

CASE STUDY – Conversion to Bracket Pricing

A \$150MM Division of a national dairy company contacted us to help evaluate the opportunity to implement a new price structure. This company distributed all products from a single warehouse in the Midwest, and used a single delivered price per SKU regardless of shipment size or distance.

As a result of this policy the company took a lot of small-volume orders, including many from large customers who chose to use the supplier as a “free warehouse” rather than submit larger, less frequent orders. As a result, our client incurred high fulfillment costs with prices which neither recovered these costs nor provided incentive for customers to change order patterns.

Franklin Foodservice Solutions conducted a thorough analysis of Total Fulfillment Costs by order size and geography. We modeled the option of implementing Zone Pricing to reflect Customer Freight costs by lane, but the client rejected this approach due to added complexity and concern that their national customers would reject it.

We then established Weight Brackets based on major breaks in Customer Freight cost, and recommended a consistent “Price Premium/lb” for each bracket. This Price Premium was applied equally to all SKU’s based on their case weight, and was built up from the existing prices which then became the “Truckload Price.”

In order to temper the negative incentives with positive incentives, our client asked us to also design an “Efficient Order Bracket.” This provides a price discount from the Truckload Price in return for orders which meet certain criteria, including:

- Proper lead time
- Submitted via EDI
- Percentage of straight pallets (one SKU/Pallet)
- EFT Payment

Once the new Bracket Price Structure was established, we built a “P&L Impact Model” which reflected the current mix of volume by bracket, prices, fulfillment costs, and redistribution volume and costs. The tool allows the client to model potential changes in order size, total volume, and switching between direct and distributor service by bracket, and instantly calculate the change in P&L.

Depending on customer response, we identified a 1.4 to 1.8% improvement in profit, based on a combination of increased revenue and reduced fulfillment cost.

