How a Leading European Retailer Maximized Revenue Without Losing Margin

Customer Leading European electronics retailer

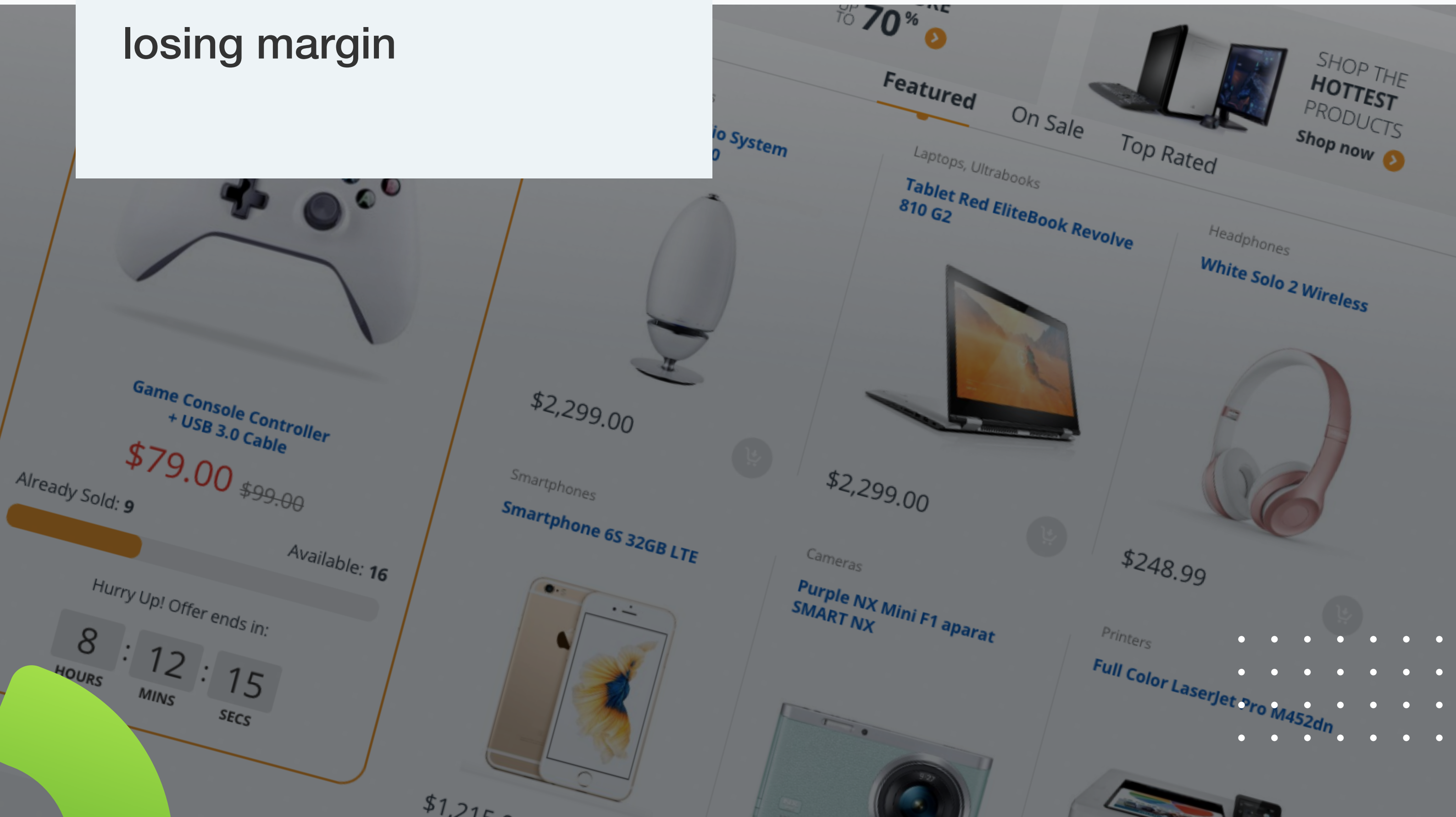
Regions Eastern Europe

Solution Price Optimization

Maximize revenue without losing margin

"Pricing races are growing non-stop. Setting the optimal prices is the key instrument to manage retail profits efficiently. The main question is what a reasonable price range and adjustment to increase sales and keep the margin optimal are."

Tatyana Moyiseenko
Commercial Director
at Foxtrot



About Client

Client is a major Eastern European electronics retailer with both online and offline presence, a member of Euronics International, an international association of over 14,000 independent electrical retailers in 36 countries.

Goal

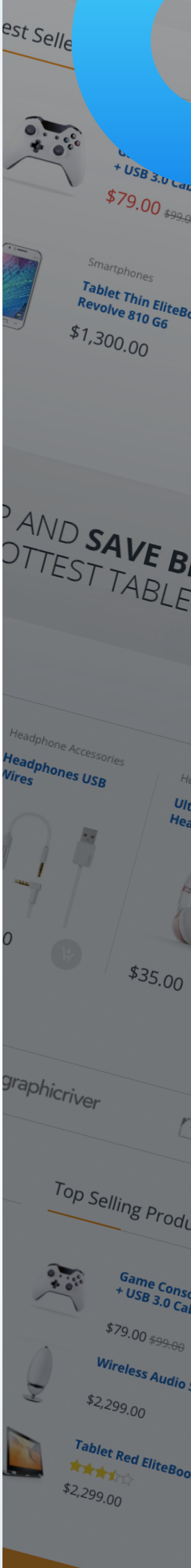
The retailer was aiming to find the quickest and most feasible way to increase profit margin in the highly competitive electronics market. To reach this goal, the company needed a technological solution to optimize pricing and make the pricing process independent from the competitors as it was the fastest way to ensure the highest ROI.

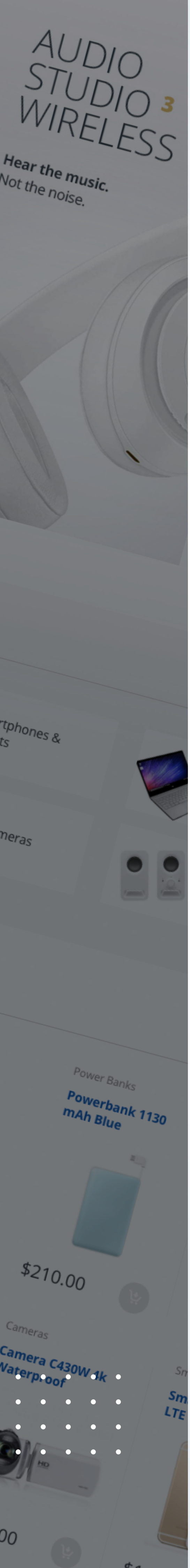
Challenge

The retailer exhausted all ways of scaling in the market which would not entail cross-team collaboration, massive investment, and require a long time to launch. Additionally, the business was continually mimicking the pricing and promo decisions of competitors (similarly to other market players) without analyzing their effect thoroughly.

Before Competera, the following internal problems prevented the retailer from growing:

- Expert-based pricing: managers would base their pricing decisions on instinct as well as data regarding several non-pricing factors (stock; role and positioning of the SKU) rather than competitive and historical data.
- Repeated mistakes in pricing and promo campaigns as, again, there was no single database regarding the outcomes of previous decisions.
- Unpredictable effect of pricing and promotional decisions: the retailer's Category Managers were overloaded with tasks and lacked the time to analyze prices for every product.
- Bulky and time-consuming pricing: the in-house ERP and Excel-based pricing systems had technical limitations to store and process pricing data.
- No single database storing the outcomes of previous decisions.





Solution

Competera suggested switching from expert-based pricing to using state-of-the-art machine learning algorithms as part of the pilot to optimize pricing based on the retailer’s business needs.

The pilot, which involved a test and a control group, had three goals:

- To maximize revenue without losing margin
- To stop mimicking the moves of competitors
- To show the feasibility of Competera’s solution

The algorithm handled pricing in the test group while pricing processes remained unchanged in the control group.

Competera’s solution undertook calculations and data analysis while offering recommendations eligible for the retailer, allowing the business to stop mimicking their competitors’ moves.

The algorithm took into account a wider range of factors and interconnections, including the peculiarities of the retailer’s operations and pricing.

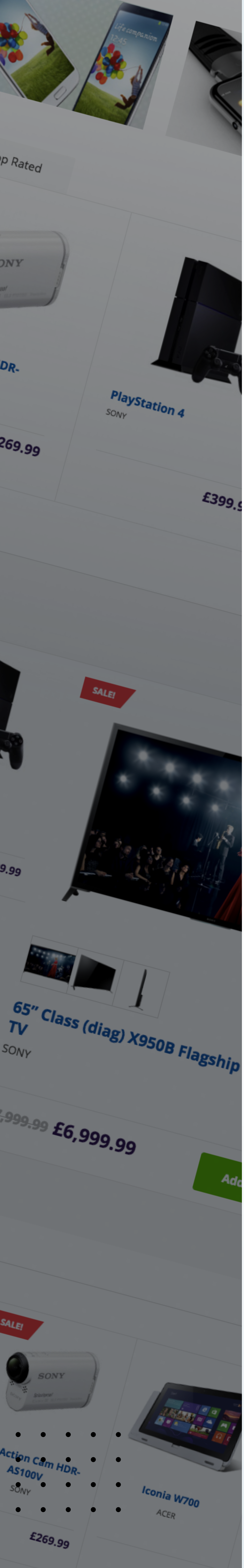
Results

As a result, Category Managers have obtained the solution to predict the effects of their pricing decisions and switched to a data-driven approach. They have been spared from routine tasks and could focus on negotiations with vendors.

Regarding the numbers, the pilot had the following results as opposed to the initially predicted 4-5% growth in revenue:

- The **revenue** in the test group has surged by 16%, while that in the control group — by 2.4%.
- The **turnover** in the test group has increased by 14%, while that in the control group — by 2.6%.
- The **number of transactions** has grown by 2.7% in the test group, while it has dropped by 5.1% in the control group.
- The algorithm has managed to maintain the **margin** within the set parameters showing a 1.5% decrease, while the margin in the control group has decreased by 53%.

The algorithm has delivered such an impressive result because it used historical data to learn about non-linear interconnections between the products and make counterintuitive pricing suggestions which were never used by the managers beforehand.



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