What is a Price Waterfall?

A price waterfall is a simple but powerful tool that identifies hidden costs, expenses and money leakages at every price level. It gives a more accurate picture of how much revenue your business is actually keeping from each transaction. By plotting all the ways your price transforms along the sales process, you can find pricing opportunities and start to take a more proactive approach.

Key Elements of Your Pricing Waterfall

Before you can analyze your data using a price waterfall, data for the following elements needs to be collected.

1. List Price
   - This is the public or recommended price that is not typically customer specific.

2. On-invoice Discounts
   - These could include rebates, freight savings or payment terms that do not appear on the invoice.

3. Pocket Price
   - Is the amount prior to R&D costs and promotional spend costs.

4. Off-invoice Discounts
   - These could include rebates, freight savings or payment terms that do not appear on the invoice.

5. Pocket Margin
   - The amount of money in your pocket after all the discounts and costs.

How the Price Waterfall Method Works

Once a visual representation of your price waterfall is built, your team can begin to analyze both the strong and weak points along the waterfall – and most importantly where you could be losing money. See the example below.

Learn more about the benefits of cloud-based, data-driven pricing and see examples of how we’ve helped other companies increase their margins.

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