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Global Retailer Uses AI to Manage Pricing and Optimize Revenues

With the rising costs of raw materials, ongoing supply-chain issues and worldwide inflation, companies have their work cut out for them when it comes to establishing the right prices for their products. Find out how a leading global fashion retailer leveraged data tools such as AI, machine learning and scenario-based planning to devise the optimal price increases across different product categories – all without sacrificing their bottom line.

Be it fashion, groceries or household items, retailers around the world are facing mounting pressure when it comes to protecting their revenues. Inflationary constraints such as rising supply-chain costs and spikes in the prices of raw materials have compelled many fashion companies in particular to up their pricing – or risk jeopardizing their bottom line.

Increasing prices is one of the most significant ways in which retailers can impact their bottom line in this competitive climate. It has a direct effect, and the results can be seen more quickly compared to other tactics such as cost optimization or marketing campaigns.

But pricing is an extremely tricky exercise, and not all businesses do it effectively. By and large, retailers tend to take two approaches to hiking their prices.

The first is a rather timid strategy, where the company knows that they need to up their prices, but doesn’t want to rock the boat too much.

To mitigate potential risks, the price increase is incremental and applied to smaller, less consequential items.

Hence, it’s not as effective. Another option, particularly if there’s been a severe mandate from the top to increase prices considerably, is to execute a blanket price adjustment across all product categories. But this disregards differences between individual products and sales channels, and lacks a targeted approach.

This can negatively affect customer trust and may not provide the best results. Given the shortcomings of these two common pricing tactics, companies can consider adopting a scientific approach to come up with more efficient, tailored, and granular price adjustments.

Such was the case for a leading global fashion retailer, which wanted to use a data-driven strategy to increase its prices.

Raising prices in a challenging economic climate

When making initial financial projections for the upcoming year, the client's leadership team foresaw that they would be facing substantial headwinds in terms of their margin estimations.

These red flags included the cost of goods sold rising by a significant degree, plus general inflationary pressures that presented margin challenges and capacity risks.

To contend with this, the organization issued a global directive to raise prices across the board to match the projected increase in the cost of goods sold.

This involved adjusting the manufacturer's suggested retail price (MSRP) across their various product groups to achieve an increase in average unit revenues (AURs) by 5% to 10% – all without compromising their bottom line.

Rather than rely on the aforementioned common pricing strategies to meet these goals, the client was keen to switch things up and take a more scientific approach.

Hence, they enlisted the services of Lynx Analytics to design an AI-powered solution to help them optimally increase prices for different product categories.

Increase in average unit revenues (AURs) by 5% to 10%

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Optimizing price increases with data analytics

Within just two months, Lynx Analytics was able to create an AI-driven model that delivered recommendations that the company could use to inform their price increases.

The tool covered three types of sales channels: brick-and-mortar stores, e-commerce platforms (both the client's own website and other online portals), and factory outlets.

The machine-learning model considered a range of factors in order to establish a holistic view of the impact of any price increases.

These included prices that occurred in the past, the potential sales figures, and other variables such as traffic and inventory availability.

The solution synthesized the impact of these components and simulated the estimated sales volume at specific price points.

Crucially, it could determine the trade-offs of certain price increases and accounted for varying price elasticity and price sensitivity across the sales channels and product groups: for instance, which product categories could handle a considerable price increase, and those that would be at risk with even a 1% hike in pricing.

Through this, the model was able to address the client's omnichannel business constraints.

As with most companies, the global retailer wanted to maintain price uniformity across individual sales channels – which was something that was kept top-of-mind when coming up with the pricing recommendations.

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This aggregated price output would deliver the best overall results, allow the client to maintain a consistent omnichannel approach and enable them to protect and maximize their margins.

Once the raw AI-derived price outputs were obtained, Lynx Analytics delivered these figures to the client's merchant team for them to use as a baseline.

The merchant team provided important business inputs – such as considering product tiers, brand markers and competitor price movements – and made the relevant adjustments, then passed on their suggestions to the management team.

The latter then added their own strategic inputs, before deriving the final margin-optimized MSRP increase based on these data-driven figures and business insights.

During the entire exercise, Lynx Analytics carried out effective stakeholder and change-management communications to ensure a smooth and seamless process.

Pricing is a high- stakes activity involving multiple departments that are all trying to fulfil their own priorities and protect their individual KPIs, which can sometimes come into conflict with one another.

Lynx Analytics took a methodical approach. It made it a priority to capture the key concerns of all stakeholders, and to consider this when building the model and providing pricing recommendations.

Lynx Analytics ensured that stakeholders were aligned by being transparent, walking them through how the solution works and informing them what they could expect in terms of the tool's limitations. This helped with gaining their trust, and ultimately offering pricing suggestions that were useful to them.

Management Inputs

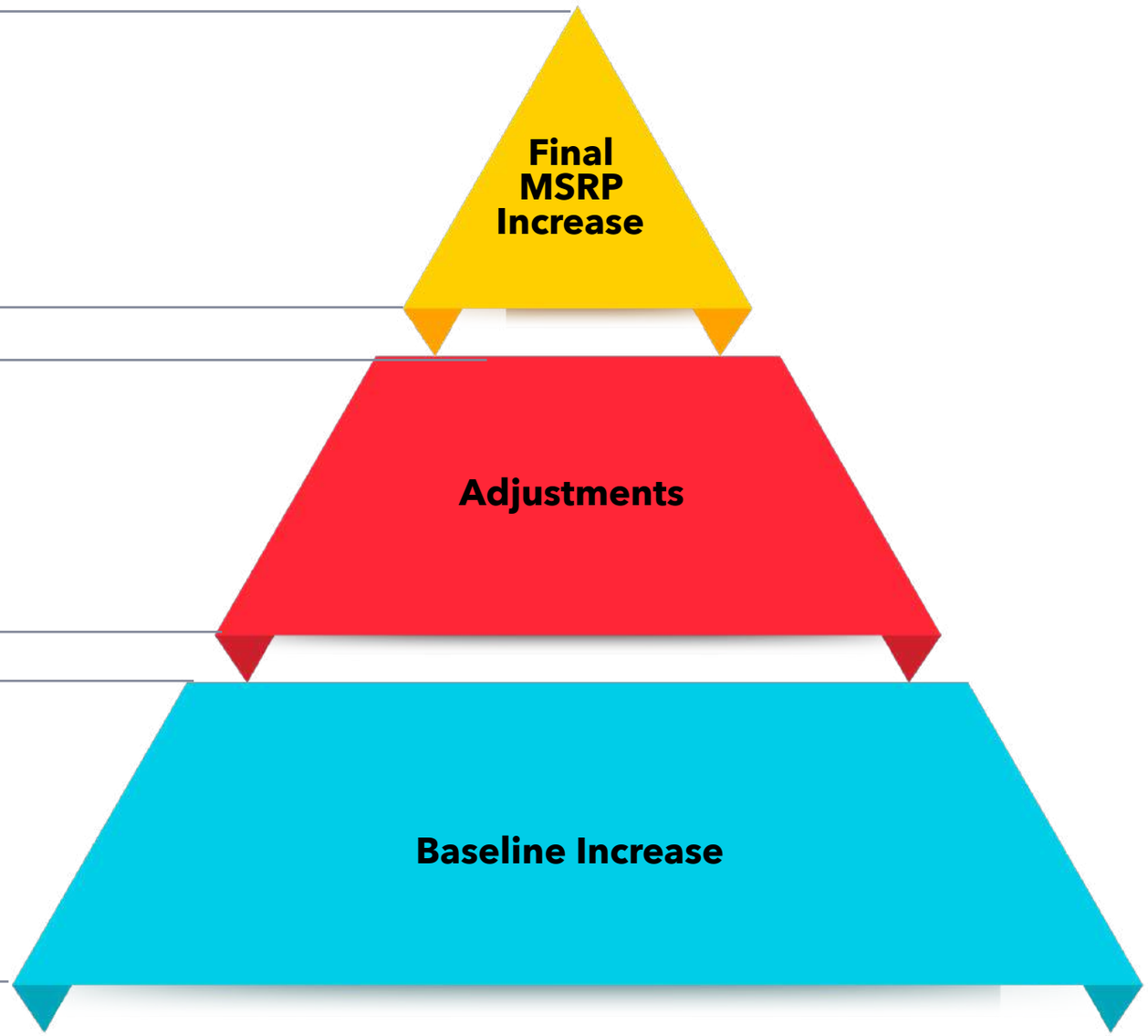
Strategic Inputs from Management Team enabled achievement of target

Merchant Additional Inputs

Merchant provided additional inputs and adjusted prices

AI Optimized Prices

AI model recommended price increases to optimize outputs for margin maximization



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Benefits of Lynx Analytics' pricing solution

With the new tool from Lynx Analytics, the client was able to obtain better insights and understand the trade-offs of increasing their prices across different products and product groups; separate sales channels; and diverse business scenarios.

This gives them a much better frame of reference, and provides a solid, data-driven baseline to enable effective scenario-based planning and discussions surrounding pricing.

The client also attained their goal of increasing prices without negatively affecting their bottom line.

Thanks to the pricing recommendations generated by the AI tool, the global retailer was empowered to strategically raise its AURs by 10% to help mitigate rising costs, without negatively impacting demand.

These are much better results compared to what they could have potentially achieved through a non-targeted, blanket increase in prices.

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Future applications for the pricing tool

Besides applying the model to enact price increases across various sales channels and product groups, the client can harness this pricing tool to come up with optimal pricing strategies based on a range of possible business scenarios.

On top of that, by providing insights into how products behave across distinct sales channels, the tool can be used to inform platform-specific promotional pricing and campaigns.

The client is also looking to apply the AI tool to manage its end-of-season inventory – for example, whether discounted products should be kept within brick-and-mortar stores, or sent to factory outlets.

Using the solution, the global retailer can anticipate which option could generate better revenues and margin optimization, clear stocks faster and reduce the holding costs.

For other companies who may be struggling to get the price just right, such AI-powered models can offer an ideal data-driven solution to carry out more targeted and effective pricing strategies.

This can help maximize revenues, protect margins, and preserve the bottom line.

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About Lynx Analytics

We develop tailor-made AI solutions for retailers to predict and improve business outcomes such as sell-through rate, sales per square foot, margins, and inventory turnover. We operate globally with offices in San Francisco, Budapest, Singapore, and Hong Kong, to serve our clients wherever they do business.

We nurture long-term partnerships with our clients and focus on outcomes. Our clients cover different retail categories, from fashion apparel to FMCG to high-end jewellery.

What unites them is a common desire to improve their performance across all channels through the better use of data and analytics at scale.

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