Pushing pricing *to the point of sale*

Customer connected.

Imagine if your sales staff – and the programs controlling your automated electronic channels such as online stores – could change the pricing of your products on the fly according to what they were selling, who they were selling to and and what prevailing market conditions indicated.

While traditional merchants have been doing this for millennia, this flexibility has become harder as our corporate structures have become larger and more distributed to serve large customer bases. But technology is now making this kind of dynamic pricing both possible at scale and more necessary.

The ideal is to be able to price your products intelligently and profitability at the point of sale. We call this 'live' pricing and it means giving salespeople (or systems) the information they need to decide on pricing and other sales conditions when they're dealing with customers. This is now far easier to achieve using the latest management and communications technologies.

However, customers also have access to similar capabilities. Anyone with a PC or smartphone and a data connection can pull up competitive prices and product information, read reviews on social media and gain other valuable insights from around the world in seconds. The actual 'point of sale' also often shifts from a physical location to a virtual one.

For consumer-facing companies especially, it's like the process of doing business has moved from the traditional shop environment to a scene from a sci-fi movie. But this is no movie. This is the reality for companies today and the only way to remain competitive and meet the needs and expectations of highly connected consumers is to become equally connected.

The importance of pricing

Pricing is the most effective lever most companies can pull to affect their bottom line. Our experience shows that pricing has three to four times the impact on profitability than other factors your business can adjust in the short term, and can offer a return of between two and six per cent for companies that get it right.

The process of setting prices at levels that are as high as customers are willing to pay but no more, and the process of effectively implementing that pricing in practice can each deliver a return of between one and three per cent. The challenge today is to complete these two processes – price setting and price execution – in much shorter and more frequent intervals to keep pace with customers.

Successful companies will be those that can make the right offer to the right person at the right time in a way that maximises value for both buyer and seller. The key to achieving this will be to combine the use of the powerful data analytics at the centre of your enterprise with smart point-of-sale devices, such as using smartphones to serve information to sales teams in the field.

Price setting in the new environment

Data analytics can help your organisation understand how customers' price sensitivities vary by product, channel, geography and other factors over time.

It's well known that business travellers are often less price sensitive than holiday makers, for instance, or that customers in well-off suburbs will usually pay more for having a newspaper delivered than those in less affluent areas. However, analytics can deliver far more detailed insights that can play an essential role in intelligent, near real-time pricing.

For example, businesses can review the impact of volume and pricing on profitability by examining several years of historical sales data. This analysis can also take into account factors such as overall economic conditions, business-specific issues (e.g. the impact of interest rates on housing sales) and seasonality, to provide deep insights. These insights can then be used to shape pricing decisions among executives or within machines calculating what rates to offer online.

An analytics-driven approach can also help a business define and achieve performance objectives and ensure that teams work within business rules. Objectives might be factors such as revenue targets, units sold or market share, or profit measures such as gross margin, net income and return on equity. Rules might include the ability to vary your maximum price across different markets or that prices must end in certain digits such as 95. The range of possibilities available to manage pricing flexibility has expanded exponentially.

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By using the power of analytics and the reach of networks, it's possible to combine performance measures, business rules and elasticity estimates to arrive at optimal prices. These prices should strike a balance between the company's goals and the constraints of its rules on the one hand, and the prices customers are willing to pay on the other.

Executing well

The key to price execution is controlling the difference between an advertised retail price and the 'pocket price' a customer ends up paying. This difference can be affected by many factors including one-off discounts, point of-sale price overrides, volume discounts, rebates and promotional pricing.

Pushing pricing-related information as close to the point of sale as possible can enable a business to perform better at both securing sales by being able to make the right (ideally personalised) offer to the customer at the right time, while limiting discounts to only the level required to secure the sale. Again, data analytics and technology can play a powerful role in these two steps. For example, analytics can make it easier to show salespeople accurate and up-to-date margins on products.

This enables them to price far more finely. By using this information, the company can also adjust its incentives to reward salespeople on both volume and margin. Achieving this will make salespeople less inclined to give up margin to close deals.

The more connected a business is, the easier it becomes for it to return this frontline sales data – what customers are really paying, right now in the field – back to core systems for the reference of other teams or automated systems.

Conclusion

As customers become better connected and marketplaces become faster and more transparent, companies must enhance their data analysis and communications capabilities.

One of the most important areas for improvement is pricing. The more companies can set pricing at the point of sale based on a clear understanding of customers, supply and demand, competitive offers, historic trends and other factors, the better equipped they'll be to compete in a technology driven marketplace that even five years ago would have seemed like science fiction.

About Deloitte Customer Practice

Deloitte's Customer Practice brings together the skills of Deloitte Consulting, Deloitte Analytics and Deloitte Digital to help businesses transform customer insights into practical strategy and execution. We use a sophisticated and granular understanding of customer needs to devise agile strategies that businesses can rapidly execute to receive measurable economic benefits.

Contact

Jenny Wilson
Partner – Customer Practice
Tel: +61 2 9322 7475
Email: jewilson@deloitte.com.au

Alon Ellis
Director – Deloitte Analytics
Tel: +61 3 9671 7453
Email: alellis@deloitte.com.au

www.deloitte.com/au/customerpractice

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