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# The Price is Right

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*Tim Ham, a director at price optimisation consultancy Pearson Ham, sheds light on using data to make sure the price is right.*

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Though pricing is recognised as paramount for competitive success in retailing, many retailers have not developed their pricing approach to reflect the greater opportunity contained within their ever richer data. Many retailers have the ambition to improve their pricing, but lack the experience and hence the capability to master this challenge.

Pricing, though one of the "4 P"s is highly analytical and rarely creative or appealing to the average marketer. Finding and recruiting experienced pricing people is difficult.

## PRICING NEEDS TO BE NURTURED AS A SPECIFIC SKILL SET

In retail, the central pricing function is ostensibly responsible for setting the pricing strategy. However category managers subsequently apply discounts and promotions that can be of such scale that the integrity of the pricing strategy is undermined.

As analytics improve the scope for pricing to drive substantial value has amplified. It is possible to gain an accurate and segmented understanding of price elasticity of demand. Further the lifetime value of customers can be understood at a micro level allowing organisations to identify which customers are loss making or driving substantial profits. When customer variations in price elasticity and lifetime value are overlaid, it reveals disparities in current pricing performance and the scope to increase profits by between 20% and 250%.

Optimising prices, through is complex. Retail price elasticities, are driven by a range of criteria including demographics, competitive situation, occasion mix, purchase frequency. The sheer range of potential drivers drives the opportunity from and complexity of the analysis performed. It requires refined statistical skills, financial modelling skills and an understanding of consumer and competitive behaviour.

Many retailers have risen to this challenge and have strengthened their central pricing teams in the last decade. The skills are too rare and refined to disseminate them throughout an organisation. Some make excellent use of their data to drive effective differentiated pricing strategies.

## PRICING STRATEGY SET BY SENIOR MANAGEMENT

That is not to say that pricing can or should be done as a purely centralised function. This would not give sufficient credence to category managers or allow them to take advantage of supplier funded promotions.

Quite the opposite, the best retailers whilst having a strong pricing function recognise the strategic importance of pricing decisions and elevate major pricing policy to a senior level. They ensure that all functions are involved in the decision. Their involvement is essential to ensure appropriate trade-offs as well as compliant implementation.

This senior cross-functional group has the capability and legitimacy to set well articulated boundaries for the strategy that provide guidance to all parts of the organisation on how to implement the pricing strategy.

It is paramount that these decisions are well informed by insights and recommendations developed by the pricing function.