



Convenience is Expensive: Five Ways to Protect Against Price Discrimination

5 actions you can take to protect against accusations of discriminatory pricing practices:

1. Clearly define who is eligible for each deal. Blankets, extendable prices and other 'generic' programs make it easy to create and offer deals, but at what risk? 2
2. Communicate deals to the operator and include a clause that says you'll share with any distributor that they authorize. 2
3. Ensure that deviated price offers do not convert your own business from one distributor to another. 2
4. Justify and document rationale for discounts, whether volume, competition, cost justification or another reason. 3
5. Conduct post-event analysis and use this insight in future offers. Even better, track performance against commitments throughout the deal lifecycle and adjust pricing/discounts as appropriate. Best practices indicate there are several analyses you should conduct: 3

Best practices you can implement right now



What are 5 actions you can take to protect against accusations of discriminatory pricing practices? Here are some best practices you can implement right now:

1. Clearly define who is eligible for each deal. Blankets, extendible prices and other 'generic' programs make it easy to create and offer deals, but at what risk?

Avoid blanket deals, whereby a broad group of customers [e.g., fishing camps or ski resorts] are eligible for a discounted price. These deals are easy to create, but how do you enforce that only this select group of customers receives the pricing? Be specific as to who is eligible for each deal.

Avoid extendibility clauses in contracts. Some distributors and operators want to include an 'extendibility' clause in their contracts, whereby non-member locations receive the discounted price. In this situation, 1] avoid the clause, 2] be specific as to who is eligible for each deal.

In both these cases, clearly articulate that the pricing and discount incentives are only for the operators and distributors identified in the deal sheet and that claims and deductions will not be honored from any other customers.

2. Communicate deals to the operator and include a clause that says you'll share with any distributor that they authorize.

When you create a deviated price deal for an operator customer, communicate it directly to the operator so they are aware of it. Otherwise, how do you know the discount is passed on to them?

Provide a copy of the program to all authorized distributors to ensure they are aware of it and receive notification in a timely manner. Keeping discounts private may give the impression one distributor is favored over another – this could be perceived as predatory pricing if you choose which distributors to communicate with. Price discrimination most often occurs when certain distributors are given 'private' prices for specific operators. This practice can be construed as a 'restraint of trade' and place you at risk of acting in a manner that restricts competition.

Create a standard 'deal sheet' for all trade programs and special pricing, so that all programs look the same regardless of the customer, discount type, or sales rep. This should result in fewer questions and more accurate input of deal details.

3. Ensure that deviated price offers do not convert your own business from one distributor to another.

When evaluating a new proposal for operator pricing, build steps into your process to determine whether that operator already purchases your product from a different distributor than the one requesting pricing. Offering price discounts that one distributor uses to convert the business from an incumbent distributor, for your same product, places you at great risk of allowing discriminatory practices. Provide field sales with access to existing operator programs so they don't create redundant programs. Build a step into the evaluation process to look for duplicate deals for the same operator customer.



4. Justify and document rationale for discounts, whether volume, competition, cost justification or another reason.

Require Field Sales to justify why discounts are offered and store the justification for easy access if necessary. This means:

- Track the customer's committed volumes.
- Log competitive offers to the customer if you're discounting to compete with a competitor's price.
- If you're discounting due to cost justification, capture cost to serve; you can pass on some or all of savings but no more.

Longer term, you can look at creating standard offers for Field Sales to quote to customers, to simplify the creation and evaluation process. This can take a couple of different formats, with varying complexity:

- Create and enforce a 'price/volume grid' to normalize spending tactics and rates into common options and resolve where each customer should fall.
- Segment distributor and operator customers and create standard offers and spending guidelines by segment based on criteria like volume, exclusivity, penetration and loyalty.

5. Conduct post-event analysis and use this insight in future offers. Even better, track performance against commitments throughout the deal lifecycle and adjust pricing/ discounts as appropriate. Best practices indicate there are several analyses you should conduct:

- How does the customer's actual volume compare to committed, and did actual volume warrant the prior discount? Did the customer fulfill other contractual commitments?
- Analyze average pricing across distributor and operator customers along with relative volumes to identify and correct inconsistencies.
- Analyze distributor effective net price [base price less trade and operator reimbursements] rank relative to the price point universe to identify true net contribution by SKU and major planning category.
- Evaluate discounted business with each distributor [e.g., national accounts and bids] relative to their gross purchases in order to 1) compare across points of distribution by local house, corporate parent and buying group and 2) identify 3which distributors represent 'true street' business by region and broker.

The white paper, 'Focusing Trade Funds on Your Best Customers: Best Practices in Foodservice Customer Segmentation' discusses examples and options for distributor and operator segmentation in greater detail.



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