SUCCESS STORY

Index Pricing Customization & Process Changes

North America

Business Issue

An oil/gas organization wanted to implement a complex index-based pricing solution to hedge their raw material's daily cost volatility. While this type of pricing strategy is common in the energy industry, it is usually not executed precisely. It is estimated that companies lose 2 to 4 percent of their margin because of either inefficient execution or outdated strategies for index pricing. At the outset, index-based pricing appeared to be a simple, transparent solution but it comes with its own set of challenges an executional complexities and if not implemented properly, can end up becoming a managerial nightmare.

Solution

The Experis pricing team analyzed the existing pricing strategy and all the processes in place to handle index pricing. There was more than one process to cover several different situations where index price was utilized. Experis provided a holistic approach that looks at each aspect of formula development, application, and execution as well as the organization's supporting people, process, and technology. The team segmented products into three main buckets:

1. Single-commodity
2. Multi-commodity
3. Fixed-commodity

Based on the selected segmented product, the customer-specific contract price gets updated based on the latest index movement.

Results

- Balance formula margin performance
- Mass price update on existing contracts
- Right group of Index pricing tie based on end product
- Automation of freight cost and service cost in quote system
- Advance auto approval process