

Price Optimization

A Guide For Retailers

What is price optimization?

Price optimization is the practice of analyzing complex data to help predict how customers will respond to prices for products and services offered through different channels. This method also helps businesses determine the right price to charge in order to help maximize sales and increase profits.

Benefits of price optimization



----- **Greater profit:** Discounting may help revenue, but always at the expense of profit. A 1% improvement in pricing can produce an 11.1% increase in operating profit!¹



----- **Defined pricing processes:** Having a pricing optimization system is vastly more efficient and scalable than case-by-case analysis, especially with the rise of multichannel pricing. Data shows that 73% of shoppers use multiple channels.²



----- **Faster pricing decisions:** Systematic price setting helps retailers respond to changing market conditions, no matter how quickly they occur. Research shows 86% of consumers believe that comparing prices is important.³



----- **Beat the competition:** Nimble price adjustments to meet market conditions can throw competitors off guard. Only 16% of retailers think they are using pricing data effectively.⁴

1. www.priceintelligently.com/blog/bid/157964/two-reasons-why-pricing-is-the-most-important-aspect-of-your-business
 2. www.hbr.org/2017/01/a-study-of-46000-shoppers-shows-that-omnichannel-retailing-works
 3. www.prisync.com/blog/striking-pricing-facts-for-retailers/
 4. www.alteryx.com/shopper-insights-insider-perspectives-infographic

What data is needed price optimization?



- **Quantitative Customer Surveys**
Close-ended/limited choice responses
- **Qualitative Customer Surveys**
Open-ended responses
- **Transactional Data**
Purchases, payments, credits, debits
- **Historical Sales Data**
Purchases made at various times throughout the year to account for seasonality
- **Product or Service Cost**
Comparison of profitability at various price points
- **Product Inventory**
Consideration of operational costs (for example, inventory turns) and potential stock-outs
- **Competitor Data**
Analysis of competitiveness/relative attractiveness of different price points

The price optimization process



1. **Establish the objectives**, typically one or more of the following:
 - a. Profitability
 - b. Revenue growth
 - c. Market share
2. **Select a test product group** within a major demographic. This allows you to project how price changes could affect the broader customer audience
3. **Collect data:** See section to the left - What data is needed for price optimization?
4. **Begin testing:** Adjust prices and run promotions. Keep tests simple to clearly see sales outcomes.
5. **Analyze test data** with AI and machine learning software integration to determine the effectiveness of price testing.
6. **Continue testing** to reach objectives, or implement the process to other audience segments if objectives are being met.

Make sure your price is right

Implementing a price optimization system in your retail business will produce immediate and long-term financial benefits, improve sales across all channels, and enable you to make fast pricing decisions based on data.