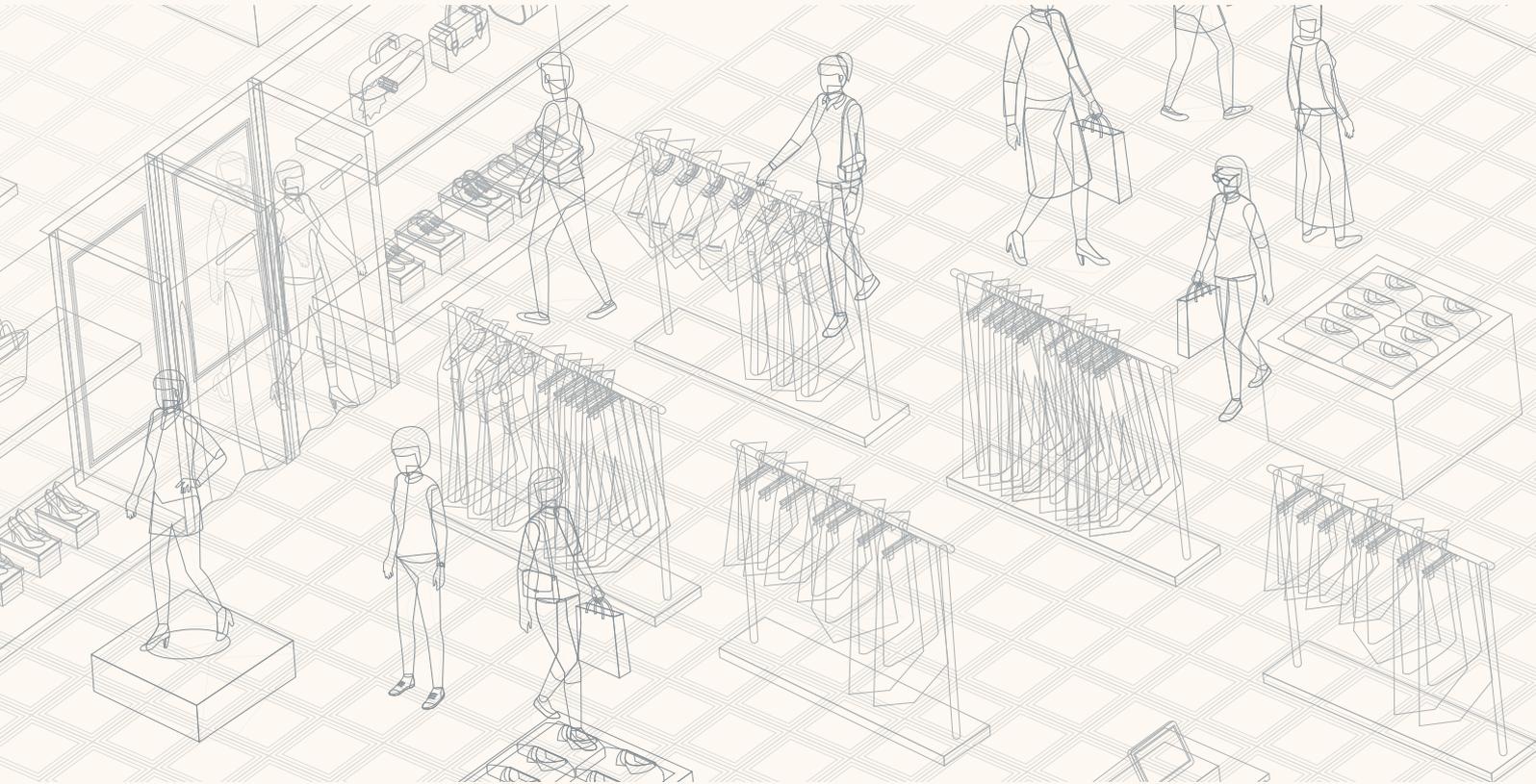
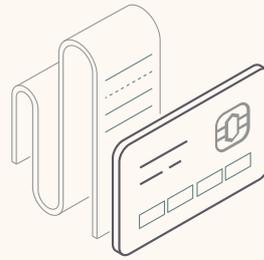


# VERITICO



**/ PRICE**

# VERITICO / PRICE



## POOR PRICING CAN COST YOU DEARLY

**Balance.** You may have already noticed that without balance you can't do much in Supply Chain. It's no different in pricing, where you have to get your prices right, whether it's buying, selling or promotions.

**If the price is too high,** it can discourage customers from buying. Too low a price, on the other hand, makes the customer feel less quality of goods. But the factors that ultimately decide the purchase are far more complex. The customer is influenced by the image of the company, the attractiveness of the product, socially responsible or environmental aspects and much more.

**In the pricing process,** we use the most advanced mathematical models based on an understanding of customer behavior in combination with factors influencing customer demand. As a result, we are able to deliver results that are unique in the marketplace and enable us to achieve significant increases in sales and profit. We make sure that all models are "state of the art" and all price changes are supported and verified.

**Traders have three main challenges in pricing:** taking into account the complexity of the range and the multi-channel sales environment, learning to understand customer buying behavior, and, last but not least, predicting the impact of pricing changes on the entire Supply Chain as accurately as possible.

Pricing complexity increases exponentially with the spread of the assortment. In a store with 10,000 products, we're looking at trillions of possible price combinations. So how do you choose the right one? Moreover, price setting is not a one-time activity. On the contrary, retailers need to react quickly to a turbulent market environment, whether it is competitive dynamics, changes in customer preferences or product mix changes. These can arise not only on the retailer side but also on the supplier side. For this reason alone, it is necessary to have a price management environment as automated as possible. At the same time, it should be flexible and responsive to daily changes with the possibility of manual adjustments as required, 365 days a year.



Maximize your profit using  
Next-Gen pricing  
optimization built on  
machine learning.

# MARGIN MANAGEMENT OVER THE PORTFOLIO

**You can imagine pricing management** as a dynamic environment that allows you to change prices quickly, consciously, and in an organized way—both in B2B and B2C. The software enables you to manage purchase prices (for how much you buy from a supplier), regular sales (for how much you sell to the customer), and sales and promotions (how much you sell for at discounted conditions).

A huge benefit is that the pricing and promotions apps are linked. That is because once the normal prices change, the system reacts to the price change and optimizes future promotions.

## Pricing Strategy

Why is it generally good to have a strategy? So that you know **WHERE** you are going, **HOW** you'll get there, and so that you know what your **PRIORITIES** are. In the case of pricing strategy, you choose the right path so that the price supports the achievement of your business goals. That allows you to become either the price leader in a given product group or follow the competitors' prices.



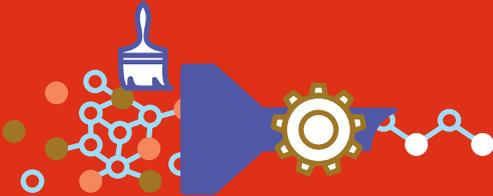
**Pic. 1:** Price types

# HOW IT ALL WORKS

The right price can do a lot. In most cases, it is the main deciding factor in a purchase! And that's what it's all about, isn't it? See how to proceed for optimal pricing.

## PREPARATION OF INPUT DATA

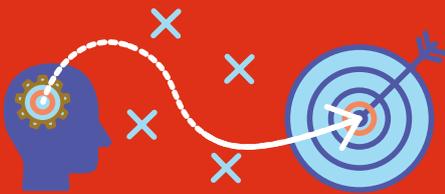
1



- + Collection of Input Data (Products, History Sales, Price Cists, Competitor Data, etc.)
- + Data Analysis, Cleaning and Validation
- + Price Manager Know-How

## SETTING BUSINESS RULES

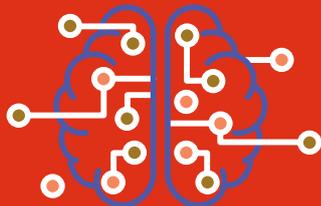
2



- + Brand Positioning
- + Omnichannel Pricing
- + Line/Size Pricing
- + Constraints Management
- + Goal Setting and What-If Scenarios

## PRICE OPTIMIZATION

3



- + Price calculation considering various factors:
  - Elasticity
  - Cannibalization
  - Day of the week
  - Competition
  - Seasonality
  - Promotions etc.

## SETTING NEW PRICES AND EVALUATION

4



- + Updating purchase price lists of regular, promotional and sale prices in the systems
- + Changing prices for customers
- + Evaluation of KPIs



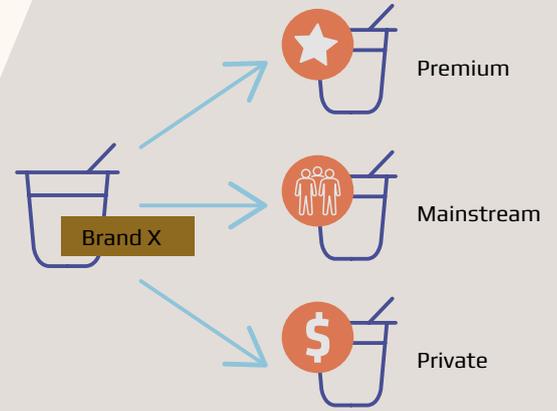
4% of portfolio items are elastic enough so you can make a profit by lowering the price.

## GOAL SETTING

### Demand Sensing

There are many KPIs that every marketer tracks, whether it be profit, revenue, margin, competitor price index or volume sales. But how to determine their mix and prioritize them so that they are not a lethal cocktail and your pricing strategy is sustainable and consistent with your corporate objectives?

**There is nothing easier** than thinking through the expected pricing implications to check with the What-If analysis and create several scenarios. In our user interface, you can “simulate” the pricing strategy for any level and verify their impacts (for example, on your KPIs) before you actually change your pricing on the shelves.



Pic. 2: Brand Positioning



Supermarket  
in Brno

Eshop



Hypermarket  
in Prague

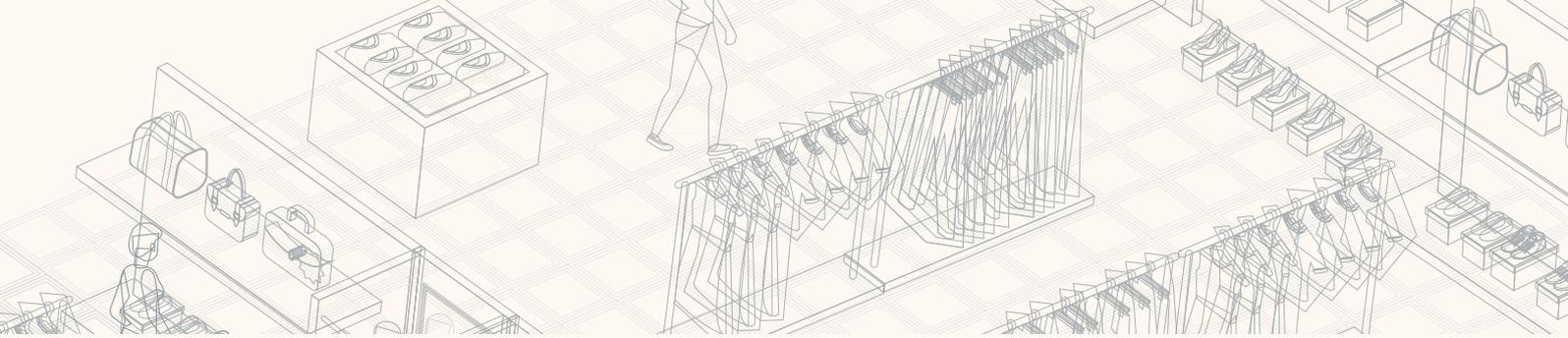
Supermarket  
in Prague

Pic. 3: Omnichannel Pricing

## PRODUCT & PRICE CATEGORIZATION

Goal setting goes hand in hand with portfolio distribution into individual segments that will behave similarly in terms of pricing. Segmentation criteria can be different: product similarity (e.g. flavors in a product family), the degree of price elasticity according to the analysis of the shopping basket, positioning of prices within its brand, packaging size (Line/Size pricing), etc.

**Omnichannel Pricing** ensures you set specific prices for different sales formats or locations. It will also allow you to manage pricing policy on the e-store and in the brick-and-mortar store.



## PRICE OPTIMIZATION OVER TIME

**Now that we know where we are going,** let's get down to the actual calculation of the optimal price. We use proprietary algorithms that use advanced mathematics and can account for the customers' decision-making.

**And which data do we use?** At a bare minimum, we consider product dials, product hierarchy, historical sales and price lists. To set business rules we define min/max price change, repricing frequency, price differentials from competitors and pricing architecture.

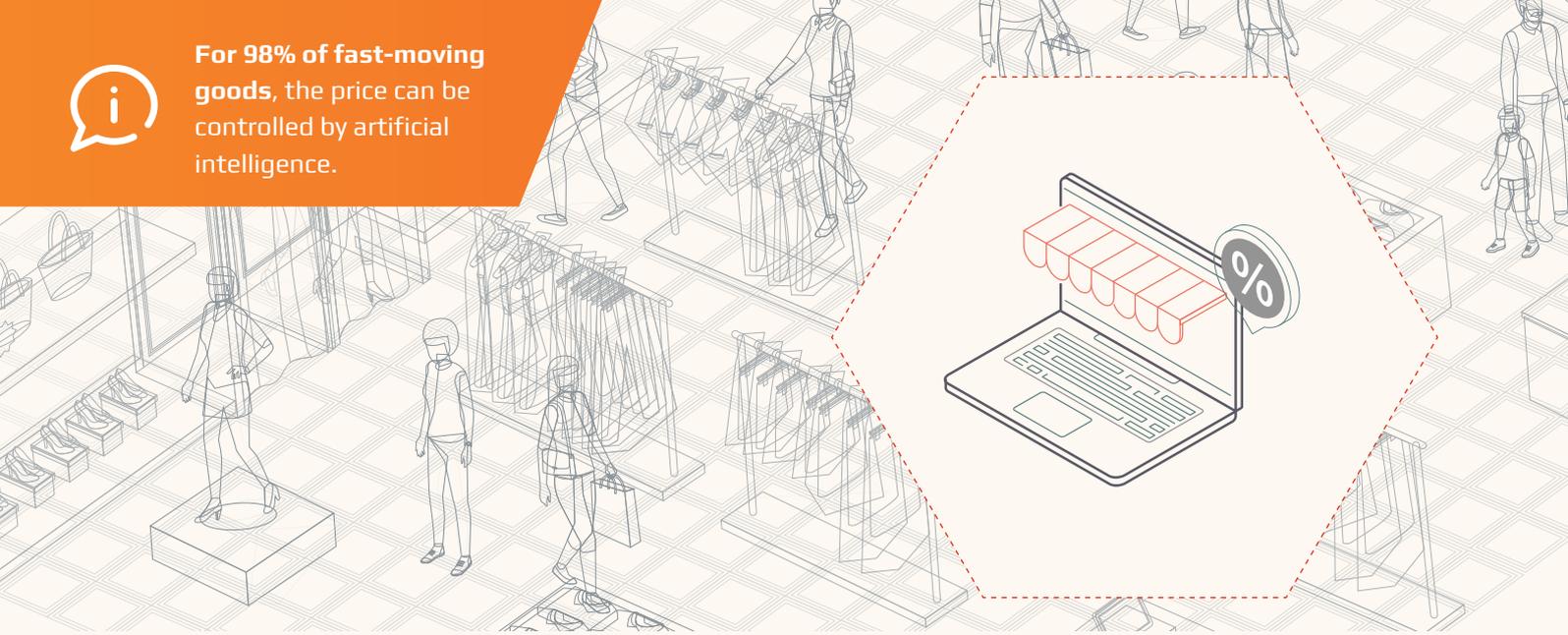
**We use Machine Learning to model buying behavior,** business strategy and statistical models. Algorithms continuously evaluate changes in customer buying behavior, periodically recalculate them and determine if there is an alternative pricing strategy that will yield better results. Changes are suggested automatically and in real-time, thereby continuously the objectives of the pricing strategy. The output is an updated price list of purchases and current and promotional prices. Changes are then uploaded to the customer's ERP or other systems.

## EVALUATION AND BENEFITS





For 98% of fast-moving goods, the price can be controlled by artificial intelligence.

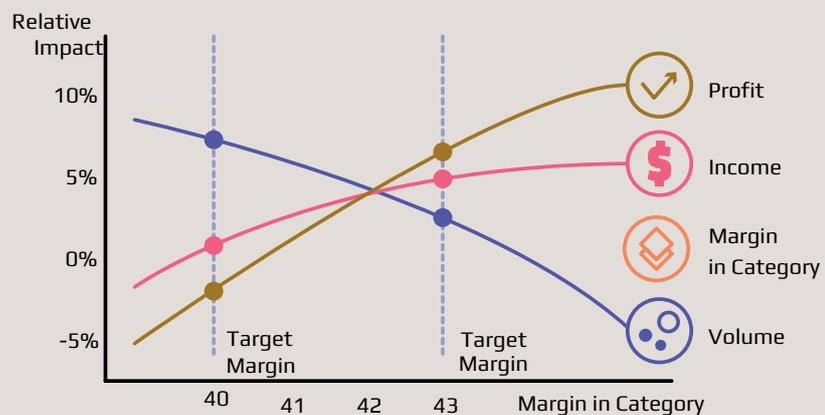


## USE CASE

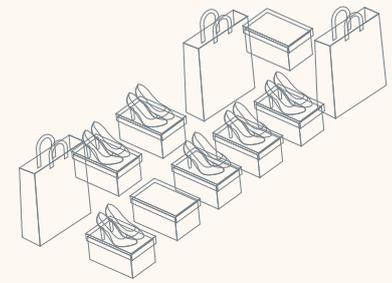
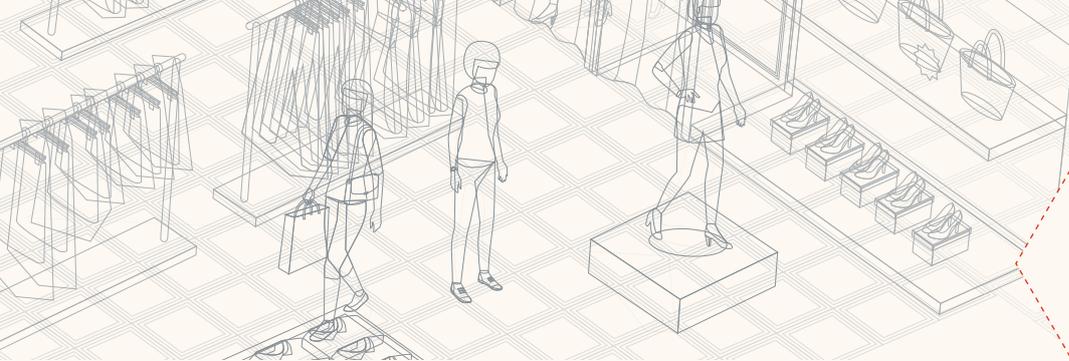
Retail customers are slowly but surely moving into the world of e-commerce. One of the first pitfalls is omnichannel pricing, i.e. how to differentiate traditional shelf prices from those on the e-shop and what pricing strategy to choose for different channels.

Within our solution, these prices can be diversified. How? The client sends input data, and after a short implementation in the user environment, they simulate different pricing strategies for the categories and sales channels, compare What-If scenarios and select the one that meets the company's requirements and goals.

Next, the retailer can use the data to decide whether they want to offer discounts to customers ("Bulk Pricing") and, if yes, on what level. In addition to predicting KPIs and optimal prices, in many cases, the biggest benefit is the introduction of a systematic approach to price management and the ability to react quickly to internal or competitive changes in the market.



Pic. 4: Price strategy



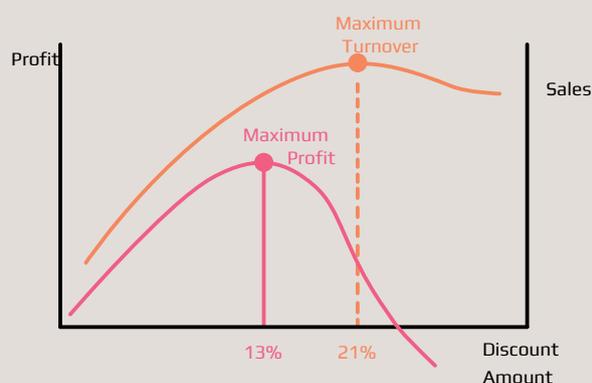
# PROMOTION PLANNING

## Promotions That Are A Win-Win For Everyone

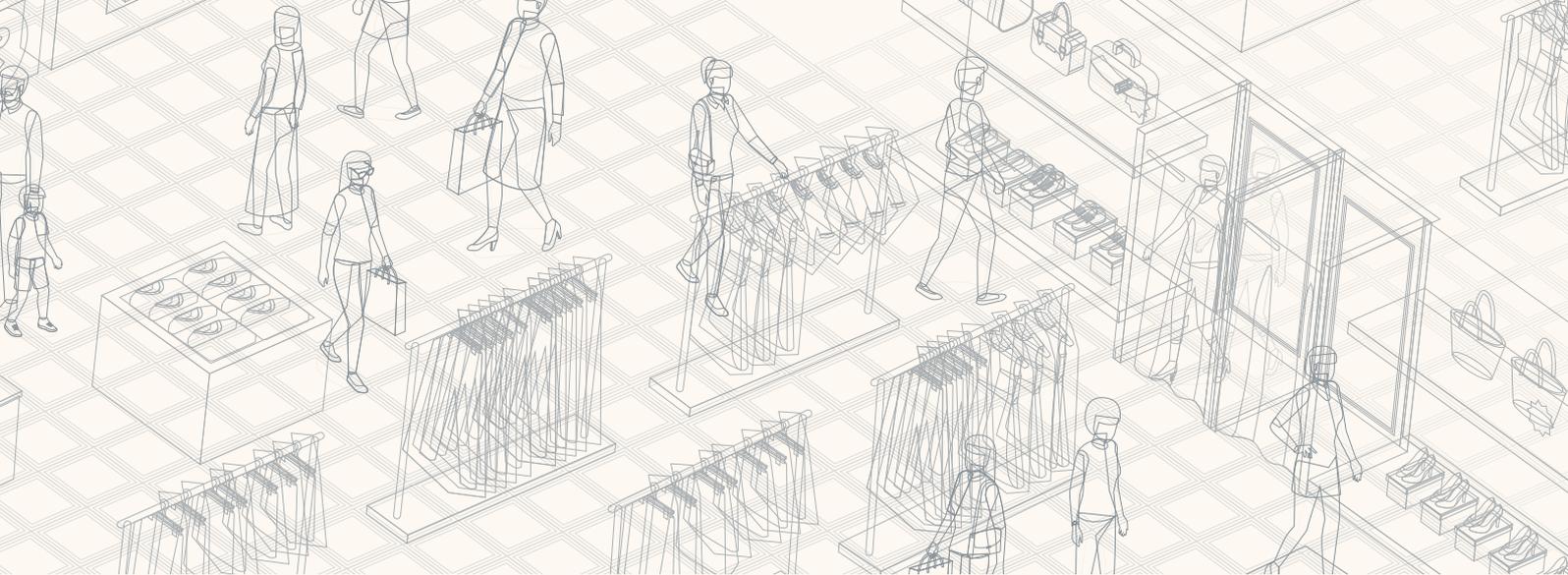
**56%. That is the percentage of revenue coming from promotions in the Czech Republic.** That means more than half of goods are sold through discounts, promotions or leaflets. The Czech Republic is one of the world's clear "leaders" in this regard. But don't be fooled, that is not a good ranking. Over 4 billion 20-page leaflets a year end up in our mailboxes. Some categories have a promo share of up to 90%, which means, they don't sell at all at a regular price. The huge amount of promoted goods in each of the retail chains devalues the original intent and creates the illusion that almost everything is always on promotion. Just like that, we find ourselves in a discount spiral that's hard to get out of. Of all the promotions only one-third ends up being a profit to the retailer or manufacturer. The only possible and sensible way is to moderate promotional discounts, choose the right products and work more effectively with the discount amount.

**Same as with setting the ideal price,** this process begins with a setup of a promotional strategy, i.e. WHAT the retailer wants to achieve. Does he want to increase profits/sales or strengthen their position in the market? Or, on the contrary, to sell up unneeded inventory? If they know the goal, they have to figure out a way.

**Let's look at an example** with leaflet promotions. The marketing and sales department (or others) must first clarify **HOW OFTEN** the promotions will run and **HOW LONG** the products will be on sale. Then follows the very creation of the leaflet, in close cooperation with the suppliers. Part of the strategy is to determine **HOW MANY** products and **OF WHAT CHARACTER** it makes sense to promote at once, respecting supplier constraints and rules. Getting the timing of the promotion right is key to overall effectiveness.



**Pic. 5:** Choosing a Promotion Strategy



**It is crucial to understand** which items fit into the leaflets. If you reduce the number of items in promotions, you can achieve a whole range of benefits. These can include: less work planning and executing the promotion, reducing the number of stockouts during promotions, reducing unnecessary pressure on suppliers, etc. However, the primary benefit remains an increase in profitability. Once it is known what the leaflet will look like: **WHAT, WHEN, HOW MUCH**, and with **WHAT OBJECTIVES** will get promoted, one must estimate **HOW MUCH** of the goods will be sold in the promotion.

**Sales forecast must be as accurate as possible** because no one wants to have empty shelves or deal with overstock after promotion. The very execution of the promotion is often overlooked, but it is precisely what makes a customer loyal. Whether the goods are ultimately delivered to the customer at the right time, quality and quantity is the result that the customer sees. And it is then up to you to evaluate **HOW** successful you have been and compare the actual effect of the promotion with the original goal and plan. And then it starts all over again.

**It's important to remember** that promotions affect the entire Supply Chain and Customer Chain, from the shelf in the store to the suppliers of raw materials to the manufacturing plants. An on-time information flow and coordination of the different parts of the Chain are a prerequisite for successful management. That is what the Sales & Operations Planning process is for, which is the backbone of VERITICO PLAN. That's when the best results are achieved: when all parts of the VERITICO solution are integrated into a single functional unit.

**VERITICO can design, implement and evaluate** the process of promotions **within a single platform**. The automated solution provides retailers with full control over promotions, resulting in "healthy" discounts: attractive for customers and efficient for retailers and their suppliers.

# HOW IT ALL WORKS

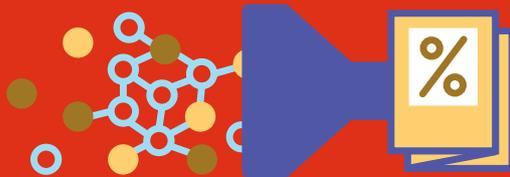
It's not for nothing that they say: "I don't want a free discount." Every discount costs someone something. Manage your discounts **BETTER**. It is achievable indeed.



Czech retail chains are throwing away CZK15 to 18 billion a year out the window due to inefficiencies in promotions.

## INPUT DATA PREPARATION AND LEAFLET CREATION

1



- + Data Collection - Business Characteristics of Products, Promotions and Customers
- + Business Supplier Rules and Constraints
- + Multi-Criteria Product Rating
- + Simulation and Selection of the Optimal Leaflet Variant for a Given Time Period

## PROMOTION PLANNING

2



- + Promotion and Approval Workflow Process
- + Sales Forecast and Volume Decay Over Time
- + Capacity and Resource Preparation (Purchasing, Distribution, Marketing, Sales, ...)

## REALIZATION OF A PROMOTION

3



- + Delivery of Goods
- + Display of Goods for Sale and Revaluation
- + Sales

## EVALUATION

4



- + Definition of KPIs in Line with Corporate Strategy
- + Evaluation of KPIs Adjusted for Pre/Post-Promotion Effect and Cannibalization
- + Check with Plan



**Czechs are willing to walk far for promotions and sometimes even fight.** Regular customers of chain stores rotate through 3 to 4 stores on their way to get discounted goods.



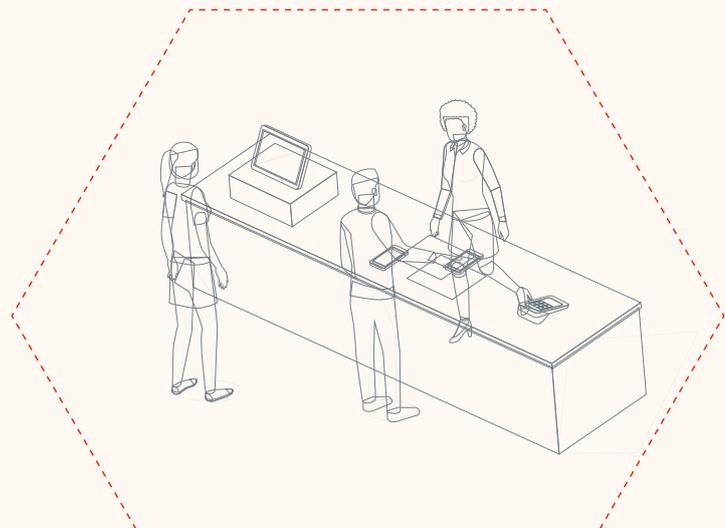
## PROMOTION LEAFLET OPTIMIZATION

**Leaflet creation** begins with the selection of leaflet items. In order not to bias the selection, we need to take account of several crucial criteria at the same time: share of sales, margin, number of subscribers/customers, frequency of special offers of a given product with competitors, price elasticity, the effectiveness of promotions, etc.

Using a multi-criteria rating, the system will select the items suitable for promotion in each category. In cooperation with suppliers, VIP products, that have significant business potential for the retailer and supplier, are selected within each category and will be placed in an important position in the leaflet (front page etc.). This highly selective choice of items naturally leads to a page reduction of the leaflet. Why have thick leaflets when a lower number of promotions will deliver the same or even better results at lower costs (ecological impact notwithstanding)?

**Based on the seasonality and products included** in the competitors' leaflets, a promotion roadmap for the whole year is created for each product. That will create a calendar for each promotional item informing of the optimal time to offer the product to the customer at a discount. By watching the behavioral patterns of competitors' promotions we can eliminate losses on concurrently planned promotions for the same products. The last thing is "just" to determine the discount amount. That is generated automatically based on the optimization strategy of the discount (maximum turnover/profit) and the price gap from the competitors. The amount of the discount is one of the most important criteria in terms of waste. Too high a discount means losing the net profit to most retailers.

Finally, **several dozen versions of flyers are created** for promotion in a given period. From those, the best one is selected: the one with low cannibalization in the product portfolio, generating the highest profit while staying consistent over time and balanced across products.





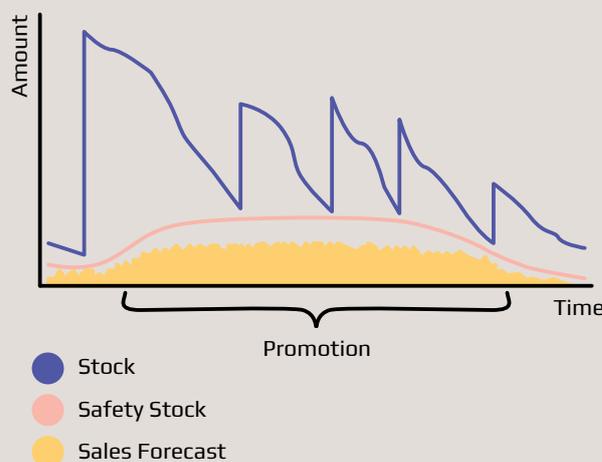
By increasing the forecast accuracy of promotional sales by 1%, you can raise your profits by up to 0.6%.

## SALES FORECASTING AND PROMOTIONAL GOODS INVENTORY MANAGEMENT

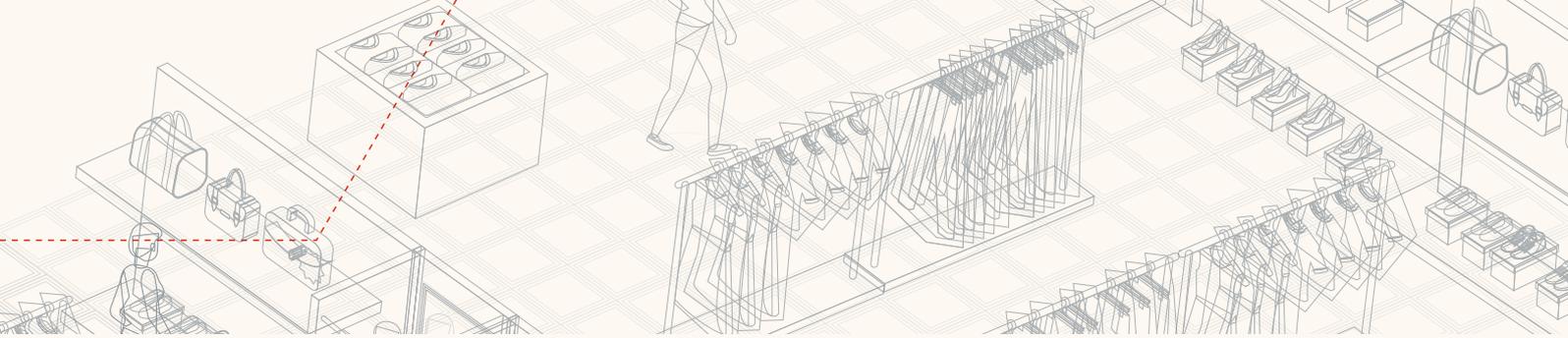
Using sales analysis, the system estimates **HOW MANY** items will be sold in a planned promotion. A promotion forecast is based on historical data and takes account of other factors such as promotion type and length, placement in the leaflet, discount amount, sales channel, etc. The estimated quantity is automatically broken down into individual days according to the typical course of a promotion of a similar nature. This decomposition is particularly important for inventory management. Without it, it would not be possible to accurately supply the sales channels and ensure optimal availability for the customer.

**How much stock will be needed** to satisfy demand throughout the promotion (Uplift Effect)? When should the first shipment be made, and in what size to fill the initial load? By how much do you need to reduce the order of products from the same category that will get cannibalized during the promotion? Thanks to the decomposition of sales into orders, we can answer these questions, which are crucial to the smooth running of the promotion.

The **most promotion-sensitive** items are FMCG like sugar, milk, and refrigerated chicken, which can complicate the inventory management and Supply Chain quite a bit. The drugstore and cosmetics categories are one of the more manageable categories in terms of promotional logistics.



**Pic. 6:** Promotion Stock Management



## EVALUATION AND BENEFITS

**How to correctly measure the promotion effectiveness?** Online evaluation of the planned promotion allows simulation, progress tracking and final assessment of the completed promotion. During the evaluation, the drop in sales of other items not included in the promotion (cannibalization) is taken into account, as well as the drop in demand before and after the special offer (pre- and post-promotion effect). Thus, everyone will see One Truth, which will be based on the real effect of promotions. All of this is automated based on input data from invoicing imported daily.

**Thanks to a clearly defined organizational structure** and workflow, everyone has well-defined rights and responsibilities. The promotion approval process is simplified, automated and accelerated. That frees up the hands of all departments involved in the preparation and execution of the special offer.



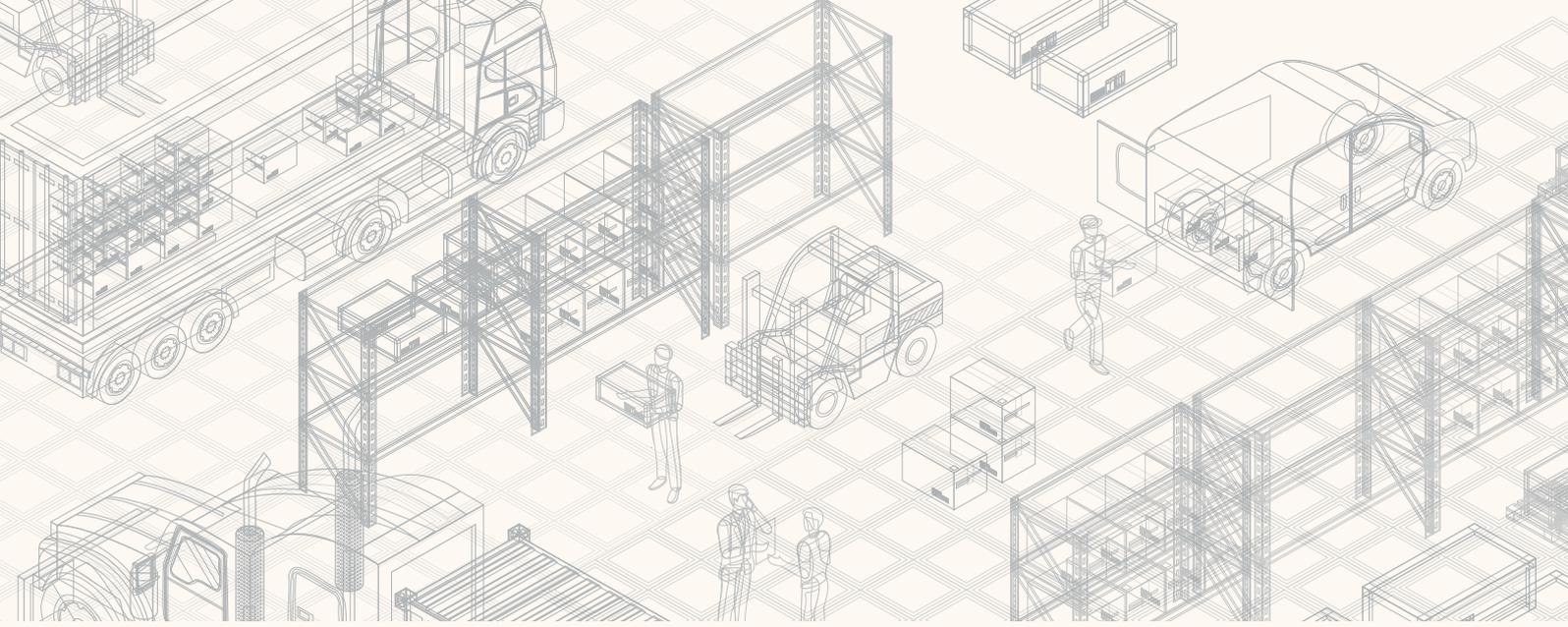
**Pic. 7:** Example of Product Cannibalization in the Same Category

**HARD benefits**

- ↑ Increase in profit by 3-7%
- 👍 Forecast sales refinement increase by 15%
- ↓ Reduction of the leaflet pages by 25% without reducing promotional sales
- 👍 Automation of 80% of the process

**SOFT benefits**

- Brand protection and fulfilling strategic objectives of the company
- Automating the creation of promotion leaflet
- Better planning of promotional sales - Minimizing downtime and oversupply, automation ordering of goods for promotion
- Simplifying and speeding up the approval processes
- Comprehensive reporting and promotion efficiency evaluation



# VERITICO

 [veritico.com](http://veritico.com)

