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Best Practices Forum

A Smooth Shot of Improved Pricing Management

Beam Global Spirits & Wine undertakes a large-scale price improvement initiative

By Editorial Staff

May 18, 2011 — Deerfield, Ill.-based **Beam Global Spirits & Wine, Inc.** is the fourth largest premium spirits company in the world and the largest U.S.-based spirits company, with 10 of the world's top-100 premium spirits in its portfolio and \$2.7 billion in revenue. Each year, the company sells more than 33 million cases of its well-known brands, which include Jim Beam Bourbon, the top-selling bourbon in the world.

In early 2008, the company recognized it had significant opportunities to improve the way it managed pricing and distributor margins at the market level. Unfortunately, the Excel-based pricing system in place at the time severely limited the company's ability to operationalize changes that were necessary to improve its overall pricing performance. As a result, a cross functional team was assembled to commence a large-scale price improvement initiative, which included specs for a new enterprise-wide price planning and management tool.

Challenges

The spirits and wine industry is highly regulated in the U.S.; all business must be conducted through a distributor or state government agency. Each state dictates whether it is "open" (to distributors) or "controlled" (state government is the only purchaser of wine and spirits). Regulations also limit the extent to which suppliers can impact pricing downstream at the distributor and retail levels.

Pricing for spirits and wine starts by establishing a desired or suggested shelf price for each SKU and then builds back to the distributor FOB (freight on board) price. The three-tier distribution model of the beverage alcohol industry also creates numerous variables that must be considered, such as retailer/distributor margins, state/local tax, pack size, split-case charges, promotion support, freight, retail deal levels and plant location.

Additionally, cost variables must be factored in, beginning with production and supply chain costs, promotions and deals. Even slight adjustments to one or more of these variables can make a significant difference in brand profitability.

Success Factors

The overarching objective for Beam Global's pricing initiative was to improve its ability to manage this complex array of variables across an extensive product portfolio in order to optimize price performance throughout the channel.

The company identified several critical success factors for the pricing initiative. These included establishing a centralized and consistent approach to the ongoing setting and managing of distributor pricing – resulting in improved margins. In addition, the company was looking to implement a process to capture fractions of pennies on the shelf price for each unit sold, thereby realizing collective margin improvement across the portfolio.

Beam Global also wanted to gain the ability to better identify and manage price exceptions. In addition, the company sought to deploy an effective and easy-to-use automated price structure tool that would support state, regional and national level profit analysis and adjustments. Finally, the company wanted to improve its ability to execute new pricing strategies to improve value capture across the value chain.

Solution

Beam Global tapped a pricing solution from **Vistaar Technologies, Inc.**, the Vistaar Price Planning and Management suite, to enable its pricing process. The primary selection criteria Beam Global used to choose the Vistaar solution included:

- An understanding of the business and pricing environment in which Beam Global operates.
- The ability to model the company's highly complex pricing.
- A strong technology platform and framework for the solution.
- High configurability of the software solution.
- The quality of the project team and pricing specialists.
- A user-friendly interface with Excel compatibility.
- Offshore capabilities that reduced turnaround time and costs.

The system enables automated workflow to ensure adherence to new price strategy objectives, revenue management policy and approval processes. Best practice reminders are triggered throughout the process, and alerts are presented when "show stoppers" are identified. This gives business managers the tools they need to proactively manage pricing-in-process (e.g., pending approval, approved and published status), ensuring that new products and pricing changes are deployed without delay.

The Vistaar solution is providing the Beam Global pricing team with the ability to make informed pricing recommendations, the sales team with the ability to better negotiate with distributors, and the finance team the ability to monitor and approve all pricing changes. The solution allows the company to link pricing strategy to execution by analyzing price strategy relative to actual price structures. It also calculates and maximizes FOB and computes shelf price based on user-defined variables such as volume deals, tax or margin.

The solution incorporates front-end analytics, including break-even analysis for distributors, impact of price/deal strategies, margin comparisons for retailers and a summary of annual depletion data. It maintains master pricing data, resulting in a centralized repository of pricing data, and it links price setting to price execution to automate the download of new FOB prices into SAP.

Results

"The Vistaar team dedicated talented resources to the project. The time from initiation to phase one go-live was swift and impressive," noted Beam Global's vice president for U.S. Commercial Strategy & Operations.

Beam Global is now in the second year of deployment with the Vistaar Price Planning and Management suite. Today, the system is used to support price planning, price setting and deal negotiations for more than 3,000 SKUs across 39 states and 58 distributors.

The Vistaar solution is enabling Beam Global to improve its profitability while enhancing distributor relationships across the country. The solution has significantly reduced profit "leakage" due to adherence of best pricing practices by employees greater than 85 percent of the time. In addition, new brand pricing strategies are more readily deployed, leading to an overall 0.33 percent profitability improvement by linking strategy and execution, and the company also has measurably improved profits per case via sweeping pennies.

The new level of transparency across the business, enabled by a single data model, includes an audit trail for pricing transactions and analytic tools. The company is reporting a reduction in unintended/unapproved margin expansion elsewhere in the value chain, and better cash flow due to more accurate invoicing and fewer mistakes. Accuracy of the FOB price has increased due to approval workflows. And finally, the Vistaar solution has been widely adopted and accepted as a coaching tool, due to its user-friendly Excel-like interface.

Related Links

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- [Vistaar Technologies, Inc.](#)