

## The Many Sides of Price Optimization Software

After years of cutting costs to survive the double-whammy of the recession and rising energy and commodity costs, companies are implementing new pricing strategies to maintain or improve margins. In many cases, they are turning to price optimization software to give them a competitive edge by helping to guide decisions on how and when to pass along increased costs to customers.

While not new to the market, price optimization software has received increased interest in the wake of the recession. That is because it provides organizations with the insight needed to help improve profits, defend margins and set prices competitively. However, the technology is not without weaknesses.

Mark Chussil, founder and CEO of Advanced Competitive Strategies, Inc., which provides business war games, strategy simulators and workshops on strategic thinking, believes that value can best be derived from price optimization software when it is used appropriately.

“Like any analytical technique it has its strengths and weaknesses,” said Chussil. “The key is that when you are applying a technique, make sure it fits the problem that you have. It’s tempting to want to boil things down and simplify them, but strategy isn’t simple.”

One thing that’s a challenge to simplify and package in a software solution is how competitors will respond to changes in price. Chussil notes that because competitors are continually aware of market changes, they may interpret a price adjustment as the first shot in a price war.

Another potential downfall to price optimization software is in the assumptions it makes regarding the future of both the business and the industry. While software does a good job of analyzing industry and customer history, using history to predict the future doesn’t work well when historical patterns are in flux. This may result in inaccurate market predictions and therefore inaccurate pricing strategies.

“Focus not so much on getting pricing right to the penny, but rather on the many ways competitors and customers may respond. There is not just one possible future, there are many futures. To make the best decision, look broadly,” said Chussil.

To that end, Advanced Competitive Strategies has developed patent-pending “strategy decision test” technology and used it to create a pricing strategy game that allows people to test their pricing strategies against those submitted by hundreds of strategists around the world. It’s confidential and free for individuals.

Some companies will benefit more from price optimization software than others. For example, organizations with commodity-based products or services that reach various customer and market segments, such as the hotel and airline industries, are particularly well-suited for the technology. Additionally, companies with many product options, such as automobiles, can utilize price optimization technology to help balance prices and features. The software also allows a company to analyze customer history and market segments and ensure it is satisfying the needs of customers from all demographics and at all price points.

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Page 2 of 2

“Price optimization software is great for organizations that are reaching customers who are willing to pay different amounts for a product or service, such as unrestricted versus no-changes airfares,” said Chussil. “Still, price is only one ingredient in your strategy recipe. If the product you are selling is differentiated or unique, or if you are competing in areas other than price, then price optimization software by itself is less likely to benefit your business.”

If a company determines price optimization software is suitable for their business, Chussil recommends placing a priority on finding a vendor that has a track record of resolving the business’s particular problem or within the specific industry. Companies should also candidly ask vendors under what circumstances their software might not be helpful. Finally, companies should think through how the competition might react if they make price changes, whether or not those changes are due to their use of software. A good gauge of this is how they themselves would react if they were in their competitors’ shoes.

“Any business analysis or optimization software must make assumptions about your product and how your competitors will respond,” said Chussil. “We do the same thing in our heads when we think about moves and counter-moves. Learn about the assumptions in whatever technique you’re considering. In your market, facing your challenges, which assumptions do you think are safe and which will make you vulnerable? Everything is error-prone, but which errors do you want to be prone to?”