PRICING AT THE NEXT LEVEL: COMBINING INTERNAL SEGMENTATION OF PRICE AND SALES HISTORY WITH EXTERNAL COMPETITIVE PRICE DATA

If pricing strategies should not rely solely on current market-based pricing techniques, where do we go from here?

Fortunately, there are sophisticated scientific methods and formulas that can be used to calculate an optimal target price for each part. To describe in detail how these formulas and methods work is beyond the scope of this article. However, scientific analysis is available today, with the help of sophisticated pricing software, to enable an organization to segment its internal and historical data to produce Pricing Guidance. Because the process is managed by software, it is now possible to segment parts data at a highly granular level which would be impossible using manual methods.

The rigorous scientific analysis and calculations incorporated into Pricing Guidance help to close the "pricing credibility gap" and overcome the limitations of competitive price data under loose competition. Thus Pricing Guidance provides a new level of pricing sophistication designed not to replace market-based pricing (which still applies to tight competition), but to more precisely assess and recommend optimal pricing for the larger category of loose competition.

But how does one determine if a part falls into a tight or loose competition bucket? Fortunately, again, advanced scientific methods have helped to quantitatively determine the difference between tight and loose competition. By calculating a Coefficient of Competition for a grouping of competitive parts, one can get a single metric that distinguishes tight from loose competition. With that distinction clear, pricing professionals can then use competitive price data appropriate for tight competition situations, and Pricing Guidance as a more accurate and complementary method of pricing for parts in loose competition situations.

The Coefficient of Competition is expressed as a number that typically falls between 1 and 50 (theoretically it can go higher, but this rarely occurs), where the higher the number, the looser the competition, and the lower the number, the tighter the competition. Due to the way it functions, the Coefficient of Competition can be integrated with external competitive pricing data to determine the optimal price point for any individual part. As shown in Figure 3 (*page 7)*, the Coefficient of Competition of any part determines its status as belonging to tight or loose competition, which, in turn, dictates the most appropriate pricing method. Tight competition parts use competitive price data. Loose competition parts rely primarily on Pricing Guidance.