Price Optimization

at Kosmo

competera

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European FMCG retailer is using artificial intelligence to boost revenue and sales across over 100 price zones

KOCMO

Client

An FMCG offline retailer.

Geography

Eastern Europe.

Challenge

Significant promo pressure: over 60% of discounted items; vendors call the shots in terms of promos; competitor-based pricing; over 100 price zones with different price elasticity.

Solution

Some 2-3 thousand of weekly price recommendations based on short-term algorithmic predictions of demand reaction on price changes within the product portfolio.

Results

15.9%
Item sales surged by

8.1%
Revenue grew by

9.8%
Gross profit (front) went up by

> Retailers and vendors use promos to stimulate financial performance. However, this leads to cutting prices non-stop. Everything has its limits, though. We are faced with a question of how to satisfy the customer while keeping the prices beneficial for the business. To do so, I believe, we need to shift from price wars to predictive pricing.

Georgy Sheiko
CEO OF KOSMO

About the Client

Kosmo is a leading Eastern European retailer with over 100 brick-and-mortar stores across 41 regions. The FMCG company has been operating since 1994 and has over a million members in its shopping club.

With over 1 million shopping club members, Kosmo partners with such global brands as L'Oreal, Max Factor, Colgate & Palmolive, Natural Sea Beauty, Gillette, Nina Ricci, Calvin Klein, Garnier, Nivea, Vichy, Lierac, and Schwarzkopf & Henkel. The retailer also sells a range of private labels.

Goal

Kosmo wanted to maximize revenue and gain control over the creation of pricing and promotional strategies for different price zones. The retailer was also looking for a way to cushion the effect of high promo pressure in the industry, stop copying pricing moves of their competitors, and become less dependent on vendors when it comes to the terms of promo campaigns.

Challenge

Before Competera, the company used rule-based competitive pricing for some 2,000 KVI products (out of 10,000 items in the portfolio) across over 100 points of sale and different price zones. All the data and rules were gathered in Excel files and an internal ERP-system, while managers were in charge of setting prices. As the market is extremely competitive and fast-paced, while promo pressure is high, the company's pricing team needed a technological enhancement to be able to offer optimal prices. Human managers were no longer able to process all the necessary data and consider all the pricing and non-pricing factors to do that in real time. As a result, Kosmo was missing out on the opportunity to increase revenue and grow at the pace it needed.

The company has always been an early adopter of emerging technological solutions for retail. Having learned about AI boosting retailers' financial performance, Kosmo chose Competera as an AI retail price optimization provider to test the effectiveness of such a solution firsthand.

Solution

Competera suggested switching from expert-based pricing to using price recommendations generated by an elasticity-based algorithm powered by a dense neural network. The latter is capable of identifying the effect of regular price changes or promo campaigns on sales with an up to 98% short-term prediction accuracy.

To test the efficiency of Competera's solution, the companies agreed on a nine-week proof of concept. Before launching the project, the retailer provided the necessary data to Competera, which included but was not limited to:

- Historical data
- Competitive data
- Data regarding business goals and restrictions

The market test involved two categories:

- A test category (toothpaste) where Competera's AI algorithm recommended optimal shelf prices for a group of 160 products;
- A control category (toilet paper) where Kosmo's managers handled pricing for all the items.

The two categories have similar seasonality, as well as profit and revenue patterns. What is more, these categories are unlikely to be in the same basket (therefore changes in the test category could not have a significant impact on the control category, and vice versa).

Competera recommended prices for each of over 100 Kosmo's points of sale (which in Kosmo's case equals a price zone) with different price elasticity and similar assortment weekly, which brings the total number of price suggestions to some 2–3 thousand per week.

Simultaneously, the retailer launched promo campaigns across the whole assortment, including the test category, without involving Competera in calculating optimal promo prices. Meanwhile, thanks to Competera's algorithm price suggestions for a group of products in the test category, the dependency of the retailer on the deep and intense promo was somewhat relaxed.

Results

Kosmo's pricing team was granted a solution to transition from reactive to proactive pricing, optimize prices and make them more attractive to shoppers. Despite significant promo pressure, the company managed to save the margin thanks to Competera's price recommendations. Within the test category, the margin dropped by only 1.8%, while the control category saw a decline of 2.8%.

Regarding other numbers, the market test showcased the following results in the test category versus control category:

15.9% Item sales surged by

8.1% Revenue grew by

9.8% Gross profit (front) went up by

Also, within the control group, the average shelf price and average selling price grew by 6.7% and 2.7% respectively. Meanwhile, within the test group, the average shelf price and average selling price decreased by 1.5% and 1.3% respectively.

Such impressive numbers are attributed to the ability of Competera's algorithm to calculate cross and own price elasticity for every repricing cycle based on the retailer's internal and external data and a highly precise demand forecast.

Due to the number of repricing cycles per store and the duration of the market test, it was impossible to analyze the results per zone and indicate overperforming or underperforming shops. Competera also could not run an RFM analysis due to the retailer's data privacy constraints. However, we can assume that thanks to the more effective management of shelf prices and decreasing promo pressure, the uplift mostly came from growing customer traffic and purchase frequency (provided that promotional campaigns primarily drive the size of an average purchase and do not fuel penetration).

Kosmo is ready to scale the solution across the whole assortment.

About Competera

Competera is the industry standard for retail pricing. Competera helps companies increase revenue, stay competitive and grow while remaining profitable with the help of two products: Price Optimization and Competitive Data.
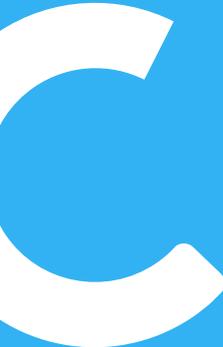
Price Optimization

Price Optimization is an ML-fueled price recommendations engine that helps offline and omnichannel retailers boost profit margins by 5% and increase sales by 15%. Through a technological partnership with Competera, retailers of any size can set optimal prices at any level — by product portfolio, store, region, or country.

Competitive Data

Competitive Data consists of premium, high-quality competitive product and price data for enterprise eCommerce companies. We collect data from thousands of websites and different markets using a dedicated and customizable crawling approach, multilevel quality verification algorithms, supported by a strong Service Level Agreement. We aim to make complex pricing decisions seamless and help retailers increase sales growth smoothly.

The Right Prices.
For The Right Products.
Every Day

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