PROFESSIONAL PPS PRICING SOCIETY™

PRICING ADVISOR

APRIL 2023

Are You Pricing Your Products Correctly?

by: Manuel Wätjen

Often, pricing strategies waste potential because they price products purely based on value. This article explains why this strategy falls too short and how behavioral pricing can open up additional potential for your pricing strategy. Manuel Wätjen is a member of the executive board at Vocatus with a focus on applying behavioral economics to pricing strategy and sales optimization in B2B and B2C. He studied social sciences at the Ludwig Maximilian University in Munich and the University of Queensland in Brisbane, and worked as a brand strategy consultant before joining Vocatus in 2010. He can be reached at manuel.waetjen@vocatus.de.

The gold standard of value-based pricing is to set prices based on the value created by the items for the customer and the resulting price acceptance. However, this approach results in difficulties:

#1 A practical problem:

You can determine price acceptance empirically for only a few products. This is hardly possible for assortments with hundreds or even thousands of products. An analysis of previous transactions can help but will only ever find those pricing margins that have been exploited in the past and is therefore blind to possible future potential.

#2 A conceptual problem of value-based pricing:

The assumption that the value of a product is an absolute property or inherent characteristic of the product does not stand up to the reality test. The same piece of clothing appears more valuable at a designer boutique than at a discount store. The same is true for price: if you show your customer a product, he is not likely to be able to tell you what he would be willing to pay for it. Have you ever seen a piece of clothing in a shop window and been able to precisely say at what top price you would buy it? Rather unlikely. It is more likely that once you see the price tag, you will be able to tell whether you want to purchase the product or not.

THE ASSUMPTION THAT THE VALUE OF A PRODUCT IS AN ABSOLUTE PROPERTY OR INHERENT CHARACTERISTIC OF THE PRODUCT DOES NOT STAND UP TO THE REALITY TEST.

The value-based approach is not wrong, but it falls short because it attempts to set the price based on willingness to pay ("What is the customer willing to pay for a product?"), which does not exist (as an absolute construct in a vacuum). The willingness to pay measured in this way is to be interpreted less as price acceptance than as price expectation ("What is an expectable price from the customer's point of view?").

Behavioral pricing closes this conceptual gap by focusing on what price customers would pay in a specific decision situation ("Would the customer buy the product, in this situation, at this price?"), and gives recommendations on how this choice architecture (e.g., the layout of products on the shelf or on the website) should be **designed to develop price acceptance among customers**.

This is why you cannot and should not price all products based on value or price expectations.

Depending on the role of price in the customer decision-making

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process and the functions of the product in the **decision architecture of your product range**, it may well make sense to deliberately underprice or overprice items (i.e., in deviation from the subjective value or expectations of customers). This is how you can distinguish the following types of products:

Skimming products

Bestsellers should actually be priced based on value or according to the customers' price expectations and serve as a reference for other products. For example, the regular full-fat milk at the supermarket, the power socket at the electronic wholesaler, and the mid-range model in the automotive sector.

Halo products

Highlight items that convey the supplier's brand positioning that should be priced according to the supplier's price image. These include, for example, the organic milk from free-range cows sold at the organic supermarket, the quality tool sold by the electrical wholesaler, or the sports sedan sold by the premium automobile supplier.

Trigger products

Promotional products that customers would not have bought spontaneously without the promotion (due to lack of attention or perceived advantage) can also be priced below value or price expectations. For example, the bulk carton of Ultra-High Temperature (UHT) milk at the supermarket, the gas grill at the electrical wholesaler, or the interior kit from the automotive supplier.

Anchor products

Slow-moving products at the top of a category that are deliberately priced above customers' price expectations or significantly more expensive than related skim products so that the skim products appear cheaper. For example, the Demeter free-range milk at the supermarket, the high-end fiber optic cable at the electrical wholesaler, or the top-engine sports model from the car manufacturer.

Surplus products

Items purchased infrequently and out of urgent need. Customers have little idea of the price of these products and pay little attention to the price because of the urgency, so the price can be set relatively high. For example, the lactose-free milk at the supermarket, the fiber optic cable at the electrical wholesaler, or the dog guardrail from the automotive supplier.

Additional features for service providers:

If it is not just about selling products, but about regularly used services (e.g., in the form of subscription), then—depending on the point in time in the customer relationship—there are further additional functions that you can use:

Acquisition products

They are mainly free products that include only the basics of the offer. Like promotional products, acquisition products get customers to take the first step into subscribing. They are helpful if customers would not have taken this step without the acquisition product. The product's main task is to attract new customers. For example, a trial subscription to a newspaper.

Habitual products

The customer relationship does not end as soon as the customer makes the first payment; the relationship must be nurtured from that moment on. Since the benefit of the service model comes from usage, you must ensure that the customer tries out the product and uses it regularly. For example, by making the daily newspaper available on all end devices or making articles available as podcasts.

Trial products

Trial products allow users to test the enhanced product beyond the standard features for a limited time. The aim is to get them excited about offers in this way, the value of which they can only see by trying them out. For example, a one-day pass for a trial.

Upsell products

Customers who use the everyday product consistently and are excited about trial products can then be offered more products to draw them into higher-priced offers or options.

Whether you are selling traditional products or services, you should move away from the **pricing delusion** that **all your products have to be blockbusters**. Instead, you should put your pricing together like a good soundtrack. The point is not to create as many loud notes as possible, but rather to create the perfect interplay of loud and quiet that results in a good melody, which—without being able to explain it—pleases many listeners.

Pricing as a holistic task is not about designing isolated prices but rather about creating meaningful relations between prices. As a result, the task will become easier and more profitable.

Protecting and Growing Profit Margins in 2023

by: Jos Eeland and Mark Helder


Company profit margins are under attack. In a recent FD.NL (Het Financieele Dagblad) survey, it was found that 93% of C-Suite executives in the Netherlands expect a drop in profit margins of between 10-25%. That's a scary number and requires businesses to take action to protect their profit margins. In this article, the authors explain how businesses can still protect and grow profit margins even amidst these challenging economic conditions. This example from consumer goods in the Netherlands has lessons that apply across industries and geographies. Jos Eeland (jos.eeland@simon-kucher.com) is a Partner (Amsterdam) and Mark Helder (mark.helder@simon-kucher.com) is a Director at Simon Kucher & Partners.

Over the last two years, inflation has increased costs by double-digit percentages. Eventually, there was always going to be a point where costs could no longer be passed on straight to the customer. Businesses still want to do this, but they need to be smart about how they go about it. These cost pressures, paired with falling consumer confidence, consumer demand, and persistent inflation, mean that businesses operating in the consumer goods space – particularly suppliers – will be under constant pressure for the foreseeable future.

While businesses can't take on inflation, they can leverage some of its symptoms and make bottom and top-line improvements that will secure them against financial pressure – and might even grab some market share along the way.

This outlook – bleak though it may first appear – is in fact an opportunity for consumer goods firms to protect and even gain profitability by building the necessary revenue management capabilities within their organization, finding new ways to pass-through price increases and stand out from competitors. Therefore, this article provides you with 5 key actions organizations can take now to ensure their consumer goods arm is capable of protecting and even growing profitability even in these challenging times.

Here's How To Thrive

It's clear that businesses need to stimulate sales and, now more than ever, protect profitability. Therefore, we've identified 5 key actions firms can take now to better protect their profitability based on our experience.

1. Use Pricing Power Selectively

Using customer insights to understand where prices can be increased is becoming more important. Companies should take care to not interpret old price elasticity studies as the complete truth since these are quickly losing their value in the current environment. Price elasticity changes as consumer priorities change, and elasticities can also increasingly vary over customer and consumer segments. For example, younger segments, typically, change jobs more often and will be able to keep up their purchasing power while older segments might change their

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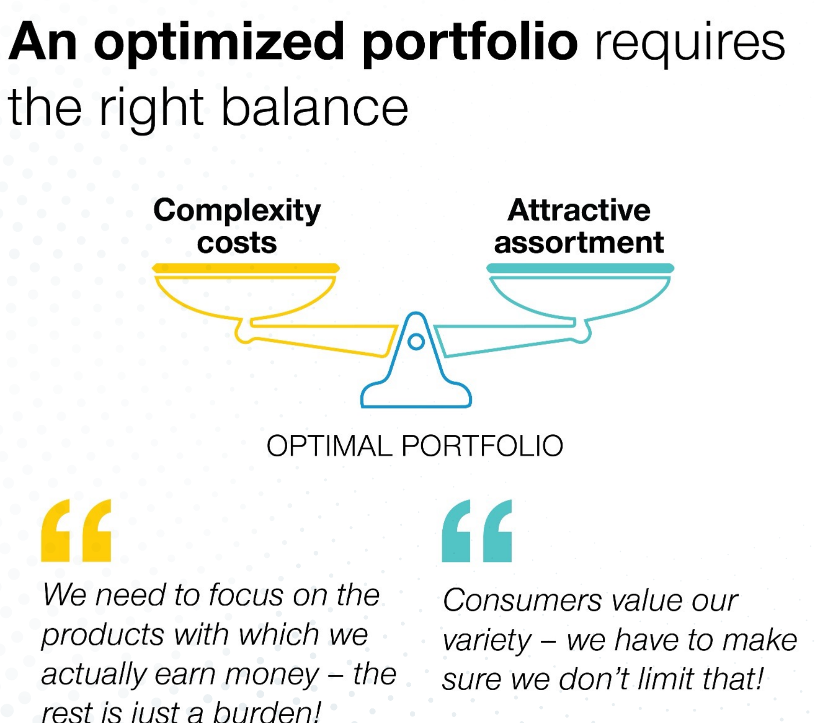
behavior more drastically. Designing different pricing scenarios is essential for making the right decision on volume, revenue, and profit.

Of course, businesses can increase their prices until those magic price points are hit. But, they need to seek other solutions - such as adjusting product sizing - to avoid surpassing this threshold. Embracing this method - adjusting and reducing packaging sizes to reduce costs - leaves shelf price untouched. In the same way, soda manufacturers adjusted serving sizes to contend with the [sugar tax in the UK](). If organizations can continue to pass on the cost increases they're receiving from their supply chain, it will give them more time to steady the ship.

2. Optimize Channels and Portfolio

With profitability in mind, alongside mounting price sensitivity among consumers, businesses need to find channels that provide them with a strong capability to protect their profitability and build upon customer loyalty. A suitable channel to double down on this would be Direct-to-Consumer (D2C) channels – particularly e-commerce. By focusing on D2C channels, businesses can avoid having many links within a distribution chain hurting profit margins while also bringing the capability of building closer relationships with customers. That loyalty will go a long way when it comes to consumers picking a product from a shelf.

There also needs to be a focus on rationalizing the long tail and in turn improving profitability in the mix. Over time, manufacturers have been expanding their portfolio with "that one pack size that this customer really needs" or "that product that will fulfill a certain new customer need." A decade later, there is a very wide and historically grown portfolio with an extensive long tail that does not contribute to any profit. A strategic portfolio mix does target the right consumer segments in the right channels with the right products, but there should be a balance between the right assortment and the complexity costs of an extensive long tail. Therefore, companies can increase the profitability of their mix with a smart balancing act.



3. Standardize and Optimize Trade Terms

Another part of businesses that is often particularly complicated due to organic growth is the terms that are set up with the retailers they supply. Between different personnel, different retailers, and different products, many businesses have an encyclopedia of different trade terms that have been established over the years. These are costing those companies a chunk of the profit pool they share with retailers. To grab more of it, they must cut down on the cost of managing trade terms and agreements and make sure they're getting the most from their retailers.

Besides standardizing trade terms, it has been shown to be worthwhile to spend time optimizing trade terms. To optimize trade terms and gain a greater share of the profit pool, businesses need to follow this three-step approach.

The first step is to rank suppliers based on their associated costs to see where the most potential lies. Secondly, businesses need to start analyzing their trade terms per supplier to see what the profit pool is, their current portion, and what they consider a reasonable portion. Thirdly, they must review the qualitative part of their trade terms per supplier and propose to include conditional trade terms such as conditional discounts.

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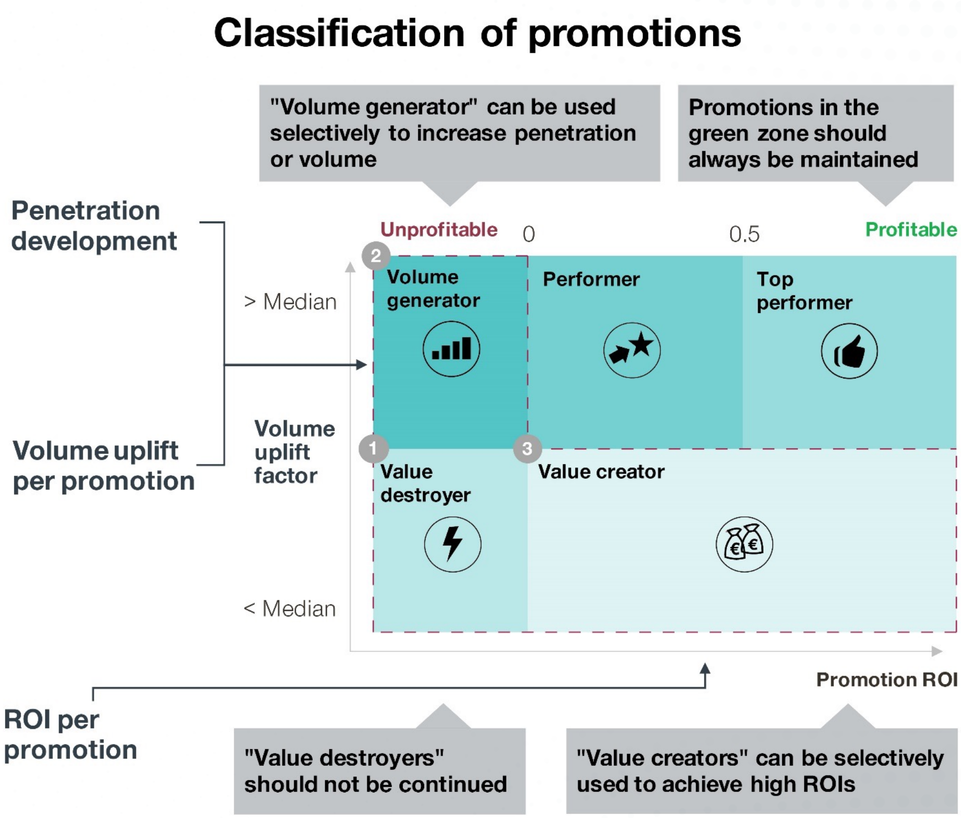
These conditional trade terms help retailers to increase the demand for their goods and thus increase revenue per SKU. For example, if a supermarket stocks the goods of a supplier, that supplier can offer them preferential terms for stocking products at eye level, or set up future terms so that if sales grow by x% they'll provide a rebate.

4. Drive Effective Promotions

The problem faced by many consumer goods companies is that they run a whole host of promotions without any clear understanding of how effective they are. That has to stop. Of course, selling consumer goods can be challenging at the best of times, but with a recession looming, consumer goods companies need to ensure their promotions are extremely effective in terms of ROI as well as captured demand. Promotions are an important lever when businesses are facing an economic downturn. Therefore, they need to closely monitor and review their marketing spending and promotional activities to really get a grip on driving incremental sales and improving ROI.

They need to use promotions, marketing budgets, and promotional activities to optimize ROI and drive incremental sales. Kill promotions that aren't delivering clear value. This will directly increase profitability.

But, never avoid promotions completely. Remember, when consumer confidence is low, businesses need to rally their customer bases by activating them to purchase.



5. Embrace Change

For the previous five points to happen, businesses need to acknowledge the squeeze they face and accept that previous successful strategies are not likely to work in this particular climate they're in right now. Therefore, now is the time to start building the right capabilities in organizations to support modern revenue management programs. That means being able to link sales, marketing, and finance – as complex a task as that might be – and all get behind the need to do things better.

BUSINESSES NEED TO ACKNOWLEDGE THE SQUEEZE THEY FACE AND ACCEPT THAT PREVIOUS SUCCESSFUL STRATEGIES ARE NOT LIKELY TO WORK IN THIS PARTICULAR CLIMATE THEY'RE IN RIGHT NOW.

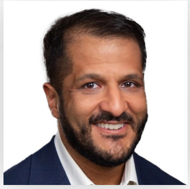
It's not easy for organizations to make this leap to a more sustainable kind of growth, but it is crucial to long-term success. It requires a thorough understanding of all five topics and beyond. To gain that knowledge, businesses need to tap into in-depth articles on these topics to ensure they are in possession of all expertise to develop these capabilities within their firm.

Beyond The Here And Now

In the end, all business leaders should be concerned with finding ways to improve organizational performance through a more effective commercial strategy. Those who take these 5 key actions first will be ahead of the pack and capable of protecting and even growing profitability even in these challenging times.

3 Short-Term Pricing Wins and Where Teams Get it Wrong

by: Adnan Akbari



At the start of each year, most commercial teams are looking to get a running start on strategic initiatives with price and profit improvement. However, before pursuing quick wins, you should ask your commercial teams these key questions: how effective will this strategy be in the long-term when economic cycles shift, are sales teams well-equipped to communicate these changes in a way that is fair to customers, and what would the impact of these changes be on long-term customer satisfaction? Adnan Akbari is Senior Director of Pricing at Holden Advisors. He is leading a workshop entitled "How to Optimize Pricing through Sales Activation" at the PPS Conference in Dallas on Wednesday, May 3. He can be reached at aakbari@holdenadvisors.com.

At the start of each year, most commercial teams are looking to get a running start on strategic initiatives with price and profit improvement. As a pricing firm, we often get questions on best practices in fairly specific scenarios with the goal of generating a quick pricing win. Some recent examples include:

1. We're thinking about adding a "service fee" to account for miscellaneous costs incurred (for professional services). How should we do it?
2. Our executive team requested rounding our prices up to the dollar. How much does this impact customer buying decisions?
3. We want to increase our "rush fee" for professional services. How much would this impact our profitability?

As you might imagine, the answer to each of these questions can vary depending on the nuances of each business. A mature product in a highly competitive market will have limited pricing power vs. a product in a growth stage. A highly centralized organization can more easily enforce deviation from list prices. And so on. The easy answer for each of these is "It depends on a range of factors," but we're here for quick wins so let's dive into each of these.

Service fee best practices

In the B2C world, many of us have made a purchase decision at a certain price only to find the price had increased by 20% upon checkout for a range of unexplained fees (I see you Ticketmaster). A drip pricing strategy feels like a bait and switch and is a common source of customer frustration for obvious reasons. That said, it generates profits at the expense of customer satisfaction in the highly commoditized ticketing industry as customers begin their purchasing journey based on the lowest initial displayed price.

IN THE B2C WORLD, MANY OF US HAVE MADE A PURCHASE DECISION AT A CERTAIN PRICE ONLY TO FIND THE PRICE HAD INCREASED BY 20% UPON CHECKOUT FOR A RANGE OF UNEXPLAINED FEES.

In a B2B world where the buying decision is made by a range of individuals weighing multiple options, a drip pricing strategy is less palatable. That's not to say a service fee is not justified. It can be if it's communicated in a way that's transparent, viewed as fair by the customer, and is easily explainable to the buyer.

Common reasons for using a fee like this (rather than simply increasing the price of the service) can include ease of tracking, aligning with standard industry price presentation practices, and an increased ability to justify price to the customer.

Recommendation: To minimize customer backlash, service fees can be implemented when viewed as a fair pass-through cost by customers.

Rounding up to the nearest dollar

Depending on the list price of a product, rounding up to the nearest dollar can be a quick-win but should not be implemented in a silo. Let's assume the list price of a product is $100.11. By rounding-up to the nearest dollar, price would increase to $101 generating an incremental 0.88% in profits assuming full realization. More than likely this change would be inconsequential to a customer and generate some quick albeit small profits.

In another example, let's assume list price is $3.10. By rounding to the nearest dollar, the price would change to $4.00 generating an additional 29% in profits.

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It's fair to assume an increase of this magnitude would garner attention. If the increase works with minimal resistance, it begs the question of whether the increase could have been more aggressive.

The bottom line is that this strategy could work but realistically ends up being a price test with little to no market justification. It certainly can generate profits if the increase is small, but the profit impact would also be small. Most, if not all, organizations would be better off aligning prices to value to gain real profit impact.

Recommendation: Before pursuing a rounding strategy, spend resources aligning price to value. Rounding will more than likely be a low-effort, low-benefit pricing tactic.

Increasing or implementing use of a rush fee

When I hear the word "rush," phrases like "emergency," "drop everything," and "poor planning" come to mind. Each of these phrases suggests buyers need rush services because they are in a bind. Speed of delivery is a key determining factor of value. Moreover, the company responsible for delivery often has to operate in a way that is inefficient, costly, and potentially unfair to other customers.

The point being that rush fees should be designed in such a way to disincentivize use unless absolutely necessary. I've seen clients gloss over the tremendous value this "drop everything" approach generates for their customers frequently leaving money on the table in price negotiations.

I'm not suggesting companies be overly egregious or take advantage of customers in dire circumstances. I'm simply saying rush delivery should be the exception rather than the norm, and pricing these services should be designed as such.

Recommendation: When applicable in an industry, rush-fees can be a powerful way to capitalize the value customers place on speed while also disincentivizing behavior that causes inefficiencies.

What next?

Each of these strategies on their own can be pricing quick wins, but what we find is these and other "quick wins" need to be part of a broader pricing strategy aligned with the vision of the company. The absence of a broader strategy limits the ability to have a lasting profit impact. Additionally, gaining organizational buy-in for a series of quick wins can be an uphill battle. It's typically best to paint a picture of the broader pricing vision by aligning price to value and then communicate the right pricing tactics aligned with that vision.

Quick pricing wins can be achieved under the right circumstances, but customers don't want to be nickel and dimed, so it's important to consider whether your persona should be more like Southwest's "Transfarency" all-inclusive prices or like Frontier's a la carte. The short-term benefit may not be worth the cost to you in the long-term.

Before pursuing quick wins, ask your commercial teams these key questions:

1. How effective will this strategy be in the long-term when economic cycles shift?
2. Are sales teams well-equipped to communicate these changes in a way that is fair to customers?
3. What would the impact of these changes be on long-term customer satisfaction?

Who Ate My Cookies? The Curious Case of Shrinkflation Impact on Brands

by: Karan Sood

From vanishing snacks to your shrinking wallet, everyone is making tradeoffs currently due to shrinkflation. What is the impact of shrinkflation on the brand? And what role does pricing have to play in it? With increased awareness and proactive measures, we can reduce the impact of shrinkflation on our everyday lives and businesses, as the author explains. Karan Sood is the Director of Sales Operations at Rakuten Kobo and has over 15 years of pricing experience working in the auto sector, digital media, CPG and electronics hardware. He can be reached at karan.sood@rakuten.com.

This morning, my 5-year-old daughter scolded me for allegedly stealing two cookies from her snack bag the previous day. Little did she know it wasn't me who took them, but rather Kellogg's, thanks to shrinkflation. This is a common story in many households as shrinkflation is beginning to impact our everyday spending habits. I tried to explain this to her, but she stumped me with another question: "Why don't we get another bag of cookies with more cookies?"

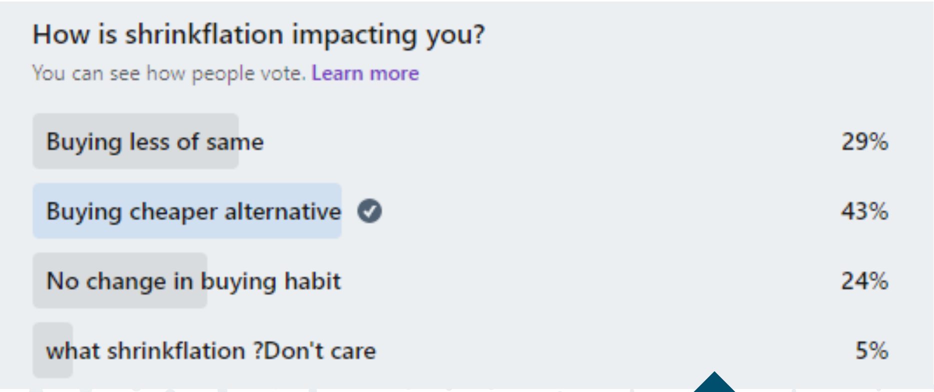
Everyone is making tradeoffs, and that's a personal decision, but what about the impact of shrinkflation on the brand? And what role does pricing have to play in it? Maybe there is a playbook we can share on how to use pricing more effectively to counter the volume and brand strength loss coming from shrinkflation.

Shrinkflation is not new. It has been around for centuries. It started back in early Rome when silver content in coins was reduced to effectively produce more coins, which in turn rendered the currency less effective. There is enough evidence to point out that the price and quantity of bread were fixed in medieval France and any deviation via shrinkflation was frowned upon and could result in consequences.

EVERYONE IS MAKING TRADEOFFS, AND THAT'S A PERSONAL DECISION, BUT WHAT ABOUT THE IMPACT OF SHRINKFLATION ON THE BRAND? AND WHAT ROLE DOES PRICING HAVE TO PLAY IN IT?

There are a lot of lessons to learn here for both brands and the pricing community. First, however, I wanted to see how shrinkflation is impacting people and their purchasing habits.

I ran a little survey in my network to seek answers. The results are not surprising. Over 72% of the respondents said that they were buying lower quantities of similar brands or switching to cheaper alternatives. Both of those options are concerning to a pricing manager or brand manager because we all know it is easier to retain a customer than to win them back! That saying holds true in almost every industry.



These results were further supported by YouGov's recent survey on shrinkflation, which suggested that nearly 46% of all respondents would switch to a cheaper private label to counter shrinkflation. The short-term strategies to optimize package size to balance supply constraints in the pandemic may not work anymore or may have an opposite impact since the pandemic has now passed and supply chain disruptions are less frequent.

So, what can pricing managers do to counter the long-term impact of shrinkflation?

1. **Give customers consistency and find savings elsewhere:**

Customers reward consistency and predictability in brands. Give them what they have always been getting - don't erode that trust. However, as pricers, we know this comes at a cost. So deep dive into your P&L to find places where you

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can drive savings that can counter the impact of higher costs. It can be packaging material, freight costs, production MOQs, or terms in the contract, for example. Minimize that delta between higher cost and sales impact.

2. Pull back on your promotions:

Discounts and promotions are drugs that brands can't have enough off. I still see brands decreasing pack size and then running promos on them. Generally, discounts are a big line item on the P&L. Optimize those promos by shortening the frequency or the depth of discount or maybe pull them back for a quarter or two. There may be a point of profit maximization where discount reduction offsets cost increases.

3. Enhance the value proposition:

More often than not, there is a low-hanging feature that can be added to a product at minimal cost, which can not only keep your share of wallet but sometimes also increase it. There are customers who haven't changed their buying habits, and this will help keep them and maybe prevent other customers from switching brands. Sometimes this may not need added value - maybe you just need to highlight an existing feature. Maybe your product already had a hidden value nugget that was underutilized. Make that centerpiece of your value strategy for the next little while and gauge the impact.

4. Optimize your terms and work with suppliers:

No supplier wants to see volume going down. Everyone wants to optimize their volume and margins. I have found that asks are followed by gives when it comes down to negotiating with suppliers. Maybe there are high-quality alternatives to materials that go into your product that can keep profits steady without shrinking size.

From vanishing snacks to your shrinking wallet, shrinkflation is "more than meets the eye." By understanding the history, consequences, and strategies to tackle shrinkflation, both consumers and companies can make informed decisions and adapt to this economic reality. With increased awareness and proactive measures, we can reduce the impact of shrinkflation on our everyday lives. If there was a Super Bowl moment for pricing managers to work with brands to protect profits, this is that moment. Make a framework for tackling shrinkflation now before customers switch.

Pricing and Artificial Intelligence: A Match Made in Heaven?

by: Benjamin Garden

With the ability to analyze vast amounts of data in real time, Artificial Intelligence (AI) algorithms offer the potential to identify optimal pricing for products or services at any given time. However, as with any new technology, there are potential drawbacks that businesses must be aware of to ensure effective and ethical implementation. In this article, the author explores the benefits and drawbacks of Price Optimization using AI algorithms, as well as solutions businesses can implement to navigate the challenges and maximize the benefits. Benjamin Garden is Director of Pricing Analytics at Iris Pricing Solutions. He can be reached at bgarden@pricingsolutions.com.

What is Price Optimization using AI?

AI-powered pricing refers to the use of artificial intelligence algorithms to analyze large amounts of data and make pricing decisions based on that analysis. This type of pricing uses data-driven insights and predictive analytics to determine the most optimal price for products or services. The goal of AI-powered pricing is to maximize revenue and profitability while also considering factors such as customer behavior, market trends, and competition.

3 Ways Businesses Can Leverage AI to Drive Sales and Revenue

The use of AI in pricing has revolutionized the way businesses approach pricing strategy. Here are a few ways AI is making a difference:

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Dynamic Pricing using AI-powered predictive analytics involves adjusting prices in real time based on market demand, inventory levels, and other factors. AI algorithms can analyze real-time data to forecast demand, identify pricing trends, and adjust prices in real time. This approach ensures that brands are always up-to-date with market changes and can quickly adjust prices to optimize revenue. By using dynamic pricing, brands can offer discounts during slow periods or increase prices when demand is high, maximizing their profits.

- **B2C Example:** Ride-sharing app uses AI-powered predictive analytics to adjust prices based on real-time market demand and traffic conditions for fair pricing.
- **B2B Example:** Manufacturing company uses AI-powered predictive analytics to adjust prices in real time based on supply chain disruptions and market demand for competitive pricing.

Price Optimization involves the utilization of algorithms that analyze real-time market data, competitor pricing, and customer behavior to identify the best pricing strategy. With the help of AI algorithms, businesses can process large volumes of data to determine the most suitable price point for their products or services at any given moment.

- **B2C Example:** Retail brands can use AI algorithms to optimize prices for popular items based on real-time market data and competitor pricing.
- **B2B Example:** Software companies can use AI algorithms to optimize pricing for their products based on real-time market data and customer behavior, ensuring that they are offering the most cost-effective pricing.

Personalized Pricing involves offering individualized pricing to each customer based on their preferences, spending habits, and purchasing power. AI-based analytics can help brands analyze customer data such as purchase history, demographics, and online behavior to create a personalized pricing strategy for each customer. This approach can increase customer loyalty and boost sales by offering pricing that matches each customer's unique needs and willingness to pay. By leveraging AI-based analytics, brands can build stronger relationships with customers and improve customer satisfaction.

- **B2C Example:** An E-commerce brand can use AI-based analytics to analyze customer data and offer personalized pricing based on individual customers' preferences and spending habits. They can use AI to analyze a customer's browsing history and offer personalized discounts on products that they have previously shown interest in.
- **B2B Example:** A logistics company can use AI-based analytics to analyze customer data and offer personalized pricing based on individual customers' shipping needs. They can use AI to analyze a customer's shipping history and offer personalized pricing based on their unique shipping requirements.

Are there any drawbacks to Pricing and AI?

The short answer is, yes. While Price Optimization using AI algorithms can be highly effective, there are also some potential drawbacks that businesses should be aware of. Some of the most common include:

- **Bias in Data:** AI algorithms rely on the data they are trained on to make predictions. If the data used to train the algorithm is biased, the pricing decisions made by the algorithm may also be biased. To prevent the occurrence of errors in the optimization process, it is crucial to accumulate substantial amounts of data spanning over a prolonged period, including numerous transactions. It is worth emphasizing that this factor is fundamental to achieving successful outcomes.
- **Lack of Context:** AI algorithms may not take into account all relevant factors that influence pricing decisions. For example, an AI algorithm may not take into account local market conditions or the cultural context of a particular region. One solution is to ensure that the algorithms are trained on a broad range of data that includes contextual information. For example, if a business is using dynamic pricing, it can include factors such as weather conditions, customer location, and buying behavior to provide additional context for the AI algorithm. This can help to ensure that the pricing decisions are more accurate and aligned with the business strategy.
- **Reduced Human Involvement:** While AI algorithms can analyze vast amounts of data much faster and more accurately than humans, they may lack the human intuition and creativity that is required to make complex pricing decisions. Therefore, human input and decision-making skills are still crucial in ensuring that the pricing strategy aligns with the overall business strategy.

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- **Resistance to Change:** Dynamic pricing strategies and frequent price changes may lead to customer confusion or dissatisfaction. If customers perceive the pricing strategy as unfair or inconsistent, it may harm the business's reputation and customer loyalty. Businesses can communicate with customers about the pricing strategy, explaining the reasons for changes and highlighting any benefits to the customer. This can help to reduce confusion and prevent negative customer perception.
- **Privacy Concerns:** The use of AI in pricing may raise privacy concerns, as companies may be collecting and analyzing large amounts of customer data to inform their pricing decisions. To ensure transparency in pricing decisions, businesses can provide clear explanations of how the AI algorithms work and how they arrive at pricing decisions. This can help customers and stakeholders understand the pricing strategy and build trust in the business.

Key Takeaway

It's important to note that while there are potential drawbacks to using AI in pricing, these can often be mitigated by using the technology responsibly and with proper safeguards in place. By implementing these solutions, businesses can maximize the benefits while minimizing the potential drawbacks.