

# OPTIMIZING PRICING THROUGH DIGITAL TRANSFORMATION

A decorative graphic on the left side of the page. It consists of two concentric circles. The outer circle is a light green color, and the inner circle is a darker teal color. Inside the inner circle, there is a pattern of binary code (0s and 1s) in a lighter shade of teal. The text 'TABLE OF CONTENTS' is centered within the inner circle in a white, bold, sans-serif font.

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# Getting Started

The most recent digital transformation wave has changed the way businesses operate. From cloud computing to the IoT, digital tools have allowed businesses to reduce costs, improve performance, and reduce inefficiencies.

Today, sales teams can easily share data across teams using cloud-based software, while marketing departments rely heavily on analytics to create precision-targeted ads. And savvy retailers have begun to apply digital transformation techniques to their pricing.

A true pricing digital transformation means moving beyond rule-based spreadsheets and stepping away from manually inputting competitor offerings into your database. It utilizes dynamic pricing techniques, as it automatically generates pricing based on predefined rules or through AI-influenced data.



# Understanding Dynamic Pricing

Dynamic prices, as you might expect from the name, are dynamic. They change with the circumstances around them. As demand increases, prices can be set to automatically rise, and as expiration dates come closer, they can be set to drop.

Dynamic pricing engines strive to find the exact price point to reach each businesses' goals. For example, a business with high-profit goals will generate pricing

designed to maximize profits, while a business that prefers increased market share will generate pricing intended to increase sales.

Online travel agencies, grocery stores, and electronics retailers are just three verticals that are using dynamic pricing. Prices for merchandise can change depending on supply and demand, user behavior, or competitive pricing.





# Dynamic Pricing as a Tool

Dynamic pricing isn't a strategy; it's a tool used to help enterprises implement their pricing strategy. Businesses looking to charge a premium price while delivering a high service level can use the tool to find their optimal price.

Similarly, businesses who want to maintain a price within 2% of a leading Amazon retailer can use dynamic pricing to determine the right price point.

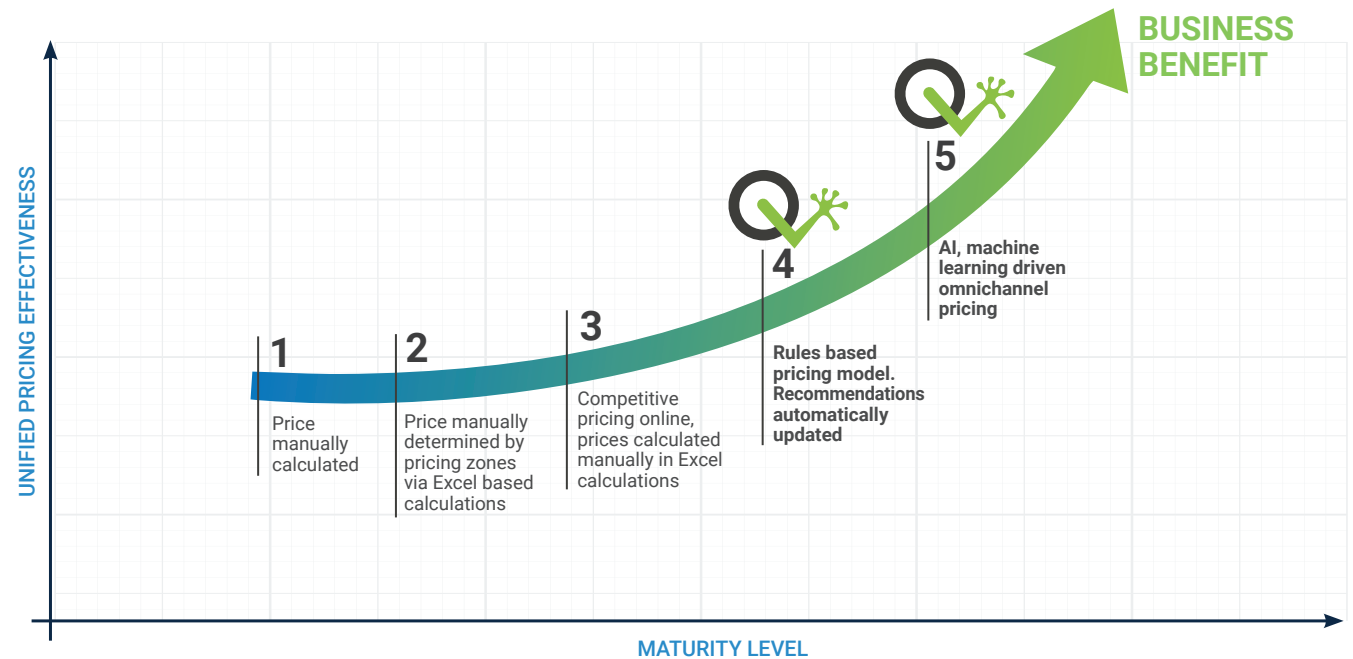
However, dynamic pricing is the tool that brings a strategy to life. Rather than relying on manual techniques, these tools use a combination of machine learning, artificial intelligence, and consumer behavior to recommend the price point that matches the strategy.

# The Gartner Dynamic Pricing Journey

Bob Hetu, research director for Gartner Research, noted in an April 2017 blog that “retail pricing strategies are still not optimized.” The blog, which was based on his market research, identified the five stages of pricing. According to Hetu, organizations that failed to reach and implement the fifth stage in the pricing journey would not achieve the significant business benefits derived from more complete adoption.

Gartner’s five stages of pricing maturity range from manually calculating prices by hand all the way through AI and machine-learning generated pricing.

# Gartner Address The Gap In Dynamic Pricing







## STAGES 1-3

# Manual Based Pricing

Most businesses today still find themselves in the early stages of the Gartner pricing journey. While most have moved on from the initial stage of calculating pricing by hand, the majority of businesses are using spreadsheets like Excel with formulas to calculate their pricing.

Using formulas, the Excel sheet takes the wholesale price, adds in a predetermined margin, and calculates the price. Pricing managers who are interested in factoring in competitor pricing, or adjusting prices based on sales figures, need to do so manually.

Most of today's retailers find themselves stuck in stage 3. Using Excel or other comparable calculators, they can create different price points for different areas. They factor in their competition's online pricing into their calculations, as well as look at different distribution channels. However, much of the calculation requires manual inputs to add pricing data into the calculations.





## STAGE 4

# Price Optimization

With the introduction of rule-based pricing, organizations move toward fully automated pricing, and achieving the benefits defined by Gartner. This stage typically requires a dynamic pricing engine, which can manage rules for thousands of products, and ensure that the company's strategy is applied across the different product lines.

Competitive pricing begins to play a much larger role in pricing strategy. The pricing engine can compare online prices, and use rules, such as maintain a 2%-3% price differential, in establishing a price.

At this stage, new pricing recommendations can come in multiple times a day, as the system continuously calculates the right price. Pricing managers working with the system approve or override prices and have the option to add in special promotions.

The background image is a dark, futuristic digital landscape. It features glowing circuitry and several microchips. In the center, there is a glowing wireframe sphere. In the foreground, there is a 3D bar chart with many vertical bars of varying heights, all glowing with a greenish-yellow light. A semi-transparent blue and green banner is overlaid on the left side of the image, containing the text 'STAGE 5'.

## STAGE 5

# Artificial Intelligence and Machine Learning

The highest degree of benefit, according to Gartner, happens with the introduction of artificial intelligence (AI) and Machine Learning (ML) processes into their pricing models. Algorithms can analyze customer patterns, with the system presenting optimal pricing for each online opportunity.

Two areas where AI and ML are especially powerful are inventory turnover and profit optimization. The technology learns how prices impact sales, and uses that information to recommend ideal price points that will meet those goals.

The pricing at this stage reaches across channels, and integrates extended product data, pricing intelligence, and market data into its pricing recommendations.

# Dynamic Pricing: A Complete Organizational Transformation

Transitioning to a dynamic pricing model requires more than a software upgrade. The move is felt throughout the organization and requires C-level sponsorship to succeed. More than just a change in the way pricing is calculated, dynamic pricing requires significant IT involvement, and introduces a new culture shift within the company.

For the transformation to yield all its benefits, pricing strategy, employee roles, and process workflows all must evolve. When the transformation is complete, the company will experience a streamlined pricing process and optimized pricing levels.







# Making the Dynamic Pricing Transformation

The IT department is the first department to feel the project. While they do have the option to outsource much of the heavy lifting to system integrators, successful transformations require internal IT oversight.

The team will need to reconfigure the mechanism for entering prices into the system.

E-commerce back ends will need to integrate with the pricing recommendation engine, while APIs connecting the pricing system to the online store need to be implemented.

Pricing transformation impacts sales and marketing as well. Together, the teams will need to understand the impact dynamic prices have on their sales and marketing strategies. If the pricing team adopts an EDLP strategy, marketing and

sales will want to develop campaigns around the initiative. Finance, legal, and even customer service reps need to be brought up to speed, so they understand the way prices change when they analyze sales, ensure compliance, and provide customer support.

The team that will change the most is the pricing team. For starters, their role will completely change. No longer tasked with manually checking competitor pricing, or updating Excels with new data, their role will evolve into analyzing reports and reacting in real-time to market changes. They'll also require the most training, and both in terms of how to use the new system, and in terms of understanding what their new role requires of them.





# After Dynamic Pricing Goes Live

With a dynamic pricing system in place, the role of pricing becomes more strategic and less mechanical. As an organization, you can develop new pricing strategies that govern your entire inventory, specific lines of business, or even individual products.

Pricing managers will have the time they need to study market trends and identify target markets. They can tweak strategies on different items, and oversee their entire inventory, rather than just the most popular products.

The company, in the meantime, will see improvements in their KPIs. A pricing strategy adjusted for increased profits will see their profits rise, while companies looking for increased market share will see their number of units sold go up.

The transformation from manual pricing to dynamic pricing is as much cultural as it is functional. Companies that make this move find their performance levels increase, as do their profits.

# Fully Optimizing Dynamic Pricing

Stage 4 introduced rule-based pricing, where advanced techniques are involved in determining optimal price points. However, it is Stage 5 and the introduction of increased automation, artificial intelligence and machine learning where the benefits of dynamic prices are fully felt.

At this stage, the pricing engine uses different algorithms to help organizations reach their profit and sales targets. The algorithms account for historical data, customer clickstreams, user data, product views, revenue goals, elasticity and conversion rates to pinpoint the price level needed to meet goals.

Businesses gain better insights into the effectiveness of their pricing strategy, as the system ensures that the strategy was applied uniformly. And because manual intervention is almost completely removed from the process, pricing managers have more time to finetune their strategy.



# Two Popular Strategies

Many businesses base their pricing strategy on inventory turnover. As the system understands your turnover needs, it can devise pricing set to meet maximize profit while meeting turnover goals. For instance, an electronics company has 100 printers in its inventory. Their goal is to sell all 100 over the next four weeks, with an average of 25 sales per week.

The system finds the optimal price point to achieve those sales and sells 25 units within 5 days. Since the sales team has reached its target, they can afford to increase the price over the next two days, for higher margin sales. At the beginning of the following week, the dynamic pricing system will learn from the results of the first week and set its price accordingly to help the sales team reach its goals.

Another use case would involve merchandise that expires over a specified time period. As the

calendar moves closer to the expiration date, the pricing engine would lower prices, within established rules, to push the merchandise out the door before it needs to be discarded.

Profit Optimization is another popular pricing strategy. In this scenario, companies aren't necessarily looking for the highest profit on every unit sold. Instead, they want the price point where they will have the highest overall levels of profit. The system is responsible to determine if they are better off selling fewer items at higher price points, or more items at lower price points.

Online platforms, where consumers purchase a service such as airline tickets, taxi rides, or temporary apartment home rentals, frequently adopt this strategy. The dynamic pricing engine needs use all the data at its disposal to determine the right commission level to maximize profits.



# The Challenge for Business

The digital transformation that's changing the way businesses establish a price presents a frightening world. Instead of relying on long-time trusted Excel sheets, businesses need to put pricing in the hands of a technology they don't fully understand.

However, preliminary results have demonstrated that the right digital tools can help transition companies into dynamic pricing machines.

**Find out how a dynamic pricing engine can digitally transform your business.**

**Contact QuickLizard today to schedule your dynamic pricing demo.**

**[www.quicklizard.com](http://www.quicklizard.com)**





Quicklizard is a global solution provider that helps retailers make smart real-time pricing decisions across online and offline channels. Relying on accurate data analysis, QL's dynamic AI platform allows businesses to adjust prices with maximum precision, quickness, ease and efficiency, as a basis for enhanced profit and revenue.