



Grow your profits

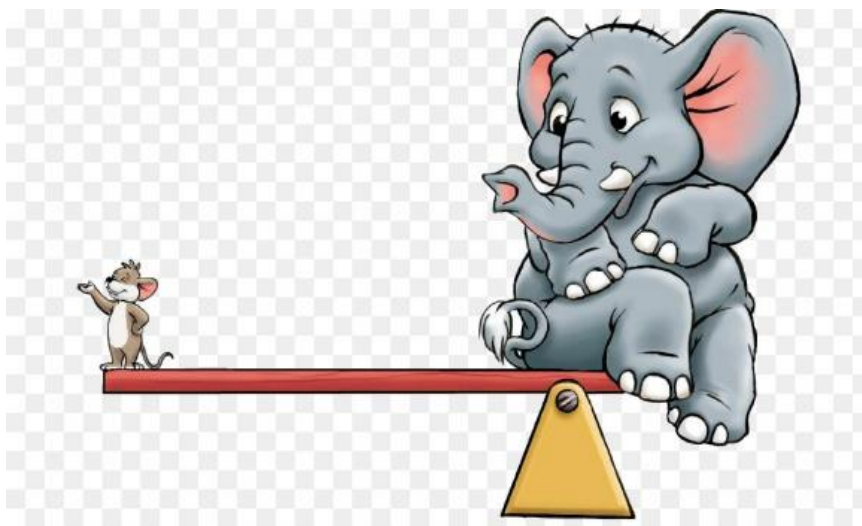
Price Optimization yields profit increases... here's how





Price Optimization = Larger Profits

- Price is the MOST powerful lever affecting profits
- Technology advances bring Price Optimization within reach
- Common Problems and Strategies
- How to get started with Price Optimization



The Business Case

Give me a lever long enough and a fulcrum on which to place it, and I shall move the world.

Archimedes



What is Price Optimization?

Source (with edits): https://en.wikipedia.org/wiki/Price_optimization

Price optimization is the use of mathematical analysis to determine how customers will respond to different prices for its products and services through different channels.

It is also used to determine the prices that the company determines will best meet its objectives such as maximizing operating profit.

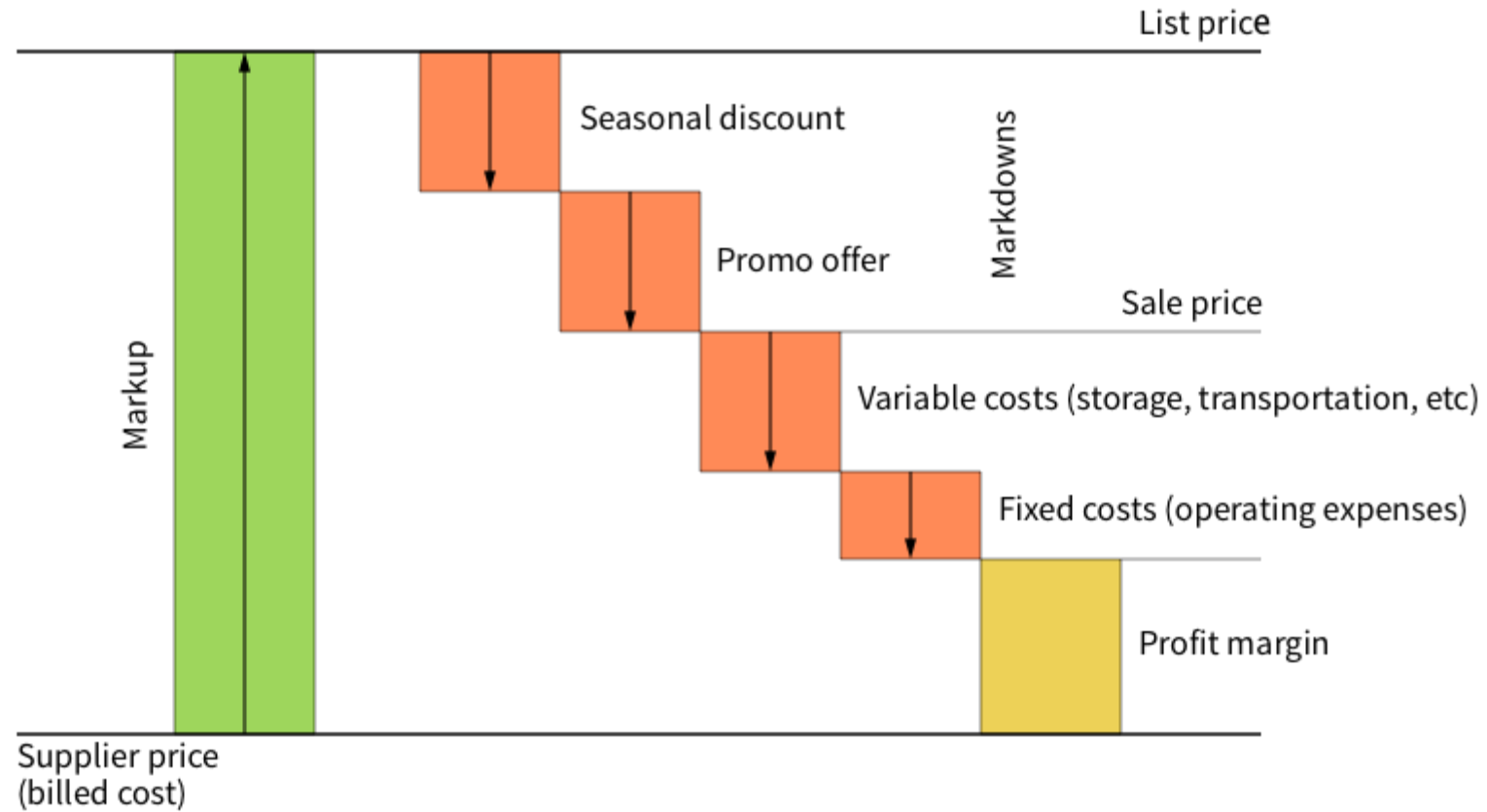
The data used in price optimization can include survey data, operating costs, inventories, and historic prices and sales.

Price optimization practice has been implemented in industries including retail, banking, airlines, casinos, hotels, car rental, cruise lines and insurance industries.

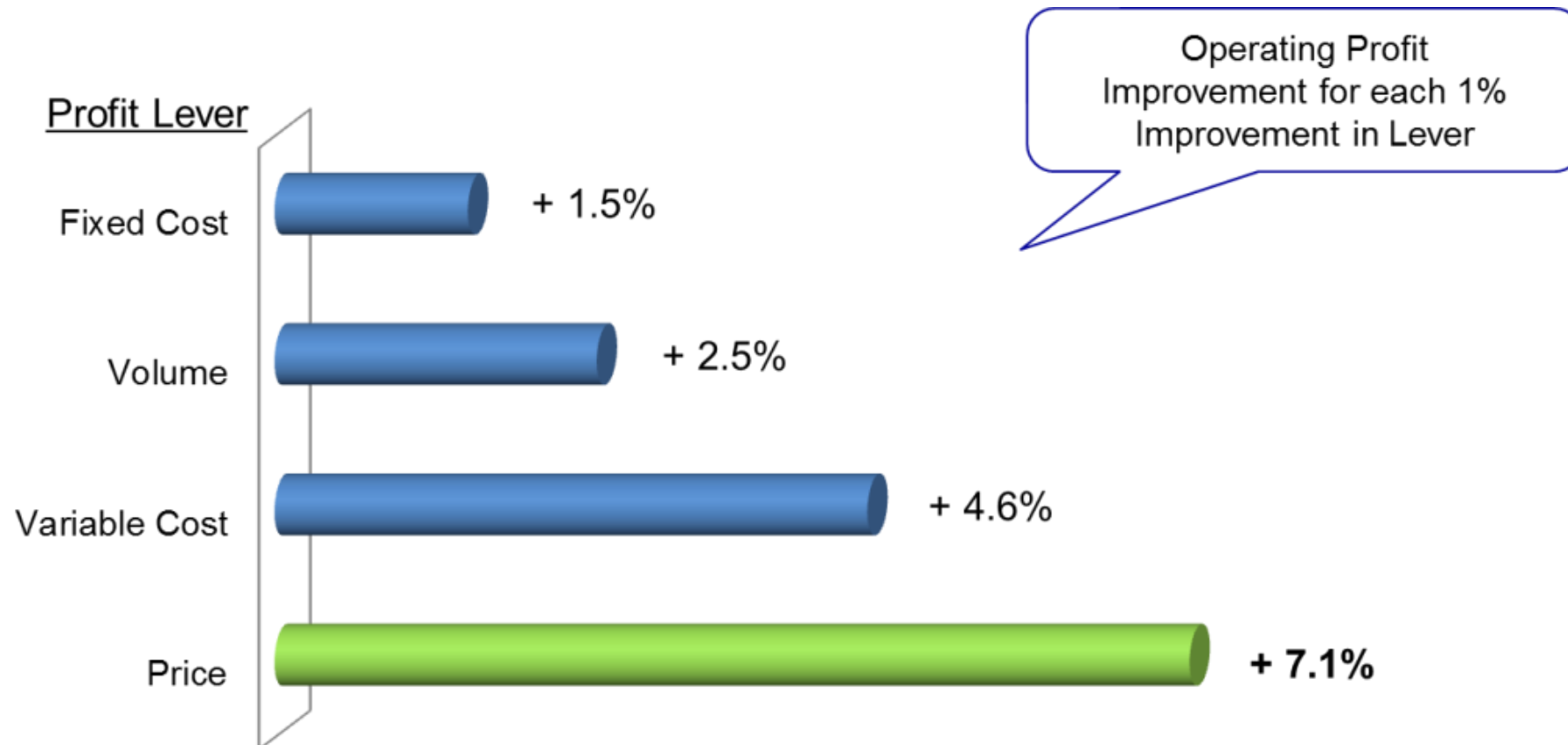
Why not the food industry?

Simply put, Math + Data = Profits

The Price Waterfall Chart



Levers that drive profit



*Source: Compustat, A.T. Kearney analysis - based on S&P 500 Average Economics

Risks associated with Price Optimization

Short-term risks (may be required)

- Testing consumer response at various price points

Long-term risks

- Leaving profits on the table
- Reduced Profits from suboptimal pricing
- Changing a strategy that works

115,115 views | Sep 27, 2013, 02:22pm

A Strategic Mistake That Haunts JC Penney



Panos Mourdoukoutas Contributor
Markets

Anyone who has an affinity for American business icons — as testaments to this country's long-standing fondness for the free enterprise system— cannot help but be concerned over the fate of [JC Penney](#) JCP -4.55%.

The company continues to lose money

and burn cash, with no turnaround in sight. Investors are bailing out from the stock, which dropped to single digits during Friday's trade, following a stock offering by the company.

What haunts JC Penney?

A strategic mistake made close to two years ago, regarding its pricing strategy --replacement of sales through coupons with everyday low prices.



(Image credit: Getty Images via @daylife)



The Technology Case

We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction.

Bill Gates

Technology is transforming business

Desktop analysis tools

- Data Visualization (QlikView, Tableau, etc.)
- Machine learning languages (Python, R, etc.)

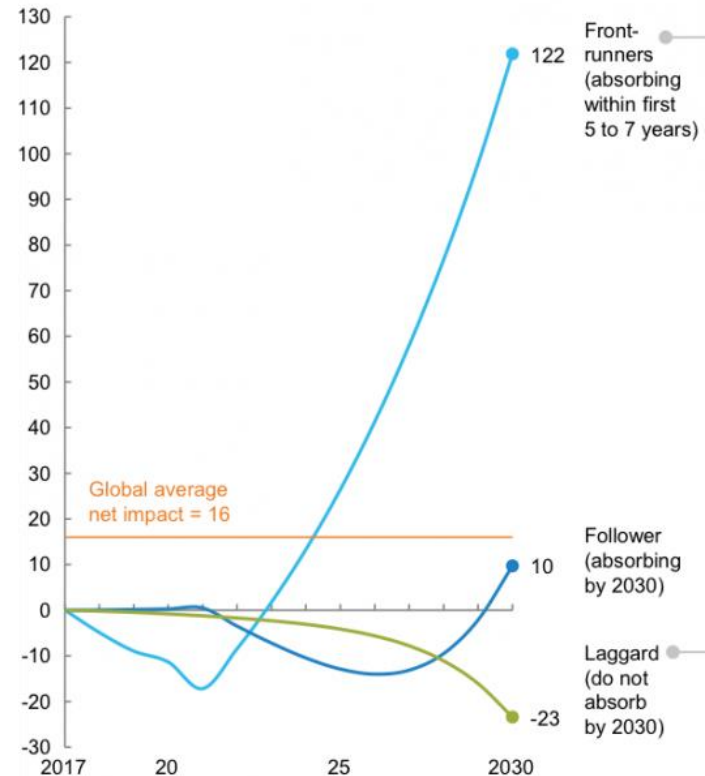
Cloud platforms and services

- No capital expenditure
- Pay by the minute
- Amazon (AWS), Google, Microsoft (Azure), SAP

Large Data Sets

- Historical Transactions
- POS (Point of Sale) data
- Competitor pricing data
- Survey Data

Relative changes in cash flow by AI adoption cohort
% change per cohort, cumulative



NOTE: Numbers are simulated figures to provide directional perspectives rather than forecasts.

SOURCE: McKinsey Global Institute analysis



The Strategy Case

Never interrupt your enemy when he is making a mistake.

Sun Tzu “The Art of War”

Common Pricing Strategies

Segmentation

- Location, Offering, Time/Season, etc.
- Customer type or volume

On-line vs. Retail or hybrid mix of both

- Amazon/Whole Foods/Prime

EDLP – Every Day Low Price

- Requires buying power and market surveillance

Product Innovation

- Modify packaging for size, convenience, tastes
- Innovate around prepared products
- Smooth out cycles in commodity markets



Avocado growers face surging demand for healthy fats. WSJ – 2/25/2019

Common Problems

Don't fix a strategy that is working

- Reducing marketing costs may hurt your brand
- Personal relationships are assets that require support, not costs to be cut
- Your price increase may impact distributor profit

Defend against store and in-house brands

- Switching costs are high
- Quality/taste perceptions change after switching





The “Getting Started” Case

Never interrupt your enemy when he is making a mistake.

Sun Tzu “The Art of War”



Getting Started

Remember: Data + Math = Profits

- Start with the data you have on hand
- Free and open market data, weather data, etc.
- Low cost/No cost analytic tools exist today

Talent – Grow your own or augment your team

- Data scientists are analysts who apply complex math to data to optimize results
- Data scientist “in the box” solutions exist
- Available internal resources may be a constraint

Build analytic capacity incrementally

- Use early successes to justify more investment
- Time, focus, and executive support are required for success

**"START WHERE
YOU ARE.
USE WHAT
YOU HAVE.
DO WHAT
YOU CAN."**

- ARTHUR ASHE



Continue the discussion?

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