



# You Need To Walk Before You Can Run

Crawl, Walk, Run: Solving pricing and incentive challenges in the electronic components market

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If you're an electronic component manufacturer, 2023 is the perfect time to consider making an upgrade to your pricing and incentive management systems. Your business might be in a bit of a lull right now due to recent market corrections, but industry experts expect the market to heat back up in 2024.

Market developments poised to drive increased demand for components include a rapid increase in automotive electrification, continued growth of 5G wireless and expanding AI/cloud computing applications. These will effectively double the demand for semiconductors and passive components within the next 5-7 years. Is your company's pricing and incentive system ready to handle this positive market boom? If not, then maybe it's time to take a closer look.



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# The crawl: Evaluating your current position in the market

The electronic component market is synonymous with constant innovation and complex product offerings. While some industries have the luxury of strategically planning for steady and consistent product growth, companies like yours feel the pressure of sorting out the many different diversities in each product's business model with clarity. Pricing and incentives are 2 of the biggest diversities you may be feeling the pressure to fix.

## These carry common challenges, such as:

Defining pricing strategies for each product and customer

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Selecting the right incentives by product and customer

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Understanding how your customers' needs may cross categories within hardware and electronic components

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Creating viable pricing and incentive strategies based on perpetual evolutions of pricing trends



## Take inventory of your pricing and incentive management needs

Asking fundamental questions about your business during a market correction period gives you time to inventory your needs and prepare for growth. To understand your starting point and take the proper next steps, ask these questions:



Who do you buy and sell to?



How do you price what you sell?



How do you drive revenue and control spend?



How do you drive behavior?



How do you automate critical processes and eliminate errors?

### Next question...are you satisfied with your answers?

If not, then maybe you don't need the latest AI-powered price optimization system just yet.

More than likely, you will want to upgrade your pricing and incentives system, but more along the lines of a crawl, walk, run strategy. As an electronic component manufacturer, this means focusing on the basics, at least for now. Why? Because go-to-market paths are increasingly complex. You're dealing with distribution costs, ship & debit claims, incentive rebates, special pricing agreements (SPA), market development funds (MDF) and more.

We see the extensive variety of approaches used by electronic component companies for incentive programs as well as the same variety of approaches used to capture and track these programs. As emerging pricing and incentive programs continue to gain acceptance, the need to upgrade your systems is more important than ever. If you stay with manual and outdated systems, you may open a Pandora's box regarding tracking and measuring. Planning out your needs for a new pricing and incentives technology system is the crawl-to-walk approach.

# The walk: A step in the right direction leads to a path of possibilities

Before considering advanced optimization scenarios, you need to think on a more basic level, like automating existing manual processes, or acquiring the ability to manage a wide range of pricing scenarios using your own business rules. In other words, master walking before running.

So how do you begin to understand what you need to effectively price and attach incentives to a product and customer? If you can check off each of these considerations, you're in prime position. Let's get moving and see where you are right now:

**1**

Effectively manage multiple contracts, deals and pricing scenarios.

**3**

Process claims without concerns about over or underpayment of incentives.

**5**

Satisfied partners due to accuracy in payments.

**2**

Eliminate difficulties processing pricing changes and/or analyzing their impact.

**4**

Quick and transparent pricing and claim approval process.

**6**

Seamless collaboration with your distributors: set volumes, quote prices and track progress throughout the negotiation process for design registration.



In your most complex sales models, tracking and measuring incentives can be a daunting process due to the number of routes to market that may exist, and multiple deals made with each customer. Many companies like yours struggle to accurately attribute deal-level results. In the long term, these inaccuracies will hinder your ability to strategically adjust pricing and calculate incentives, adding up to revenue leakage. Focusing first on fixing the fundamentals will provide more streamlined and efficient processes and increased program effectiveness. Once the market heats up again you'll be positioned to strengthen your key partner relationships and keep your distributors happy.

No matter how masterful you may be with spreadsheets, the challenges you face utilizing them for incentive administration leads to dirty data, a lack of visibility and no ability to perform analytics due to the silos your processes are creating. Instead of running around in circles, take steps to incorporate technology for transparency and accuracy in your process.

A single source of truth solution for more than just pricing and incentive processes will help you break down the silos and provide transparent, well-defined visibility that has been accurately captured to make smart decisions and stop revenue leakage.



Electronic component manufacturers who are already embracing this need to upgrade pricing and incentive management processes understand that prioritizing an end-to-end technology solution to gain control of all basic transactional needs leads to crystal-clear visibility into data that's necessary for predictive mode.

**In addition, market dynamics for electronic components are changing:**



Automotive companies are strategizing ways to take more control of their supply chains, especially with electronic components such as semiconductors. They tend to have more concerns over assurance of supply and are entering into agreements directly with manufacturers to guarantee production capacity.



Distributors will be taking on a major portion of the increasing workload.



Design registration activity will increase, and the overall number of pricing scenarios and transactions will increase.



End-customers are now testing and qualifying multiple components early in the design cycle to ensure added supply flexibility which means more quoting activity will result.



Distributors and customers will likely increase the types and quantities of product inventory they choose to keep on hand as a result of pandemic related supply shortages.





## The run: Clearing the path to pick up the pace

In addition to being highly innovative, electronic component teams are known for being highly analytical. All departments within your company have serious questions to answer. Analytics capabilities that provide answers to determine what happened is only a precursor to understanding future outcomes.

Electronic component companies who are already embracing this trend toward predictive analytics, understand that crystal-clear visibility isn't possible until your basics are running efficiently and accurately. It's common practice to prioritize gaining control of basic transactional processes. Many companies think they're managing transactional data successfully through years of building a manual system. And yet when they want the visibility to view the whole story to move from reactive mode to predictive using data science and analytics, they see themselves trapped in reactive mode.

Does this resonate with you? Are you able to quickly access and trust your analytics and data science to see the past, present and future? If you're still using manual processes or multiple tools, it's likely your answer is no.



Predictive analytics is your path to growth in areas of manufacturing equipment purchases and maintenance, supply chain, product development, buying behavior, risk management, fraud detection, cybersecurity and so much more. We've seen the effects of supply chain disruption. Investing in a single source of truth technology solution to provide the base knowledge allowing your teams to perform predictive modeling is more important than we ever thought for the near future.

You have more data at your disposal than you may even know about. Having the ability to use it to make accurate predictions allows your company to thrive in tougher economic conditions and excel in providing competitive differentiation. When you have your transactional data in your single source platform, you can move across multi-disciplinary processes and fully connect this data with a focus on providing insights that steer how you operate cohesively, shift you to a product mindset and allow you to innovate at an even higher level.

# Conclusion: Why your approach matters

Crossing the finish line in the heat of the race to be the first to innovate and reach the marketplace in record time is what every hard-working, high-achieving team wants. You can do it with the right approach. Your growth is dependent on your ability to:

## Crawl



Move away from manual processes and various outdated technologies for pricing and incentives.

## Walk



Employ a single source of truth, end-to-end solution that will cohesively provide all teams with real-time data they can rely on for accuracy.

## Run



Move to the next level supporting the need for predictive analytics to address constant innovation and complexities that are synonymous with the electronic component market.

Your company likely employs predictive analytics when designing products. Shouldn't you consider a similar approach with your revenue management processes? It's a game-changer when you're able to apply advanced analytics to pricing strategies.



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Chris Phelan specializes in multiple areas of manufacturing and high tech including advanced R&D, new product development, process and quality engineering, product management, and global sales management. With 25 years of experience, Chris has worked for GE Aircraft Engines, and New Venture Gear, a joint venture between General Motors and Chrysler. He also led global sales teams at Marquardt, a high-tech company specializing in electronic switches, sensors, and controls. Chris holds a BS from Rochester Institute of Technology and an MBA from Syracuse University.

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