

## Precision Pricing: Measuring True, Incremental Value

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Isolating and measuring the true impact of price changes on revenue and profit is essential for optimizing strategy. A precise, efficient approach builds trust among category managers and merchandisers, ensuring confident adoption of pricing recommendations.

This guide examines the most common measurement methods, their pros and cons, and how ClearDemand's proprietary elasticity-based optimization delivers the most reliable insights – driving alignment and maximizing sales and margin.

## **SELECTING THE BEST APPRAOCH**

Any retailer who has ever tried to measure the incremental profit and revenue created (or destroyed) by implementing price changes, knows the first thing to tackle is choosing a defensible and accurate approach.

The critical challenge lies in establishing a reliable baseline for comparison. There's no shortage of options to choose from and each comes with their own tradeoffs.

The following table outlines the most common value measurement approaches, highlighting their respective strengths and limitations.

Table 1 - Most common value measurement approaches					
APPROACH	DESCRIPTION	STRENGTHS	LIMITATIONS		
Pre-post analysis	Compare results before & after the price change	<ul> <li>Quick and easy to perform</li> <li>Limited complex data needs</li> </ul>	<ul> <li>Does not control for complicating variables (seasonality, stockouts, unrelated promo activity, holidays, construction, weather, etc.)</li> </ul>		
A/B testing	Test a price change on one group of stores & compare it to another group of stores that had no price change	<ul> <li>Clean measurement of incrementality</li> <li>Controls for external factors</li> </ul>	<ul> <li>Creates logistical complexity (requires creating a test &amp; control group)</li> <li>Significant potential bias due to picking A and B stores incorrectly</li> <li>Creates risk of customer perception and risks</li> </ul>		

APPROACH	DESCRIPTION	STRENGTHS	LIMITATIONS
Synthetic control	Create a "what if" scenario by comparing using similar products that did and did not change price	<ul> <li>Uses real data to create a realistic counterfactual</li> <li>Accounts for complicating variables</li> </ul>	<ul> <li>Requires good control data</li> <li>Sensitive to model specs</li> <li>High potential for cannibalization of affinity impacts</li> <li>Complex to implement</li> </ul>
Elasticity- based modeling	Compare actual results to what would have happened if we kept the old prices, using the retailers' latest data to ensure the elasticity model remains as accurate as possible	<ul> <li>Directly measures impact of price change by remeasuring customer price sensitivity</li> <li>Accounts for complicating variables</li> <li>Scalable</li> </ul>	• Requires robust measurement of customer response to price

We believe elasticity-based modeling offers the ideal balance of accuracy, scalability, and practicality. Our models continuously refine themselves using the grocer's own data, becoming more precise as they gather more information.

This results in increasingly accurate value measurement, as well as more reliable pricing recommendations. The approach also provides fast feedback loops, enabling teams to quickly validate the impact of their pricing actions and build trust in their decisions.

We've put this into practice with customers and the results they have realized as a result have been extremely impactful and impressive.

## WHAT IS ELASTICITY-BASED MODELING?

At the heart of price elasticity is a fundamental market dynamic: as product prices rise, shopper demand typically falls, and conversely, as prices drop, demand increases.

While exceptions exist, like luxury goods, this pattern holds especially true for grocery and most general merchandise items.

Figure 1 illustrates this relationship between pricing and expected unit sales.



#### Figure 1 – Illustrative demand curve

When a category manager at a grocer wants to maximize margin on familysize boxes of Honey Nut Cheerios, they face multiple pricing constraints along with 3 fundamental pricing options:





Increase prices if the elasticity analysis indicates that higher unit profits will outweigh reduced sales volume



Decrease prices if analysis shows the increased sales volume will more than offset lower per-unit margins

Using ClearDemand's pricing optimization platform, the retailer analyzes this SKU in the context of the various rules and pricing constraints such as competitor positioning, price gaps to store-brand honey oat cereal, package size relationships to other Honey Nut Cheerios SKUs, etc.



ClearDemand's analysis reveals that increasing the price from \$4.49 to \$4.79 will optimize margin while respecting all these constraints.

After merchandising approval, the price change is implemented.

Now, you need to measure whether this change is achieving your margin growth objective. To assess the impact, measure how this change affected sales.

In a simple scenario, with no other influencing factors, the effect would be easy to track: sales volume would drop in a predictable way, directly tied to the price increase.

The data would look similar to what's shown in Figure 2.







Figure 3 – Closer to real life example of a price increase impacting unit sales

In reality, pricing changes don't happen in a vacuum – many other factors influence sales.

Honey Nut Cheerios follows different purchasing patterns, with peaks during back-to-school season. Stockouts happen. A promotion on milk could drive up sales. Holidays like Christmas break when kids are home boost demand, while a manufacturing issue or competing cereal promotion could reduce purchases. All these variables make it harder to isolate the exact impact of a price change.

As shown in Figure 3, the data in real life is much messier than our simple example, making it more challenging to determine the precise effect of a price increase.

To cut through this complexity and isolate true pricing impacts, ClearDemand has developed a value measurement process that leverages our advanced elasticity modeling capabilities.

The approach separates pricing effects from all other market variables, giving retailers confidence in their pricing decisions.

## **OUR 6-STEP MEASUREMENT PROCESS**



Steps 3 and 4 are critical because they are specifically what allow us to isolate the specific impact of pricing from all other factors that influence consumer demand such as seasonality and competitor actions.

An illustrative view of this process is shown in Figures 4 and 5. The two unit sales lines – actual sales after the price change and projected sales if prices hadn't changed (static unit sales) – move in parallel patterns. This provides assurance that we've successfully isolated the price change impact from all other market variables.

This clarity allows the grocer in our illustrative example to confidently know that their price increase on family-size Honey Nut Cheerios delivered the incremental profit they expected.

### Sales expectedly dipped in response to the price increase...





/11/31/51/71/91/11/13/15/17/1 Time 3/25/27/29/32/22/42/62/82/10

#### ...but overall profit improved because the higher margin per unit more than offset the reduction in volume sold



/11/31/51/71/91/11/13/15/17/ Time 925/27/29/32/22/42/82/82/10

Measuring the true impact of pricing changes is more than a data exercise – it's a critical strategic capability.

Traditional approaches often fail to isolate the precise financial effects of pricing decisions, leaving retailers guessing about true performance.

At ClearDemand, we don't just provide a software solution – we're your strategic partner in your pricing journey. Our team works closely with retail teams to understand your unique business challenges, market positioning, and strategic objectives.

Our elasticity-based modeling transforms value measurement from an imprecise art to a rigorous science.

We provide a scalable approach that goes beyond identifying optimal price points, delivering real-time market insights and putting pricing adjustments on autopilot.

The result is a pricing strategy that adapts quickly, drives higher sales, and improves profit margins while aligning perfectly with your strategic financial goals.

Ready to transform how you think about pricing? Contact our team to discover how ClearDemand can unlock value for your company today.

# CLEAR **DEMAND**

ClearDemand transforms retail pricing from guesswork to a growth engine with our comprehensive optimization platform.

We empower pricing teams and merchants to execute their strategic vision across the entire pricing lifecycle – from base prices to promotions and markdowns – while maximizing sales and margins within defined rules boundaries.

Our integrated competitive intelligence capabilities ensure you're positioned perfectly against competitors, while our flexible rules engine maintains your pricing strategy and brand integrity.

The result? Delighted customers, streamlined operations, and pricing that becomes your most powerful competitive advantage.

