

IDC MarketScape

IDC MarketScape: Worldwide Retail Price Optimization Solutions 2021-2022 Vendor Assessment

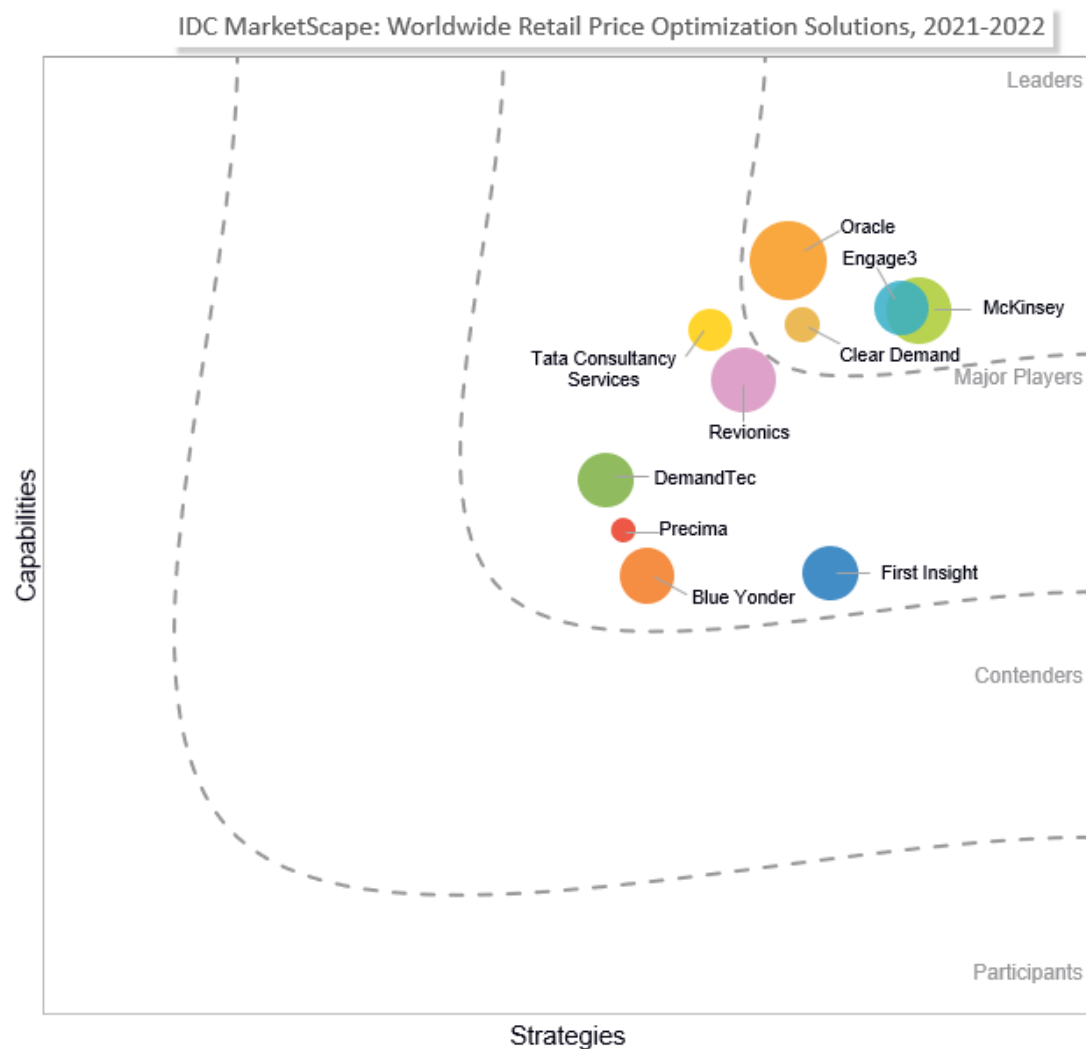
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IDC MARKETSCAPE FIGURE

IDC MarketScape Worldwide Retail Price Optimization Solutions Vendor Assessment



Source: IDC, 2021

Please see the Appendix for detailed methodology, market definition, and scoring criteria.

IN THIS EXCERPT

The content for this excerpt was taken directly from IDC MarketScape: Worldwide Retail Price Optimization Solutions 2021-2022 Vendor Assessment (Doc # US48393721). All or parts of the following sections are included in this excerpt: IDC Opinion, IDC MarketScape Vendor Inclusion Criteria, Essential Guidance, Vendor Summary Profile, Appendix and Learn More. Also included is Figure 1.

IDC OPINION

Price is integral to the retail experience. It is a primary driver of customer consideration, decision to purchase, and overall brand perception. The impact of pricing is as important to overall company strategy as it is for growth of individual SKUs and categories. At the company level, prices convey an overall price perception to target customer segments, which can mean the difference between customers turning into your parking lot or driving past it to visit a competitor. Price communicates an expectation of value, and a retailer's ability to exceed expectations drives customer satisfaction and long-term demand. It not only helps determine a consumer's consideration set of retailers for a given shopping trip but also influences basket size, shopping frequency, and whether to compare shop prices at competitors. At the item or category level, getting price right drives profitable demand and efficient inventory sell-through. It means the difference between profitable category growth and cannibalization of store sales.

In today's retail environment, where consumers are faced with a massive array of choice, getting pricing wrong carries significant risk of eroding margins, customer satisfaction, and brand loyalty. Moreover, the past year has driven dramatic growth in ecommerce and omni-channel retail, which makes pricing more transparent and easier for consumers to price shop simultaneously across multiple retailers. Combined with a pandemic-induced slowdown in consumer spending and growing concerns around rising inflation, it makes it even more important to get pricing right.

Regardless of segment, retailers are faced with decisions around not only the optimal base price but also markdown pricing, whether that is a promotional temporary price reduction or a seasonal markdown or clearance price. The optimal price in this context also requires retailers to determine the right discount level, when, and for what period of time, balancing the risk of eroding profits with the risk of unsold inventory stuck on the shelf.

These decisions are complex and analytically rigorous. Historically, retailers relied on spreadsheet-based, homegrown, and manual decision-making tools. More recently, retailers shifted toward rules-based tools and solutions that streamlined internal processes but lacked the predictive and prescriptive capabilities of modern solutions. Today's retail landscape requires a more forward-looking approach that is simultaneously rigorous and efficient.

Retail of the future is customer driven and analytically robust. This requires retailers to modernize their approach to pricing decisions in order to optimize financial results and customer satisfaction.

Capabilities to Look for in a Solution

For retailers looking to modernize their tools, there are several critical capabilities to look for as part of a broader vendor assessment:

- **Embedded intelligence:** AI/machine learning (ML)-driven analytics, not just automation, extends human capabilities to make insight-driven decisions at retail scale.
- **Intelligence-based store clustering/price zone setting:** As retailers move from universal pricing to price zones and localized pricing, they often set price zones manually. Newer solutions can not only automate but also optimize the number of price zones to help retailers understand where adding additional zones leads to diminishing returns.
- **Scenario modeling:** Predict the impact of various pricing decisions on key financial and customer metrics to understand drivers.
- **Override comparisons:** Allow retailers to see the impact on price and margin of their decisions to manually override automated optimal pricing recommendations. Quantify the impact of manually driving suboptimal decisions.
- **Managing customer perception and long-term traffic:** Retailers need tools that enable them to easily understand trade-offs between short-term profit maximization and long-term customer demand and traffic.
- **Embedded competitive intelligence with product matching capabilities:** Modern solutions with embedded competitive intelligence can help retailers price competitively against private-label brands and pricing based on attributes or new units of measure.

As we assessed the range of vendors in this IDC MarketScape, these areas were of critical importance to retailers, but many were less satisfied with their current solutions' ability to meet these needs. As such, throughout the study, these areas proved to be strong points of differentiation among vendors.

IDC MARKETSCAPE VENDOR INCLUSION CRITERIA

Retail price optimization solutions leverage a wide range of data to make algorithmic decisions on the best price for items to achieve margin, revenue, and customer traffic goals across sales channels and locations. Pricing decisions leverage forecasting, segmentation, price elasticity models, machine learning, and optimization sciences to set SKU-level prices across time, location, and touch points. Retail-focused price optimization applications are customized for pricing retail merchandise across channels as it moves through the various stages of retail life: base, promotion, markdown, and clearance pricing. These applications typically also have competitive intelligence gathering capabilities.

Price optimization software automates the planning and execution of merchandise pricing decisions and usually supports pricing strategy, margin analysis, exception management, pricing by location/zone/brand, and analysis of external influences such as competitive pricing and supplier cost.

Participants in this vendor assessment:

- Deliver an enterprise-grade price optimization solution for retail, as defined previously.
- Have a solution that is capable of supporting tier 1 retailers at global scale, across both ecommerce and brick-and-mortar stores.
- Are established software vendors with prominent/visible market presence.

- Own the intellectual property of the price optimization solution (developed in-house or acquired via transaction).

ADVICE FOR TECHNOLOGY BUYERS

- Look for solutions that are oriented toward the future of retail – those that focus on helping you serve the end consumer better and that drive deeper automation across your organization.
- Look for vendors that can deliver more of what your organization needs, out-of-the-box solution versus customization. Leveraging out-of-the-box capabilities can speed implementation, lower the overall investment, improve ongoing maintenance costs, and ease change management.
- Understand the scope of change – are you moving from a manual spreadsheet-based process to true price optimization, or are you upgrading your existing optimization and analytics capabilities? If the latter, you can push your vendor for an accelerated timeline to deliver value relative to the implementation of a completely new capability.
- Consider the impact of competitive data – you may need an upgrade. If current competitive pricing data is lacking because of methodologies that create user-driven error or channel-specific data limits the scope of insight, price optimization will produce suboptimal results.
- Beware of legacy pricing rules that are not solution derived and inhibit optimized results. Such rules can be important guardrails for retailers without better tools, but they also limit the effectiveness of price optimization solutions that demand the flexibility to adjust individual prices outside of arbitrary boundaries to deliver an optimal outcome.

VENDOR SUMMARY PROFILE

This section briefly explains IDC's key observations resulting in a vendor's position in the IDC MarketScape. While every vendor is evaluated against each of the criteria outlined in the Appendix, the description here provides a summary of each vendor's strengths and challenges.

McKinsey

After a thorough evaluation of McKinsey's strategies and capabilities, IDC has positioned the company in the Leaders category in this 2021–2022 IDC MarketScape for worldwide retail price optimization solutions.

McKinsey brands its suite of sales and marketing software applications under the name "Periscope by McKinsey". The Periscope brand was established in 2007 as a software solution for McKinsey to codify its best practices into a platform that now includes pricing, marketing, customer experience, and category optimization solutions for retailers. Periscope's B2B pricing solution is covered in *IDC MarketScape: Worldwide B2B Price Optimization and Management Applications 2021 Vendor Assessment* (IDC #US46742021, September 2021). This IDC MarketScape focuses on the retail PO&M solution from Periscope. Together with McKinsey's professional services, Periscope's customers get a comprehensive pricing solution that includes strategy, process, technology, change management, and training, which is highly tailored to the company and its goals while staying on an ongoing upgrade road map.

Quick facts about McKinsey include:

- **Employees:** Employs more than 30,000 people globally
- **Global footprint:** Supports customers in North America, Latin America, Europe, and Asia
- **Retail segment focus:** Has customers across the full range of retail segments
- **Customers:** Nearly 300 customers globally, focused on enterprise retailers (>\$1 billion in revenue) and large enterprise clients (>\$10 billion in revenue)
- **Services offered:** Combined Periscope and McKinsey consulting to offer complete solution services, including strategy, process, change management, implementation, and education services
- **Partners:** Implementation managed in-house by McKinsey resources

Strengths

- **End-to-end capability:** Periscope provides customers with a full spectrum solution that combines support from experienced strategy consultants from McKinsey with solution capabilities to deliver strategy, analytics, and tools for long-term customer success.
- **Responsiveness to the customer:** Periscope's customers are very confident that the company understands their current and future needs and is willing to invest appropriately in its solution to support the future needs of retailers.
- **Customer satisfaction:** Periscope customers are very satisfied with the solution and the sales/customer service processes and are very likely to recommend the company to other colleagues in the industry.

Challenges

- **User interface:** Periscope offers less out-of-the-box functionality in areas such as solutionwide data search and real-time dashboards, though the latter is a near-term road map item.
- **External data integration:** Periscope's ability to ingest and incorporate external news, weather, and social media data relies more on customizations and add-ons rather than out-of-the-box functionality; however, the company is addressing this in its near-term road map.

APPENDIX

Reading an IDC MarketScape Graph

For the purposes of this analysis, IDC divided potential key measures for success into two primary categories: capabilities and strategies.

Positioning on the y-axis reflects the vendor's current capabilities and menu of services and how well aligned the vendor is to customer needs. The capabilities category focuses on the capabilities of the company and product today, here and now. Under this category, IDC analysts will look at how well a vendor is building/delivering capabilities that enable it to execute its chosen strategy in the market.

Positioning on the x-axis, or strategies axis, indicates how well the vendor's future strategy aligns with what customers will require in three to five years. The strategies category focuses on high-level decisions and underlying assumptions about offerings, customer segments, and business and go-to-market plans for the next three to five years.

The size of the individual vendor markers in the IDC MarketScape represents the market share of each individual vendor within the specific market segment being assessed.

IDC MarketScape Methodology

IDC MarketScape criteria selection, weightings, and vendor scores represent well-researched IDC judgment about the market and specific vendors. IDC analysts tailor the range of standard characteristics by which vendors are measured through structured discussions, surveys, and interviews with market leaders, participants, and end users. Market weightings are based on user interviews, buyer surveys, and the input of IDC experts in each market. IDC analysts base individual vendor scores, and ultimately vendor positions on the IDC MarketScape, on detailed surveys and interviews with the vendors, publicly available information, and end-user experiences in an effort to provide an accurate and consistent assessment of each vendor's characteristics, behavior, and capability.

Market Definition

Retail price optimization applications leverage data (customer history/behavior, competitor pricing, inventory, weather, etc.) to make algorithmic decisions on the best price for items to achieve margin and revenue goals across sales channels and locations. Algorithmic decisions leverage forecasting, segmentation, price elasticity models, machine learning, and optimization sciences to set SKU-level prices across time, location, and touch points. Retail-focused B2C price optimization and management applications are customized for pricing retail merchandise across channels and life-cycle pricing capabilities to price merchandise as it moves through the various stages of retail life: regular, introduction, promotion, markdown, and clearance pricing. These applications typically also have competitive pricing gathering capabilities.

These software applications automate the planning and execution of merchandise pricing decisions and are usually tightly integrated with retail merchandise management software applications. Major functions include pricing strategy, margin analysis, exception management, pricing by location/zone/brand, and analysis of external influences such as competitive pricing and supplier cost.

LEARN MORE

Related Research

- *The Importance of Embedded Artificial Intelligence in Retail Software Solutions* (IDC #US48261121, September 2021)
- *IDC MarketScape: Worldwide B2B Price Optimization and Management Applications 2021 Vendor Assessment* (IDC #US46742021, September 2021)
- *IDC PlanScape: Retail Price Optimization Solutions* (IDC #US47546821, March 2021)
- *Intelligent Marketing Analytics for the Future of Retail* (IDC #US46610120, June 2020)
- *IDC PlanScape: Customer-Driven, Intelligence-Backed Space and Assortment Planning* (IDC #US46627520, June 2020)

Synopsis

This IDC study provides an assessment of the principal retail price optimization solutions and discusses what criteria are most important for companies to consider when selecting a vendor.

"The current retail landscape requires retailers to modernize their approach to pricing decisions to optimize both near-term financial results and long-term customer loyalty. Modern pricing solutions take a rigorous analytical approach that is simultaneously efficient and customer driven," says Jon Duke, vice president of research for IDC Retail Insights.

About IDC

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