The CEO Guide for Effective Pricing

How to Become a Hyperlearning™ Organization

WHITEPAPER

Table of contents

Our Vision on AI Pricing

In the old days, prices at the farmer's market were entirely dictated by how much you bought or how close you were with the seller, then the prices started to become more stable and dependent on the cost first. This transaction towards fixed prices, however, almost came to its end, the world is ever-changing and the emergence of technology has had a huge impact on e-commerce.

Nowadays everyone is connected to the internet at all times, people can do almost everything with the help of a smartphone, including shopping. There is a constant stream of data coming from consumers, their location, interests and, most importantly, buying habits. We have more data than ever and being able to gather this data, analyse it and use it to optimise your prices is what gives the biggest retailers the opportunity to grow faster.

When tasks are familiar, and a vast amount of data is available, computers will likely beat humans by being data-driven and highly consistent.

However, although AI is advancing rapidly, a general rule of thumb is that when tasks are unique, and when the data overload is not a problem for humans, they are more likely to have an advantage. In many situations, the most reliable performance comes from both humans and computers working together. This is where our tool can help your organisation.

By comparing the results from the underlying logic of the computers alongside human intuition, humans can learn and increase their intuition, and the underlying AI models on which the results from the computers come from can also improve at the same time. We have named this Hyperlearning.

In a fast-changing world, the most important competencies of any organisation are to first "learn fast" and second "be agile", which means you must be able to execute what you have learned. In order to intertwine the human learning and decision-making process with machine learning, we have to redesign both of these processes.

AI and ML tools are exactly what the biggest platforms, such as Amazon, are using to do that and research shows that the prices of products on that platform specifically change on average every 10 minutes. These retailers can only do this with the analysis of data, without it everything is just zeroes and ones.

The market is constantly changing, new competitors, political and economical factors all have an effect on the bottom line of every business. Nowadays to succeed you have to adapt very quickly and the retailer that can adapt the fastest can grow the fastest.

So in order to be better, it is important to take pricing into your hands. To start on your journey of price optimization you need to start collecting data and use it to your advantage. With pricing software such as SYMSON, you can make this transition to dynamic pricing more manageable. We have taken a look into the historical data of the market and we have developed this software that will let you take advantage of every opportunity for an increase in revenue. In order to be successful in this world of AI and ML analysis, your approach to pricing needs to change and with it, your business.

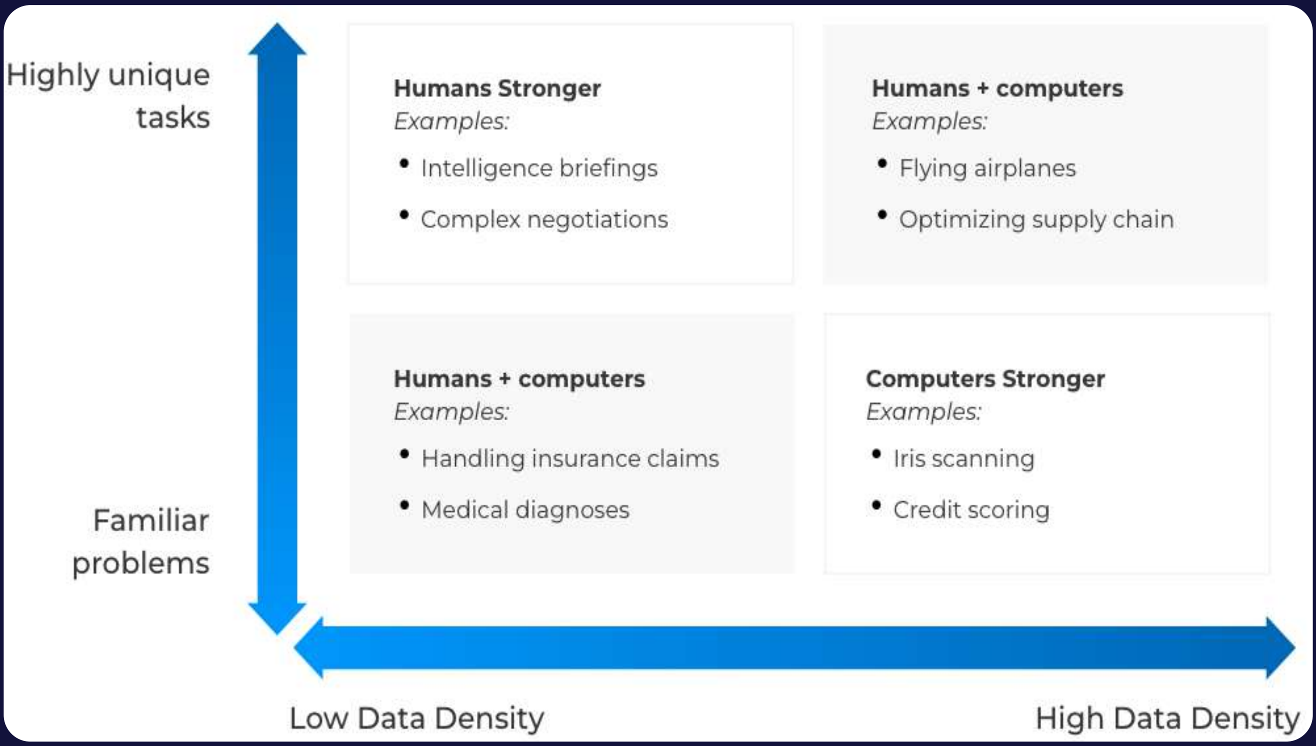

Figure 1. Pricing is perhaps one of the best examples of how pricing has increasingly become a good combination between human knowledge and technology. This is called Augmented Intelligence.

WHERE SHOULD I START?

Market Conditions, Maturity and Its Relating Pricing Strategies

A price optimisation project is a major undertaking for any company. There are often multiple internal stakeholders, and it is likely to affect a wide range of internal systems and processes, from basic product management systems to cost and profit allocation and customer relationship programs.

When done right, it can be one of the most profitable activities a company can undertake. When done wrong, the dangers are equally significant.

To help you decide what the optimal strategy is, we have put the different strategies along the product life cycle.

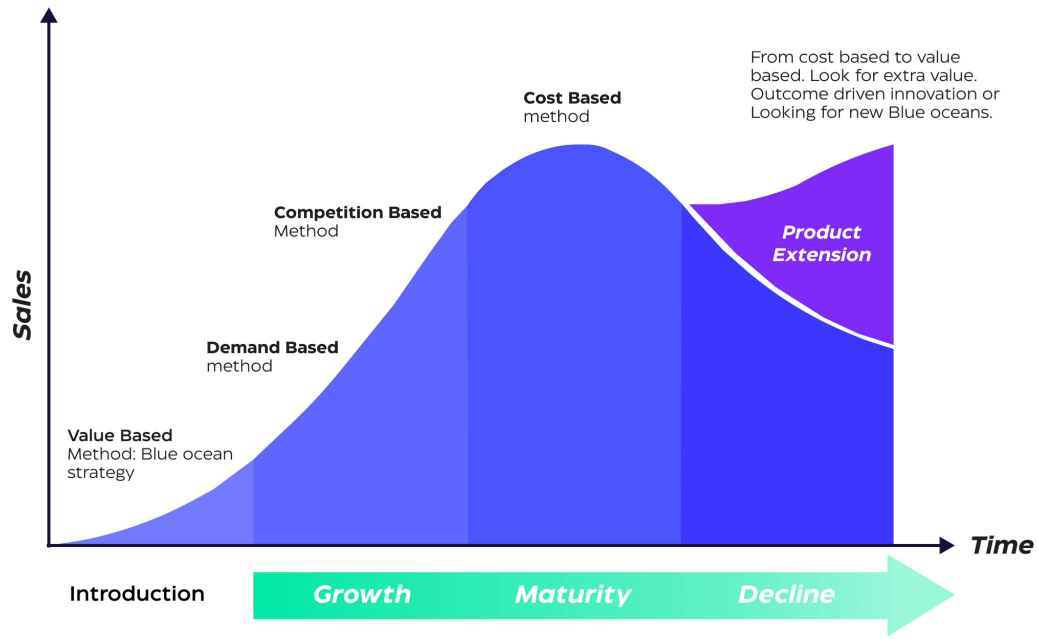

Figure 2. Product life cycle.

WHAT STRATEGY SHOULD I IMPLEMENT IN MY BUSINESS?

Pricing Strategies

Cost-based

A cost-plus pricing model, also known as mark-up pricing, is the setting of a product price by adding a percentage of profit to the costs to determine the selling price.

Rule-based

Business rules have become an important part of the practice of a price optimization system. These rules are meant to capture managerial knowledge and insights that impose important constraints on the pricing problem.

Competitive pricing

Competitive pricing is a pricing model whereby your prices are set in relation to your competitors' prices. Competition-based pricing only focuses on public information about competitors' prices and not on customer value. A strong competitive pricing model relies on quality research.

Stock-based

Stock-based pricing, also known as inventory-based pricing is a strategy that uses the amount of stock available to determine the price of the product. For many companies' their level of stock is an important factor in determining prices.

Elasticity pricing

The elasticity of demand is an economic principle that indicates to what extent the demand for a certain product changes when the price of that product changes. With SYMSON, you can analyse this quickly for each of your products, in an easy to understand interface. With the knowledge, you obtain you can respond quickly to price changes. To leave no profit margin on the table.

Geographical:

- Geographical pricing is the adjustment of prices based on where the buyer is located. This method allows you to take regional, national or intercontinental differences into account for shipping costs. This ensures that you can optimize your systems and prizes to make sure that you do not lose any money on shipping.

Key-value Item Pricing:

- A key-value item (KVI) pricing model is a pricing model for a product with a high price elasticity that is sold relatively often. In other words, it is a high-selling product whose price is very important to buyers. With a key-value item pricing model, you can easily generate extra profits. If you can identify your key-value items in your range of products, you can price them competitively to get as many people as possible to your store or webshop. You will not make a lot of profit on this product, but with extra sales of products that are not price-sensitive, you can generate very good profit margins!

Dynamic Pricing:

- With a dynamic pricing model, companies and shops constantly adjust their prices in order to optimise their margins on the one hand and their sales opportunities on the other. In this pricing strategy, shops look for the price that customers are willing to pay at any given time. Instead of fixed prices shops are thus using variable prices, to optimize profits.

SUCCESS DEPENDS MAINLY ON THE ORGANIZATION

The Organisational Process

To develop and maintain a sophisticated pricing approach digital and advanced analytical skills are needed. For this, a dedicated pricing team or person is required. Its type (local, regional, or global) depends on the industry structure and dynamics. Regardless of the geographical setup, it will necessary to include the following essential elements:

- A local/regional/global pricing team/person that will maintain and develop the pricing engines, track price and sales performance, its deviations, and advise management on price evolution. This team needs to contain both the traditional roles and new ones, such as analytical people.
- Standardised pricing processes that firstly work with market intelligence, raw material forecasts, and other pricing inputs and then develop new dynamic price recommendations and monitor its execution. A well set up pricing calendar with milestones will help to ensure flawless execution and that pricing happens proactively.
- Pricing performance management that defines targets on pricing, margins, and profitable growth, develops a simple but effective dashboard; and gives feedback about effective and ineffective approaches used.

Figure 3. In tools such as SYMSON you can structure your pricing process and monitor its execution.

CHOOSE AN ALGORITHM THAT SIMULATES AND FITS YOUR PRICING

Analytics and Tools

There are many different types of analytics, and its choice mainly depends on the goals of a particular business. It is of the utmost importance to understand that there there is no one algorithm that will suit all businesses; instead, each business needs to develop its own dynamic-pricing algorithm to achieve its specified goals based on its pricing transactions.

Companies need to have a segmented pricing approach to use analytics to its fullest potential. For example, for the products with similar pricing behaviour, statistical clustering can be used. This technique is very suitable for pricing large assortments of products. For the products that have higher value, companies can use a value-pricing approach that is based on a mapping of customers' buying factors.

There are also algorithms that can drive the pricing engine itself. They are based on a combination of advanced analytics techniques and include machine learning, Artificial Intelligence and statistical modelling. All these techniques can deliver insights on relatively small datasets.

An essential part of the analytics engine is self-learning algorithms that analyse each customer segment's willingness to pay and update prices based on this data (click conversion, offer win rate). If there is enough data, companies can even split the segments into subgroups and use differentiated price tests.

To make sure that the pricing engines reach the expected results, the performance management layer provide easy-to-read visuals that synthesize key metrics so that managers understand what's going on and track the price changes in a given period. The pricing engine needs to be integrated with the tools that sales teams can use on the daily basis.

SET THE RIGHT EXPECTATIONS AND STIMULATE FEEDBACK

Mindset & Behaviour

A good and well set up dynamic-pricing engine will not necessarily change the way salespeople act. If they still believe that lower prices lead to more deals, they may not take into account the recommended price hikes because of the fear of losing volume.

Leading companies implement various approaches to get salespeople to buy into dynamic pricing. It is necessary to incorporate sales teams' knowledge into the system from the beginning. By being part of the process salespeople will realise that their experience is actually a key part of the new model. It is essential for the pricing team to set the right expectations regarding the price changes: some may rise, others fall, and still others remain flat.

A strong benefit of dynamic pricing is that it helps salespeople stay on top of complex product portfolios. Advanced analytics can provide fact-based guidance on the product and pricing and show what the salesperson can do in each situation. If those recommendations are easy to understand and implement, they make each salesperson more effective.

Demonstration of the effectiveness of the model works can help to convince salespeople that the approach and the tools are extremely valuable. It can also help to prevent additional investments for dynamic pricing initiatives.

A new dynamic-pricing system is also a great opportunity to reset the coaching setup between sales managers and their teams. New deal-scoring processes, for example, mean that deals that require deeper discussion get escalated, creating a coaching opportunity.

Senior leaders also need to change their way of thinking. They should understand that every deal made by a salesperson, whether it's won or lost, can provide valuable new data

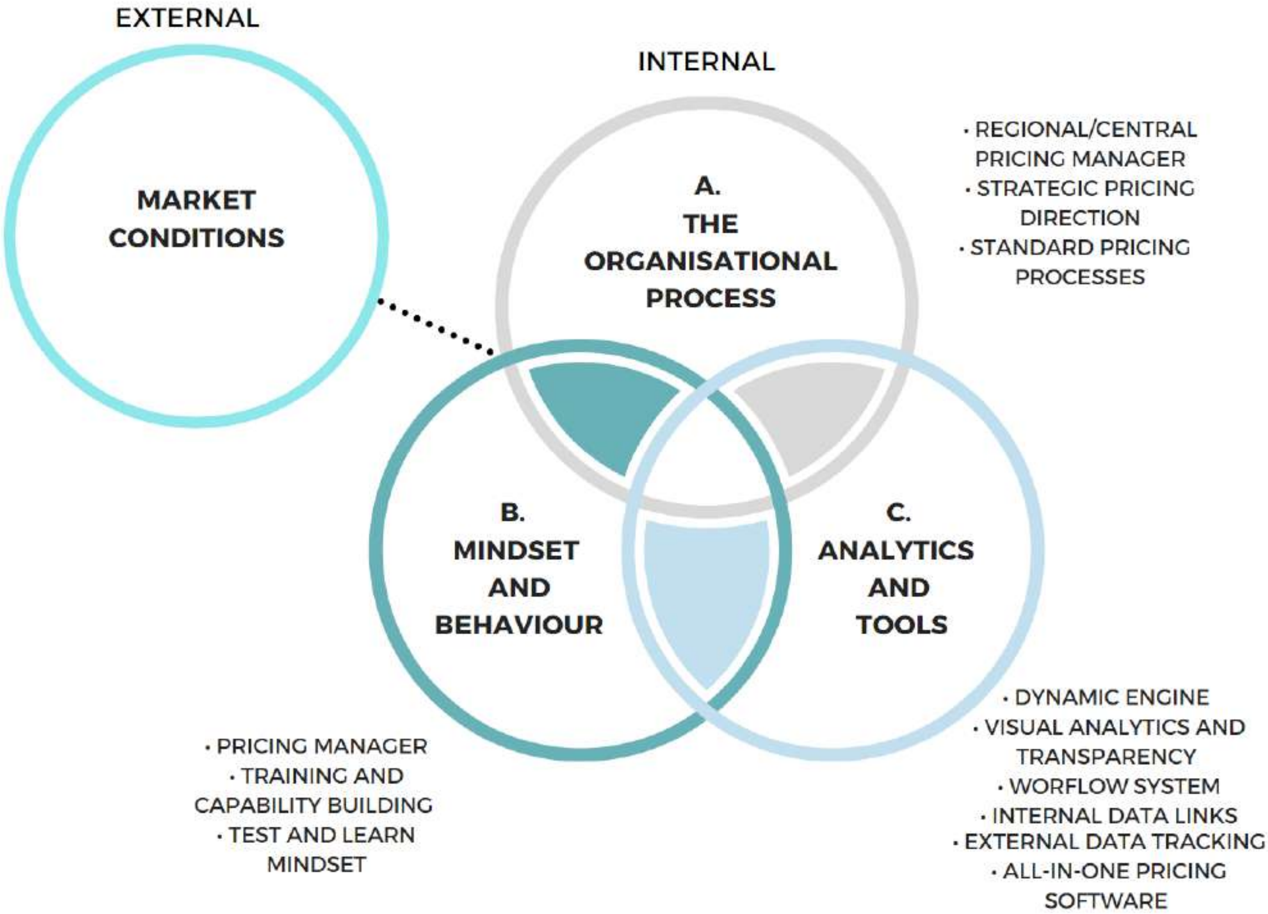

Figure 5. Overview of the 4 key elements to make your pricing scalable and more effective.

How to get started?

Like many of the automation projects or software implementations, technology is not the only part of success. A well-known rule of thumb is that 25% of the success is determined by technology and 75% by the organization and processes. There are different approaches to adopting Dynamic Pricing in companies, but we have identified five key steps to get started.

1. Identify the potential impact to create a strong business case and ensure the top team is fully committed to embracing that potential. With users we usually see the following potential points:
   - an improvement in the gross margin
   - a time-saving in the price process
   - better price forecasts

2. The impact of dynamic pricing is comparable to the start of a new business idea and therefore merits the involvement of your best people. Don't forget That Dynamic Pricing is a business solution, not just an IT tool.

The project and implementation should be owned by a dedicated business team that has the analytics capabilities to drive the project forward together with sales and marketing.

3. Especially for B2B organizations, the introduction of Dynamic Pricing is a mindset change that requires new capabilities. Legacy systems will not be the reason you fail; legacy thinking will. Identify likely promoters and detractors of a new solution across the organization. Develop a strategy for amplifying the former and converting the latter. Review incentives to better align them with value to help change mindsets. It is also of the utmost importance to show people that they are partners on the same journey and Involve them in decision making and incorporating their feedback.

4. Our experience indicates that companies do better if they are entrepreneurial and think in action.

Fail fast and learn fast and combine consuming the results with improving the technology. It is better to deploy a minimum viable product fast and get valuable insights to the front line in a matter of weeks while setting the stage for long-term impact. Companies that follow that agile approach typically achieve the first bottom-line impact within three months; if they also keep innovating their approach over on the regular basis, they can make their systems very autonomous and self-learning

5. Success requires a broad mix of talent. It is a great idea to start hiring people who understand data analytics and start partnerships with companies that can help you implement a Dynamic Pricing tool. Combining the knowledge of partners and data managers is the key.

Dynamic-pricing skills are essential to staying ahead of the competition. But in our experience, tools and algorithms are not enough to get and sustain significant impact. Companies also need to put equal focus on both people and processes.

Figure 6 . Steps to improve your pricing.

Never lose margin again.

Optimizing prices has a much bigger impact on your margin than optimizing your costs:

- A 1% increase in your prices can increase the operating result by 8.5%
- A 1% reduction in your costs leads to an improvement of your result between 1 and 3%.

Figure 7 . Margin Optimization Analysis in SYMSON.

About SYMSON

We help businesses compete against tech giants with huge budgets to develop AI algorithms to optimise pricing and forecasting.We bring together scientific models, data science and software engineering in an AI platform (SYMSON) where customers can quickly respond to dynamic customer behavior. YMSON helps you to automate your tasks, it makes advices how to increase your margin and revenue and let you combine multiple strategies together.

Contact Us

085 - 06 03 934

support@symson.com