

Tracking Your Fasteners

by:

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Pricing – The Secret Ingredient for Fastener Distributors

When it comes to pricing, fastener distributors have an enormous job to do. A single distributor may have any or all of the following pricing structures:

1. What the Market Will Bear Pricing
2. List Prices with Discounts with Quantity Breaks
3. Cost Plus Pricing
4. Contract Pricing
5. Multiple Price Levels for the Same Customer by Product Line
6. Commission-Driven Pricing

The idea is to have the greatest variety of pricing possibilities with the least amount of data entry and file maintenance. We have addressed each of the above issues in The BUSINESS EDGE 2.0 and our clients have a much easier time managing price changes than users of other software. There are tools in the software to apply global price and cost increases with a percentage change. There is also extensive capability to upload prices and cost from Excel spreadsheets. The result is accurate and up-to-date pricing with a minimum of aggravation.

What the Market Will Bear Pricing

This method of pricing, which is very common in the fastener industry is not common at all in other industrial distribution industries. Since fasteners are a commodity product and they typically don't have a list price or particular brand uniqueness, the prices charged by distributors are often whatever they are able to get. In order to do this and not give away precious margin, the software system must provide a wealth of information quickly. The most important information is how much this customer paid for this product in the past.

Of next importance is how much is the distributor paying and are the costs rising or falling. Finally, it is important to know who else is buying this product and how much they are willing to pay.

List Prices with Discounts & Quantity Breaks

Many fastener distributors use List Prices and then offer various categories of customers discounts based on type of business or sales volume of the customer. Often, the customer can get a better price if he or she buys a higher quantity. Package and Bulk pricing follows the same pattern.

Cost Plus Pricing

Cost Plus Pricing can have a similar arrangement with different prices for various types of customers and quantities. The cost basis can be either the Last Purchase Cost or a Standard Cost. Using the Standard Cost enables the distributor to manage customer price changes more closely. For example, if the distributor makes a great deal on one purchase, it doesn't get shared automatically with the customers.

Contract Pricing

Contract Pricing is based on an agreement with the customer to charge a specific price for a specific period of time for a specific part. It is possible to have one price expiring on October 31 and a new price going into effect on November 1, and it is all handled automatically by the system. This eliminates errors and greatly simplifies pricing management. Contracts can be reviewed and

changed in Excel and uploaded in advance of the effective date, so there doesn't have to be a time crunch on getting the new contract set up.

Multiple Price Levels for the Same Customer

Often, it makes sense to charge different price levels to the same customer based on the customer's purchases within a particular product line.

By organizing the pricing under Customer Classifications, the distributor can offer a single customer price level 4 on fasteners because the customer buys lots of them and at the same time give the customer level 2 (a higher price level) on lubricants or another product line, because the customer doesn't buy very much.

By organizing the pricing into customer classes, only the master list of price breaks has to be maintained, while there is an almost infinite variety of prices being offered to customers.

From Invn Class	To Invn Class	Price Level
2	2	3
BLKN	BLKN	3
FW	FW	1
HCS	HCS	4
HN	HN	2
STUDS	STUDS	2

Commission-Driven Pricing

A pricing method that is completely unique to the fastener industry is Commission-Driven Pricing. Using this method of pricing allows the salespeople to "write their own tickets". They can decide on a line-by-line basis in an order, how much to charge the customer and how much commission they will make. This puts the salespeople in a position where they are effectively in business for themselves and it encourages maximum markups, while at the same time leaving the decision in the hands of the

Level	Description	List Price
A	40%	13.0784
B	30%	9.8588
C	25%	8.1740
D	10%	6.5392
E	5%	4.9044
F	2%	4.0970

salespeople who should know what the market will bear in each case.

Instead of entering a price, the person entering the order would simply select a Price Code (either a number or a letter) that represents the Price Level that this product should be sold for. The system calculates the price and the commission rate based on the code. Commission reporting is built into the system and commissions can be paid on sales or on cash receipts.

Price It Right Every Time

With this combination of pricing capabilities, The BUSINESS EDGE 2.0 makes pricing a breeze.

Pricing is accurate and up-to-date without the hassle that is often associated with this huge project. And the whole effort couldn't be easier.

For further discussion, contact **Dennis R. Cowhey** via email at dcowhey@ci-inc.com, or visit the website listed below.

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Dennis, R. Cowhey, CEO – Started **Computer Insights** in 1981. He served for many years on the **Illinois CPA Society Computer Information Systems Committee**. He is a frequent author of articles for industry trade magazines. Before starting Computer Insights, he served as Central District Manager for a division of **Litton Industries** (now part of **Rockwell**), that offered inven-

tory control systems to retailers. Prior to that, he was a Credit and Financial Analyst for National Credit Office division of **Dun & Bradstreet, Inc.** Cowhey received his education at **Chicago City College** and **DePaul University**.

Computer Insights provides the fastener industry with The BUSINESS EDGE 2.0 software for efficient tracking of fasteners.