Pricing Innovation

The origin, past, present and future of dynamic pricing

Sander Roose, Founder & CEO, Omnia Retail

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University of St.Gallen

Agenda

01 How e-commerce drove pricing complexity

02 Wave 1: from manual pricing to to dynamic pricing

03 Wave 2: staying in control, while being on autopilot

04 ROI of dynamic pricing

05 Wave 3: what will the future of “AI pricing” look like?

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The rise of e-commerce led to a massively increased pricing challenge for retailers

	Pre e-com retail	Post e-com retail
Assortment size	Small (confined to physical shelf)	Large ("endless aisle")
Price transparency	Low (store visits needed + promo flyers)	High (full price transparency)
Frequency of adjustments	Low (typically promotions per quarter)	High (intra-day adjustments)
Channel complexity	Low (only own stores)	High (own stores online & offline, marketplaces)
Number of competitors	Low (few based on geography)	High (whole market, including new pure players like Amazon)
Marketing complexity	Low (few channels, low frequencies)	High (many channels + marketing at wrong price point leads to waste due to price transparency)

!

The pain **due to explosion of pricing decisions, retailers became increasing unable to compete without automated monitoring and dynamic pricing (price adjustments)**

As categories matured online, pricing automation became a necessity. Selection of Omnia customers as example

Consumer Electronics

Sporting Goods

Apparel & Fashion

Department Stores

Home & Living

Beauty

Healthcare & Pharma

DIY

Automotive

Optical retail

Nutrition & Supplements

Toys

Baby

L'ORÉAL GROUPE
Kaufland
BODY&FIT
GrandVision
PHILIPS
WÖHRL
Schiphol
VAN ASTEN babysuperstore
carhartt
KwikFit
Intertoys
winparts
Marionnaud
MORAVAN
sani web
snipes
SIVA
PORSCHE HOLDING
Plein
DUNLOP PROTECTIVE FOOTWEAR
ALL4RUNNING
LVMH
Intergamma
VAUDE THE SPIRIT OF MOUNTAIN SPORTS
bol.
connox
Johnson & Johnson

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01 How e-commerce drove pricing complexity

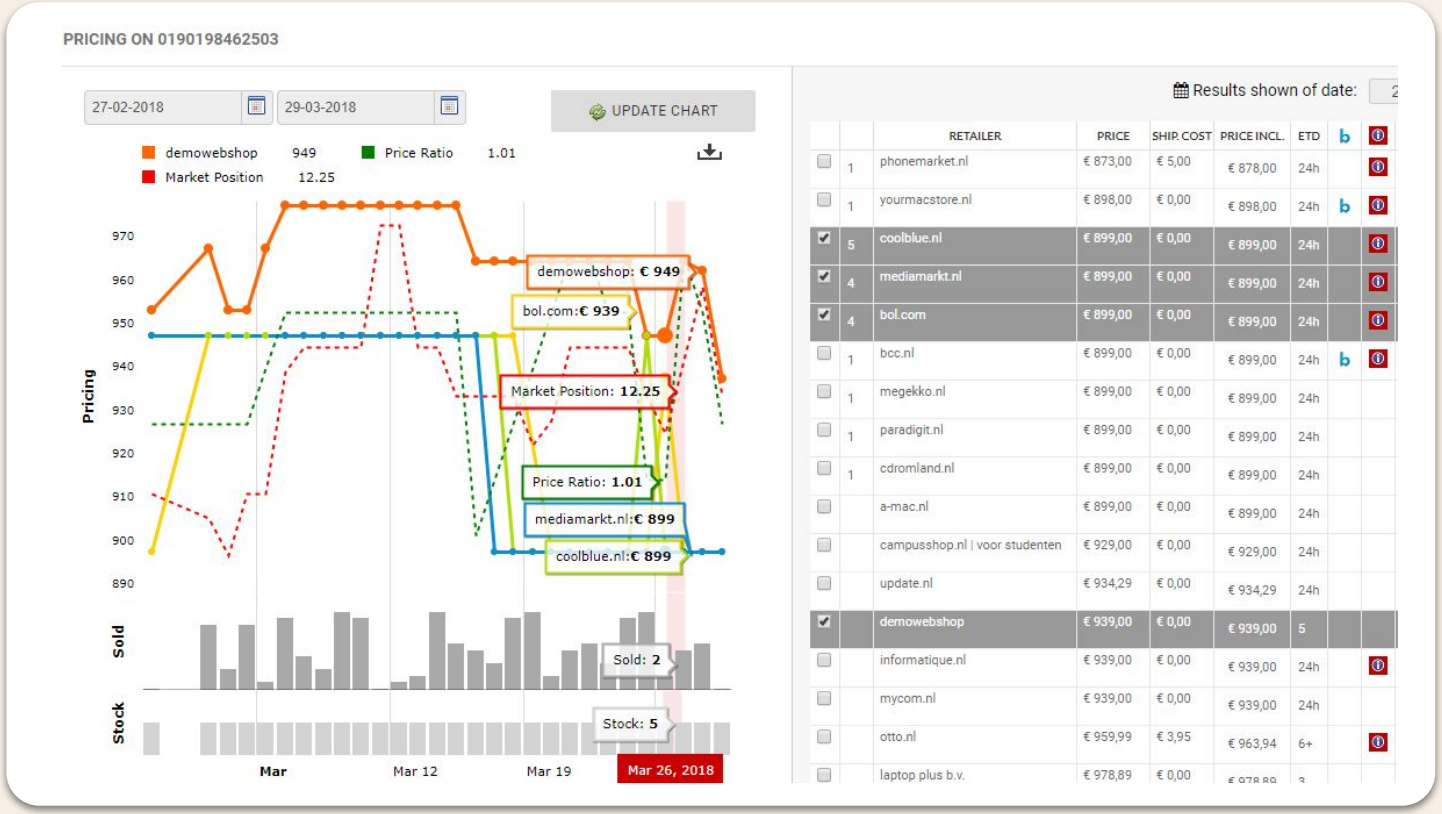
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Wave 1 of pricing automation: going from manual pricing to dynamic pricing, automated by software



As the ability to run detailed and complex pricing strategies became mainstream, it created the next level of challenges: loss of control



Why is the price advice 548.93?

How are elements of my pricing strategy impacting the pricing outcomes?

Are my pricing strategies delivering on the **objectives** I have?

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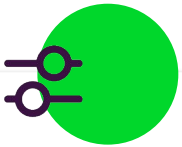
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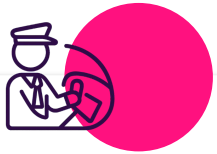
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These insights on loss of control, led to the three design principles behind the Omnia 2.0 next generation platform



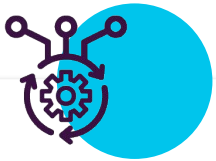
Realtime Flexibility:

Automate anything at any time



Full Transparency:

Staying in control while being on autopilot

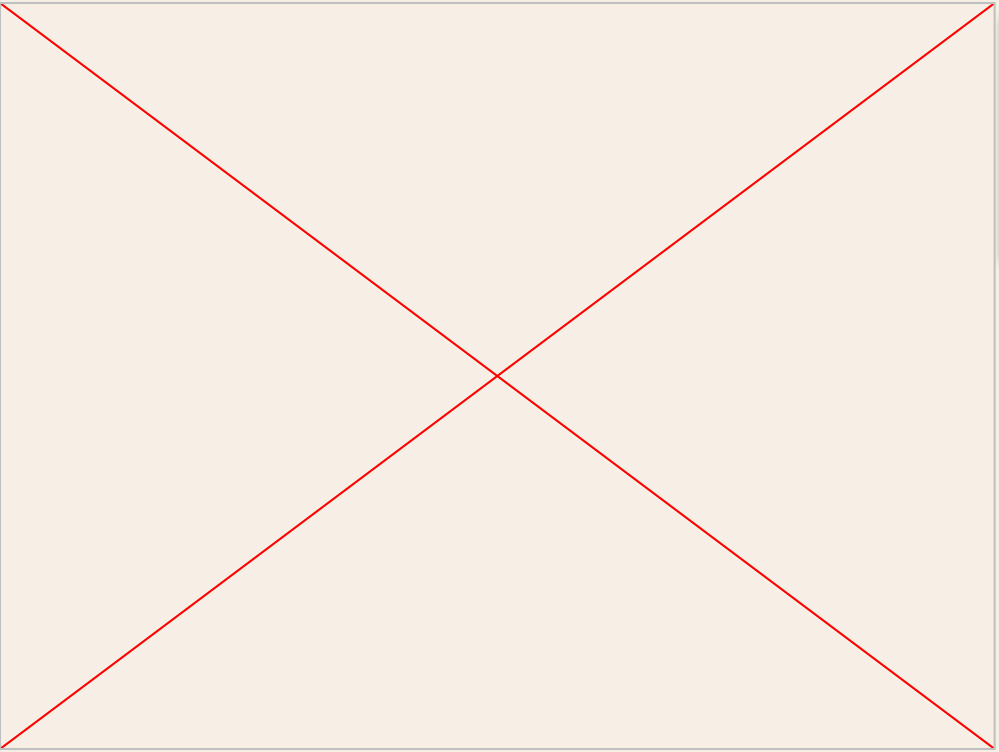


Intelligent Automation:

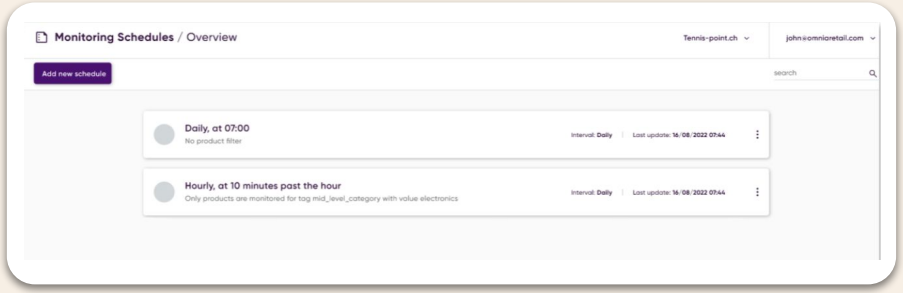
From defining business rules to giving performance objectives

Realtime Flexibility: Automate anything at any time. Some examples

Drag&drop decision tree approach to building strategies



Flexible scheduling engine for monitoring & price calculation



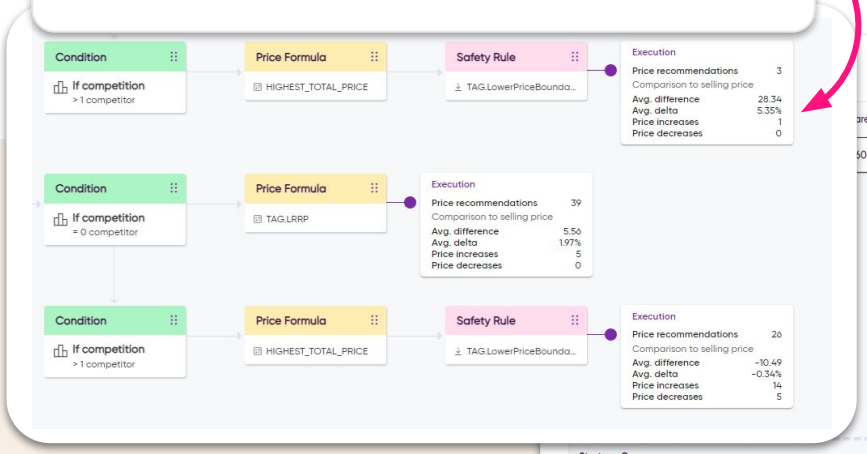
Connect any number of data sources to use for strategies

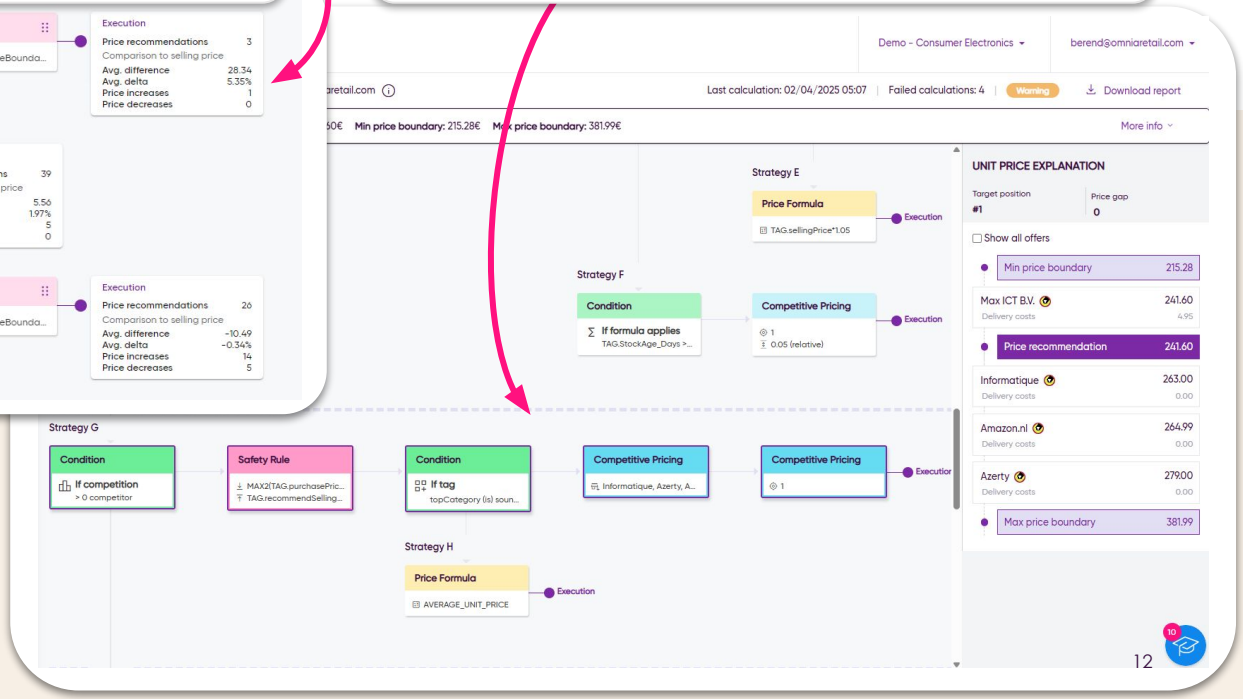


Full Transparency: Staying in control while being on autopilot Some examples

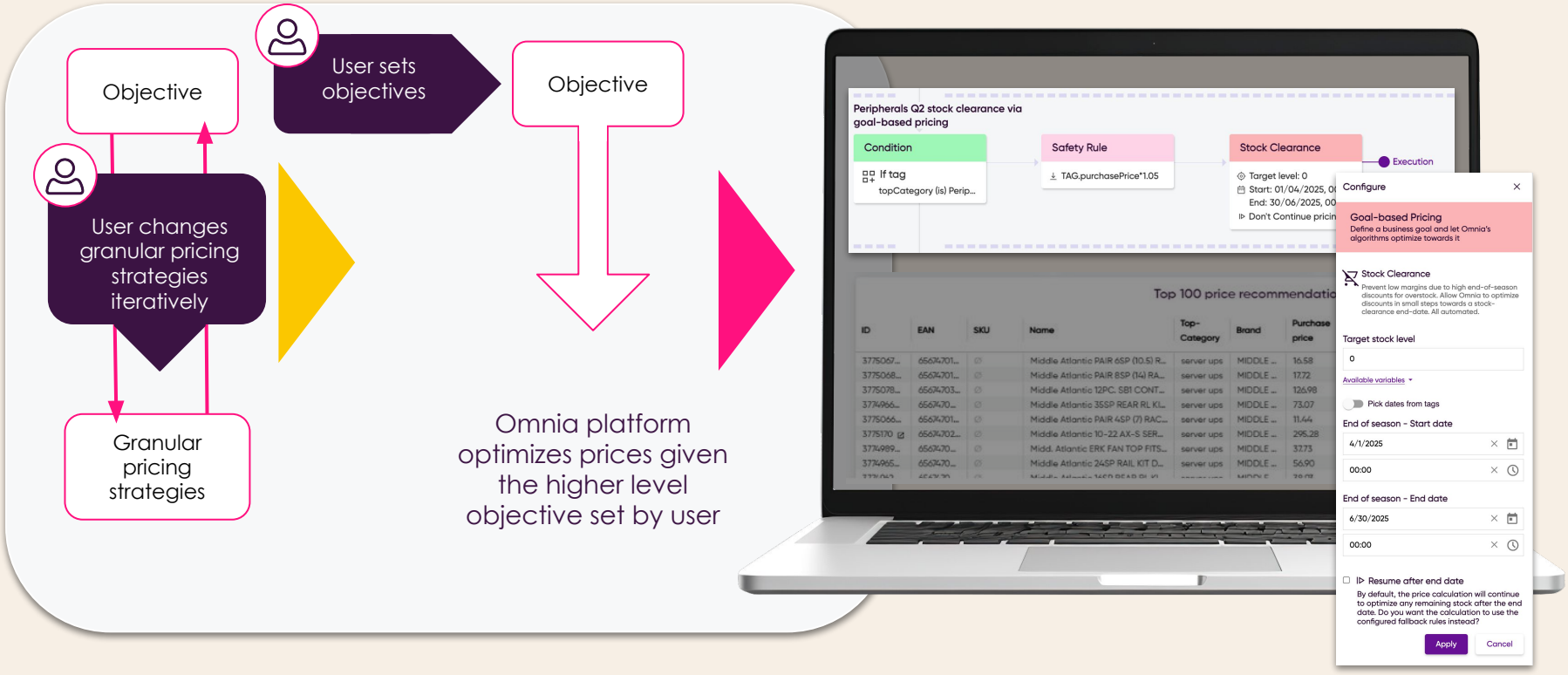
Strategy Branch Statistics show **the impact** that elements of the strategy have on pricing outcomes

Individual price advise **explained by highlighting path** in decision tree and values used





Intelligent Automation: From defining business rules to giving performance objectives. Stock clearance goal-based pricing example



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While the focus is typically more on “hard benefits”, we learned there are hard and soft benefits of dynamic pricing

Hard benefits

- **Sales and/or profit** growth
  - Depending on the goals of the client
  - Combination of sales AND profit growth quite common
- Improvements in hard **pricing KPIs** such as price ratio vs market/key competitors and price position in the market
- Resulting improvements in **Price Image** of the retailer / brand (typically measured via surveys)

“Soft” benefits

- **Time savings** previously spend on manual pricing: typically one full day per workweek for a category manager when moving from manual pricing to Omnia
- **Fewer pricing errors** through automation
- Better **knowledge sharing** as logic becomes explicit and all teams and countries are using the same tooling

Quantifying the hard benefits: case study of large omnichannel electronics retailer. 2 hypotheses were evaluated

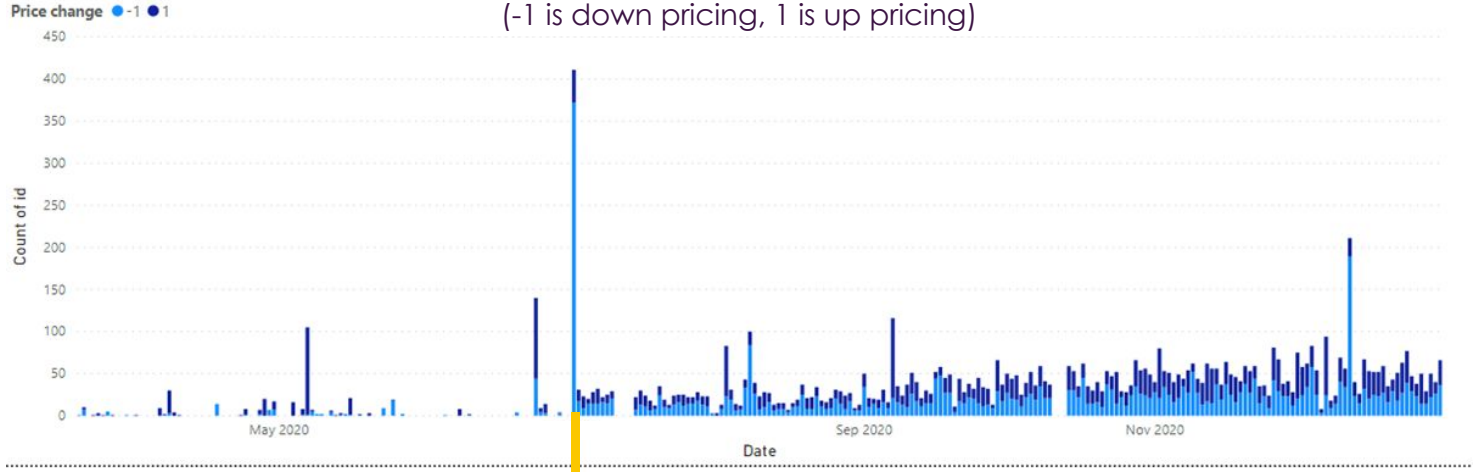
Two hypotheses:

1. The Omnia implementation has increased the number of price changes per day vs the manual price changes process before.

2. The Omnia implementation - and the pricing strategies implemented in it - has grown sales and euro margin (their main goals).

The first hypothesis was confirmed, across the board. Accessories category example

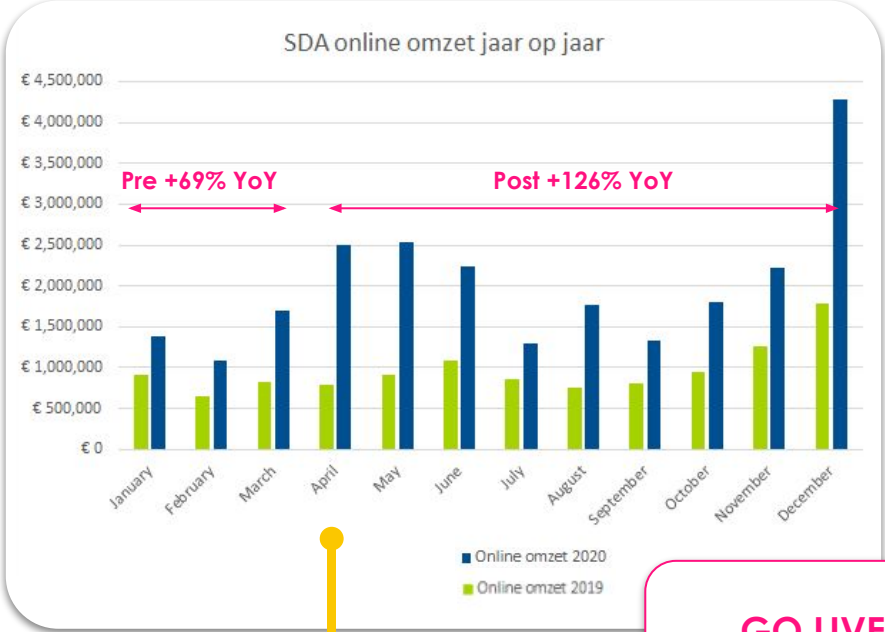
Daily number of price changes in Accessories category
(-1 is down pricing, 1 is up pricing)



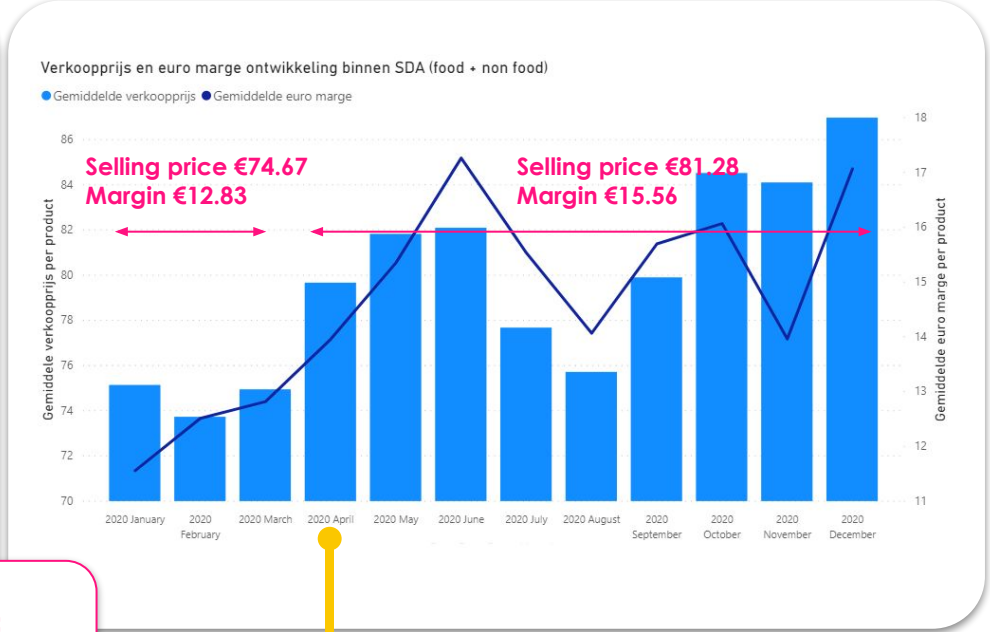
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July 2020

The second hypothesis was confirmed across the board as well. Small Domestic Appliances (SDA) category example

SDA sales year-on-year comparison



SDA average price and average margin per product comparison



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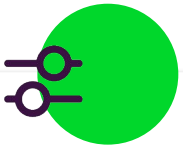
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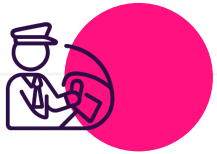
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We believe the third design principle will ultimately lead to “agentic pricing” in the future



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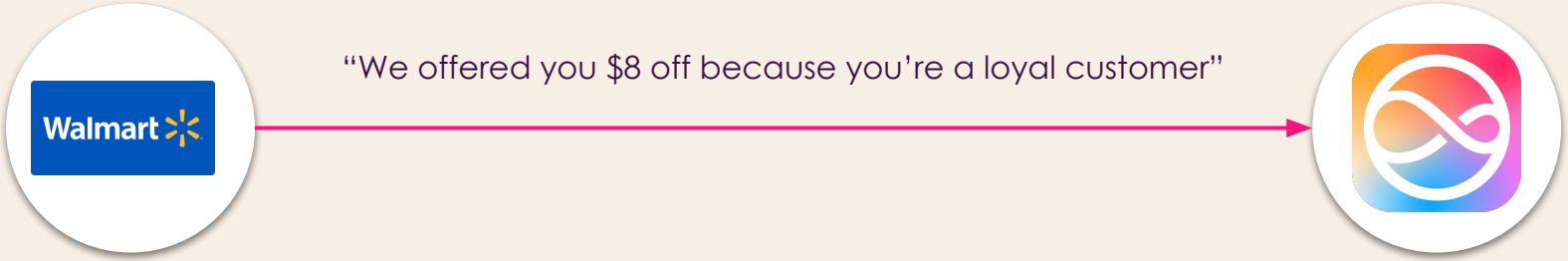
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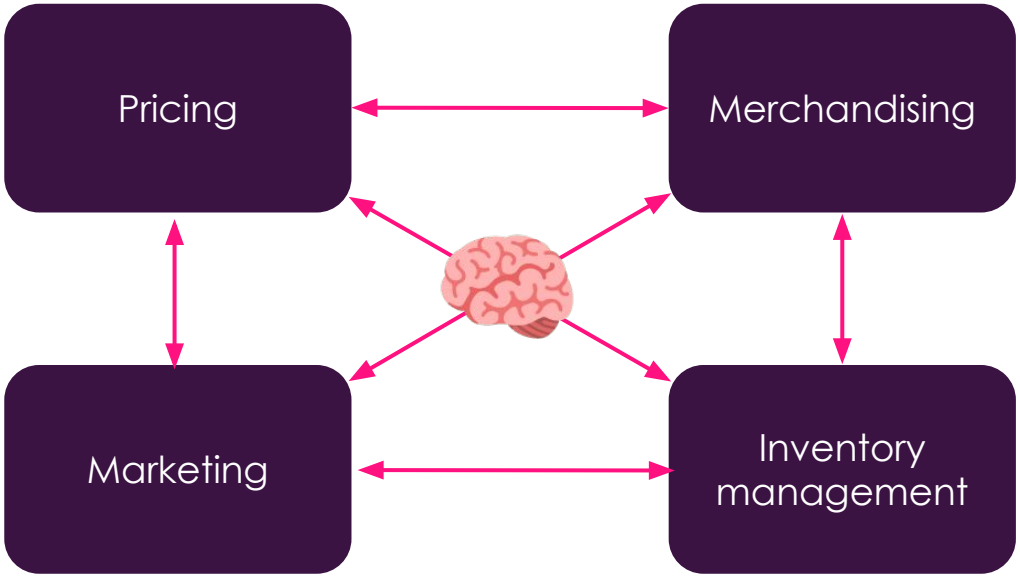
What agentic pricing could mean: “back to the future” in terms of 1:1 negotiations, but now between two agents?



What agentic pricing could mean: agentic (1:1) negotiation could also be the unlock for more personalised pricing/discounting



What agentic pricing could mean: when the AI gets more freedom, it would also make sense to optimize more across domains



Thank you for your participation –

Let’s keep in touch.

See what Omnia can do for you.

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