ACTIVEVIAM

Assess the maturity of your pricing

Pricing and Big Data:
An Opportunity for Distributors

The e-commerce boom of the 2000's was a **catalyst for the Big Data revolution**. Companies such as Amazon have brought data processing technology to the world of distribution, which had previously been reserved for industries such as aerospace and high finance.

The success of data driven companies has pushed traditional retailers to develop their own tools to leverage massive volumes of data they collect to drive growth through customer satisfaction.

The price war, or more specifically, ***the price image war*, is the key to success.** Retailers have all stepped up their pricing functions, but struggle with understanding how they are positioned with their competitors technology and methodology.

What is the right level of development for the pricing function?

Reaching **maturity** makes it possible to develop and roll out the right strategy for mazimizing profitability and volumes, whether through the lowest prices, improved margins, attracting new customers or implementing a sophisticated multichannel and multi-chain strategy. This is therefore dependent on each company and the targets they have set for themselves.

Big Data technologies have radically transformed how price image is managed. This eBook addresses the various factors that impact price image management.

There are a few basic Hard and Fast Rules:

- A good strategy is ineffective if it cannot be implemented consistently

- An approach that does not include all internal pricing stakeholders will never be optimal.

- The competition never sleeps, any strategy will trigger a response... The key is having the ability to continually respond more quickly and with perfect accuracy.

In this eBook:

1 **Which analytical capabilities are essential, necessary or just useful** for each type of retailer to manage their price image, depending on their size, their competitive landscape and their product range.

2 **Who in the company needs to be involved** in developing price image and implementing pricing.

3 **How can complex pricing strategies be developed and applied across a national or international group,** i.e. across thousands of sales outlets and tens of thousands of products.

4 **What is the current level of maturity of** your brand's pricing function, and what would be its optimal level.

ORGANIZATION

A common thread across many company functions (procurement, marketing, management control, running the network, etc.), pricing sometimes has to meet conflicting requirements: attracting new customers or maximizing margins? Low prices throughout the year or aggressive ad hoc promotions?

Lev. 3 — Pricing function incorporated into the procurement department

In organisations without a dedicated pricing department, price setting is most often allocated to procurement and is margin-driven.

STRENGTH
- Clear **priorities**
- **Pricing rules simpler to** design and implement

VULNERABILITY
- An **inevitably limited and** less optimal perspective
- **Fewer resources exclusively devoted** to pricing

Lev. 2 — Consultative pricing team reporting to marketing

In marketing departments, pricing turns into managing price image, factoring in the retailer's positioning and communication.

STRENGTH
- **Greater expertise** in pricing
- Able to **reconcile and achieve several objectives** simultaneously

LIMITATION
- Must **impose its leadership** on other internal stakeholders

Lev. 1 — Pricing team invested in the final price

To build a strong, consistent and lasting price image, the pricing levers should be entrusted to an expert team with the authority to set the required prices.

STRENGTH
- A **consistent price strategy** guided by overall business objectives
- Centralizing pricing **helps establish and keep track of reliable KPIs**
- **Regular field reporting** informs the strategy

DATA

The quantity of available data has soared, both in terms of variety and volume. For pricing, the key is to make best use of this data and to avoid two pitfalls: gathering too little data (or data that is fed back too slowly) and drowning in a huge amount of information that you are no longer able to process.

Lev. 3 — Retailer prices, national competitors' prices, sales volume, stock levels and focus groups

These are basic building blocks that a retailer can use as a foundation for building price rules.

STRENGTH
- Realistic **volume and margin targets can be set**
- Gathering information about **competitors' prices helps determine** market positioning

LIMITATION
- Focus groups provide **aggregate information**

VULNERABILITY
- **Inadequate for classifying products** following several aspects or having differentiated rules for each store

Lev. 2 — Competitors' prices at local level and margins detailed by store

This involves refining the calculation to factor in the specific features of each sales outlet and the local situation to optimise footfall and competitiveness in each catchment area.

STRENGTH
- A **differentiated pricing strategy for each store** becomes possible
- **Simulation and optimization of pricing scenarios** for stores or clusters of stores

LIMITATION
- This **level of granularity is still inadequate** for machine learning technologies or predictive algorithms

Lev. 1 — Inclusion of marketing insights and external data (weather, holidays, etc.)

All customer data is included in pricing. Products are classified by multiple attributes and priced specifically based on customers' expectations for each of them.

STRENGTH
- Organizing products by specific and multiple attributes **can help explain the root causes of customer behaviour towards prices**
- Analysing individual checkout receipts helps **optimise footfall and the average shopping basket**
- Communication and promotional campaigns are **better targeted and more effective**

VULNERABILITY
- The volume of data **requires specialized technology**
- The predictive potential of **Big Data should not overshadow the business acumen that** comes with experience

COMPLEXITY

To faithfully convert a sales and marketing strategy into pricing rules (alignment, margin target, consistency, etc...), the right balance needs to be struck between ease of implementation and complexity, which can be time-consuming and a source of errors for pricing teams.

Lev. 3 — The "cost-plus" approach

The cost approach is a common method as it is easy to implement and ensures that the retailer has sufficient margin to thrive. The real pricing work is done upstream, during negotiations with suppliers.

STRENGTH
- Easy to use, it **provides the retailer with a clear view of its margin**
- The **method can be easily understood in-house and by the customer** if the retailer has to justify its prices

VULNERABILITY
- It does not **optimize the appeal or margin** of each product
- It **does not take account of the competition**, which could result in the retailer being out of step with the market
- It **is not tailored to the seasonal nature of products or to external circumstances**

Lev. 2 — Excel macros with margin calculation and price indexes compared with the competition

This approach factors in the market positioning that the retailer wants to adopt in the competitive landscape. This strategy is adapted to the market.

STRENGTH
- This method i**ncludes data on competitors**
- It **allows the retailer to adjust its prices** to the market

VULNERABILITY
- It involves **long and tedious manual work** when working with thousands of products
- It **is not always possible to react to the competition** as quickly as is required
- It does **not enable large-scale simulations** to be run
- It is **error prone**

Lev. 1 — Large-scale consistency strategy

Classifying products by multiple, qualitative attributes (essential, occasional, weekly shop, urgent, etc.) and applying specific rules to them helps go beyond the immediate consistency of the section or comparable products and provides information at retailer or group level.

STRENGTH
- The **price closely matches** all the other aspects of **the marketing strategy**
- This provides the retailer with **flexibility**...
- ... **and security** through the automation of recurring tasks that can lead to human error
- **Competitiveness and profitability can be reconciled** through differentiated pricing strategies based on product profiles

INDUSTRIALIZATION

**Having a good strategy based on rich data is worthless if it cannot be implemented effectively.
The ideal solution would be a high performance tool with a standardized architecture that users can easily configure to meet their requirements.**

Lev. 3 — Excel macros

This scenario is common and is still able to manage a limited number of SKUs and/or simple pricing rules

STRENGTH

- **No need to invest** in a new licence
- A **tool that is already mastered** by most users

VULNERABILITY

- Managing a large number of product lines with complex rules is slow, **it is impossible to react quickly**
- Segmenting the product range into several tables **might lead to inconsistencies**
- Teamworking requires multiple email exchanges, with the **potential for errors at each stage**

Lev. 2 — Dedicated pricing tool with differentiated and multidimensional rules

The transition from Excel to a dedicated tool enables a quicker implementation of pricing rules, the offering to be segmented to suit and your strategy to be deployed more effectively.

STRENGTH

- **Manage wide product ranges** with refined rules
- **React quickly** to competitor activity with automated rules
- **Ensure prices are consistent with the retailer's price image** by including distributor brands, national brands, budget prices, etc..

LIMITATION

- Dedicated tools **can be transparent in applying rules, or conversely genuine "black boxes"**
- Does **not always allow the analysis of the** product offering or to manage promotions

VULNERABILITY

- If the tool is not sufficiently tailored to the retailer, **it can monopolise teams' time at the expense of strategic thinking**

Lev. 1 — Artificial intelligence to classify products and recommend prices that are in line with targets

The most cutting-edge technologies can help bring out a product's sometimes hidden key attributes and apply dedicated rules to them.

STRENGTH

- **Maximum efficiency :** more time devoted to designing the pricing strategy and less on deployment
- **Full inclusion of pricing** in the industrial strategy
- Enables **unparalleled responsiveness and customisation**

LIMITATION

- **Requires a very large data stream** to achieve good results
- The system **can seem opaque**

COVERAGE

Coverage refers to the section of the product range that is subject to regular repricing. The ideal coverage rate depends on the competition, product families, customer expectations... The aim is not to constantly reprice, but rather to find the right pace for each product family

Lev. 3

Only regularly price products that build or erode price image

Focusing on the most sensitive products helps optimize resources and avoid adopting a scatter-gun approach which include items that are not that sensitive to price variations.

STRENGTH

- **Optimize limited pricing resources**
- **Avoid** the most harmful discrepancies with your competitors

VULNERABILITY

- **The response capability is limited** to the most sensitive products
- Prices can remain **out of position for several weeks** for the least compared products

Lev. 2

Develop consistency rules between products

A way of expanding the product range coverage involves consistently linking products with each other so that a change to the price of one will trigger a change to the price of others.

STRENGTH

- **Widen the coverage** whilst improving the consistency between prices and price image
- **Price more products more** frequently without spending more time on it
- **Reduces the risk of** prices that shift market position and are out of step

VULNERABILITY

- **Requires a specific understanding** of customer expectations, of elasticity and comparable products
- **Requires dedicated tools appropriate** to the depth of the product catalogue

Lev. 1

Constant screening and recommendations regarding products to be repriced.

Modern, in-memory computing-based systems can issue alerts about products that have lost their market position and immediately suggest a new price.

STRENGTH

- The **risk of missing the repricing** of an important product is eliminated
- **The retailer's price image is managed effectively**, without any blind spots
- No **time is wasted repricing** products that don't need it

LIMITATION

- It requires a **reliable and comprehensive system for uploading relevant data**

DEPLOYMENT AND MONITORING

This is sometimes the Achille's heel of organizations that otherwise know how to design and execute advanced pricing strategies: How does one ensure that the recommended prices are observed in stores, especially when they are franchises?

Lev. 3

Sending price recommendations and intermittent feedback of actual store prices

Retailers can now send price recommendations from the head office and regularly receive the prices charged by store owners, who are allowed to set them.

STRENGTH

- Detect a **major discrepancy between the pricing rules and the prices** charged in the field
- **May be adequate if the prices** are only changed periodically

VULNERABILITY

- **Lack of granularity** for precise management
- **Risk of pricing drift** that can eat into margins
- **Not responsive enough** for any omni-channel strategy that includes online

Lev. 2

Dedicated price roll-out system with daily upload of actual prices.

Speeding up the price roll-out and feedback process helps to correct more quickly any discrepancies that can have a damaging impact on price image.

STRENGTH

- An **automatic deployment system** encourages take-up by teams
- **Identify stores** in which recommended prices are not being observed

VULNERABILITY

- No overview of the impact of pricing drift

Lev. 1

### Real-time monitoring of prices and calculation of potential losses of margin, store by store

A clear view of the impact of pricing drift allows you to offer even better suited prices and convince store owners to trust in the recommendations.

STRENGTH

- **Compelling arguments backed by numbers** to enforce price application by store owners
- **Transparency** in the price creation process
- **Precise management** through the extraction of data from sales receipts

OMNI-CHANNEL STRATEGY
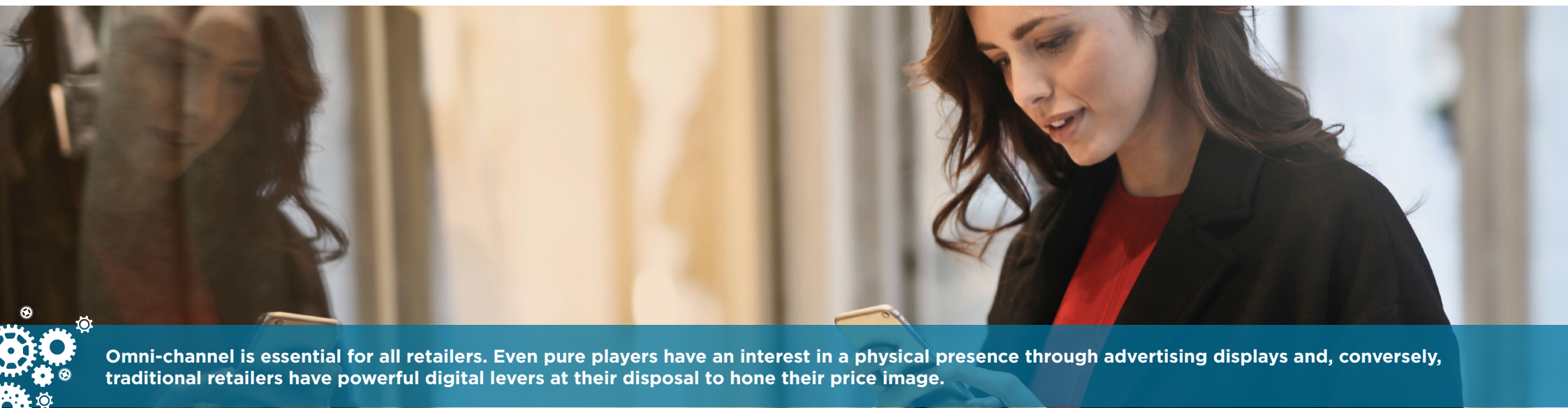
Omni-channel is essential for all retailers. Even pure players have an interest in a physical presence through advertising displays and, conversely, traditional retailers have powerful digital levers at their disposal to hone their price image.

Lev. 3 — Single omni-channel price

A single price ensures consistency for the public and prevents from suffering from a big price discrepancy between online price and sales outlet price.

STRENGTH
- **Ensures the retailer's price image** is consistent
- **Simplifies price rules**

VULNERABILITY
- **Limits the available** strategies
- **Not very responsive** to online competitors

Lev. 2 — Differentiated online/store promotions

Offering different online and sales outlet promotions provides a tailored approach to the two competitive environments.

STRENGTH
- **More options** for optimising market share or margin
- Offers **protection against online prices that are too out of step**
- **Option to offer a different product range** online and in stores

LIMITATION
- You **must be able to justify the differences** to customers

VULNERABILITY
- **Promotion lacks responsiveness** to pure players who put forward face value

Lev. 1 — Differentiated and consistent pricing

By emphasising in-store services and experience, you can optimise the price for each environment whilst retaining a consistent price image

STRENGTH
- **Optimise the price** based on the target audience and competition at the most local level
- **Develop services in store** and online
- Fully exploit **a multi-chain strategy**

LIMITATION
- **Complex to implement** without a dedicated tool

VULNERABILITY
- There **is a risk of the differentiated prices being misunderstood** by customers if not precisely managed

Conclusion: price image is at the heart of the company

To build a consistent, strong, lasting price image, all levels within a retailer must be aware of the current approach.

Involvement in pricing and the promotion of price image should not be restricted to departments that are directly concerned (marketing, purchasing, management control, etc.) but should be widened out to take in all stakeholders, the first priority being those who are in customer contact roles, in stores, by including HR, communication and training departments in the process.

As long as price remains the main selection criterion for mass retail customers, **a sophisticated approach is needed to ensure that price image is considered in each decision,** including setting the price for an item, launching a promotion, laying out a section, organizing the checkout process or even designing the customer's journey through the store.

About ActiveViam

An analytical in-memory platform, using cutting-edge technology to manage your operations based on the very latest data and the unique features of each business.

- French software vendor
- **15 years** of in-memory experience
- **5 offices** worldwide
- **2** R&D **centres**: Paris & New-York

- **Over 50** projects
- **Over 40** clients
- **Over 100** employees

- Technological excellence, globally recognised by **HPE, Oracle, Azure** and **Atos**.

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For more than **10years** we have been supporting our customers in Europe, the United States and Asia, to improve their processes.

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