



Statistical Price Optimization FAQs

for Mid-Market Distributors and Manufacturers
with Complex Product/Customer Portfolios



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strategy | optimization | value based pricing

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When it comes to pricing, one wrong move can impact profits and customer retention. How can prices be improved without putting your business at risk?

Rather than taking a risky big-bang approach, we prefer **gradual tactics** to driving price improvement. In implementing price optimization solutions, we recommend focusing - at least initially - on **managing over-discounting** in those specific situations where the statistical tools indicate real opportunities exist to charge a little more, with minimal risk to volume or strategic customer relationships.

Can a price optimization solution help empower sales organizations to grow revenues, rather than pricing being an impediment to sales?

Yes it can. In fact, this is the typical outcome of successful price optimization projects. Consistently with independent third party research, our experience also shows that price optimization tools help improve customer retention, and that the solutions **increase not just profits but also revenues**. Optimization leads to more consistent pricing: treating your customers more fairly, while improving the ability of your business to more fully capture value from the market.

Can a medium-sized business realistically afford a scientific price optimization solution?

Price optimization isn't just for big companies anymore. **Mid-market organizations are increasingly deploying price optimization solutions**. The cost of statistical computing power has dropped exponentially over the past few decades. The emergence of certain "big data" analytical tools has substantially cut deployment cycles. As a result, **scientific price optimization solutions are now substantially more affordable** (and more effective) than they were even 10 or 15 years ago.

Does price optimization involve outsourcing the pricing decision, and removing pricing discretion from sales professionals who are knowledgeable about local markets and closest to customers?

Pricing is an important aspect of the overall customer relationship. We recommend that **you remain in the drivers' seat in managing pricing for your business**. Some providers of statistical price optimization solutions keep the pricing algorithms hidden away from their clients in a "black box." However, fully transparent, scientific price optimization solutions allow you to provide material direct input into configuring the algorithms that drive pricing for your business. Furthermore, if they are currently trusted with pricing/ discounting decisions, **your sales professionals can retain their pricing discretion**. They will be empowered, as they gain access to pricing guidance derived from scientific analysis of how price sensitivity varies across the myriad of product- and customer markets they serve. By putting the power of data science behind them, your sales professionals can make more informed, more optimal pricing decisions.

At a high level, what is needed from a medium-sized distributor or manufacturer to successfully implement a price optimization initiative?

If you are able to extract from your IT systems files consisting of one full year's worth of invoice line-level transactional data, along with customer- and product master information, odd are you already have the raw data set needed to build a strong optimization model (cleaning raw, "dirty" datasets is a standard step in price optimization projects). If you have this **data and strong executive support**, you likely have the key ingredients for a successful price optimization initiative. There is **no software** to implement on premise. Projects are typically completed within a matter of months, with little disruption to client organizations.