasingly complex environment, wherein old-school truck parts companies now must sell through multiple channels, meet evolving customer expectations, manage growing product catalogs and ward off increasing competitive threats. 
- The biggest buzzword of late 2019 and early 2020: tariffs. From a pricing perspective, companies have to scramble to figure out how to handle cost pass-through and tariff-affected price administration, while crafting a strategy for what to do when tariffs are eventually pulled back. 

Fast forward six months. It's a whole new world (has it only been six months?).

None of these stated challenges have gone away. In fact, the coronavirus pandemic and the subsequent economic recession have accelerated these threats while introducing several more. To wit:

- Amazon has only become more dominant in the B2B marketplace, to the point where Jeff Bezos is on a trillionaire trajectory. The e-business giant **has announced** it will hire 175,000 new employees while most others are contracting.
- The oil industry completely bottomed out as stay-at-home orders removed drivers from the road and passengers from the skies. The nadir came when the **West Texas Intermediate** price dropped to -\$40.32 a barrel, as oil companies had to literally pay customers to take crude off their hands.
- Meanwhile, the workforce not only hasn't gotten any younger, it's gotten **significantly smaller** due to mass layoffs that have impacted the entire American economy.



175,000
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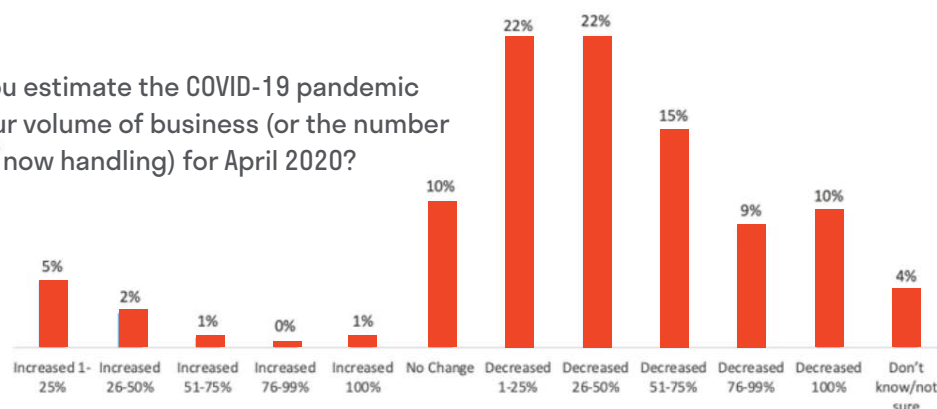
41 Million
filed for unemployment
as of 5.2020



53%
increase in automotive
eCommerce from
March to June

- Shelter-in-place orders forced millions of workers to go remote, leading to a **major uptick in eCommerce sales**. Many truck parts distributors are behind the B2B eCommerce curve and have seen forecasted dollars gobbled up by more mature online competitors.
- Fleets have seen drastic dips in volume with businesses slowing orders or shutting down completely and workers telecommuting.
- Remember tariffs? They're still around and tensions between the U.S. and China have ratcheted up during the coronavirus outbreak, threatening the outlook for the countries' Phase 1 agreement.

How much do you estimate the COVID-19 pandemic has affected your volume of business (or the number of loads you are now handling) for April 2020?



2020 has become the year of rapid, unpredicted and unmitigated change, and there is still a U.S. presidential election to come as well as a feared “second wave” of coronavirus. However, for heavy-duty truck parts distributors, one crucial fact remains unchanged: the value and utility of their in-house data. Recalling Duran’s January message to the industry: “You need less data than you think, and you have more usable data than you realize.”

In this eBook, you will learn about common data misconceptions and how intelligently injecting your most valuable asset – customer data – into pricing and sales strategies will shelter your truck parts business against the 2020 (and beyond) storm.

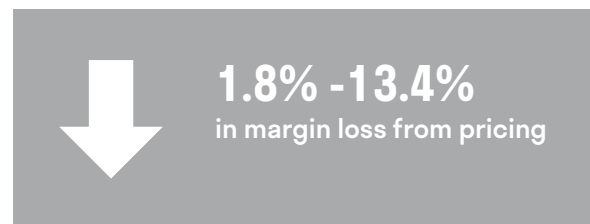
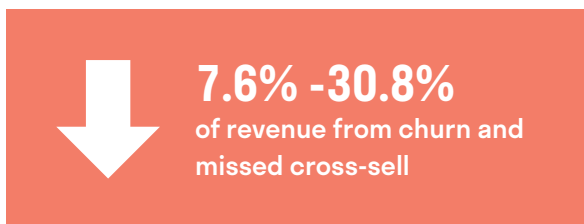
“You need less data than you think, and you have more usable data than you realize.”



II. PRICING & SALES CHALLENGES

We've spoken about the broad industry challenges, now let's narrow the focus a bit. What are the specific challenges truck parts companies face when it comes to pricing and selling their products, and what is the cost to their business?

A Zilliant study – the [2019 Global B2B Industry Benchmark Report](#) - uncovered the following impacts on B2B companies' top and bottom lines due to pricing mistakes and sales inefficiencies:



HOW PRICE CONTRIBUTES TO MARGIN LEAKAGE

A lack of rigor around pricing causes internal conflict and leaves companies ill-equipped to respond to market changes. There is often a struggle for control between the corporate office and the field reps calling on garages and body shops every day. That struggle manifests in pricing disputes. Whereas corporate wants margins to go up, sales is worried about losing the business. Corporate may put in pricing guardrails to maintain price above a certain margin threshold, which irritates sales reps who insist they know the true price their customer is willing to pay. The crux of the issue is that corporate often is providing irrelevant pricing guidance out to the field, while sales reps treat every customer like their best one. So, in the end, while both sides have valid points, the disconnect prevents them from reaching a mutually satisfying solution.

Some examples of poor pricing that abound in the heavy-duty truck parts space include misalignment between good/better/best product relationships, inconsistent left side – right side parts pricing, a reflexive reliance on cost-plus pricing and the overuse of special price exceptions. The latter stems from reps getting tired of their customers pushing back on price each time they try to sell a part, so they decided to set a heavily discounted price in the system and quote it as such going forward. All too often, these exceptions are set as a net price or with no expiration date and are not well-managed or reviewed over time. This “set and forget” phenomenon is a major cause of margin leakage down the road – costs rise but the customer price doesn't move.

“We want rational competitors. If we have irrational competitors out there, we have to sink down to whatever level they’re selling at and that is a tough business to be in.”

Aside from internal discord, another major pricing challenge is brought on by irrational competitors. In a down market, where customers are spending more on parts versus new vehicles, a crop of new bargain-basement competitors emerge to try to take advantage of the spare parts boom. Somewhat paradoxically, rational competition is usually preferred, so as to prevent a race to the bottom. As one pricing leader at a truck parts distribution company recently said, “We want rational competitors. If we have irrational competitors out there, we have to sink down to whatever level they’re selling at and that is a tough business to be in.”

HOW SALES INEFFICIENCIES CONTRIBUTE TO REVENUE LEAKAGE

Ride along with a typical heavy-duty truck parts salesperson long enough and you’ll notice certain patterns start to emerge. These sellers tend to manage a massive account list and, with only so many hours in the day, have developed a routine.

For example: Harvey D. Zull, a veteran sales rep in the industry, has to visit 50 customers in a week. He has to hustle to reach eight customer visits on Monday. His first stop is at a garage where he’s built a strong relationship through years of supplying parts and keeping a regular cadence. He walks in with a parts catalog, a recent marketing flyer and a box of donuts. Harvey and his buyer chat about their weekends before getting around to discussing parts to restock.

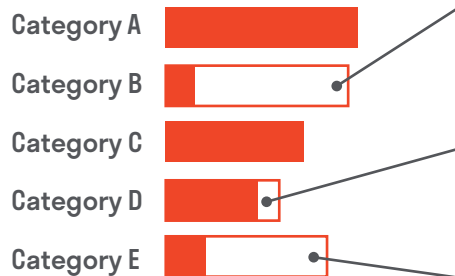


After some back-and-forth over the new, higher price on brake shoes, Harvey extends a 15 percent discount and takes down the rest of the order. With no justification or relevant data to support the new pricing from corporate, Harvey can’t defend the higher price and lacks negotiation guidance on what is an acceptable, appropriate and defensible discount the customer would be willing to accept, without unnecessarily sacrificing margin.

Our man Harvey's got a new deal entered into the system and is happily on his way to the next garage. The week's off to a good start, it seems. Upon closer examination, Harvey has left more than margin on the table. Let's look at this selling scenario a bit closer:

Growth and Retention Actions Harvey Couldn't See

Current Spend for Garage A



Garage A is buying 200 various products from Harvey at different times, so it's easy to miss an opportunity to cross-sell another subcategory. Harvey needs guidance beyond his 800-page catalog to capture these opportunities.

Garage A has paid a heavily discounted net price on rotors for more than a year. Harvey has no way of comparing the last price paid to an optimal target price, so he lacks the context and confidence to increase price.

Garage A used to buy 100 units of swing door hinges a month but are now buying just 25. There's a good chance they've found a new supplier to make up the difference and before long they will stop buying this part from Harvey altogether.

Takeaways:

Harvey's routine is so second-nature at this point, he's become a reactive seller. A lack of pre-call planning to grow the revenue and profitability of each account has destined him to be an order-taker.

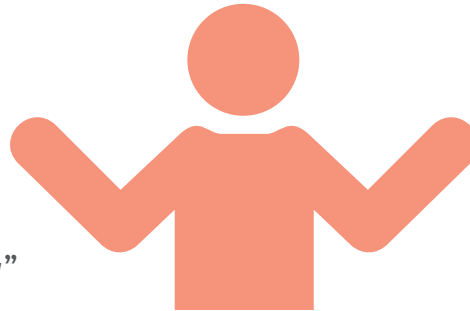
Now take this example of one rep visiting one customer and multiply it by hundreds of reps and thousands of customers every week. It's obvious that this distributor is missing out on a ton of profitable revenue that's available in the market.



III. DATA MISCONCEPTIONS

Most executives reading this will recognize the aforementioned issues in their own parts business. They may have an idea of the kind of technology available that could streamline their pricing processes and serve up timely opportunities to reps in the field. However, dreams of straightforward solutions are often dashed by the perceived nightmare that is their own in-house data. Here are four common misconceptions about the data that's accumulated for years inside a distributor's four walls:

1. *"We don't have enough data"*
2. *"Our data is too sparse"*
3. *"Our data is too dirty"*
4. *"We're missing key types of data"*



Upon closer examination, you need far less data than you think to get started on solving these problems, and you have more usable data than you realize. The best way to get started is with the cleanest source of data in the business, which is almost always order history and transaction data.

For the purpose of growing sales, your company's line-level transaction history — each and every customer order, product by product, and account by account, over the past 18 to 24 months — holds a wealth of knowledge. Getting value out of that data requires more than writing reports. At the most basic level, this data tells you which customers are buying which products. While that information might be interesting, it doesn't give you a complete picture to make better decisions or help you increase revenue.

To extract real value, you must be able to use it to find insights beyond what you can observe with the naked eye. For example, you likely know how much each of your best customers spends with you. You may even know how much they spend in each product category and if that spend changes over time. But do you know which products your customers are willing and able to buy from you, but are buying elsewhere? Or, which customers are starting to defect to your competitors for specific product lines?

The ability to see what your customers are not buying, but could be buying from you and in what proportion, is critical. Your transaction data can reveal these insights, just not in its raw form. The data needs to be processed, sliced, diced and presented in the right way for you to see the opportunities. Transformed into ideal purchase patterns, you will find opportunities worth eight to twelve percent of revenue.

From a pricing perspective, the same data set can be used to segment customers into small groups that have similar price response and measure the price elasticity on an ongoing basis for each segment. Taking a surgical approach to pricing by measuring price elasticity can have a dramatic impact on profitability while minimizing risk and improving responsiveness to market dynamics. This approach, when using the right pricing science, can even generate market-aligned prices for slow moving products, overcoming the real-world challenge of sparse data in B2B.

At the end of the day, even the least data-savvy distributors figure out a way to invoice their customers. Use that paper trail to prioritize a problematic product category, customer type or region ripe for incremental improvements.



IV. TACTICS TO IMPROVE REVENUE AND MARGIN

Where is Revenue Growth Lurking?

Remember, Harvey, our congenial truck parts rep? He, like most distribution field sellers, has done the hard work of building a trusted relationship. By deploying predictive sales analytics that leverage data sets as covered in the previous section, the corporate office can deliver guidance to Harvey with specific actions he can take to sell more, for more, to those customers. According to Bain & Company*, it costs 6-7 times more to acquire new customers than retain existing customers. One of the first value-driving actions a distributor can take is identifying where current customers are beginning to defect and giving the Harveys of the world visibility into it.

Applying a data science-driven tool like **Zilliant Sales IQ™** makes it possible to identify key customer insights, such as:

- **Recovery Actions:**

Which customers have dropped purchase volume in one or more product categories? Where have they defected altogether? Catch at-risk customers before they defect to retain share.

- **Growth Actions:**

Which customers cherry-pick only a handful of product categories from us? Sales IQ builds ideal purchase pattern profiles based on your best customers to identify winnable cross-sell opportunities.

- **Price Actions:**

Where can price be strategically raised without risking volume loss?
Where are we underpriced relative to the market?

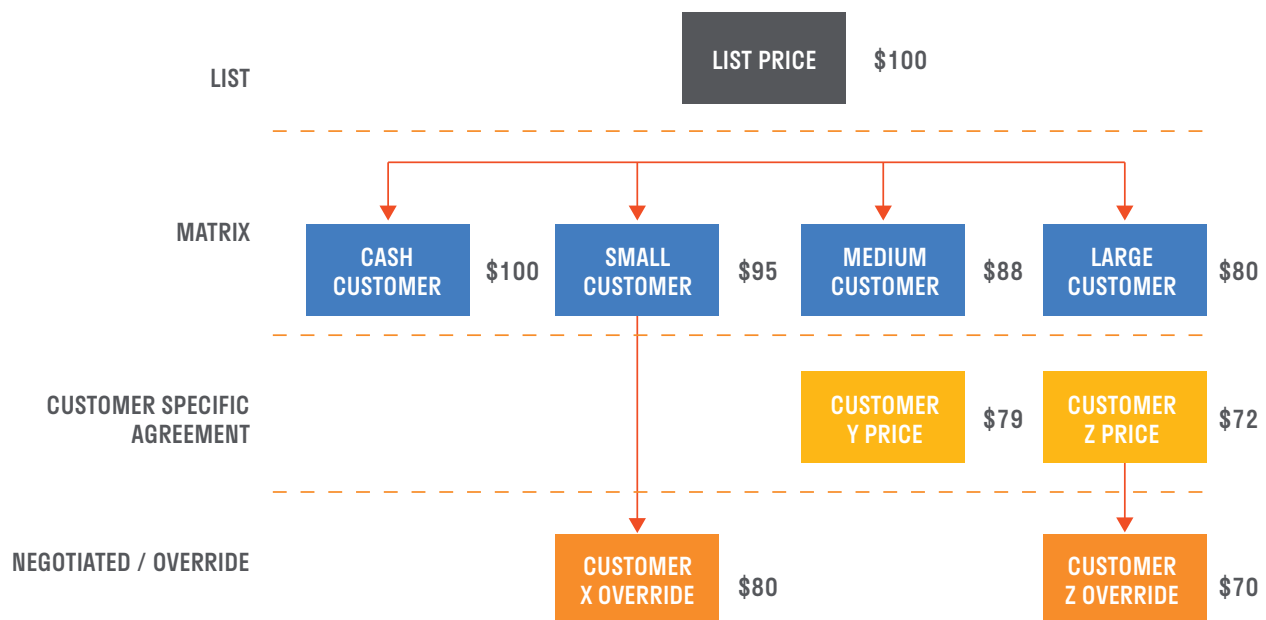
Sales IQ automatically identifies each of these opportunities and sends them directly to the sales rep within the tools they already use daily – email, CRM, mobile or tablet sales app, homegrown systems or otherwise. This allows for easy and effective pre-call sales preparation and fosters a targeted, proactive selling conversation. Closed-loop tracking and visual analytics gives sales managers visibility into their team's behavior – how many opportunities are they pursuing, dismissing and winning? We're combating an order-taking, reactive habit here. The key to breaking that cycle is arming the front-line rep with data-driven ammunition to change the customer dynamic.

Unlock Margin Opportunities

It's no secret at this point that price is the best lever to pull to increase margins. According to McKinsey**, "a 1 percent price increase across the product portfolio has more impact on bottom-line margins than a 1 percent uplift in volume or a 1 percent reduction in (expenses)." In a mature, competitive market like heavy-duty truck parts, a "peanut butter spread" 1 percent price increase will fail to yield positive results every time. That kind of approach will be rejected by sales reps and customers alike. That is why price changes must be surgical – the opportunities exist, but they must be uncovered and executed with intention.

Know Your Price Modes & Tackle Accordingly

Price modes, or the different ways price is expressed in your business, are a handy way for thinking about where to start a pricing project. Below, we've outlined the main price modes common with auto and truck parts distributors and some key plays to tackling them, one by one.



LIST PRICES should be a truck parts distributor's North Star, the foundation for the rest of its pricing architecture. Yet they tend to grow stale when managed manually. **Reimagine** list prices by aligning costs, product-value relationships and competitor prices, and automating the underlying data with data science-driven pricing solutions.

MATRIX PRICES should be a distributor's most consistently profitable price mode, when customers are assigned correctly. Therein lies the rub, as the matrix/system pricing structure can be the most difficult to manage via spreadsheets in a dynamic market environment, especially when sales reps have the ability to reassign customers to more favorable tiers. **Reimagine** the approach by increasing the granularity of the matrix, calculating optimal price points within the matrix, reassigning customers and products to combat matrix drift to the last column, and updating the matrix as costs and market dynamics change. This ensures that sales reps use the matrix more frequently and win business at profitable prices.

CUSTOMER-SPECIFIC/AGREEMENT PRICES should be reserved for the most valuable customers, but they are often extended broadly, with little oversight or guidance, as sales reps lose trust in the matrix. These prices are closely protected by sales reps and thus are the most difficult to change in a business. **Reimagine** the process by separating out the key customer contracts from the one-off exceptions. Address net prices and those without an expiration date first. Ditch the spreadsheets and look for a scalable deal and agreement management tool to reliably and consistently revisit agreement prices as market conditions and costs change.

NEGOTIATED OR OVERRIDE PRICES are prices that, for any number of legitimate or illegitimate reasons, are deviated from list, matrix or agreement prices in a one-off capacity. Margin leakage occurs when prices are over-discounted, often inconsistently, setting a bad precedent or confusing end customers. Overrides will always occur at some level, but sound guidance can reduce the depth of discounts. Reimagine negotiated and override prices by providing sales reps with a discount range, or Start/Target/Floor deal envelope, that is based upon market prices and incorporates price elasticity. Trigger an automatic approval workflow if and when reps attempt to deviate below the floor.

There are challenges and margin opportunities inherent in each price mode. The central takeaway: these can only be optimized and maintained with intelligent pricing tools that can transform mountains of underlying data into rational and profitable pricing.

Zilliant Price IQ®, the leading B2B price optimization solution, simultaneously accounts for all the factors that drive price, rationally aligns price/customer/order/product relationships simultaneously, and statistically measures what drives price response in the market, all while enforcing necessary guardrails and producing price guidance for all the different ways price is expressed in a B2B business. **Zilliant Price Manager™** allows pricing teams to set and execute rule-based pricing strategies across all price modes, as well as use Price IQ generated guidance to mass update prices. In either case, prices and supporting contextual analytics can be delivered dynamically or in batch to any CPQ, order entry, ERP or eCommerce system.

V. NEXT STEPS

Your business is unique. There is no one-size-fits-all solution that can be plugged in and turned on to solve for every challenge you face in an extremely challenging year. Be wary of any vendor telling you otherwise. That said, it's important to find a partner that:

- Knows the heavy-duty truck parts industry inside and out.
- Will invest the time and resources to understand your specific commercial challenges.
- Brings a best-of-breed cloud-native software platform to the table.
- Has a proven track record of delivering the best ROI with data science-driven B2B pricing and sales solutions.
- Is constantly helping customers innovate in an increasingly digitized world.

Zilliant has more than 20 years of experience helping B2B enterprises lead the next commercial revolution in their respective industries. **Give us a call**, we're always ready to listen.

*Source: Bain & Company, *Prescription for cutting costs*

**Source: McKinsey, *Pricing: Distributor's most powerful value-creation lever*

