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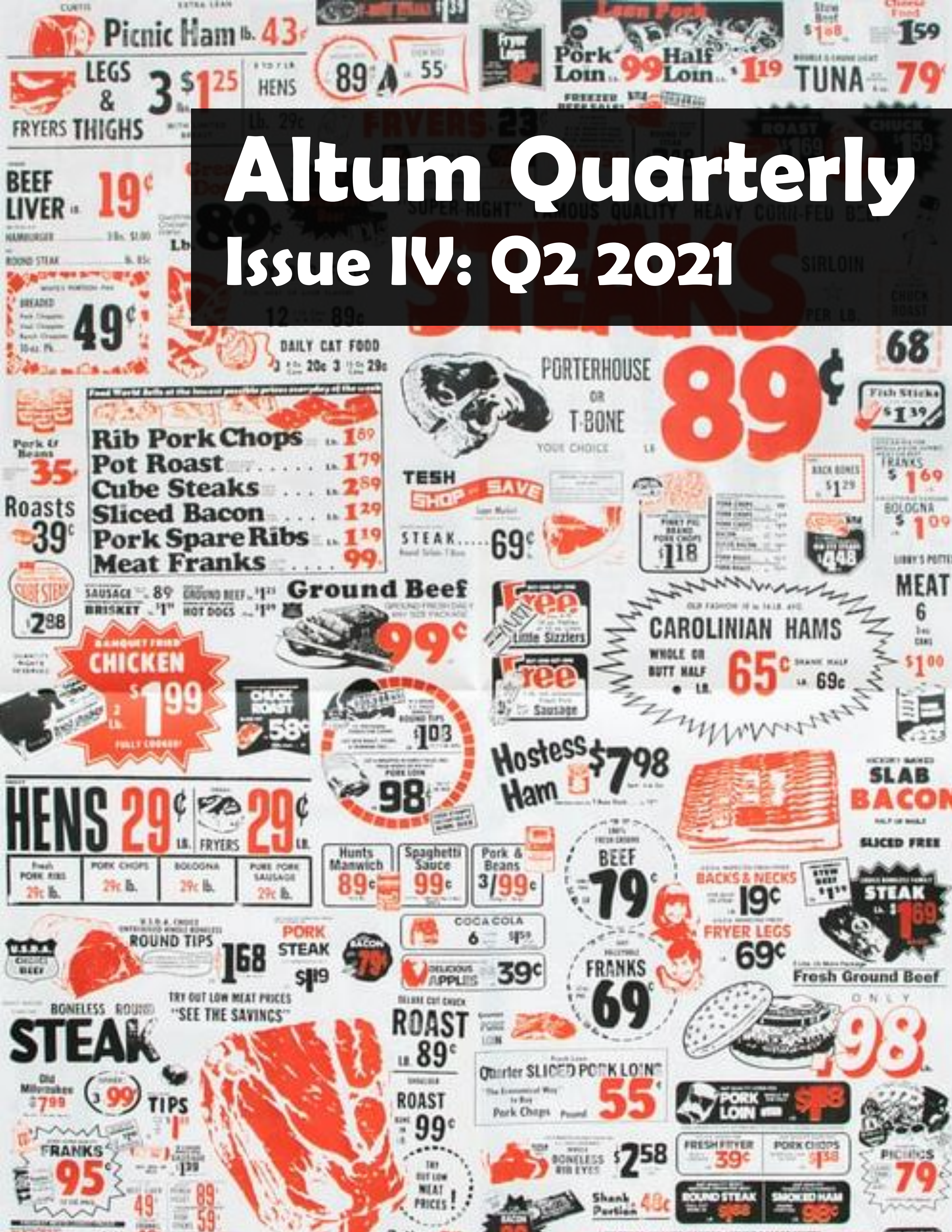


Turning the "Power" of "Right Pricing" into "Profit"

Small changes in average price can translate into huge changes in operating profit—to the benefit of a company when average price goes up, and to its detriment when average price goes down.

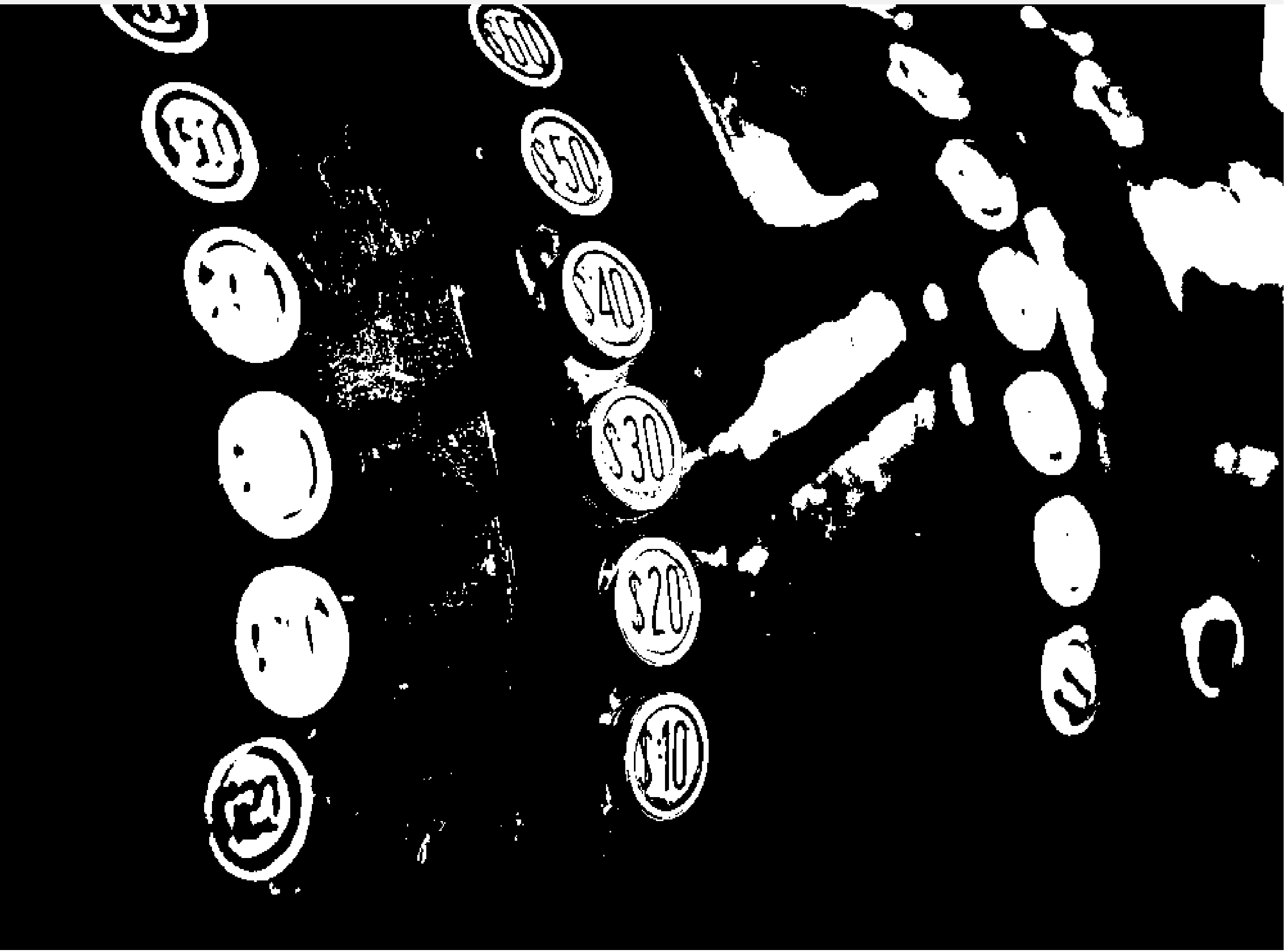
Dynamic pricing doesn't have to be extraordinarily complex, but it does have to be strategic and disciplined.

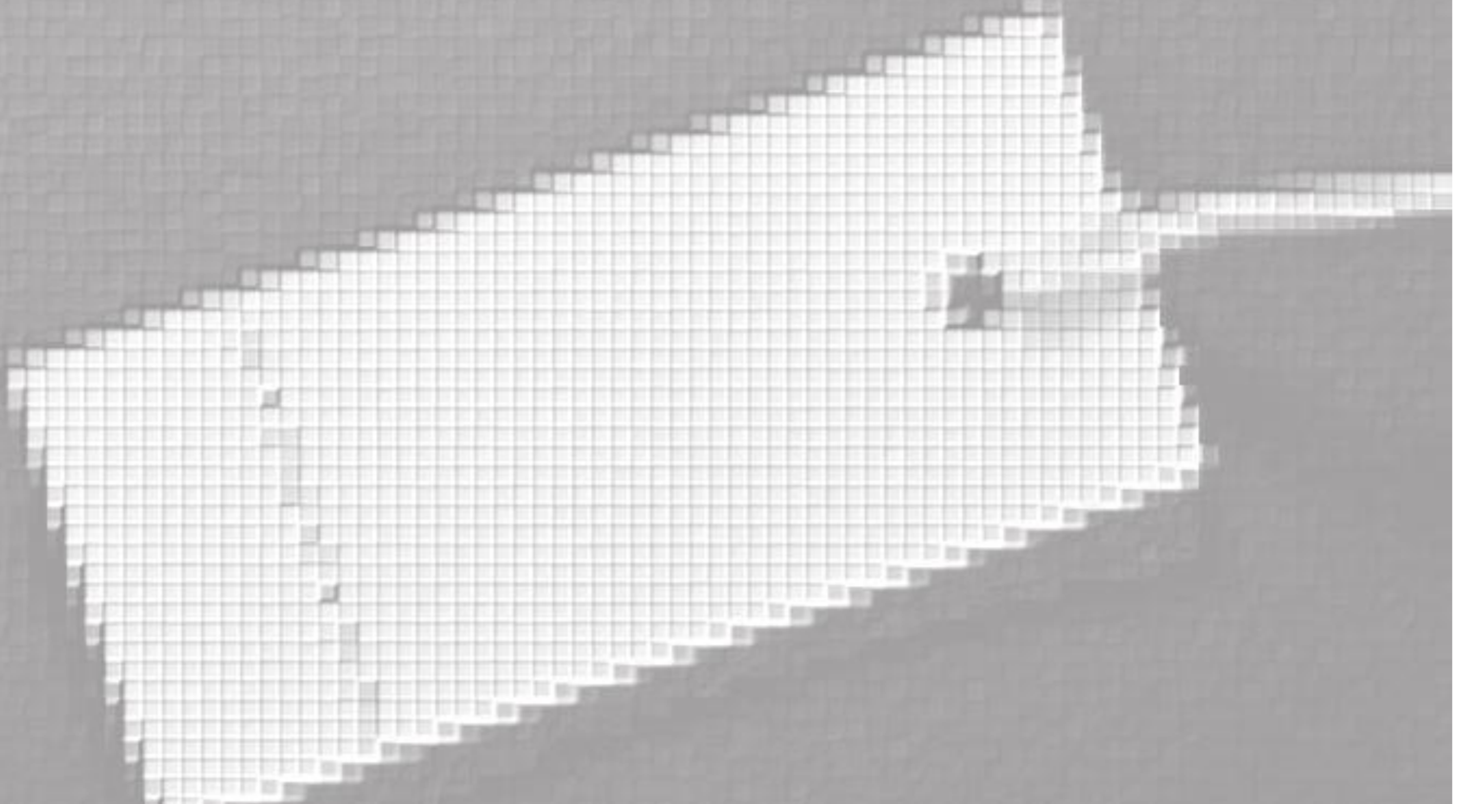
Dynamic pricing is the norm for airline tickets, hotel rooms, and ride-sharing services. In e-commerce, Amazon has long been a leader in dynamic pricing; the company reprices millions of items as frequently as every few minutes. But dynamic pricing isn't just for travel companies or e-commerce giants, and it doesn't necessarily require ultrasophisticated software that changes every product's price multiple times a day. Even traditional retailers can reap tremendous benefits from merchant-informed, data-driven algorithms that recommend price changes for selected products at some level of frequency.

Despite the competitive advantage that dynamic pricing can confer, few omnichannel retailers have developed this capability. Some are only now starting to explore the potential of dynamic pricing. Other retailers conducted half-hearted and poorly planned pilots that, unsurprisingly, had little impact and thus failed to get the organization's buy-in.

How to turn pricing into a sustainable profit engine …

- Discovering the ***real value*** of each product for each customer segment to set the best prices.
- Designing ***market strategies*** based on a deep understanding of how pricing is connected to the business' goals and what competitive pressures are affecting the market.
- Delivering prices to the marketplace through an infrastructure that ***incorporates*** processes, organizations, systems and tools, and performance-management approaches that are relevant to the business.





The Dos

- ***Focus on the out-the-door price***, not the item price.
- ***Consider consumer expectations***. Certain items are better candidates for frequent price changes than others.
- ***Test and refine***, aka learn-it-by-do-it.
- ***Plan your journey***. Seek to understand your current competitive position in the market and consumers' price perceptions of your brand.

The Don'ts

- ***Introducing prices that alienate customers***: Don't insult the customer. Consumers expect airfares to change constantly, but they expect the price of a jar of pasta sauce or a bottle of shampoo to stay fairly consistent.
- ***Changing prices too frequently***: Don't change prices just for the sake of changing prices. The specific triggers for price adjustments can differ substantially across retailers and customer purchase occasions.
- ***Relying on bad data***: Don't let bad data dictate your pricing.

Following the pocket price waterfall

Many companies can find an additional 1% or more in prices by carefully looking at what part of the list price of a product or service is actually pocketed from each transaction. Right pricing is a more subtle game than setting list prices or even tracking invoice prices. Significant amounts of money can leak away from list or base prices as customers receive discounts, incentives, promotions, and other giveaways to seal contracts and maintain volumes.

Managers who oversee pricing often focus on invoice prices, which are readily available, but the real pricing story goes much further. Revenue leaks beyond invoice prices aren't detailed on invoices.

The pocket price waterfall is often first created as an average of all transactions. But the amount and type of the discounts offered may differ from customer to customer and even order to order, so pocket prices can vary a good deal.

It would be a mistake, though, to assume that wide pocket price bands are necessarily bad. A wide band shows that neither all customers nor all competitive situations are the same—that for a whole host of reasons, some customers generate much higher pocket prices than do others. When a band is wide, small changes in its shape can readily move the average price a percentage point or higher.