

# Price Optimization

Pricing is the core strategic component affecting company profitability and brand image. On average, a 1% change in price leads to a 10% change in profitability, and the smaller the company's margins, the more pronounced the effect. But many companies still lack the tools to approach pricing strategically and scientifically. Instead, they rely on several rules or policies that have the wrong approach and no scientific basis:

1. **Cost plus pricing** – considers margins, but not optimal growth or customer's willingness to pay
2. **Competition minus pricing** – leads to evaporating profits and sparks a race to the bottom
3. **Odd pricing** (99 cents) – is based on outdated assumptions about consumer purchasing behaviour

We believe that customer's willingness to pay is the key determinant for prices. This is influenced by many factors such as product name, brand, related products in the same store, competitive products, location of the store, time of the day and day of the week. An ideal pricing strategy considers these factors and is based on scientifically validated hypotheses.

Blue Yonder's Price Optimization measures interactions between price and demand changes for every store or channel to automatically set revenue- and profit-maximizing prices according to merchandise life cycle, including markdown. Using current and historical sales data, product master data and continuous optimization and validation, it goes beyond a simple rule-based pricing, allowing hundreds of prices to be optimized every day. The solution works for all phases of the merchandise life cycle, from the launch to the markdown discounts.

## Key Benefits

- Market-driven accurate demand forecasting
- Increases full-price sales across the channels and inventory of the merchandise
- Reduces stock levels during markdown optimization and improves inventory performance
- Boosts customer experience, brand perception and loyalty
- Improves margins, inventory turn and sell-through

## Capabilities

### Regular Pricing

Pricing is a strategic lever for every retailer. Regular pricing enables retailers to set right prices according to consumer demand, market dynamics and strategic goals. The prices are adjusted daily for each product and store or channel, harnessing up-to-date information on sales and external factors such as weather, events, and promotions.

Dynamically setting the prices for millions of product, store or channels combinations is cumbersome and not suited for manual operation. Our solution helps to automate the task of forecasting and the search for right prices delivering retailer's category and financial goals, without disrupting rules and policies.

### Markdown Pricing

Profit-maximizing sets the price so that the overall profit margin for the product is maximized, taking into account the cost of merchandise and individual product return rates, not just the revenue that can be achieved.

This strategy optimizes for maximum profit – which could also include price increases or significant changes compared to competitive prices. It is most beneficial to established companies and existing assortments. It brings the fastest return on investment.

### Promotions

Promotions continue to be a significant driver to boost sales of new products and attract new customers. But understanding the exact impact of promotions on consumer demand remains to be challenging problem in retail. We believe that the first step towards profitable promotions is accurately review past promotions and model the impact on the demand forecast.

Blue Yonder's Price Optimization incorporates sales and inventory data on past promotions in the demand forecasting. The data is also exploited to understand cannibalization effects to enhance optimization performance. Thus, the retailers gain valuable insights into promotional performance of each item and understand the impact on the consumer demand.

### A/B Testing

If required, Blue Yonder can perform a randomized A/B tests for our customers. This involves prices for only a subset of inventory, allowing a fair comparison between optimized and non-optimized pricing strategies. However, the A/B tests require additional consulting effort and reduce the overall positive effect of our solution during the trial period.

## API

Our Supply & Demand REST API is primarily responsible for transferring sales and product master data requires no manual labor. The data is transferred via a simple and secure connection. All uploads are automatically checked for syntax and semantics prior to unloading in the database. The data can originate from any ERP or SCP system, database or technology platform, or even customized solutions. The built-in encryption renders the data inaccessible to any hostile application.

## Monitoring and Reporting

Blue Yonder Price Optimization has an extensive monitoring and reporting capability. It enables users to know the exact status of the data transfer and the service, as well as to visualize performance of various KPIs, prices and stocks. It enables users to know how the KPIs will evolve given the prices and stocks data in the short term. They can drill down to each product-store combination to understand the price changes.

## Implementation and Integration

The solution is implemented with the help of our experienced onboarding team. The scope of implementation typically includes:

- Solution fit assessment
- Data conformance and integration
- Implementation and tests
- Model tuning and optimization
- Rollout

Would you like to optimize your prices?  
Get in touch.

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