

How Does Data Analytics Impact Pricing Strategy?

In this article, the author explores how data analytics combined with market and pricing research bolsters pricing effectiveness. When leveraged correctly, data-driven analysis is assisting businesses in learning more about their customers' spending habits and applying the correct pricing strategy to their products in order to return a better profit margin for their company. Author Paul Hunt is the president of Pricing Solutions and a frequent PPS presenter, instructor, and contributor. He can be reached at phunt@pricingsolutions.com.

When harnessed correctly, data analytics has the ability to completely overhaul a company's profit margins. Studies have shown that raising the price of a product by 1% can increase a company's operating profits by as much as 12.5%. Similarly, leveraging customer data on price sensitivity and buying behaviors through research and analysis can help companies capitalize on untapped pricing and profit opportunities.

Traditional Pricing Model Approach

Before big data and innovative pricing systems came along, companies would traditionally look at the prices of similar competitor products and benchmark the value of their own product to come up with the best pricing strategy for their own line of goods. The problem with this manual approach is that although it is manageable for small companies with a reasonable number of products, it is unmanageable for larger companies who stock thousands of items. Each product requires a separate strategy and marketing teams are not able to keep up. This

means that potentially millions of dollars are lost in inefficient pricing decisions.

What is Big Data?

We've discussed big data before, how it can be leveraged for business decisions and why it is important to analytics. Big data is a relatively new term which refers to the large volume of data that is made available to businesses from a variety of sources. These could be business transactions, social media or even machine-to-machine data systems such as meters or sensors. However, the raw data by itself is largely useless. **A business must choose the best way to harness this data and analyze it at a granular level in order to better engage with their customers and put together data-driven pricing strategies. By doing so, big data can be the key to the success and profitability of a company.**

Big data is based on science. It uses software which can apply intelligent business decisions to each of the items in a company's product range, regardless of whether there are ten or ten thousand of them. Big data identifies factors such as the national or global economic situation, sales-rep negotiations and a customer's product preferences. By analyzing these factors, big data intelligence is able to find the optimal price that a customer is willing to pay and come up with an ideal pricing strategy based on this.

How are Organizations Using Big Data?

Companies operating in all industries are benefiting from the information that big data can provide. Data-driven analysis is assisting businesses in learning more about their customers' spending habits and applying the correct pricing strategy to their products in order to return a better profit margin for their company.

There are already many industries that are using data-backed pricing strategies

to great effect. Rick Kostick, founder of cosmetics company 100% Pure was attracted to using big data on their website due to the promise of:

"A machine learning algorithm that is able to predict which customers will leave your site without purchasing any of your products (with 99%-plus accuracy) and the capability to offer only this group a steeper discount than normal to entice them to purchase before leaving."

By using this type of discount pricing strategy, 100% Pure saw its online sales increase by 13.52% in just three months.

In the world of car insurance, companies such as Progressive are providing more competitive quotes to entice potential customers. This is largely possible through the use of data generated by telematics devices that are placed on the dashboard of a car. These devices measure specific driving factors such as speed, cornering and how hard the driver is breaking. Rather than an insurance quote being based on traditional averages such as age or gender, the telematics data is able to calculate a more precise level of risk which is directly associated with a customer's style of driving. Other insurance providers such as Tesco Bank and Drive Like A Girl are also harnessing this technology to attract new customers.

Support Your Sales Team

Of course big data's impact on pricing strategy will be minimal if you do not have the support of your sales team. A company that is using big data needs to take its time to nurture its sales representatives and offer them full communication in any adjustments to pricing strategy. They will require thorough training into the background of why there has been a pricing shift and the positives that they must be able to convey to potential customers.