What are the benefits of outsourcing your pricing tool?

PricingHUB
Dynamic Pricing Solutions

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Introduction

The aim of this white paper is to help you identify and weigh up the key factors in choosing where to invest your resources when deploying a pricing tool. In a context where Data Science IT resources are both scarce and expensive, it is essential to make the right choices in terms of investment to ensure a good ROI.

You have two options:

1. **Invest in the development of an internal pricing solution**
2. **Invest in an external pricing solution**

"Our experience over several years in the pricing field has enabled us to identify a trend: more or less 80% of projects to internalize pricing optimization tools fail after 2 years."

Jérôme Laurent
CEO & Cofounder
PricingHUB

The implementation of a pricing tool generally aims to meet three objectives:

- **Deploy granular pricing strategies** to meet business challenges and win market share
- **Improve the reactivity of price updating processes** in the face of contextual hazards from competitors, suppliers or consumers, by automating adjustment calculations.
- Improve and facilitate decision-making through **mechanisms for measuring the performance of pricing actions.**

Whether the decision is to develop an internal pricing tool or to acquire an external one, these objectives are the main drivers of change when implementing a tool.

Once the decision has been made, it's time to implement it! In all cases, there are **three key elements to the successful implementation of your pricing tool:**

- Your data must meet 3 requirements:
  - **Be reliable**
  - **be granular**
  - **Be easily accessible**
- Your tool must enable you to take business needs into account, so that you can deploy modular pricing strategies in line with:
  - business needs,
  - distribution channels,
  - supply chain,
  - inventory management, etc.
- Your tool must be easy to use. The simpler the user experience, the easier it will be to adopt, and the more your application will become a central decision-making tool.

What's more, it's also important to consider the tool's scalability and data security.

Scalability

When choosing to implement a pricing tool, it's important to anticipate the needs you may have in the future, such as:

- Regionalization or localization of pricing
- Need to increase franchisee autonomy,
- Need to the number of competitors monitored,
- Refinement of product segmentation, etc.

All these factors can lead to an increase in the number of calculation points and put your tool in difficulty, hence the need to take into account the tool's potential scalability.

Data Security

When it comes to data security, it goes without saying that this is a critical element to take into account, whether you're choosing an external tool or developing your own in-house. Cyber-attacks are on the increase (+38% globally in 2022*), and you need to protect your data. It's vital that you equip yourself with a tool that guarantees a high level of security for your data (e.g. SSL, firewall, authentication broker, etc.).

*Cyberattacks article

"The factors for internalization are: the availability of in-house resources; but also two obstacles: entrusting pricing to a third party, which was a difficult step to take for us, and automating on a large volume of references with the business stakes that this implies."

Julien Chaudenson
Data & Supply Director
Alltricks

I- Which data flows should be considered when setting up a pricing project?

Data is the key to successful pricing tool deployment. According to Accenture, more than 30% annual growth has been recorded by data-driven companies*.

Prior to any implementation, it is essential to ensure three things:

Data Reliability

There are three elements to consider. As far as possible, your data should reflect the reality of :

- Your contracts with suppliers (purchase prices, discounts, etc.),
- Your company's management control elements (FRA, inventory costs, COGS, etc.).
- Operational elements (costs, etc.).

In addition, all data must be available at the frequency required for the price optimization you wish to implement.

Accenture's article

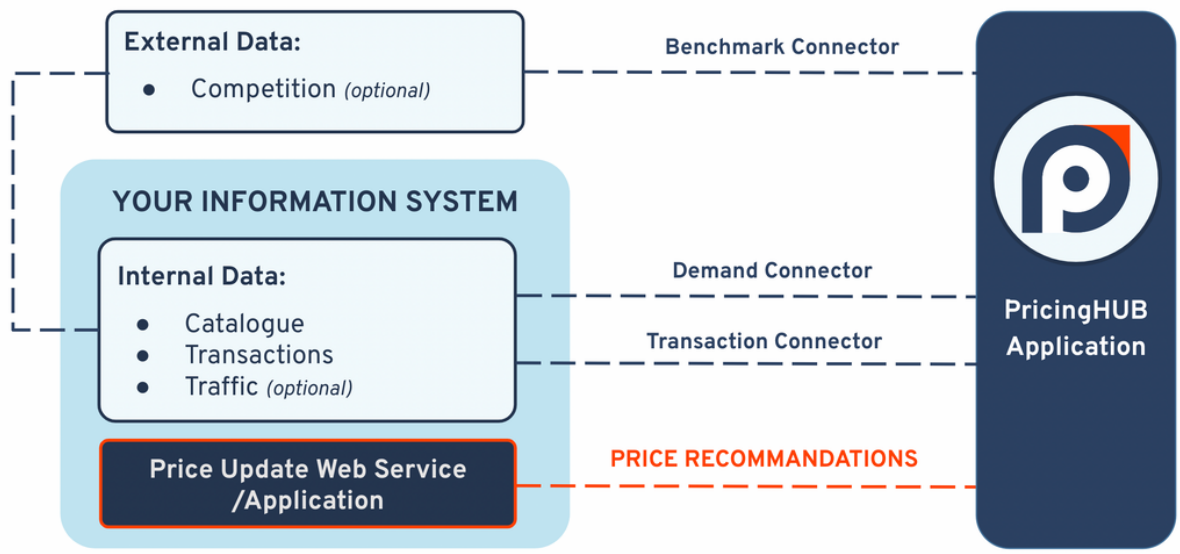
Data granularity

The more granular your data, and the more frequently it is available, the more refined and responsive your pricing strategies will be.
This reactivity, and the ability to segment your product catalog, enables you to respond to changes in market context, such as changes in competitor prices, inflation or variations in purchasing costs.

Data connectivity

On entry, data often comes from a variety of sources. Subsequently, the optimized price is fed into the various information systems (ERP, cash register systems, ELS, etc.) for price descent and display to consumers. For example, if you use ESLs, you need to ensure that the ESL configuration key is the same as that of the pricing tool (model reference or SKU). Upstream of price descent, it is important to validate prices through test phases to prevent errors that can prove costly for the company.

The diagram below illustrates the logic of data input and output:



According to the Accenture study, 81% of companies still
still lack a real data strategy to use their data to its full
the full potential of their data*.

In order to implement a pricing tool, it is necessary to have several types of data at your disposal:

1. **Catalog data:** Product ID, Category, Purchase Price, Taxes, etc., without which pricing optimization is impossible.
2. **Transactional data:** Product ID, hierarchy, AP, etc.
3. **Competitive data:** competitors' names and prices, price index, etc.
4. **Traffic data:** number of visitors, etc.

As your model develops, you may wish to gradually add data (2-4), either internally or externally.

Once all data has been connected to your pricing tool, it can be processed to generate pricing recommendations. These recommendations must be validated by your pricing teams prior to their integration into your information systems. Several security mechanisms must be put in place to reduce errors such as selling below the SRP. Integrating an external tool also means adding an extra layer of security. On the other hand, when developing an internal tool, experience shows that the development of the alert module will be a long way down the roadmap.
As you can see, whether you choose to internalize or outsource your pricing tool, **the critical point for launching your project is the data.**

*Article Accenture

II- Criteria for choosing between insourcing and outsourcing

"There are two things that are paramount when setting up a pricing tool: data and resources."

Julien Chaudenson
Data & Supply Director
Alltricks

The availability of your resources

By resources, we mean 4 different types: Business, Data & BI, Data Science and Development. Upstream of the project, all your resources and skills will be called upon to implement the project, regardless of whether you later decide to insource or outsource.

- If you choose to internalize your tool, you will have to create and develop your tool, but also ensure the long-term technical maintenance of the application, requiring the availability of resources and skills that should not be overlooked. Lack of maintenance is one of the main reasons why in-house projects fail after 2 years.
- If you choose to outsource, once the data has been homogenized, your resources will be less stretched and will be able to concentrate their time on analyzing the performance of your pricing strategy.

In addition to the availability of skills, it's your business case and the measurement of your project's ROI that will enable you to prioritize, justify your resource requirements and mobilize in-house skills against other projects.

"The availability of internal resources is the key to arbitration."

Paul Jardet

Head of Pricing

FNAC DARTY

Return on investment

The first step in deciding whether to insource or outsource your pricing tool is to identify which choice will give you the best return on your investment.

The ROI is the most important element to take into account when making your decision. It is therefore advisable to draw up a business case over 12 or 24 months in order to measure the potential ROI of your investments. This study will enable you to decide where to invest your budget: developing your own solution or investing in an external tool.

"In the last quarter, thanks to price optimization on a few references that weren't selling because the price wasn't right, we generated the equivalent of a full day's worth of sales [with our in-house developed solution]".

Julien Chaudenson

Data & Supply Director

Alltricks

Caution: it's important not to overlook the extent of the costs of an in-house project. The direct costs of development and project management are often well estimated, but the hidden costs of **internal training and change management** are often underestimated.

Time to Market

Your business case must also enable you to answer the question of how quickly you'll be able to start creating value with your pricing tool.

- If your **time-to-market objective is a long one**, you can opt for insourcing and start with a very simple pricing tool, to be gradually refined.
- If, on the other hand, your **time-to-market objective is short**, opt for outsourcing. You'll quickly have access to a complete, high-performance tool.

Value creation measurement

The measurement of value creation represents a real challenge for companies wishing to develop an internal tool. Methodologically speaking, this calculation is complex, yet it is essential to justify investment in the tool. An external tool has the experience and expertise on the subject, whereas an internal tool necessarily lacks it.

Customization requirements

Depending on the specific features of your business and your sector, the choice of whether to internalize or outsource your pricing tool is decisive.

- You have two choices! You can choose to develop an in-house tool if this fits in with your other decision-making criteria. But you can also opt for a highly customizable tool, capable of meeting your specific needs. If the tool already has experience in your sector, chances are it will be able to handle your specific use cases.
- Few business specificities: outsourcing the tool is recommended to shorten time-to-market.

III- Pros and cons of insourcing and outsourcing

Before listing the pros and cons, data accessibility is a determining factor. This means mobilizing the internal resources needed to homogenize data (preparation of data and price descent, product segmentation, etc.) upstream of the project, so as to be able to use a tool that meets your functional and automation needs.

If your accessibility is not yet perfected, and you don't have the resources to mobilize, we recommend that you wait before making a decision. In this case, you need to start by making your data accessible and standardized, before deciding whether or not to internalize or outsource your pricing tool.

"The advice I'd give for an insourcing project would be: data preparation, supervision, maintenance and project documentation."

Julien Chaudenson
Data & Supply Director
Alltricks

If your data is correctly accessible, you can then weigh up the pros and cons of each option.

	Outsource	In-house
Time to Market	+ + + +	+ +
Customization	+ + +	+ + + +
User Experience	+ + + +	+
Related features	+ + + +	+
Scalability	+ + + +	+ +
Performance Measurement	+ + + +	+
Software Maintenance	+ + + +	+ +
Security	+ + + +	+ + + +

A number of parameters deserve a closer look:

User Experience: although it may sometimes seem superfluous, the tool's UX can be decisive in making it a real decision-making tool that is widely adopted by users. In-house, we tend not to prioritize this type of development, whereas it is an important point of investment for external tools.

Related functionalities: these can be numerous and are often crucial for maintenance and performance measurement:

- Price alerts,
- Reporting,
- Simulations, etc.

All these functions are easily and rapidly accessible on an outsourced tool. In-house, they are resource-intensive, both in terms of development and maintenance.

Measuring the performance of pricing actions: this is vital to justify investments, yet difficult to implement in-house, as it also requires considerable resources (read the article).

Application maintenance: as a major stake in customer satisfaction, external applications devote a large part of their resources to the evolution and maintenance of their application. Application maintenance is a significant task not to be neglected if you choose to develop your tool in-house, and is the reason for many failures of in-house projects.

Scalability: your needs evolve, and you want to expand the portfolio handled by your pricing tool? This is possible in both cases, internally and externally. However, if you use the right external tool, you're likely to be able to scale up more quickly than internally.

Security: this is one of the reasons for in-house development. However, external applications generally add an extra level of security to the initial one. This is the case with PricingHUB, which meets its customers' data security requirements: data stored in France and replicated, SSL, IDS & IPS firewall, authentication broker, etc.

"There are expert subjects where you need to rely on external tools and competent people. This also lends credibility to the project internally."

Paul Jardet
Head of Pricing
FNAC DARTY

IV- Our recommendations

Whichever route you choose, the prerequisite for data accessibility is the same.

Focus your resources on making your data available upstream and downstream. The success of your project depends on it. Managing price updates in distribution channels and setting up mechanisms to secure and control price changes are key issues that must not be overlooked.

Improve your level of granularity. The higher the level of granularity, the more you can optimize your prices according to your business objectives.

Set up processes for collecting and providing quality data. You'll be able to make the most of your data and increase your profitability.

Internalize high value-added business processes. Concentrate your resources on, for example, matching, product segmentation or managing price changes in your distribution channels.

We recommend that you internalize the various proposals above where your expertise is required. And to **outsource the development of a pricing tool: development that calls on technical skills and pricing expertise.**

PricingHUB invests more than €400,000 a year in R&D to meet the different needs of its customers. **By outsourcing your pricing tool to PricingHUB, you can be sure of increased value creation.**

GROSS PROFIT +2,5%

GROSS REVENUES +4,1%

VOLUME +2,6%

2022

Value Creation

vs Control Groups*

**Aggregated impacts measured Vs control groups.*
Optimisation via Target Based Pricing AI.

PricingHUB
Dynamic Pricing Solutions

PricingHUB implements pricing optimization best practices for all retailers and e-retailers.

Protect your margins: put customer price sensitivity at the heart of your pricing optimization strategy.

Achieve your business objectives: our solution leverages your data and AI to calculate the best price adjustments.

Get tangible results: our customers improve their margins by 2.5%, their sales by 4%, and their volume by an average of 2.6%!*.

*Cumulative impacts measured using control groups defined with our customers in 2022. Optimization via AI Target Based.

PricingHUB.net

Request a demo!