

Streamlining Price Updates



Introduction:

One of the most tedious, time consuming and confusing jobs for many distributors is setting prices for inventory items. First, price updates are tedious and time consuming because you have thousands of items and thousands of customers. Second, prices change constantly. Some months you get a lot of price changes and other months you may get none. Over the space of a year, you get lots of price updates. This FAQ will talk about some things you can do to simplify your life, ensure the price updates are processed in a timely fashion, and maintain profitability.

Updating Costs

This FAQ is focused on pricing, but one option we will discuss is based on cost. It is important to understand how your costs get updated. Cost (Unit Average or Replacement) is updated automatically through the purchasing system. When a purchase order is entered, processed, and updated, the Unit Average Cost or Replacement Cost is updated from the most recent purchase. For items being purchased on a regular basis, the cost is constantly being updated. For items not frequently purchased, costs might be out of date.

Percentage Updates

The percentage update is very simple to run. You tell the program you want to increase prices by a given percentage. The advantage is that it is simple and fast. There are several options that let you select the group of items you want to update so it doesn't have to apply to all items.

Electronic Price Updates

CylTech offers an optional program, Electronic Price Updates to speed up the process of keeping your prices current. With this program, price files are received from all the major vendors in the gas industry and converted into a format that is readable by your CylTech price update programs. Most vendors offer price updates and typically you can update prices, costs and sometimes even UPC numbers.

The advantages to Electronic Price Updates are several. First, data entry and associated mistakes are eliminated. Second, thousands of prices can be updated in minutes as opposed to days. Finally, since you are updating the selling price and costs, most people feel more comfortable that the gross margins are correct.

You can contact your support person if you are interested in seeing the long list of vendors supported.

Cost Plus Pricing

There have been occasions when vendors raised the cost, but did not raise the selling price. In one rare move years ago, a major vendor increased costs and **reduced** the selling price at the same time. Both had and will have a negative impact on your profits.

In response to these situations there is a new feature in CylTech called **Cost + Pricing**. This feature lets **YOU** determine the desired gross margin, not your vendor. For example, let's assume that your vendor sets the retail price of an item such that you receive a 20% gross margin. You are not satisfied with that so what do you do? Cost Plus Pricing may be the answer. This program lets you identify an item or a group of items (vendor, class, category, etc.) and the desired gross margin percentage. On the fictional item we are talking about, you want to make 35% margin.

You would identify the item in the Cost-Plus programs and the desired gross margin percentage. When you run the update program, the program will calculate a selling price that generates a 35% margin.

Once the percentages are set up, you just run the update and the retail prices are recalculated based on the current cost and your desired gross margin.

Customer Specific Pricing

When you have a price update from a vendor, it not only impacts your inventory items, but it could also (and probably does) impact the price you have quoted to a customer. If you quote a customer a specific price for an item, you are expecting a certain gross margin. If the cost goes up and you do not change the price to the customer, you start losing money.

The best way to ensure this does not happen to you, is to use the CylTech pricing formulas based on percentages. Instead of quoting a customer a specific price, give them a percentage discount. Then if your cost or selling price goes up theirs also goes up but they are still getting the same percentage discount.

Let us say your customer wants to buy a product from you that costs \$100. You figure out that they will pay \$95 and that is acceptable to you. But do not quote them \$95. Doing so means that anytime your prices change you must worry about your margins. Instead give the customer a 5% discount. The effect is the same. Set the price up in the Customer Specific pricing program: Customer 100 gets Item 123 and a 5% discount. Regardless of what happens to the retail price, your customer gets a 5% discount, and your margins stay the same.

A Final Note on Margins

Regardless of which method you choose to keep prices and costs updated, you should check regularly to make sure that the gross margins are where you want them to be. Mistakes happen and you want to catch them before they get serious.

There are three main ways to check gross margins:

1. The CylTech Order Entry programs will alert you whenever an item is sold with an unacceptable profit margin. Instruct anyone entering an order to watch for these alerts and make the corrections.
2. The Daily Invoice Register also checks for items outside the desirable gross margin range. If an item with a bad gross margin slips through order entry, the Daily Invoice Register will flag it and instruct your back-office personnel to look for these items.
3. Finally, once a week or once a month, have someone in your company run the Investigator Query. The Investigator Query has a filter for gross margins. You can select any gross margin and say "Show me all the items sold that are below the desired gross margin. For example, you could choose to see all items that generated less than 10% margin or less than 5% margin. This works for any period. You could look at it weekly, monthly, quarterly, or even annually. This provides a quick analysis of any potential problems with gross margins.

Have questions? Feel welcome to send us an [email](#) or give us a call, we'd love to answer your questions!

JBL Solutions - Dataweld

1909 Citizens Bank Drive Bossier City, LA 71111

Phone: 318-746-6111 Fax: 318-746-0323

www.jbl-solutions.com

www.Dataweld.com