

CLEARDEMAND

Accelerate Your Pricing Maturity



Key Strategic Actions for Intelligence-Driven Pricing and Promotions

Retailers face a challenging environment that makes strategic pricing and execution more crucial than ever. Now is the right time to assess your readiness and make plans to deploy advanced pricing to grow transactions and optimize profits.

An Industry Guide from CLEARDEMAND

Accelerate Your Pricing Maturity

KEY STRATEGIC ACTIONS FOR INTELLIGENCE-DRIVEN PRICING AND PROMOTIONS

Retail continued to slug along in 2023, responding to inflation, a decrease in median income in US households, and increased interest rates that cut into spending.

In 2023, it became clear that consumer shopping shifted again as people became more conscientious about what they buy and where they do it. Retailers focused on profitability in response to this changing demand and high costs.

As 2024 comes about, market unease remains despite the recent positive news on inflation. The Consumer Confidence Board's Expectation Index remains below 80, signaling that consumers fear an impending recession - even if it is shallow.

PRICING TRENDS

Three trends continue to make pricing decisions more challenging:

- **Effects From Lingering Inflation.** Even though inflation has come down from its four-decade high, consumers still must deal with higher prices. The cost of housing remains elevated, further cutting into consumers' incomes. Simply put, consumers are more sensitive to price.
- **Shopping Habits Shift Again.** It's not as simple as online and in-store anymore, as new channels show up and alter demand. In response, retailers' formats and assortments continue to evolve, increasing pricing and promotion complexity for them and their customers.
- **The Profit-Revenue Sweet Spot.** Many retailers made deep cuts and policy changes early in the year to shore up profitability. Yet, given the consumer push-back on prices, high service expectations, and shopping options, retailers can't simply pass costs onto their customers. With a deep recession seemingly unlikely, they must find profitable growth.

prices with those of your competitors. If your price isn't right, there's no place to hide.

Intelligent Price Management and Optimization is increasing in importance for omnichannel retailers in light of these current developments. Legacy processes that rely on spreadsheets and rules of thumb no longer meet the challenge.

No matter how proficient a retailer is in their pricing maturity, they can take steps to improve their profit, revenue, and competitive position.

This guide from Clear Demand outlines the path to optimization for sustained profitability in today's highly dynamic marketplace.

Read on, and map your journey to a more customer-centric and profitable future ...

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PREPARE FOR ACTION

The Optimization Opportunity

RETAILERS CONFRONT an array of challenges, driven by changing consumer behaviors, competitive pressure, and cost.

Responding to these changes at scale is a major pain point on its own. Complex pricing rules and need for retailers to react quickly to market changes add complicating factors.

Mistakes can be costly in terms of lost sales and profits, while negatively impacting the shopper. A top-notch experience requires pricing congruence across items and an understanding of shopper price perception.

Intelligent Price Management and Optimization allows retailers to take control of their shopper experience.

Retailers who master their price management, analytics, and optimization processes enjoy superior performance in terms of margins, revenues and shopper loyalty. Using price to send a message, they establish a consistent value story that builds trust and market share.

They price locally, respond with agility to costs and customer sensitivities, and they integrate regular and promotion prices to deliver best total performance.



Here are some optimization opportunity considerations to keep in mind:

- **It is Continuous.** This is not a “one and done” activity. It is an ongoing process that creates value early and delivers sustained value over time by establishing disciplined, fact-based decision practices.
- **It is Measured.** It supports superior category strategies by providing clear, accurate demand metrics and a highly reliable forecast that supports fact-based decisions across the retail enterprise.
- **It Positions You to Win.** It readies the retail organization to respond rapidly and with assurance to dynamic changes in market conditions, while it generates superior financial performance.

Regardless of format or channel, price management and optimization positions retailers to compete effectively for the hearts, minds and wallets of shoppers.

Are you ready to get started?

WHERE DO YOU STAND?

Benchmark Your Pricing Maturity

THE JOURNEY to Intelligent Price Management and Optimization begins with an evaluation of your current pricing business practices.

Price management maturity levels can be described along a continuum, as (1) Ad Hoc; (2) Managed; (3) Standardized; (4) Predictable; and (5) Innovative. Here are some characteristics of these maturity levels:

1. Ad Hoc

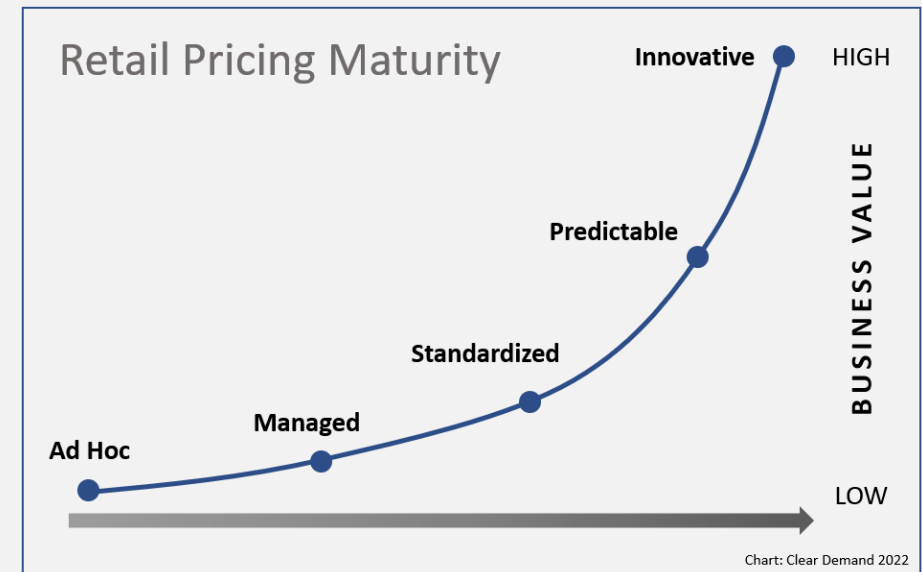
Retailers at this level set prices using rules of thumb and standard formulas. Merchants and pricing managers spend most of their time wrangling data in a “sea” of Excel.

Prices tend to be unvarying across all stores and eCommerce – that is, with minimal localization of price. The organization has limited ability to respond to cost changes and competitors.

2. Managed

Efforts are underway to price more systematically and apply some top-down structure. While still awash in the “sea” of Excel, the retailer has adopted some reasonable management practices for price approval.

Practices incorporate some degree of price localization. There is a basic ability to respond to cost changes and competition, but response times are sporadic due to heavy manual workload with limited resources.



3. Standardized

Enterprise tools have largely replaced spreadsheets in at least some departments. Categories are reviewed on a regular cadence. Pricing data such as rules, recommendations, approval, and export history reside in a database. Reasons for price changes are archived in the database.

Pricing rules drive pricing alerts and are localized. A standard price approval workflow is in place. Price exports are integrated with back-office systems. There is an immediate response to changes in cost and competition. Vendor deals are integrated into the pricing tool and accounted for in planning decisions.

Innovators will go further. . .

WHERE DO YOU STAND?

Advance Your Pricing Maturity

RETAILERS WHO HAVE MASTERED THE BASICS quickly perceive the advantages of a more advanced pricing platform, in terms of greater speed and automated analytics. This motivates them to go further to incorporate optimization science and forecasting.

The efforts pay off in terms of competitiveness and financial benefits. Here is where market leaders separate themselves from the pack:

4. Predictable

The retailer's category review process is informed by enterprise tools equipped with some forecasting science and a measure of price elasticity. This includes the ability to manually change a price and model the forecasted impact on profit, revenue, and units.

Price recommendations include at least some aspects of a "separate" optimization calculation that is independent of the rules and strategy. These may be blended-in through some type of "weighted" soft rules. Regular and Promotional pricing activities remain siloed. Available reports measure business performance and inform decisions.

5. Innovative

The retailer has codified category role and intent (including strategy for pricing line structure) in the enterprise tool and applies these to drive price recommendations. The integrated forecast is highly accurate and accounts for price, promotional

lift, introductory and discount prices, seasonality, cannibalization, affinity, planogram lift, stock outs, and other demand influencing factors such as weather or COVID.

The integrated forecast informs replenishment decisions and assortment planning to improve service levels and minimize carrying cost. The retailer understands the influence of price and promotion on basket metrics and uses these insights to drive personalized offers.

Enterprise pricing tools feature joint optimization fully constrained by rules. These show both the unconstrained and constrained opportunity curves (efficient pricing), so the organization understands the cost of rules and how to trade-off profit and revenue effectively. The platform supports multiple pricing scenarios, each with different pricing strategies to evaluate tradeoffs in profit, revenue, units, and price image associated with each change in strategy.

Regular and promotional pricing decisions are optimized together using the integrated forecast so that margins can be managed holistically for each category. Product and store attributes are leveraged to manage new-product pricing, line structure, and price localization, KVI pricing as well as decisions on assortment.

Innovative retailers define targeted performance metrics which are measured and optimized. They frequently compare plan-versus-forecast-versus-actual and work to continuously improve those metrics.

So, is now the time to take action to advance your pricing capabilities and strategy?

MAP YOUR Plan for Success

RETAILERS ARE CONSERVATIVE BY NATURE. Where ever you stand on the Pricing Maturity Curve, adoption of new methods should be measured and systematic.

Data accrued from each store and digital visit present an opportunity to deliver shopper satisfaction, gain understanding about shopper response, obtain vital customer insights, and earn a fair profit.

Do you track and fully understand the insights your guests give you every day from their interactions? How about their responses to price changes and advertised promotions? Do you understand the price gaps between related products?

Do you track the price elasticity of your key categories and SKUs? Are you able to respond rapidly to ever-changing market conditions and consumer preferences?

Intelligent Price Management and Optimization is the key that unlocks the insights in your POS data.

Intelligent Price Management and Optimization brings those insights to the surface so you can make informed, agile decisions that sustain profits and satisfy shoppers.

Ready to take steps to advance your pricing capabilities and strategy?

Prepare To Embark

For any retail organization, preparation begins with a frank assessment of current pricing practices and desired goals. Actions include:

- **Discovery.** Identify corporate goals and pain points, take stock of the effectiveness
- **Goals/Needs.** Identify present and future opportunities, desired state
- **Map Key Steps.** The journey to optimization success is a process not an instantaneous event

The move to a fully realized Intelligent Price Management and Optimization platform is undertaken in orderly stages. A “crawl” – “walk” – “run” scenario is usually best, as outlined in the pages that follow.

PUT OPTIMIZATION TO WORK

3 KEY STAGES

1



CRAWL
Put Your Rules
in Order

2



WALK
Identify Pricing
Opportunities

3



RUN
Reach the
Opportunity
Curve

MAP YOUR JOURNEY

Crawl: Put Your Rules in Order

RULES MANAGEMENT AND COMPLIANCE blend the merchant's art with pricing science. In the "Crawl" stage of the journey, retailers identify their pricing rules and put them in order.

They move from legacy pricing spreadsheets to an enterprise system that allows for greater speed and accuracy. In doing so, they take advantage of specific learnings from the prior discovery and planning process, and also general learnings from prior implementations by others.

Begin With the Basic Four

Every retailer we have met applies some versions of pricing rules under these four headings:

- 1. Ending Numbers.** The widespread retail practice, rooted in consumer psychology, of ending prices with .99, .95 while excluding price endings like .66.
- 2. Price Families.** Set identical prices for different flavors of a product from the same manufacturer, line and size.
- 3. Minimum Margin.** Set prices so no item is sold below cost, or below a minimum percent markup.
- 4. Competitive Price Index.** Keep prices in near contact with those of specific competitors, local or national norms.

Start Communicating

Beyond the basics, retailers incorporate rules that communicate their price integrity to the consumer:

- 5. Brand and Size.** Ensure that the relative prices among budget,

mainstream and premium brands make sense for items of similar size.

- 6. Price Gaps.** Set price differences between comparable brand and own-label items to convey the desired value story.
- 7. Pack Sizes.** Set unit prices that make sense – normally lower unit cost for larger packs to encourage up-purchasing.

Get More Granular

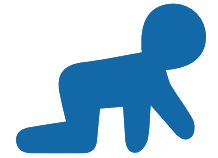
Many retailers go further to define and execute pricing rules with greater granularity:

- 8. Price Zones.** Set prices by geo-demographically defined zones or store groups.
- 9. Localization.** Set prices at the store level, incorporating competitive and/or behavioral differences.

Proper execution maintains the flexibility to handle any relevant regulatory or vendor requirements – like state minimums, buy-downs, or compliance.

Next: Scope Out Opportunities

1



CRAWL Put Your Rules in Order

CHECKLIST: RULES GOVERN NUMEROUS PRICING ACTIONS:

- ✓ Ending Numbers
- ✓ Price Families
- ✓ Margin Minimums
- ✓ Competitive Price Index
- ✓ Brand and Size Relationships
- ✓ Private Label Price Gaps
- ✓ Pack Sizes
- ✓ Price Zones/Localization
- ✓ Product Line
- ✓ Pricing Multiples (3 for \$5)
- ✓ Regulation Compliance

MAP YOUR JOURNEY

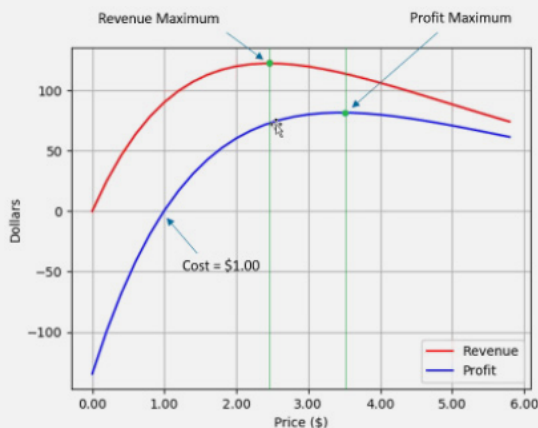
WALK: Identify Pricing Opportunities

CONSUMERS HAVE FULL VISIBILITY to your prices online anytime, and to those of your competitors. Savvy shoppers check price-comparison websites or use tools like Google Shopping to do the comparison for them. Retailers at this level step up their vigilance and set prices systematically.

Build on Your Rules

The path to Intelligent Price Management and Optimization builds upon rules compliance then identifies the most accessible and most urgent pricing opportunities by examining response curves:

- **Find Sweet Spots.** If moving a price a very small amount earns more profit and revenue, why wouldn't you? Pricing science finds and then looks beyond these most obvious sweet spots.
- **Make Smart Changes.** Next come high-value price changes that can yield much more profit for small sacrifice in revenue.



Profit and revenue response curves reveal how the two quantities can interact in a non-linear fashion. To meet strategic objectives for revenue and profit, a merchant may move selected prices higher or lower.

- **Cost Response.** Rapidly and systematically respond to pricing decisions in response to unplanned changes in the cost of goods.
- **Margin Targets.** Expand goal setting across whole categories to determine the most effective mix of interrelated price points.

Systematic Approach

Price sensitivity is different for products on deal versus every-day prices. Pricing science provides a means to understand this distinction and systematically apply it.

Users frequently create product groups that have different rules applied to them. Highly-elastic, sensitive, known-price items may only follow competitive rules with a strategy to win at all costs.

Other items in a category may remain constrained by margin rules, ending number rules, and comparative rules to differentiate on size, attributes and quality.

Next: Reach the Curve. . .

2



WALK
Identify Pricing Opportunities

REPORTS AND ALERTS

Intelligent Price Management and Optimization supports reporting that enables merchants to monitor on a daily basis which items in the assortment should be subject to beneficial increases or decreases in price.

Each nightly run of the software delivers a list of potential price changes that can be ranked and sorted by a variety of criteria. Users may define a "top-10 list" of pricing opportunities or recommended adjustments due to cost-of-goods changes.

The output can be linked to automated alerts or dashboard widgets, according to user preference.

MAP YOUR JOURNEY

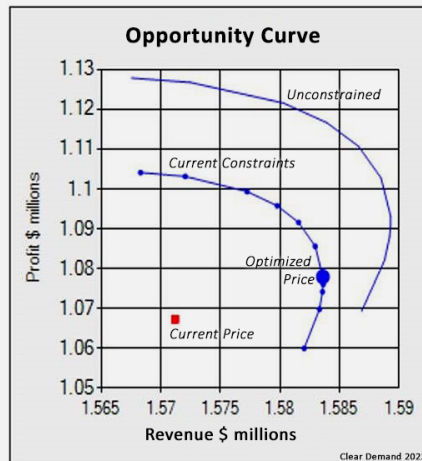
RUN: Reach for the Opportunity Curve

AS RETAILERS MASTER THE INNOVATIVE STAGE on the maturity journey, they confront pricing decisions bounded by a variety of hard and soft constraints, such as cost of goods, regulatory requirements, competitor prices, price gaps within categories, price parity across categories, and short-term promotional prices and more.

Intelligent Price Management and Optimization helps resolve numerous conflicting priorities and deliver a nightly price file that managers can trust and readily apply. A best-practice solution should

- Reveal best pricing strategies available for their category-level plans.
- Manage brand/size and competitor price differentials for maximum profit and price reputation.
- Include intelligent mechanisms for prioritizing rules and resolving conflicts, including selective “rule softening” driven by rule priority and context.

Retailers now establish practices for periodic category pricing



reviews and re-optimization. They begin to routinely begin to compare forecasts against plans and results, to continually improve them.

Understanding the Opportunity Curve

An opportunity curve will be calculated for each item or category based on sales performance to identify where you will trade off revenue for profit. It shows potential outcomes as you move up or down each curve based on your current price.

If your category is aiming for more margin in the long-term, there is also a point on the opportunity curve that yields maximum margin. Conversely, there is also a calculated point of maximum revenue.

If you are seeking a blend of revenue and profit, you can see the financial tradeoffs for any point within this range.

Innovative retailers will continue the hunt for more opportunities along the curve as business conditions evolve.

3



RUN Reach the Opportunity Curve

PROMOTE TO WIN

At this stage, retailers are also applying Intelligent Price Management and Optimization to their promotion activities. They use the forecast to set the right prices.

The platform also enables them to be highly responsive to changes in product costs, competitor price changes, and other varying business conditions that may affect promotional response.

Timely decisions also enable greater sell-through of clearance items within season, with a clear understanding of necessary trade-offs.

STRUCTURE YOUR APPROACH TO

Optimization Adoption

AS RETAILERS ADVANCE along on the maturity journey, they also confront organizational change and chart a systematic process for adoption.

Success flows when you track evolving opportunities and pay close attention to the categories that drive results soonest. Start with categories where the need is greatest or the benefit can be greatest, or where opportunities can be revealed.

Examples include: Categories with high margin-erosion, over-competitive categories, categories with very little competition.

Adoption of Intelligent Price Management and Optimization generally proceeds in three stages, prioritized to yield timely results and sustained value:

- 1. FIRST CUTS** Identify a few categories with potential to deliver the fastest benefits and/or those with highest priority to defend. Early successes will recover much of your investment and provide proof points that will move the optimization process forward.
- 2. MAIN EVENT** Work systematically to establish pricing discipline in the majority of your categories, which represent the largest number of price decisions. It's the bulk of the business and it will deliver the bulk of the benefits.

- 3. FINE TUNES** With most of your category assortment optimized and humming smoothly, turn attention to the most highly complex or subtle pricing decisions. Get these outliers in line to optimize all categories across the business and unify your decision process.

Senior management also make strategic changes to their pricing teams. They make a choice regarding centralized or decentralized structure. As adoption proceeds, greater attention is paid with respect to approval processes, IT support and "as is/to be" judgements.

Intelligent Price Management and Optimization delivers more value faster through more accurate forecasts and easier implementation.

Time to value is a function of opportunity and ease of adoption.



CHOOSE YOUR CHAMPIONS

At the early stages of adoption, some retailers may choose to work with one or two of your most visionary and capable merchants to establish the expectation of success. As they rack up early successes, the rest of the organization gains confidence in the pricing platform.

Success from Price Optimization starts with an executive sponsor from the organization to ensure continued focus and success.

PRICING SUCCESS STORIES

Optimization in Action

CLEAR DEMAND INTELLIGENT PRICE MANAGEMENT AND OPTIMIZATION delivers advantages for all retailers regardless of maturity level or where they are on the path to optimization. Our customers enjoy rapid and strong ROI while presenting shoppers with compelling prices and promotions.

U.S. retailers manage \$5.6T worth of transactions annually. As these success stories illustrate, getting prices right is about balancing the mutual benefits of these transactions for both buyers and sellers.



Large Home Center Chain

A major DIY retailer has long maintained its low-price leader strategy across dozens of price zones. Merchandising was siloed, with more than 80 managers making category decisions for 250K store SKUs and 1M online SKUs.

Challenge: The retailer had identified multiple objectives to improve its pricing practices, including:

- More rapid competitive response
- Improve efforts to localize prices
- Maintain and apply a more accurate integrated forecast
- Identify KVLs and price them correctly
- Meet margin targets
- Maintain line structure

Actions: Following discovery, data collection and analysis, Clear Demand's team worked with the retailer to set an implementation and roll-out plan. An approval process and new user roles were defined.

Benefits: Clear Demand's solution delivered improved comp-store sales through application of both rules and optimization. Many

pricing decisions were automated where appropriate, and localized pricing helped to improve the retailer's competitive price image.

Accurate forecasting helped reduce stock outs and promotional effectiveness improved. On clearance items, sell-through improved 18% and revenues increased by 12%.



Regional Grocery Store Operator

A chain of several hundred grocery stores is positioned competitively as a "high-low" retailer in its regional markets. It publishes a weekly promotional flyer and supports a loyalty-rewards program with segmented e-mail offers.

Challenge: The retailer sought to improve the effectiveness and forecast accuracy of its promotions while gaining the best possible advantage from available subsidy/trade funds. It also required:

- A unified solution for managing regular and promotional prices
- Integrated planning between operations, marketing, finance, supply chain and purchasing

Actions: Over a seven-month process, the retailer followed Clear Demand's standardized best practices for crawl-walk-run implementation. A discovery workshop led to creation of process maps. A centralized pricing team was established, and a train-the-trainer process put into place.

Benefits: Clear Demand's forecast accuracy exceeded the expectations of the customer. Promotion optimization identified the best products and offers to increase effectiveness by 400 basis points.

With a clear approval and workflow process in place, offer targeting has been refined, and the organization now leverages real-time reporting. Standardized reporting is now used in the category review process to track effectiveness and build basket sizes.

A senior executive reported that the solution has enabled the retailer to be more responsive to shopper preferences while offering a highly attractive overall experience.

RECOMMENDATIONS

Focus on ROI

INTELLIGENT PRICE MANAGEMENT AND OPTIMIZATION from Clear Demand delivers a very fast ROI. Retailers who follow the steps presented in this guide achieve their strategy for pricing rules and see profit and revenue benefits through more optimized pricing. Those who continue the journey realize huge returns from fully optimized prices and strategies that apply the opportunity curve.

Retailers gain full control of their business when they can forecast their business. The highest level of ROI comes through integrating pricing actions with a forecast leveraged in all key decision areas – including replenishment, space, and assortment. They meet variations in demand and localize pricing. They design more effective and profitable promotions. They burnish their price image with shoppers.

The time to act is now. Let us show you how.

While there may be some temptation to develop proprietary solutions, your outcomes for pricing, promotion and markdown are far better when you work with pricing experts who guide you through the implementation process.



Clear Demand advocates the crawl-walk-run approach outlined in this guide to enable speed to ROI and a predictable path to long-term competitiveness and profitability.

Nothing drives organizational acceptance like early success.

Here are 12 benefits you should insist upon:

1. Speed to ROI, within 6 months to start up and earn returns from key categories
2. Swift, dependable implementation, integration, and support
3. Enduring overall returns as all categories and promotions are optimized
4. Ease of use and user adoption, with excellent training and support
5. High performance and unlimited scalability with cloud-based architecture
6. Highly accurate and dependable integrated forecasting and built-in scenario planning
7. Product and location group management
8. Highly accurate demand modeling, patented pricing science with AI and machine learning
9. Rules engine with easy rules management for more localized pricing
10. Configurable reports and user dashboards
11. Configurable user workflows and roles with automated alerts.
12. Both constrained and unconstrained opportunity curves

Now is the right time to assess your retail organization’s readiness and make plans to deploy advanced pricing to grow transactions and optimize profits.

Ready to begin your journey?
 Contact us: cleardemand.com/contact-us

POSTSCRIPT

Retailers

Keep pricing to win.

In today's unprecedented business climate, there's no greater imperative than an advanced pricing system that applies machine intelligence to manage rules, configure promotions, build shopper loyalty, and maximize financial performance.

Forward-thinking retailers will act decisively to consolidate their advantages and avoid losing ground to digital-first competitors. Leverage the power of your whole omnichannel platform to design better category pricing decisions, more effective promotions and more-informed markdown decisions.

Are you ready to make your pricing work harder for you?

Review this guide to assess your readiness and map your journey to pricing mastery.

Then read further for a look at the features and benefits you should insist upon from a top performing pricing solution vendor.

CLEARDEMAND

Clear Demand is the leader in Intelligent Price Management and Optimization (IPMO) for retail. We were the first company to deliver an omni-channel lifecycle pricing solution that synchronizes prices, promotions, and markdowns online and in-store to produce a consistent brand and shopping experience. Clear Demand is the leading innovator in retail pricing solutions with patented science that analyzes historical sales to understand shoppers' sensitivity to price and generate price and promotion strategies that account for pricing rules, cost changes, and competitor prices to achieve profit and revenue goals. Architected on big data and delivered through Software-as-a-Service (SaaS), Clear Demand's Intelligent IPMO solution can be administered from a public or private cloud. Clear Demand's innovations in retail science simplify adoption and use, while allowing retailers to see value in just weeks with more transparency and minimal disruption to existing business.