

# *Price Optimization: The New Way To Set Your Prices*



Are you still pricing your products utilizing your own intuition and what you “feel” has worked best in the past? If you are, you may not be deriving the margin, sales and price image benefits from the myriad of automated tools available in today’s marketplace.

With the complexities of pricing structures in today’s environment, how do you ever know if you have your products priced correctly in order to drive-through your inventories while maximizing your margin? How do you know if your customers perceive you as high or low priced amongst your competition? Having worked with organizations within the realm of Price Optimization, we have identified some valuable lessons and can help you understand what Price Optimization really is and whether it is right for your company.

### **Understand what Automated Price Optimization is....**

While each tool is slightly different, Price Optimization in general looks to set prices for every item at the store-level to achieve optimum unit sales and profit goals, while maintaining or improving your price image.

This is accomplished through historical sales data processing, competitive benchmarking, and scientific modeling across product groupings. Pricing engines present optimal price recommendations which take into account product elasticities, cannibalization, market trends, historical sales, product linking and other pricing parameters. Merchants review and approve/unapprove these recommendations for eventual flow-down to the store-level.

How do you ensure that you are not breaking any of your company’s pricing strategies? This is all maintained through the set-up of customized price ranges, price image thresholds, competitive bounds and other adjustable hard and soft pricing constraints. “What-if” scenarios can also be performed in order to understand the impacts on your margin for different pricing strategies without actually implementing them.

Other tools available include Promotional Optimization, which helps you plan, measure, and optimize promotional campaigns. Companies can determine the best product and offer mix for their promotions, combined with an item-level forecast.

Markdown Optimization allows you to manage the markdown process from the first sale, through promotional markdowns, all the way to inventory closeout to gain maximum competitiveness, profitability, and attainment of inventory level strategy.

All of which results in pricing recommendations to your merchants that are in-line with corporate strategy, maximize your return while driving towards your inventory, customer perception and sales goals.

### **It’s not an easy sell....**

Ok, so you know a little about how automated tools can offer price recommendations for your products based on statistical modeling and other scientific algorithms. However, how are you going to tell your merchants and vendors, who have priced their goods intuitively for years, that a scientific tool can price their goods more effectively than they can? Not an easy sell by any means.

True, no one knows their goods better than the merchants and vendors that deal with them daily. False, that they have the time, data and competitive insight required to maintain pricing amongst a large set of product hierarchies, product lines and price families.

Through the use of optimized pricing tools, you are able to access the benefits of scientific modeling, customized for your organization, in order to receive price recommendations in-line with your corporate strategy. These recommendations leverage large-sets of statistical sales data and competitive information in order to achieve optimum pricing.

You must paint the picture for adoption through piloting the automated features and measuring the results of margin, sales and price image in order to provide statistical evidence of the benefits. You must obtain stakeholders who believe in the results and who will partner with you to make the case for change.

### You must understand your organization's appetite for change....

Utilizing automated pricing tools to set your pricing strategies requires several mindset changes. Before setting-out to make the case for change, you have to understand the change parameters inherent to the environment. You must also do a pulse check on how your organization will perceive and adopt pricing strategies that are different from the norm.

For example, if you are an EDLP (Every Day Low Price) retailer, how will you deal with price increase recommendations above your perceived price point strategies? Will you feel comfortable that the system has taken activity-based-costing into account for signage updates and store-level support? Will you feel comfortable that the system has taken into account price image perceptions when recommending price increases? How does this compare with my competitors?

Understanding your organization's ability to take-on these new changes is the first step towards creating the environment of change that is necessary in order to embrace price optimization.

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