



Price Optimization: Maximizing Retail Profits in a Tough Environment

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The pricing optimization market has reached a turning point in which sustained retailer success is nearly impossible without companies leveraging the power of advanced pricing technology. The power of analytics to drive much more precise decision-making throughout the enterprise is now a given among retail leaders. The question today is how to proceed to make the right investment for your company. Indeed, the power of price optimization now includes areas as diverse as initial optimal pricing of product, promotional pricing, markdown levels and timing, and even working with suppliers to determine right pricing.

The issue of leveraging price optimization has reached a particularly critical stage as even the strongest retail leaders struggle to maintain profits in a down market driven by enormous fuel price increases, the threat of surging inflationary pressures and, as a result, sharply diminishing discretionary spending among most shoppers. Retailers who lack a high degree of analytical prowess will almost certainly fail to compete as effectively as those who price with exact precision for maximizing profits and minimizing risk.

Pricing precision is especially true in serving today's customers, who are information and technology empowered and come to your store or web site armed with greater and more specific product knowledge, in far too many cases, than many store associates or even store managers. Clearly there are a host of factors that retailers face when determining the best ways to create a sustainable bond with customers. Store and on-line experiences must be attractive and interactive. Creating a unique and exciting personality is a must. But precision pricing and the ability to accurately forecast sales and profit may well be the most important behind-the-scenes factor in driving bottom-line growth.

There are several price optimization companies competing in what has become a highly charged, quickly evolving and clearly expanding retail solutions space. Among the leaders that has emerged, and carries the benefit of being retail-centric in its focus, is KSS Retail (KSSRetail.com), which has compiled an impressive list of past and recent wins. KSS Retail has been able to deliver consistent, measurable results for its customers, and those results have led to recent announcements of four new major customers: [Sonae Distribuicao](#), Portugal's largest retailer that operates more than 630 hypermarket, supermarkets and non-food stores under a diverse range of banners including Modelo and Modelo Continente; [Super S Foods](#), operator of 49 supermarkets based in San Antonio, TX; dabs.com, a UK based on-line electronics retailer owned by British Telecom; and [Cumberland Farms](#), the leading convenience store chain in the Northeast with over 580 convenience stores.

These recent wins, along with the company's existing successful and reference-able customers (Raley's, Rite Aid, Gigante, Brookshire Brothers, McKesson, Ball's Food Stores and others), makes including KSS Retail in any price optimization RFP a smart step before moving forward.



In evaluating pricing optimization companies and solutions, several factors must be taken into account:

- Is the company able to deliver a real-time modeling tool that can be used by your merchants as they do their daily work? It's nice to have fast systems, but some price optimization products deliver results in 10 minutes to hours, and that lack of speed changes the very dynamics of how pricing tools should be used, along with the benefits derived from them. Optimization tools need to be leveraged interactively when pricing and promotion decisions are being made, such as during vendor meetings, when you need to evaluate a deal, or during ad meetings, when senior management wants to change ad pricing. The key point is that for real bottom-line success, you must be able to use price modeling and optimization on the front-lines of merchandising.
- Does the company have an experienced staff that understands retail and the role of pricing? Have its employees worked for retailers and therefore understand how to leverage the science of optimization with the art of merchandising?
- Results. Is the optimization company delivering strong financial results for its retailers and have they had any failures? Retailers who are successful with optimization should quickly see strong, bottom-line results and, more often than not, are willing to share insights into their achievements. There have been failures with optimization, but this is more than likely a result of choosing the wrong tool. Ask for retailer references when choosing a solution and visit retail references on-site if at all possible before making a decision.

In summary, retailers today compete in an unprecedented environment in which technology in general and pricing optimization in particular often spell the difference between lackluster versus improved profits, at a minimum, and in a growing number of cases, success versus failure. With further advances coming, the importance for retailers large and small to fully understand the value proposition of pricing optimization solutions is enormous. The biggest mistake executives can make is to ignore the dynamic changes in today's pricing solutions environment and continue current practices without an eye to the future.

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