

In these uncertain times, the pressure to lower your prices is high. But is slashing prices the only way to stay afloat? Find out how an accurate price waterfall can help you identify and seal margin leakage before more of your profits slip away.

Price Waterfall

Your Powerful Tool to Stop Margin Leak and Capture Profit

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 volume, quantity or competitive discounts that appear on the invoice.

3

Off-invoice Discounts

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

4

Pocket Price

Is the amount prior to R&D costs and promotional spend costs.

5

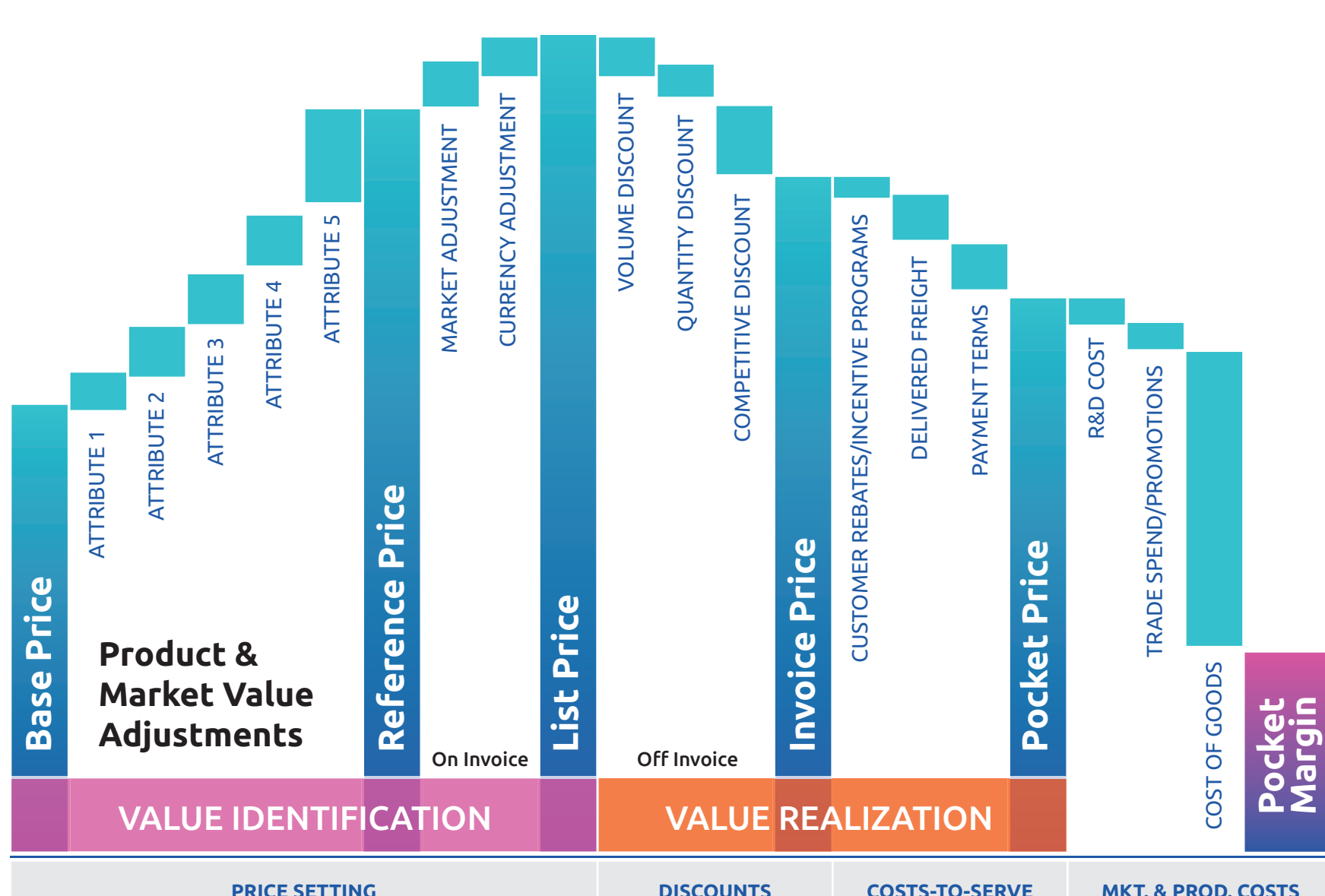
Pocket Margin

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.

Pricing: Creating and Capturing Value



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Capturing An Additional 1%

After you've found the weaknesses and opportunities, the next step is to test how adjusting any part of the waterfall would affect your margin. By consciously managing all elements of the price waterfall, companies can often find an additional 1% or more, simply by adjusting one or two discounts.

Many companies out there still don't understand the opportunity that transactional pricing can bring. And who can blame them? The process can be tedious and time consuming. But this is where a good pricing software comes in handy.

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