

# Essential Pricing Rules For Success

by: Mark Schwans

World-class price optimization solutions need a sophisticated rules engine. They provide a path for retailers to enhance their pricing maturity, regardless of their current maturity. In this article, the author explores the importance of a sophisticated rules engine and outlines capabilities that any such engine must have. Mark Schwans is the Vice President of Marketing at Clear Demand, bringing a wealth of experience in marketing, product marketing, product strategy, R&D, and consulting. His 20+ years of retail technology experience includes leadership roles at tech giants, growth companies and startups such as Oracle, Revionics, Accenture, antuit.ai, and Newmine. He can be reached at [mschwans@cleardemand.com](mailto:mschwans@cleardemand.com).



A common misconception is that price optimization solutions don't have extensive rules management capabilities. Their viewpoint is that they only focus on the science and don't require robust capabilities. Nothing could be further from the truth.

World-class price optimization solutions need a sophisticated rules engine. They provide a path for retailers to enhance their pricing maturity, regardless of their current maturity. Most retailers can't go from working in a "sea" of Excel to detailed category review processes and price elasticity across their entire enterprise. Despite my love of video racing games, you cannot put me through a racing academy, stick me in a Formula One car, and even expect me to function. It's not happening. Jann

Mardenborough is a diamond in the rough.

A typical pricing journey starts with national pricing through ad-hoc spreadsheets. It moves towards more managed pricing and approval processes and grows to using standardized enterprise tools, price rules, recommendations. A step-change occurs when retailers adopt AI and machine-learning to determine price elasticity, but true innovation starts to occur when you connect lifecycle pricing and demand with each other and the rest of the retailer enterprise. A more detailed rendition of the price maturity curve can be found [here](#).

Rules can be complicated, and poor execution of pricing rules can result in strange pricing. Below is a real-world example of toothpaste.

**WORLD-CLASS PRICE OPTIMIZATION SOLUTIONS NEED A SOPHISTICATED RULES ENGINE. THEY PROVIDE A PATH FOR RETAILERS TO ENHANCE THEIR PRICING MATURITY, REGARDLESS OF THEIR CURRENT MATURITY.**

There was a 2-pack and a 3-pack Value Pack of Crest toothpaste. The 3-pack was priced at \$8.79 and the 2-pack at \$4.99. The mistake isn't evident for most people, but if you move it to price per ounce, the 3-pack was \$0.54 per ounce, and the 2-pack was \$0.46 per ounce.

It is a simple mistake, but from a customer perspective, this can seem deceptive because most will see \$8.79 compared to \$4.99. The price per ounce is always in small print on the label, so customers might feel taken advantage of.

Sadly, these mistakes are more common. A study by Coresight Research found that 96% of retailers experience issues in pricing and promotion execution. Product pricing errors were listed as the top challenge, with three-quarters of retailers reporting a mispricing rate of at least 5%. One in five retailers reported a rate above 15%.

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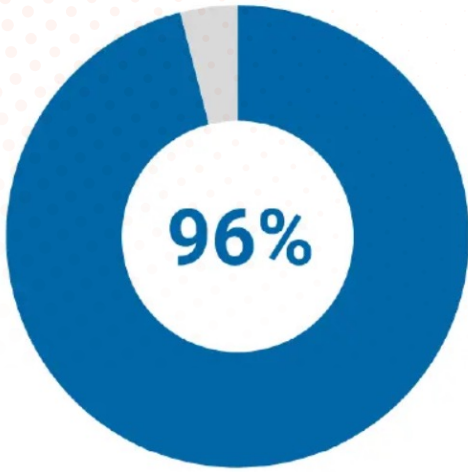
Crest  
**Whitening Plus Scope Toothpaste Minty Fresh**  
5.4oz x 3 pack

**\$8.79**  
\$0.54/oz

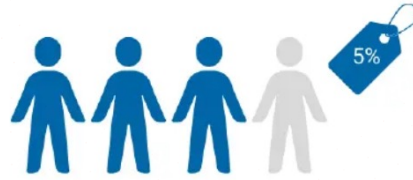


Crest  
**Whitening Plus Scope Toothpaste Minty Fresh**  
5.4oz x 2 pack

**\$4.99**  
\$0.46/oz



experience challenges in pricing and promotion execution



3 out of every 4 retailers have 5% of assortment mispriced



1 out of every 5 retailers have 15% of assortment mispriced

Source: Coresight Research - The State of In-Store Retailing: Opportunities To Redefine Operations

That's an incredible loss! Seventy-five percent have 5% of their assortment priced incorrectly, and twenty percent have 15% of their assortment priced incorrectly.

Why does this happen? Pricing isn't simple and is a large web.

1. There are many different rules.
2. Those rules layer on top of each other.
3. Not every item is the same size (ex: 75, 100, and 150oz Tide).
4. Assortment varies across you and your competition (ex: Not everyone carries the same Tide).
5. A single change, a competitive change or cost change, can ripple throughout your assortment and result in multiple price changes to keep things aligned.

Without good pricing rules management, items get lost or forgotten about when a single change occurs. Most often, a person must remember the relationship and make the change to adjust it. And if you forgot that day, because we're human, that mistake can persist for days or weeks.

A good pricing solution needs a solid foundation of price rules

management. Here are some of the capabilities that it must have.

**A Comprehensive Rule Set**

The marketplace is changing quickly, and there will always be another wrinkle in pricing. Additionally, categories have different rules that need to be applied, and they must follow both the business's and government's regulatory compliance while meeting your price strategy.



**Cost: \$2.50**  
**Margin Rule: 50%**  
**Competitive Rule: 10% Below**  
**Competitor's Price: \$4.75**

Here is a small subset of rules to show how extensive this can grow:

- Flexible ending numbers with multiples pricing
- Price families (including style and size)
- Brand and size parity
- Competitive index (CPI)
- Margin
- Product line (Good, Better, Best)
- Attribute premiums (Organic, Energy Star)
- Pricing limit rules
- Price change amount (max/min % or absolute)
- Number of price changes (% or absolute)
- One price zone to another
- Price locks
- Rule indirection
- Master-Subordinate relationships

**Prioritization**

Rules can easily conflict, so when that happens, there needs to be some set of prioritizations to keep them aligned. Let's take a simple example. Suppose you have a cold brew coffee that costs \$2.50, and you have two rules – a 50% margin rule and a competitive rule that you are to be 10% below the competition. If your competitor prices the item at \$4.75, both rules can't be satisfied. Prioritizing the competitive rule would set the price at \$4.28. Prioritizing the margin rule would price it at \$5.00.

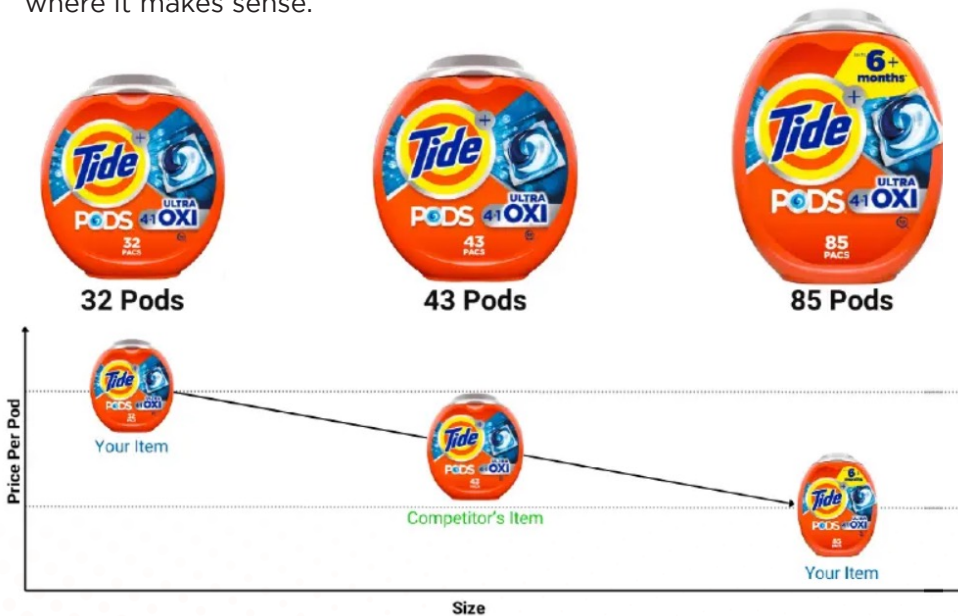
Prioritize Margin Rule	Prioritize Competitive Rule
\$5.00	\$4.28
Margin = 50% (\$5 - \$2.50)/\$5	Margin = 30% (\$4.28 - \$2.50)/\$5
Priced \$0.25 Above Competition	Priced 10% Below Competition

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**Cross-Item Alignment**

Assortments vary across competitors and your stores. However, you must create a consistent price and competitive image against these varying assortments. Assume that you are carrying two sizes of Tide Pods: a 32 pod and a 85 pod. You want to give the customer a discount or a lower price per ounce if they buy the bigger item, but you also want to make sure you're matching competitive prices.

However, your competitor only carries the 43 pods of Tide. If they set their price to the equivalent of \$0.42 price per ounce, how do you match that item? Well, you will want it to look something like this graph below, where your smaller item costs a little bit more price per ounce and your larger one, a little bit less than the competition, but to where it makes sense.



These rule applications become more complicated when you throw in the add-on attributes, such as the Tide Plus Downly liquid detergent.

**Brands and Private Label**

Private label products are critical components of retailers' strategies. As a result, their pricing has become more complicated. Retailers can have several different private labels with different associated levels of brand quality and value. They need to keep these prices aligned within their brand value, across

national brands, and across other competitors' private labels.

**Transparency**

As more rules are applied and prioritized, it becomes difficult to understand what is going on. Hence, a good rules management system will allow users to investigate why a price was set the way that it was.

**Intuitive Management**

Because of the complexities and number of rules, retailers need a way to set up and manage all of them. It's easy for their management to spiral out of control, becoming unruly and no longer understandable.

**Ability to Relax or Soften Rules**

Rules are often considered "hard" rules that shouldn't be violated. But what is the cost of that non-violation?

Let's look at a prior example from above where we listed a competitive rule (10% below the competition) and the margin rule (50% margin). Should the competitive rule always have been 10% below the competition? Would 5% or matching have still achieved the necessary price image but at a greater overall profitability and revenue?

This is where rule softening comes into play. You can align with your goals, see the cost of a rule, and test whether it is worth relaxing in situations.

Price optimization and management should not be considered two different solutions. Rather, improving price management is a step toward enhancing your price maturity toward more predictable and innovative pricing. While not always discussed, a solid rules management system is essential for accelerating price maturity, especially in the beginning. As a retailer matures, you may find yourself softening and opening many of your rules to allow science to see how your customers react to your pricing.