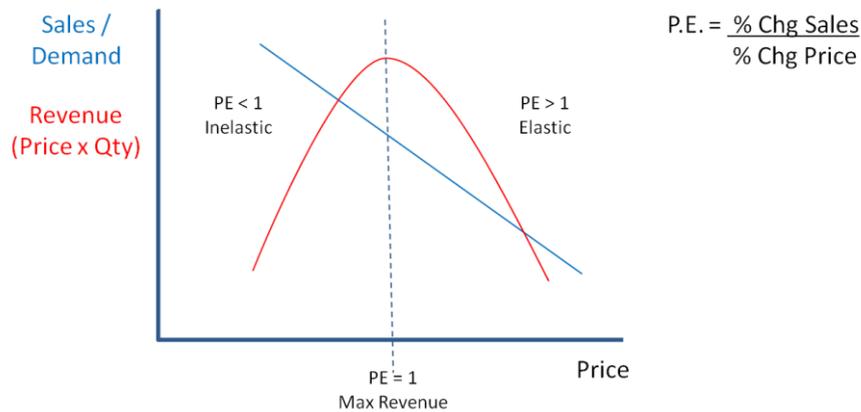


Optimal Pricing for Maximum Performance

Overview

Setting the optimal price for a product or service can be a tricky proposition. Too high and sales will obviously suffer, too low and valuable revenue will be lost. Somewhere in between these extremes is the optimum point, where sales reductions balance revenue increases. More and more companies are turning to advanced data analytics to help them set their pricing at this optimum level in order to maximise returns, with some significant results!



Price Elasticity & Maximum Revenue

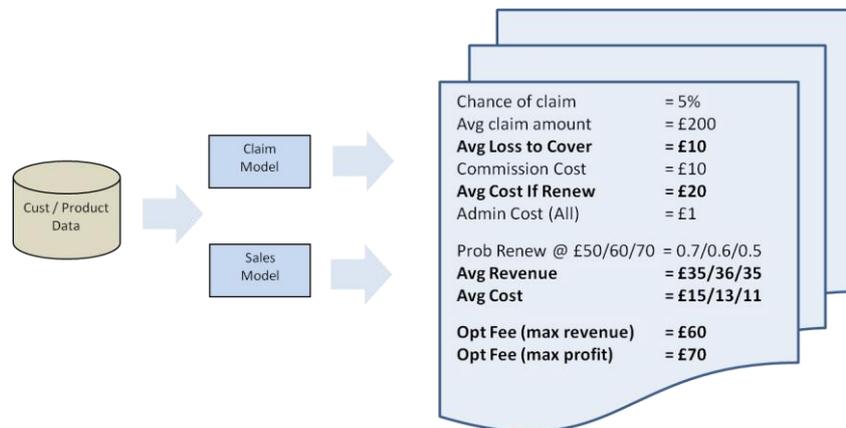
Pricing to Maximise Performance

The basic process in optimising a company's pricing strategy is to tailor the price charged to each individual prospect or customer according to their likelihood to purchase. This in turn depends on their desire for the product or service, the perceived value for money the price represents, their relationship with the brand and many other factors.

Machine learning techniques can be used to build models which will predict the likelihood of a given individual purchasing a product at a given price, based on historic pricing performance. These can be used to simulate the likely performance of different pricing strategies, allowing prices to be tailored to each individual set of circumstances. By applying optimisation techniques such as Genetic Algorithms, the pricing strategies adopted can be fine tuned in order to maximise sales, revenue or profit levels, whilst meeting any real-world constraints there may be in terms of business targets, market regulations and so forth.

The above process can be applied at any level of the business, from individual prospects and customers, to segments of the base or even just different product types, as the market and or regulations dictate. The concept can also be extended to pricing for risk, where relevant, to allow for aspects such as loyalty, claims rates or debt levels where these impact the product or service concerned.

Optimal Pricing for Maximum Performance



Example of Optimal Pricing for Risk

Dynamic pricing further extends the process to allow for time-varying client demand, particularly in relation to products with limited availability.

Optimal Pricing for Mutual Benefit

Setting price points at their optimum level is not just about blindly maximising returns for the business however. Care must be taken to deploy the techniques in an ethical manner, to avoid reputational damage. Following the basic law of supply and demand is one thing, but allowing automated techniques to exploit a customer who is locked into a relationship is obviously another entirely.

One approach to the responsible use of pricing technology is to fix the range of price adjustments allowed either way according to normal business practice for the particular market place concerned, then let the optimisation methodology fix individual prices within this range. For instance, a fair list price can be set for a product and then discounts applied where needed, in terms of a loyalty bonus, delivery fee waiver, bulk-buy discount etc. in order to allow prospects who want the product but who can't pay the full price to be accommodated in a manner that also benefits the business through a higher overall net return.

Similarly, renewal pricing can provide for a fair level of growth, but forgo this where the risk of non-renewal is too great, again in order to maximise the overall value returned whilst also increasing the number of clients who can retain their cover. Optimal pricing can even be used to drive non-revenue related behaviour, enabling self-regulation of aspects such as debt levels or returns behaviour. Such approaches avoid the potential for optimal pricing to be viewed as merely an attempt to exploit the market at any cost.

Optimal Pricing for Maximum Performance

Optimal Pricing in Practice - Key Players

Optimal pricing is used by a range of companies already, with some significant returns being realised. A senior figure in the insurance industry maintains that the insurance market could not operate without it, with most of the major companies using it to some extent, whilst Forbes report that businesses with flexible pricing are able to increase their profit levels by an average of 25%.

Retailers such as Amazon, Wal-Mart and Staples have well documented systems in place, whilst in the travel sector airlines such as American and Delta have long used dynamic pricing to maximise their performance given fluctuating demand. The taxi firm Uber provides a more recent example of its use in the transport sector. See the Forbes article in the link below for more information on these and other case studies:

***Dynamic Pricing - Which Customers are Worth the Most?* - www.forbes.com, April 2017**

Redsella have recently completed a project with Domestic & General to provide a system which automatically optimises warranty plan renewal prices. This has provided cheaper premiums to a significant proportion of the base, whilst simultaneously increasing overall sales, revenue & profit levels by a substantial amount- a win-win for all concerned.

Redsella's tailored approach means our unique solution is customised for each client's specific requirements, ensuring maximum performance and a smooth deployment.

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The Benefit of Advanced Analytics from the Amadeus Software and Redsella Partnership

Through this partnership, Amadeus extends its Data Science services with their colleagues at Redsella, reputed experts within Data Science. Their combined skills and experience bring advanced analytical answers such as: Pricing Optimisation; Marketing Optimisation; Segmentation; Personalisation; Fraud Detection and Cloud TCO. Together, Amadeus and Redsella bring the analytical platform to prepare data, visualise, analyse, deploy, monitor and support advanced Data Science methods.

To learn more about how optimal dynamic pricing can benefit your business, contact us at info@amadeus.co.uk or call +44(0) 1993 848010.