

Our point of view

Price & promotion optimization

Admit it, you were once seduced in the grocery store—by the fancy end-cap display that led you to buy the chips you didn't need. But what really got you to buy? The display? The promotional price? The merchant would love to know.

We target three key aspects of price and promotion management. Careful attention to these—and judiciously applied analytics—can ensure both merchant and consumer are satisfied.

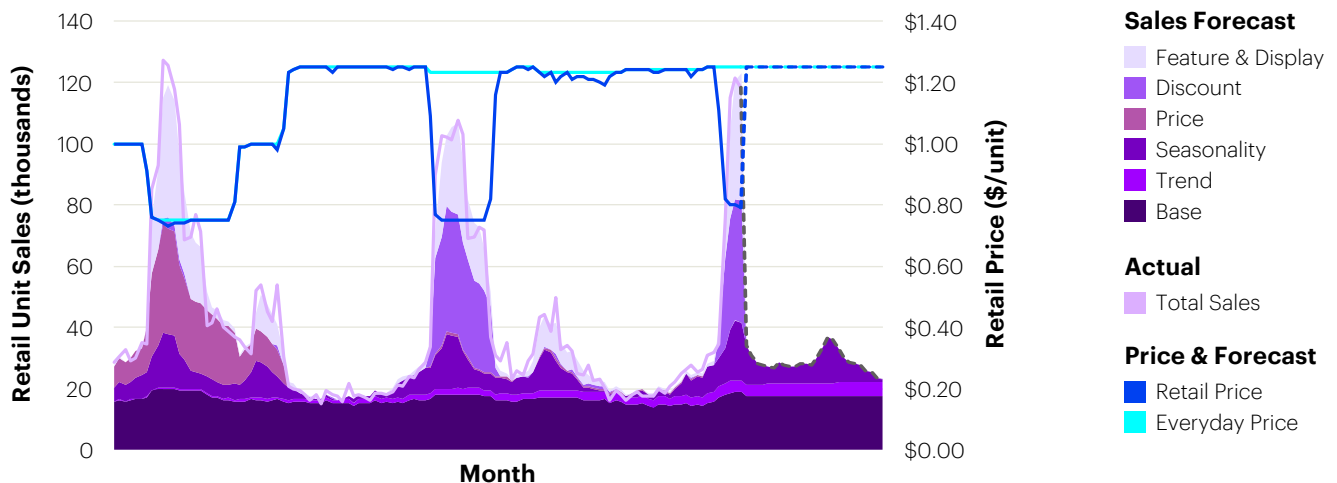
Price Setting

Firms distinguish themselves by applying analytics to pricing. We use machine learning models to predict consumer response to price and promotion actions. Factors from routine seasonality, holidays, or the weather, can also be included. So can competitor data. See Figure 1.

The models measure price elasticity, prescribing the price, promotion activity, and timing to maximize expected profit. They also assess a given promotion's profitability. Many clients are surprised to discover how poorly some promotions perform, yet they run them year after year.

Figure 1 - Forecasting sales

Predicting Consumer Response to Price & Promotion



Price Execution

Charge what you think you are charging. Many levers can be pulled to affect price, including list price, item volume discounts, order volume discounts, freight discounts, annual rebates, and so forth. Figure 2a illustrates how list price can be eroded to a final pocket price.

Too often we encounter situations with management surprised by what the data shows. Keep track of the number and size of the discount buckets, and actively manage them.

Pricing Strategy

Pricing strategy balances the volume targets of Sales, the messaging of Marketing, and the margin desired by Finance.

Restructuring volume discounts helps. A focused program with a big rebate for hitting an annual volume target drives good customer behavior. Figure 2a shows the “before” view, while Figure 2b shows the “after.” Average pocket price went up after the switch, but perceived price went down, resulting in better margins, higher volumes, and higher customer satisfaction.

Case Study

We helped a CPG firm produce forecasts akin to Figure 1, evaluating the past performance of their vast portfolio of promotional efforts.

Figure 2a - Revenue waterfall

On- and Off-Invoice Discounts Obscure Price

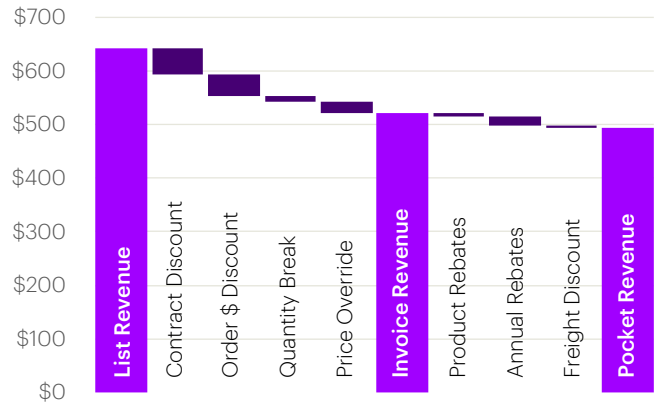
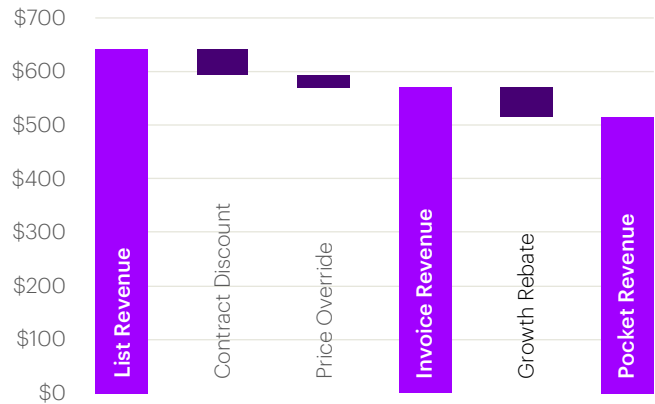


Figure 2b - Structure Programs to Drive Desired Behavior

On- and Off-Invoice Discounts Obscure Price



To their surprise, the ROI for several categories was negative. Other categories performed far better than they thought. Overall performance hinged on the relative success of their few biggest promotions. A handful of expensive promotions simply didn't deliver.

With this insight, the firm revised its promotion plan and reaped incremental margin equivalent to 15% of trade spend.