

Counter Intelligence: How to Carry Out a Dealer Pricing Audit

by *David Lithwick*

Introduction

Frequently, manufacturers who sell directly to end-users and through dealers are confronted with complaints of undercutting prices. Do **not** fall for this tactic. Chances are these dealers are not adequately selling, merchandising or servicing customers. They latch onto pricing as an easy out, instead of resolving their own inefficiencies. A carefully planned pricing audit, which uncovers what your dealers actually charge, is an effective counter strategy to derail their accusations.

Objective

The objective of this article is two-fold:

1. “Bring you up to speed” on **hidden** pricing practices that dealers frequently camouflage.
2. Overview the basics of carrying out a pricing audit.

Scenario

Let’s assume you manufacture alarm systems. Your distribution channels are 175 independent dealers across Canada, a 1-800 order number and Canadian Tire stores. The Atlantic dealers are vigorously complaining that you are undercutting their prices by 15%. Three Moncton dealers are threatening to go with your competitor. Now is the time to carry out counter intelligence.

Plan of Action

1. Gather intelligence on those variables besides price (if we assume price is even a factor) that are contributing to soft sales among the three Moncton agitators. Exposing these gaps in sales and servicing is

an invaluable tactic for disputing dealer claims:

- Find out whether their staff is poorly trained in selling home security systems (e.g. do they fail to assess customers’ needs, demonstrate product, ask for customers’ phone numbers to follow up?).
- Uncover how these dealers poorly service their customers (e.g. do they short ship customers, fail to return calls, keep customers on hold for more than 3 minutes?).
- Determine how their ineffective merchandising efforts (e.g. poor signage, hidden display stands,
- out- of-date brochures) contribute to soft sales.

2. Invest the necessary time to verify which models each dealer does **not** carry. Dealers are “species” of their own. Some change addresses, close down operations and carry competing product without alerting their suppliers. “Scaling down” each dealer to an accurate accounting of what products they have on hand, takes place prior to field investigation.

3. Determine whether you or a consulting firm will carry out the audit. If you decide to use a consultant, tender the proposal to several firms **and** insist on a pre-test. One cannot ‘wing’ a pricing audit. The pre-test is the litmus test to determine if the consultant **can** succeed.

4. If you decide to use a consulting firm, insist on meeting the field staff assigned to the audit. It is essential that each field investigator, particularly for more sophisticated audits (e.g. refrigerators, motor vehicles and medical support systems)

match in their profile with your target audience. The more effort your investigators prepare for the task, the more successful their delivery will be. For this reason alone, go to your field investigators’ homes and brief them on product specs, according to the model they have in their house. And when a field investigator asks the dealer for a quote, he/she should have the part serial number on hand as well as a **viable** reason why the part needs to be replaced. Lacking credibility is a frequent barrier to securing dealer co-operation.

5. Segment your dealers by location (e.g. under \$250,000, \$250, 000 to \$500,000, over \$500,000), number of outlets (e.g. single operators versus owners of multiple outlets) and breadth of product line (e.g. carry only a few of your products versus full range). Dealer segmentation allows you to identify important patterns that would otherwise go undetected.

6. Break down your pricing quotes into specific components **before** you go in-field. This step uncovers price anomalies that would otherwise remain hidden. In other words, your fill-in sheets should reflect whether each dealer quote includes:

- An inspection charge
- An installation charge
- A travel charge
- Discounts (e.g., senior, cash, volume purchases)
- PST
- GST
- HST

7. Develop a “Guideline on Interpreting Data”. Frequently, pricing information becomes **misinformation** because the report writer did not take extra time to

assess the accuracy of the data he/she received. The researcher should answer the following questions **before** writing the report:

- Which dealers refused to quote?
- Why did they refuse to quote?
- Which dealers quoted a model that is not the model you requested a price for?
- Did any of the dealers discount their prices when probed by the investigator?
- What discounts did they offer?
- Did any dealers lack confidence in their quote?
- Which quotes were not verified by at least 3 inquiries?

8. Avoid reporting ranges and rounding off numbers. A \$475.58 quote for an alarm display screen is more accurate than \$450.00-\$550.00 or “around \$450.00”. Specific numbers reflect an attention to detail by the dealer, which in turn suggests greater accuracy.

9. Integrate other in-house findings for verification. For example, if your regional manager faxes you a list of competitor retail prices sourced from a trade show, then transplant these figures into your report.

10. Ensure that you document dealer **pricing inconsistencies**. For example, a dealer argues that your \$475.78 fee to replace the display screen is 20% higher than their price. Do you accept this contention or mystery shop the same dealer 4 times and feed back to the complainant 4 **different** quotes which their reps gave your shoppers, 3 of which were 20% higher than their suggested price? (This year we audited a dealer whose receptionist quoted 1995 prices until we advised her that she was quoting from the wrong catalogue!)

11. Prepare two pricing summary tables. The first summarizes **actual** dealer quotes. The second is derived by readjusting these quotes to compatible cells of information. This step not only demonstrates extra effort to prepare and analyze the data, but also underscores **questionable** dealer pricing tactics (e.g. not charging an “inspection” charge if they install the alarm system, absorbing both PST/GST if they are paid cash, etc.).

12. Work through a series of ratio analysis versus only reporting a single price.

Pricing analysis boils down to interpretation. Being advised of the following 4 points is certainly more informative than a few dealer quotes:

- 14 dealers quoted prices higher than your suggested retail price.
- Prices are sources from 22 dealers.
- 58% (14/24) of those dealers prices are **higher** than your suggested retail price.
- 86% (12/14) of those dealers whose prices are greater than your prices, are quoting fees **35%** higher than your suggested price.

13. Ensure that your pricing summary table follows a similar format to your own pricing structure. In other words, is your summary table readily understood by your

sales/marketing staff and by the dealer network?

Pricing Summary Table

The table below illustrates how dealer quotes for the alarm display screen actually end up being **lower** than the Canadian Tire and the manufacturer’s listed prices.

Conclusion

Carrying out a formal pricing audit is an effective counter attack to dealer accusations of price undercutting. A successful audit requires substantial time commitment and high levels of data integration to ensure accuracy and reliability. Short cutting steps will result in costly misinformation, incorrect conclusions and wrong decisions. ●

	Dealer A	Dealer B	Dealer C	Cdn. Tire	Mfg. Price
Quote #1	\$450	\$425.75	\$400-500	\$400	\$390
Quote #2	470	425.75	450		
Quote #3	460	425.75	430		
Quote #4	460	500.00	430		
Quote #5	470	425.75	440		
Range	450-470	425.75-500	400-500	400	390
Norm	460	425.75	430	400	390
Prices Not Yet Adjusted					
• Dealer quote higher or lower than mfg. price?	Higher	Higher	Higher	N/A	N/A
% higher	18%	9%	10%		
Price Level Adjustments					
• Inspection fee included?	No	No	Yes		
• Factor out inspection fee	-	-	25		
First price adjustment	460	425.75	405	400	390
• Installation fee included?	Yes	Yes	No		
• Factor out inspection fee	50	50	N/A		
Second price adjustment	410	375.75	405	400	390
• 5% discount if purchase part before May '97	Yes	Yes	Yes		
• Factor out discount	23.00	21.28	21.50		
Third price adjustment	387.00	354.47	383.50	400	390
• Dealer quote higher or lower than mfg. price?	Lower	Lower	Lower		
% lower	.7%	9.1%	1.7%		
	(387/390)	(354.47/390)	(383.50/390)		