The Ultimate Guide to Dynamic Pricing by



omniaretail

Table of contents

01 Introduction

02 Key Functions for E-Commerce

03 Dynamic Pricing in E-Commerce

04 Advanced Dynamic Pricing Solutions

05 Dynamic Pricing Strategies

06 Implementation

07 Summary

01 | Introduction

Dynamic pricing is a strategy where companies continuously adjust their prices throughout the day. The primary objectives of these price changes are twofold: optimising profit margins and increasing the likelihood of sales.

Dynamic pricing involves applying variable prices instead of fixed ones. Rather than setting a price for an entire season, retailers can update their prices multiple times per day to capitalise on the ever-changing market. It is important to distinguish dynamic pricing from personalised pricing, as they are fundamentally different.

In essence, **dynamic pricing evaluates the relative value of products in relation to the market**. Personalised pricing, on the other hand, assesses individual consumer behaviours and adjusts a product's value based on past shopping experiences.

Personalised pricing is controversial because it uses individual data and shopping experiences, which many consumers consider private. It also poses a risk in an era where consumers can easily communicate with each other. If one consumer discovers they paid more for the same product than another, their trust in the company may erode.

Dynamic pricing, however, allows **retailers to capture additional sales and take advantage of a changing market without compromising consumer privacy or trust.**

Dynamic pricing helps businesses maximise profits by **adjusting prices in real time, based on market conditions.**



02 | Dynamic Pricing: Key Functions for E-Commerce

Dynamic pricing is a sophisticated strategy that leverages real-time data and advanced algorithms to adjust prices dynamically based on various market factors. This approach is essential for enterprises aiming to stay competitive and maximise profitability in the intransparent e-commerce landscape. By continuously analysing a multitude of variables such as consumer demand, competitor pricing, inventory levels, and seasonal trends, dynamic pricing enables businesses to respond swiftly to market changes. This agility not only helps in capturing more sales opportunities but also in optimising profit margins.
The key functions of dynamic pricing include:

0.1

Real-Time Adjustment

Dynamic pricing enables enterprises to modify prices instantaneously in response to market conditions. By considering factors such as demand fluctuations, competitor pricing, seasonal trends, and other relevant attributes, businesses can ensure their pricing remains competitive and attractive to consumers.

0.2

Increased Revenue

Through continuous optimisation, dynamic pricing allows companies to fine-tune their pricing strategies to enhance profitability. By analysing market data and consumer behavior, businesses can identify the optimal price points that drive sales while achieving their financial objectives.

0.3

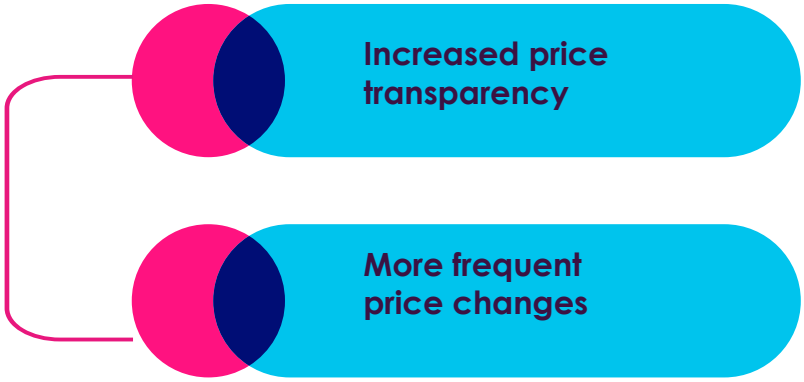
Managed Transparency

Dynamic pricing systems provide comprehensive control over pricing strategies, ensuring internal transparency. This function allows enterprises to maintain a clear and consistent pricing policy, fostering trust and reliability both within the organisation and with their customers.

03 | Dynamic Pricing in E-commerce

Dynamic pricing and e-commerce have evolved together. As the internet became more sophisticated and online shopping grew, so did the need for dynamic pricing. Consumer electronics were among the first to adopt this trend due to their price sensitivity. Retailers need dynamic pricing to stay competitive and offer attractive prices.

As consumer spending in this category rises, two key developments have emerged:



1. Increased price transparency
With more people shopping for consumer electronics online, comparison shopping has increased. Consumers are now more likely to evaluate a retailer's prices against competitors. This makes product pricing a critical factor in sales, especially for highly elastic products where a small price difference can be decisive.

2. More frequent price changes
The demand for price transparency has led to a dramatic increase in daily price changes since the advent of e-commerce. Traditionally, suppliers or manufacturers set product prices with a consumer-advised price (CAP). However, this CAP quickly became irrelevant with the growth of online comparison shopping. Today, retailers set prices based on various factors, including market trends, competitor prices, and stock levels.

Other categories, such as Toys and Games, follow a similar pattern.
As online spending increases, so does the demand for price transparency, leading to more frequent price changes and the use of dynamic pricing. This trend also attracts new market players without physical stores, challenging traditional retailers.
While traditional retailers have the first-mover advantage, they are generally less flexible in adapting their pricing strategies. However, those that leverage their omnichannel advantage can outperform competitors.

04 | Advanced Dynamic Pricing Solutions

Most retailers practise a basic form of dynamic pricing by discounting items at the end of a season or using clearance sales to clear excess stock. However, dynamic pricing can extend far beyond seasonal discounts. By using dynamic pricing software, retailers can harness data to capture more sales and manage their assortment effectively. Today, almost all major retailers use some form of dynamic pricing software.

Dynamic Pricing Online
Dynamic pricing offers clear benefits online: it allows retailers to monitor competitors, adjust prices instantly, and gather quantitative metrics to improve performance.

Dynamic Pricing Offline
Dynamic pricing is also beneficial offline. Through electronic shelf labels (ESLs), retailers can apply dynamic pricing in physical stores, keeping prices consistent with online offerings and simplifying pricing management

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Dynamic pricing software transforms retail strategies by going beyond seasonal discounts and **leveraging real-time data to optimise sales and manage inventory seamlessly.**

Dynamic pricing software streamlines the process, automating price adjustments **and saving businesses time and resources.**

Key Benefits



Automation

Software takes care of price adjustments, freeing up time for other tasks.



Data-Driven Insights

Provides valuable data to make informed pricing decisions.



Improved Efficiency

Streamlines the process and reduces manual effort for pricing adjustments.

Talk to one of our consultants about dynamic pricing.

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05 | Dynamic Pricing Strategies

E-commerce pricing strategies are the methods used by online businesses to set, adjust, and maintain product or service prices over time. These strategies must consider the company's revenue goals, production costs, and key performance indicators (KPIs) such as customer lifetime value (CLV) and average order value (AOV).

Pricing Strategy vs. Pricing Rule

A pricing strategy is the overarching concept that guides pricing decisions and policies. A pricing rule is the specific, goal-oriented execution of a pricing strategy.

A premium pricing strategy, setting prices higher than the market average to enhance perceived value, is a common example.
A pricing rule would then translate this strategy into a specific formula, such as:

New price = Market average price x 1.2

This means the price is set to be 20% higher than the market average for that day. Platforms like Omnia allow for the combination of such rules with various conditions and filters, offering limitless complexity.

Traditionally, retailers set prices using three basic methods:



Cost-plus pricing



Competitor-based pricing



Value-based pricing

Cost-plus method

The cost-plus method is the most simple out of all three. All you need to do is take the cost of your product and add the desired margin on top of that cost.

The main advantage of cost-plus pricing is that it's easy to understand and implement.

However, its main disadvantage is that it only considers internal factors, ignoring external market conditions.

To determine the margin or 'markup' percentage, use this simple formula: subtract the product's cost from its selling price, then divide that difference by the cost. Finally, multiply the result by 100 to get the markup percentage.

Costs as starting point, **plus desired margin**



Competitor-based method



The competitor-based method follows your competition. If your competitor changes their price, you'll change your price as well, whether it's lower or higher than your competitor.

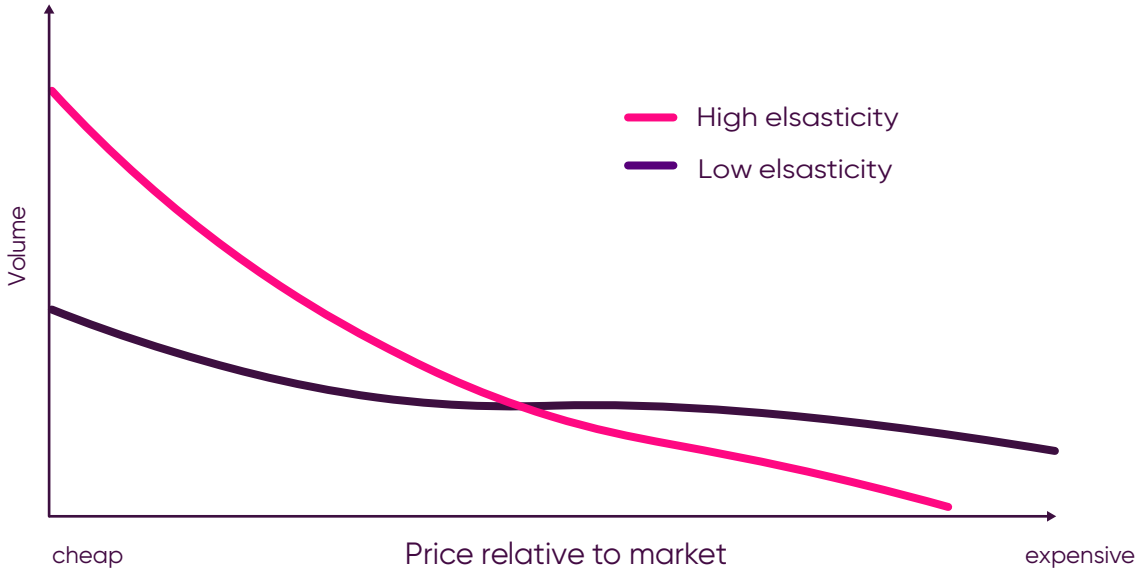
The main advantage of this pricing approach is that it considers external factors like competitor pricing.

However, its downside is that it assumes competitors have accurately set their prices.

Value-based pricing method

The value-based pricing method follows the price elasticity of a product. Different consumers value items differently, so everyone has a certain threshold that they are willing to pay for a product. A value-based pricing method capitalises on the public's perception of the value of a product and charge accordingly.

Prices set with elasticity according
to (perceived) value of consumer



The main advantage of this pricing method is that it integrates both external and internal data, providing a balanced approach. However, its main drawback is its complexity, making it the most difficult pricing method to implement.

Dynamic pricing software allows you to combine different pricing methods at the same time. Some software also allows you to incorporate other useful information, such as your stock levels, popularity score, and even the weather forecast.

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06 | Implementing Dynamic Pricing

Implementing dynamic pricing is a transformative journey that can significantly enhance your organisation's pricing strategy and internal systems, ultimately improving your overall margins.

Is it hard to get started with Dynamic Pricing?

At Omnia Retail, we've streamlined the implementation process through hundreds of successful projects. Our five-step process ensures a smooth transition to dynamic pricing:

0.1

Define your commercial objective

Your commercial objective acts as your company's compass, guiding you through institutional changes and keeping you on the right path. This objective is crucial for more than just pricing and marketing; it's the foundation of a successful dynamic pricing strategy.

Common commercial objectives are:

- **Being always the cheapest:** This objective focuses on maintaining the lowest price in the market to attract price-sensitive customers and increase market share. It often involves aggressive cost management and efficiency improvements to sustain profitability despite lower margins.
- **Maximizing profit:** This objective aims to set prices at a level that maximises the difference between revenue and costs. It often involves detailed market analysis and demand forecasting to find the optimal price point.
- **Market penetration:** This strategy involves setting lower prices to quickly gain market share and attract a large customer base. The goal is to establish a strong presence in the market, often at the expense of short-term profits.
- **Premium pricing:** This objective sets higher prices to create a perception of higher quality or exclusivity. It targets customers who are willing to pay more for perceived value and brand prestige.

0.2

Build a pricing strategy

Your pricing strategy takes your commercial objective, then translates it into strategy that your team will use to sell products. An example? Say your overall commercial objective is to be known as the cheapest retailer on the market. Your pricing strategy would then be to make sure every product in your store is cheaper than the competition's offering.

Assess your place in the market

Start by evaluating your current pricing model—this is known as the "As-Is Situation."

Gather stakeholders to review your existing approach and answer key questions:

- What is your current pricing model, and what are its strengths and weaknesses?
- Are you a market leader or a challenger?
- Is your focus on maximising sales volume or overall profitability?

This reflection helps you understand where you stand before making any changes.

Build your pricing strategy framework

Engage stakeholders in solution sessions to establish a shared understanding of the "As-Is analysis".
This step is crucial for aligning everyone on existing strategies and creating a draft framework that leverages expertise from sales, segment managers, and pricing specialists.

Set business rules for the future

With a clear framework in place, the next step is defining the "To-Be Situation"—how you want your pricing to function going forward.

Establish the levers and rules that will guide your pricing and calibrate them based on your analysis. After aligning internally, begin testing and iterating these rules using tools like Omnia to see what adjustments yield the best results.

0.3

Choose your pricing method(s)

Your pricing strategy tells you what you want to do. Your methods are how you'll achieve those pricing goals. Your pricing methods are more specific than your pricing strategy.

0.4

Establish pricing rules

Pricing rules tell your dynamic pricing software what to do. You should set a rule for every product (cluster) that the software needs to track and change.

A pricing rule for a premium strategy is formulated as follows:

New Price = Market Average Price x 1.25

This rule ensures that the price of their product is always 25% higher than the market average.

Sometimes you also have a limit to this especially good price and hence, only want this price to be for X number of units sold. This can be translated into the following pricing rule:

Special price only for X units sold, after which it will follow the market prices with assigned safety rules.

0.5

Test and monitor

The final step for getting started with dynamic pricing is to test and monitor your software's changes. Learn more about testing the effectiveness of your online pricing here.

07 | Summary

Dynamic pricing is a sophisticated strategy where companies adjust their prices throughout the day to optimise profit margins and enhance sales opportunities. Unlike personalised pricing, which leverages individual consumer data, dynamic pricing assesses the market value of products, thereby maintaining consumer trust and privacy.

In e-commerce, dynamic pricing has evolved in tandem with online shopping, particularly within the consumer electronics sector, known for its high price sensitivity. This evolution has led to increased price transparency and more frequent price adjustments, driven by the imperative to remain competitive.
Dynamic pricing software transcends basic seasonal discounts, enabling retailers to utilise data for improved sales and assortment management. This approach benefits both online and offline retail environments, with tools such as electronic shelf labels (ESLs) ensuring consistent pricing across all channels.

Retailers typically employ three primary pricing methodologies: cost-plus, competitorbased, and value-based pricing. Dynamic pricing software integrates these methodologies and incorporates additional data to refine pricing strategies. The implementation of dynamic pricing involves several critical steps: defining commercial objectives, developing a comprehensive pricing strategy, selecting appropriate pricing methods, establishing precise pricing rules, and continuously testing and monitoring the system. This structured process can significantly enhance an organisation's pricing strategy and internal systems.

Partnering with Omnia Retail

When you team up with Omnia Retail, you're not just getting dynamic pricing software – you're gaining a true partner committed to your success. All Omnia customers get their own support from our Customer Success team to help them put their price comparison strategy into action. We're dedicated to teaching and sharing unique and curated pricing strategies across multiple verticals, from electronics to sportswear.

We're not just a software provider – we're a partner on your journey to price maturity. business goals, offering personalised support and expert advice every step of the way.

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