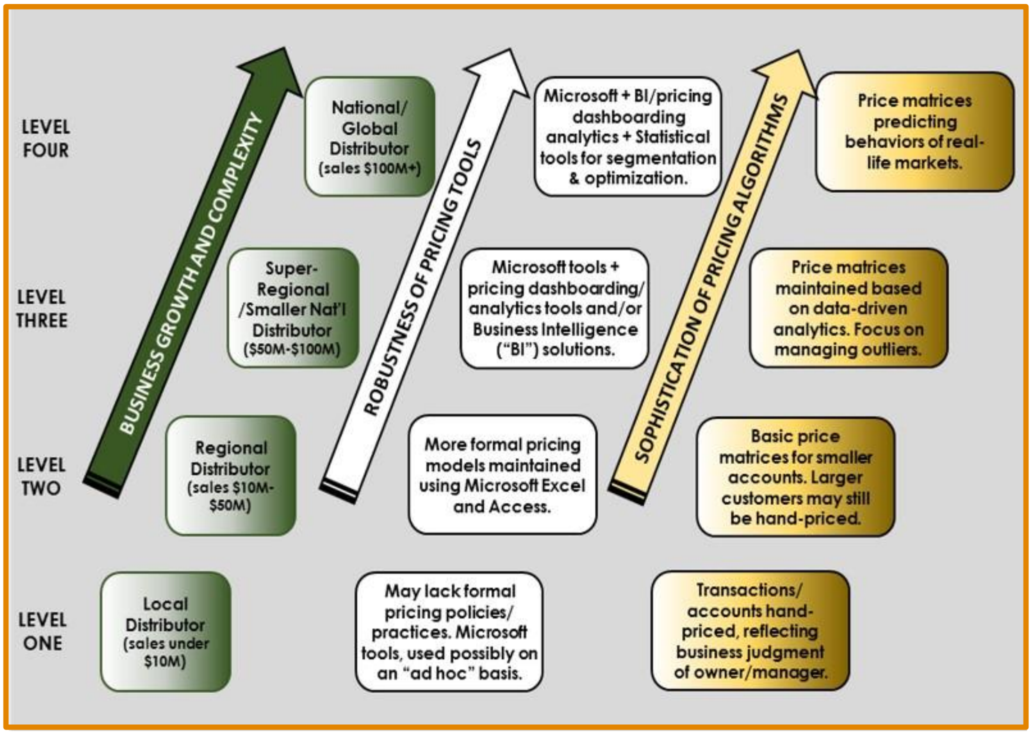

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Price Setting Process Maturity Models in B2B Distribution:

A B2B Distributor's Journey to Pricing Analytics Excellence

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Over the decades, we have been fortunate to assist distributors of various sizes, who use pricing tools and processes of different levels of sophistication. Through these experiences, we have observed certain discernable patterns in how distributors tend to progress through their journey in building out their pricing capabilities.

The resulting "pricing maturity framework" can have significant implications for distributors interested in benchmarking their pricing capabilities to their industry peers, and for those pursuing strategic planning/developing pricing roadmaps for their organizations.

Overview of Distributor Pricing Maturity Levels

- LEVEL ONE

Small, mom and pop distributors start out with limited product lines and a smaller group of customers. Customers are often "hand-priced" in these environments, meaning the owner/manager sets prices based on his/her own industry experience, and his/her knowledge of the specific market/customer involved. The owner/ manager may use basic Microsoft Excel tools to conduct this analysis, and perform updates when he/she feels doing so necessary. Establishing formal pricing processes is typically not viewed as a priority.

- LEVEL TWO

A number of small distributors successfully target growth trajectories, which they may pursue organically (adding more product lines, opening new branches), or through inorganic M&A activity (buying up/merging with other distributors). Growth and cash-flows tend to be the top priorities at this stage, and pricing may still not be a topic on the executive's agenda.

To deal with the added complexities of having to price out a broader set of SKUs across a larger set of customers, distributors in this stage tend to develop price matrices, typically using Microsoft Excel (in some cases also using Microsoft Access). These matrices reflect **management's judgment** on how prices/markups should vary according to basic attributes such as customer size, product types, etc.

Price management using these approaches can become a real headache for distributors that continue to grow to become super-regional or smaller national distributors. **Microsoft tools start falling short** of allowing the business to effectively and efficiently manage the distributor's increasingly complex pricing environment. Some examples of these challenges are as follows:

- Excessive time/effort being spent on data gathering, only for stakeholders to question the validity of datasets underlying analyses that may be the basis for certain pricing recommendations specific stakeholders may disagree with.

- Workbooks/Access macros can get rather complex. They may be understood by only a select few. The process of maintaining and updating them may become quite prone to errors.

- Due to Excel workbook/Access database size limitations inherent to these software packages, it may not be feasible to analyze especially large datasets (say tens of millions of rows or more). In instances where these absolute Excel/Access data size limitations are not quite reached, workbooks/analyses may be very slow to run.

• LEVEL THREE

Super-regional/small national distributors often implement Business Intelligence /dashboarding-type pricing tools, which can help them overcome many of the immediate challenges associated with Microsoft Excel/Access. These Level Three pricing tools tend to be more user-friendly, they can handle larger amounts of data, they have more advanced data visualization capabilities (scatter charts, waterfall charts, basic regression lines for trend analyses), and they often include a set of "pricing best practices" (dashboards specially designed for pricing analyses).

The implementation of Level Three tools typically helps management gain more insights into price sensitivity drivers in the business, as well as needed visibility into transactional-level profitability. With these new insights, the distributor often launches new segmentation schemes and price structures in conjunction with the deployment of the analytical platform. The pricing algorithms in these price structures typically consist of segment-specific price recommendations based on transactional histories, more so than just managerial judgment.

The new Level Three pricing tools can help the business devise improved pricing logic, and **better manage outliers previously causing large, unwarranted price variations** (price controls may also be implemented). Thanks to these improvements, especially when appropriate resources (one or more qualified analysts) are put behind these solutions, significant benefits may be derived from capturing "low hanging fruit" from such exercises. Once these new algorithms/price structures are fully implemented, the Level Three tools are used for monitoring and refinement.

As times goes by, the initial low-hanging fruit from the pricing analytics platform is captured. Continued focus on managing outliers (by tightening controls/approvals, etc.) can start consuming more and more resources, especially if the distributor continues to grow (organically, or through M&A) by adding more and more products and customers. Analysts may be stretched to keep up with exception management tasks, along with updates to respond to changing market conditions and business strategies. Incremental efforts to deliver improvements by managing outliers/exceptions may no longer translate into substantial incremental gains.

As the new Level Three pricing logic begins to out of steam, its limitations start being exposed in real-life selling situations. Distributors start wondering whether their Level Three pricing tools are adequate to capture the real pricing opportunity in their markets. More specific questions being asked include the following:

(1) *How can one tell whether **Level Three approaches may lead to the perpetuation of sub-optimal historical pricing practices**, rather than prices truly reflective of what markets truly bear?*

  - Are certain segments "small" (low volume segments), simply because the distributor's price position has historically always been off/too high?

  - Are there examples of other, potentially larger segments where true market willingness to pay may be significantly higher than historically charged prices?

  - How can the distributor identify and correct these instances?

(2) *What is causing so **many exceptions/approval requests** (often referred to as "overrides")?*

  Are exception requests caused by variations in pricing philosophies and market knowledge among sales professionals? Or, does the segmentation/pricing model fall short of accounting for important competitive market conditions/factors?

  How can the distributor create/manage a "next generation" segmentation /pricing model that is sufficiently robust/sophisticated and responsive, so everyone can be confident it properly reflects actual, real-life, changing market complexities/conditions? And how can the distributor possibly accomplish such a task, without needing employ an army of analysts constantly conducting trend analyses across a large and growing portfolio of customers/ products/ markets?

In their quest to tackle these challenges, these distributors develop an interest in more scientific pricing techniques. Their exposure concepts such as **micro-segmentation and elasticity measurements** leads them to start exploring more sophisticated, market-responsive Level Four pricing approaches, which often hold the keys to their unanswered questions, and can help them capitalize more fully on the pricing opportunities in their business. These distributors enter the realm of scientific price optimization.

The example of the "*The Twenty Million Dollar Book: Implications for B2B Distributor Pricing"* described in the second article, shows how rules-based pricing algorithms (often devised using Level Three tools) can in fact generate vastly sub-optimal results in distribution settings.

• LEVEL FOUR

Given the scale of national/global distributors, even relatively small pricing gains in their businesses can translate into substantial amounts of profits. However, in these highly complex distribution businesses, Level Three tools typically fall short of allowing management to fully capitalize on these pricing opportunities.

Fortunately, these national/global distributors have a strong hidden advantage: the millions of transactions recorded in their ERPs. This rich transactional dataset can turn into a real goldmine in the hands of a specialist who is knowledgeable about statistical data-mining tools, and who understands how pricing works in the distribution sector. By applying the right techniques, more responsive pricing algorithms can be devised which can cause prices to quickly adjust to changing conditions in complex real-life markets, and which take a sufficiently granular approach to more accurately model the behaviors of different customers in different real-life purchase situations.

These statistical tools may seem complex and sophisticated, to the point where some executives may feel somewhat intimidated, and question whether their organization can realistically operate such advanced analytical models using internal resources. Some may be tempted to outsource the complex pricing problem to external statisticians.

True, Level Four pricing models are typically built using sophisticated tools. However, once the models are developed, their operations can be understood/maintained updated without deep knowledge of the underlying statistics. Furthermore, these **sophisticated statistical tools only complement, not replace, deep knowledge of specific markets and industries.** Accordingly, distributors that opt to outsource the development and maintenance of their Level Four pricing algorithms to statisticians who lack real knowledge of their operations may run into significant challenges. On the other hand, businesses that understand and take ownership of the ongoing maintenance of their pricing algorithms can be more responsive: they can continually refine/update their algorithms in response to changes in business strategies, market conditions, and/or as new data/information become available.

Once Level Four tools and price structures are deployed, the focus of price management in these organizations tends to shift from managing "outliers," to identifying segments where the business may not yet be fully exercising its true "pricing power" in the marketplace. In their quest to identify and proactively build pricing power, pricing managers in these organizations increasingly focus on value-based pricing tools (a detailed discussion of value based pricing in the distribution sector is a topic for a separate publication).

Implications for B2B Distributors

The 40/55/5 Rule

Based on our experience in the industry, we estimate that:

- About 40% (a little less than half) of distributors with $50M+ in sales operate with pricing tools that are one level below the model described for their level in the maturity model. Pricing is viewed as a significant problem area by many stakeholders at these distributors.
- About 50%-60% (a little more than half) of distributors are using pricing tools that are consistently aligned with their level in the maturity model.
- Up to 5% (few) operate with tools one step ahead of their level in the maturity model. Management/ownership at these businesses may have a particular neck for taking more quantitative/analytical approaches, and they may have experience under their belt (from other businesses) with successful pricing initiatives.

Distributors cannot skip steps/levels in their pricing journeys. **Higher level tools add new capabilities, and as such they complement but do not replace lower level tools**. For instance, in addition to more advanced tools, Excel and Access are still being used by Level Three and Level Four distributors.

That said, if a distributor finds itself significantly lagging behind in the pricing maturity model, it could make sense to move up two levels at once.

For example, a small national/ larger super-regional distributor with Level Two tools and say $80 million-$120 million in annual sales can choose to implement a single pricing initiative that effectively deploys both Level Three and Level Four tools at the same time. Over the long run, this approach may mean significant cost savings, needing to implement only one set of updates to business processes/ operations, and it may help the business gain a significant competitive advantage over peers/competitors. Why do only what it takes to "catch up" with the maturity model, when it is possible to "do it all the way right" the first time around?

Reasons Distributors DO Fall Behind in the Maturity Model

In our experience, there are two basic reasons why so many distributors (40%-50%) do not timely move along their journey through pricing maturity, and operate with pricing tools below their maturity model level. The two reasons are:

(1) *Lack of understanding of how/why moving to the next maturity level can generate substantial pay-offs.*

When approached about the possibility of next-level pricing tools, executives at these distributors may question whether "more scientific" tools can really make a difference in their business.

They may interpret the "noise" they hear about pricing from their sales force and customer base as a sign that they may have already pushed prices too far, and that uncaptured pricing/margin expansion opportunities might not exist in their business.

They may feel that their time/resources are better spent on different priorities, such as cost reduction initiatives, product or geographic expansion – and they often have strong backgrounds to tackle challenges in such different areas.

If they acknowledge that pricing is a problem area, they may believe that the best practical approach is to keep the status quo, which often means trusting that their sales folks will manage through the complex pricing challenges, and that the sales force will ensure that the distributor ends up charging the "right" price that defends against competition, reflects the local market knowledge of those with their feet on the ground, and reasonably maximizes profitability.

(2) *Doubts about the feasibility of making such a move successfully*.

Some distributors believe that higher-level pricing tools are too costly to implement. Their executives may question whether their organization would be capable of implementing potentially needed process upgrades (modifications to IT systems), and whether their internal "culture" would stand in the way of the sales force embracing "scientifically derived" prices (or if sales folks would just push for continuation of their past pricing practices).

The distributor may also lack someone who can serve an internal champion, with sufficient knowledge of higher-level pricing tools and the leadership abilities to drive a successful pricing initiative. With all these concerns weighing on their mind, executives at these distributors may be nervous, as they understand that a less-than successful pricing initiative can seriously disrupt operations and markets.

REASONS DISTRIBUTORS SHOULD NOT FALL BEHIND IN THE MATURITY MODEL

Moving from one maturity level to the next can involve significant change. Therefore, making moves does involve risk. Skepticism can be healthy, as it is helpful to recognize practical limitations imposed by resource availability constraints and potentially lacking skill sets. Driving field adoption (i.e., getting prices used in real-life transaction) can be a challenge, and its importance should not be understated. In brief, some of the typical concerns laid out in the above are real, and they should not be discarded without appropriate plans to be mitigate them.

That said, it is important to keep an open mind. Distributors should not prematurely write off the possibility of implementing a successful pricing initiative, without more detailed discussions to explore these topics. Such detailed discussions often reveal that the lines of thinking causing distributors to forego "delay" (forego) moves along the maturity levels are at times flawed, and the concerns of executives may often be overcome. The following discussion points are often effective in these conversations:

1. *Describe how higher-level pricing tools actually empower the sales organization.*

It is true that sales professionals are closest to the fire, and that some of them may want to permanently hang on to the ability to tweak system prices so that they can react if needed.

That said, **even highly experienced sales professionals cannot be experts in every product/customer market** served by a Level Three/Level Four distributor: in these larger distribution businesses there are simply too many products and markets for them to really know the "right" profit-maximizing price for all product sales to all the various markets they sell into (if they don't know that optimal price, then most will rightfully err on the side of possibly leaving some money on the table, but still securing the sale).

Most distribution **sales professionals do not want to act as "pricing managers" who are routinely bogged down with price management tasks**: they would rather be spending their time on other value-added activities that help them grow their books of business. However, they understand all too well that pricing is a key customer touch point that needs to be managed well, and they feel that corporate does not have enough resources focused on price management to be putting out system prices that sales professionals can trust as generally credible in the marketplace.

In fact, while cost- or margin-based pricing mentalities may seem like a hard cultural barrier to success, most distribution sales professionals will actively leverage market pricing information, if they feel that information is credible and it is actually made available to them in a timely, easy-to-use fashion. Therefore, **the real barrier is often availability of market pricing information, rather than "margin mentality"** or other cultural phenomena.

Sales leadership is often in the best position to make this case. They are a key ally to any pricing project, and their active support is critical in all stages of a successful pricing initiative.

2. *Demonstrate how **small improvements in Price can make a big difference on Profits***

For a distributor operating with a 20% margin, a small 1% increase in average selling prices can generate a 5% increase in absolute GM dollars ($100K in GM$s for every $10M in affected sales). Few other projects in a distribution business can generate similar improvements to cash flows and bottom lines of P&Ls.

For instance, if a distributor is targeting a 10% growth in annual GM dollars, which of the following three options represents the most realistic path to achieving that goal?

a. A 10% growth in unit volume, with no drop in average selling prices/margin percentages?

b. A 2.5% drop in average product acquisition costs, with no corresponding drops in selling prices or in perceived product quality (lowering quality can lead to customer defection/or increased price pressures)?

c. A small 2% improvement in average selling prices from improving pricing practices that are under-developed relative to peer distributors, with no corresponding drop in unit sales volumes?

Although option c. may actually be the most feasible, the strategic plans of most "lag-behind" distributors still focus on initiatives from the other two buckets. Because projects in categories a. and b. are carried out every year, incremental efforts in these areas may actually be quite unlikely to successfully deliver aggressive targeted results. This can become quite evident, if aggressive sales growth/cost savings targets are not coming to realization as the year goes by.

At these distributors, each day by which moving to the next maturity level is unnecessarily delayed can represent substantial **missed revenue/margin dollars for the business, additional frustrations/ inefficiencies for the sales force, and ultimately a competitive disadvantage for the "lag-behind" distributor's business**.

CFOs are often in the best position to deliver high-level, back-of-the-envelope calculations to show the power of the pricing lever. Get them on board!

3. ***Use data** to substantiate the pricing opportunity*

Nothing resonates better than real-life, hard data to show how real the pricing opportunity is in a distribution business.

While a complete analysis to gauge the full extent of the pricing opportunity may be beyond the realm of feasibility with the distributor's existing pricing tools, it should be possible to demonstrate, by way of specific real-life examples, how next level pricing approaches can drive significant improvement.

It is often helpful to pull transactional data for a handful of SKU in a couple of segments, for such data can reveal excessive variation in prices charged. Significant opportunities often exist from applying more advanced (Level Three/Level Four) pricing tools to better monitor, understand, and manage such variation. In situations where Level Three/Level Four pricing tools are not yet appropriately deployed, such analyses/examples can:

a. Confirm that the distributor may in fact be charging prices that are too high in too many instances. Level Three/Level Four tools can help objectively pinpoint such pricing errors.

b. Reveal that while **management may only hear noise about outliers on the "high" end** of the price distribution, significant outliers also exist in the low end of the price distribution as well. Gradual price improvements in the low-end of the price distributions can represent significant, relatively low-risk margin expansion opportunities.

Pulling these examples together is a task for a business analyst. For instance, a professional with working knowledge of Level Four pricing tools can leverage sample datasets to show how more granular segmentation and more scientific elasticity measurements can uncover pricing opportunities not previously captured by lower-level tools.

4. *Show why meaningful pricing improvements are possible only with more advanced next-level pricing tools.*

As distributors grow, the number of segments (customers, product types, etc.) can multiply rather quickly, and pricing complexities can grow exponentially.

Moving up in the maturity model by adopting next level pricing tools involves building on existing pricing processes and insights. It does not typically mean abandoning them, but rather complementing them with new, more sophisticated tools that support more sophisticated pricing schedules, which in turn can do justice to the growing pricing challenge and better reflect market realities.

In light of the significant pricing complexity that exists in a typical B2B distribution business, various industry publications have been written about the importance of managing the pricing challenge in B2B distribution markets. The proliferation of price optimization solutions in B2B settings generally has also been reported by independent researchers such as Gardner and the Aberdeen Group.

Larger pricing initiatives need a project leader. Such an internal champion can often find specific examples in the distributor's business to demonstrate how/why the business has outgrown existing pricing tools (as noted before, pulling real-life sample data can help advance these discussions). They can also supply executives with relevant, independent third-party publications making the case for higher-level tools. It is often possible to exchange notes with real-life peer distributors who have successfully implemented such higher-level tools.

5. *Get real quotes/estimates to quantify the actual financial investment needed*

There is a little advertised fact concerning price optimization: due to technological advancements, the cost of computing power has been dropping quite steeply, and newer-generation statistical optimization software tools are becoming more powerful/more mainstream every day.

Similar trends are affecting BI tools: new players/new solutions now offer previously unavailable alternatives that are much more attractive from a financial investment standpoint (but possibly equally powerful) than older-style BI solutions.

While the market for B2B/distribution price optimization still appears to be dominated by a small number of high-priced providers (who may, to this date, still be charging their client bases excessively high subscription fees relative to current rates), this may change as **new solutions are becoming available at a fraction of the typical costs historically charged for optimization tools**.

Distributors who explore their options may find these tools surprisingly affordable. Additionally, a number of providers also offer guarantees, which can materially reduce the financial investment at risk if pre-established targeted results are not met.

6. *Show there is a realistic, well-defined path to success.*

Although the task to "fix pricing" can appear overwhelming, the pricing challenge can be tackled by way of a set of defined, manageable work streams. It often does wonders if a project champion is able to **show executives a well thought-out draft project plan** that:

- Describes detailed work streams, typically including pulling data, applying new analytical tools/models, and focusing appropriately on driving execution.

- Identifies what internal and external resources need to be made available. Transitioning to a higher maturity level requires:

  - Advanced knowledge of the higher-level tools, meaning the most effective partner to help successfully make a move to the next level, may not be the same as the one who helped the distributor implement the status quo lower-level tool set.

  - Familiarity not just with the analytical tools but also with typical implementation challenges and change management, meaning project plans should allocate proper resources not just to analytics but also to these other equally important work streams.

- Describes in tangible, quantifiable ways, how the project will drive real benefits.

- Demonstrates internal support and shows specific actions/steps to mitigate risk.

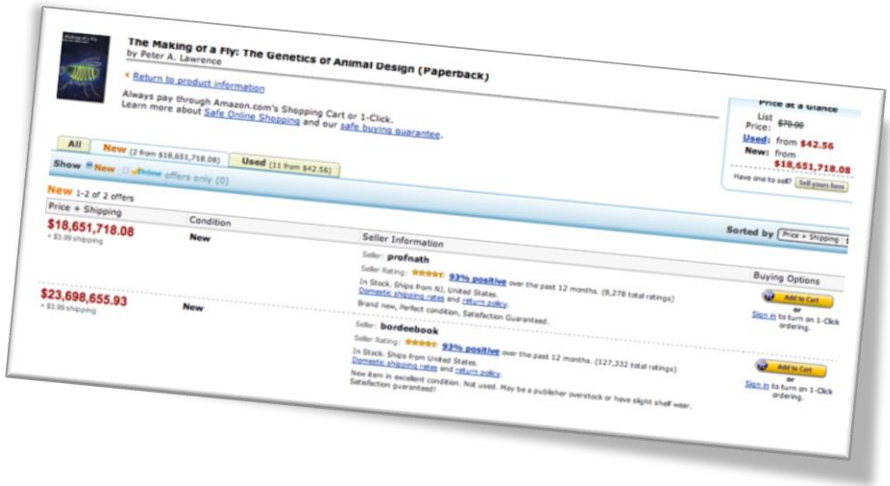
- Quantifies (at least in a draft form) the level of financial investment and ROI.

Especially in Level Three/Level Four settings, preparing such a project plan may in fact be a necessity to move the state of discussions about a possible pricing project from "hallway conversations" to real executive-level decision-making.

In fact, a key reason for the existence of so many "lagging" distributors may be the lack an internal champion who is qualified and motivated to pull such a plan together.

The $20 Million Book:

Implications for Pricing in B2B Distribution



The pricing of the book *The Making of a Fly* serves as an infamous real-life example of the potential shortcomings of relying excessively on seemingly "advanced" pricing logic, without ensuring that the pricing algorithms are sufficiently robust and market-responsive to adjust prices as significant changes occur in the distributor's business environment.

The Making of a Fly has been described as "a classic work in developmental biology." It has been marketed by a couple of independent booksellers on Amazon's webstore platform (this situation did not involve selling/pricing of the book by Amazon itself). These high-volume booksellers (see, for instance, 127K ratings for the seller *bordeebook*) ended up listing the book for upwards of $20 million, a price obviously disconnected from market willingness to pay.

How did this happen? The Amazon booksellers were updating their prices daily using pricing algorithms that set prices by charging segment-specific price premiums over the prices charged by specific competitors. These price premiums were likely set pursuant to significant work in segmenting historical transactional sales data, including analysis of segment-specific datasets to determine what percentage price premiums (over competitive prices) seemed to historically work well in each segment. Still, the continued daily application of these algorithms eventually drove prices to nonsensical levels.

The following blog by Michael Eisen, a biologist at UC Berkeley, contains more information on this classic pricing debacle: http://www.michaeleisen.org/blog/?p=358. Mr. Eisen took a professional interest in the book, and he was one of the first to notice these pricing anomalies.

Does this kind of thing happen to B2B distributors? Absolutely, and most don't even recognize it!

Surely, the Amazon book is an extreme example, and similar obvious outliers can be caught by B2B distributors by way of "sanity checks." Still, there are many other, less obvious and uncorrected instances where "advanced" pricing algorithms – including algorithms used by Level Three distributors – can lead to suboptimal prices. Here's how these instances come to be, and why most distributors have no ways of recognizing/correcting these instances:

Like the algorithms used in the Amazon sellers' example, the validity of the B2B distributor's pricing algorithms hinges on certain assumptions holding true, which may not hold true in the long run:

- In the Amazon example, a key input into the algorithms was competitive price points. Accordingly, the validity of the prices generated by the pricing algorithms hinged on the underlying assumption that competitors' prices are generally in the market range. As time passed by, this turned out to be a false assumption.

- A key input into typical pricing algorithms used by Level Three B2B distributors is historical prices charged by the distributor itself. Accordingly, the validity of the prices generated by these Level Three pricing algorithms hinges on the assumption that prices charged by the distributor in the majority of the analyzed historical transactions in a segment, are generally reflective of prevailing/future market willingness to pay levels in that segment. Like in the case of the Amazon example, this can turn out to be a rather false assumption.

Due to a number of factors that exist in a B2B distribution business, prevailing/future market willingness to pay levels can be materially disconnected from segment-specific pricing histories:

(1) The assumption that in the majority of the cases, the distributor actually priced in the historically "optimal" market range for the segment may be false.

Level Three/Level Four distributors often operate across many complex markets, selling tens or hundreds of thousands (perhaps millions) of SKUs across a huge customer base. With that level of complexity, the distributor's level of understanding of various markets may differ from one segment to another. Past pricing decisions in certain segments might have just missed the mark: due to lack of focus or experience, the distributor might have never set prices in the true market range for certain products. Basing future pricing decisions on such sub-optimal price histories can lead to the perpetuation of erroneous past pricing practices.

(2) The transactional history may reflect a position with a different elasticity on the current demand curve, relative to the elasticity associated with the price position occupied by the distributor at the time the transactions being analyzed actually took place.

This last (and important) sentence was quite a mouthful, so let's explore what this means in reality.

a. The demand curve itself may shift, due to changed market conditions/changes in key pricing inputs, such as competitive prices, raw material costs (commodity prices), new technologies, etc. Current realities no longer align with the state of the market reflected by the initial data set that was used as the basis for developing the pricing algorithms/pricing factors. As demand curves shift and change shapes, distributors that keep price points the same may face very different elasticities. Accordingly, pricing factors developed using past histories may be invalidated.

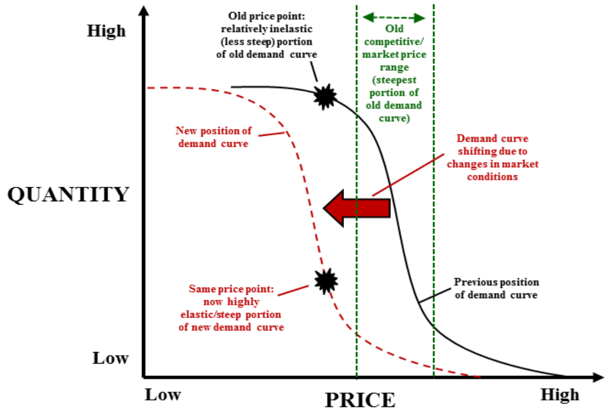


Illustration of Demand Curve Shift (price point unchanged)

b. Even if the demand curve has not changed or moved, Level Three pricing algorithms might not be sufficiently sophisticated to properly account for the fact that price elasticity can change rather significantly from one price position to another, along the same demand curve. A set of aggressive pricing actions can push the distributor's price position to a significantly different place along the demand curve, relative to the price position occupied by the distributor at the time the pricing analysis was conducted. As the distributor's price position along the demand curve changes, the distributor's pricing logic (factors, etc.) may be invalidated.

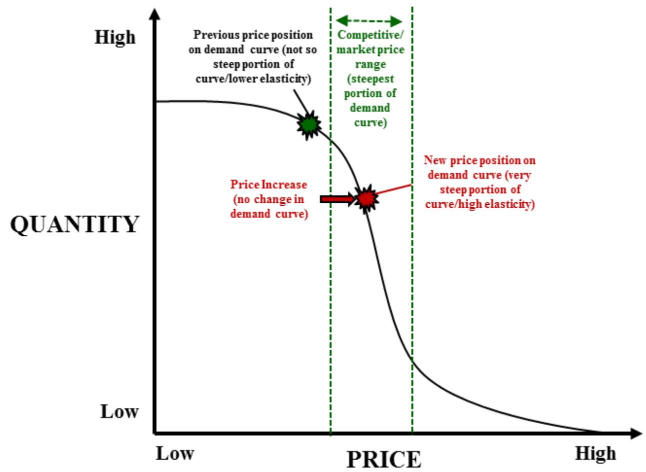


Illustration of Price Position Shift (demand curve unchanged)

For example, many distributors start their quests for margin improvement by increasing prices on small-volume accounts. At first, these strategies can generate significant pay back, as these customers typically bear higher prices. While the elastic portion of the demand curve may be at a higher price range for smaller accounts, demand curves in these segments still do have a range of steeper slope/significant elasticity. In our experience**, distributors who lack the tools/ backgrounds to identify pricing opportunities in other areas, are too prone to continually applying the same "small account increase" strategy year after year.** This can backfire, once price levels push the envelope too far into the elastic portion of the demand curve:

i. The distributor starts losing out on real, higher-margin sales volumes, which can actually drive average margins down in the business;

ii. The population of these "small customers" may include accounts that could carry more significant volumes – however, this growth potential may not be realized if prices quoted/charged are too far above the real market range.

iii. Although management and analysts may be focused on other areas that seem "more strategic", sales professionals in the field are often quick to recognize these pricing issues – and their experiences with such "high" market-irrelevant system prices can cause them to question the validity of system prices across all products/all customers in the distributor's portfolio, fueling discounting habits across their entire portfolio.

In reality, until the sophistication (and therefore, market responsiveness) of the pricing algorithms reaches Level Four, pricing remains prone to error, requiring constant monitoring and analysis. Accordingly, as noted in the previous maturity model discussion, managing pricing with sub-Level Four tools can be a particularly challenging task for large, complex distribution businesses.