Spresso Case Study

How generative pricing improved a household goods retailer's margin resulting in seven-figures of incremental profit

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Setting the Stage

About the Ecommerce Retailer*
A $200M ecommerce retailer, selling bulk household goods, sought to introduce a pricing strategy that maximized profit during a tumultuous macroeconomic climate. Their product catalog consisted of many private-label items, making competitive price scraping ineffective, as there were no other retailers selling the same SKUs. The company needed a pricing solution that was tailored to their customer base and product selection.

About Spresso Price Optimization
Spresso's solution utilizes first-party web and/or mobile app data to optimize pricing. This effectively freed the ecommerce retailer from reliance on scraping. The solution uses AI and ML to maximize profit, conversion, or a combination of the two. It dynamically determines which price best achieves the business goal and allocates traffic to the top performing price.

*The ecommerce retailer featured in this case study elected to remain anonymous

Best-in-Class Pricing Tool Gives Retailer Competitive Edge And Drives Revenue

Price Optimization, Spresso's generative pricing product, was integral to giving the ecommerce retailer's merchandising team a competitive edge in a challenging economic climate.

The solution was able to do so by allowing for profit and conversion goals to be set at a SKU or campaign level. Due to seasonality, the retailer knew customer traffic would be decreasing on a specific set of low-margin beverage SKUs, so they set a goal of increasing profit without compromising sales volume and conversion.

As a result of Price Optimization the retailer was able to **net an additional $1.1m in annualized profit**.

Details of the campaign follow.

Profit Optimizing Campaign

A selection of low-margin beverage SKUs, impacted by seasonality, with the goal of improving margin percentage while maintaining conversion.

Optimized Products

500 SKUs

Tested while conversion remained stable

Increase In Margin

+590 BPS

Increase in all-in delivered margin

Additional Profit

+119% / +$1.1M

Millions in incremental annualized profit

Machine Learning in Action

The foundation of Spresso's Price Optimization solution is a multi-armed bandit algorithm (MAB). A favorite of data scientists and data-centric cultures, MABs use machine learning algorithms to dynamically shift traffic to best-performing variations and away from underperforming variations.

There are numerous benefits associated with use of a MAB including:

- **Minimizing regret** - Unlike an A/B test, Price Optimization continually and dynamically tests prices and shifts traffic so as to maximize the number of times the optimal price is served while minimizing the number of times a suboptimal price is served.
- **Optimizing for multiple objectives** - Price Optimization can maximize conversion, profit, or a balance of both.
- **Dynamically allocating in real-time** - MAB's dynamic traffic allocations happen in real-time.

Price Optimization harnesses the power of a advanced analytics and machine learning and makes it accessible to business users within the Spresso console. The experience is designed with ease of use in mind, as a user need only set a minimum and maximum price for a product, cost, and specify the desired goal between conversion and profit.

"Last quarter, we were able to report an increase of **88% in gross profit**, and the Spresso Price Optimization bandit was an integral part of that. Better yet, that profit came without sacrificing conversion or customer experience. With what feels like a simple flip of a switch we were able to **find literally millions of dollars hiding in the business**. The ROI of this solution was realized in just a few days - something I haven't seen with any other solution we've invested in."

- CEO of $200M Ecommerce Retailer

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Summary

Generative pricing is a powerful pricing strategy and Price Optimization, Spresso's generative pricing solution, is unlike anything else in the market in its ability to harness best-in-class technology and data science to drive millions in profit to the bottom line.

Using AI, machine learning, and advanced analytics, Spresso created a solution to tackle the common retailer pain point, pricing strategy. Spresso's solution makes generative pricing available to retailers and ecommerce sellers across the world.
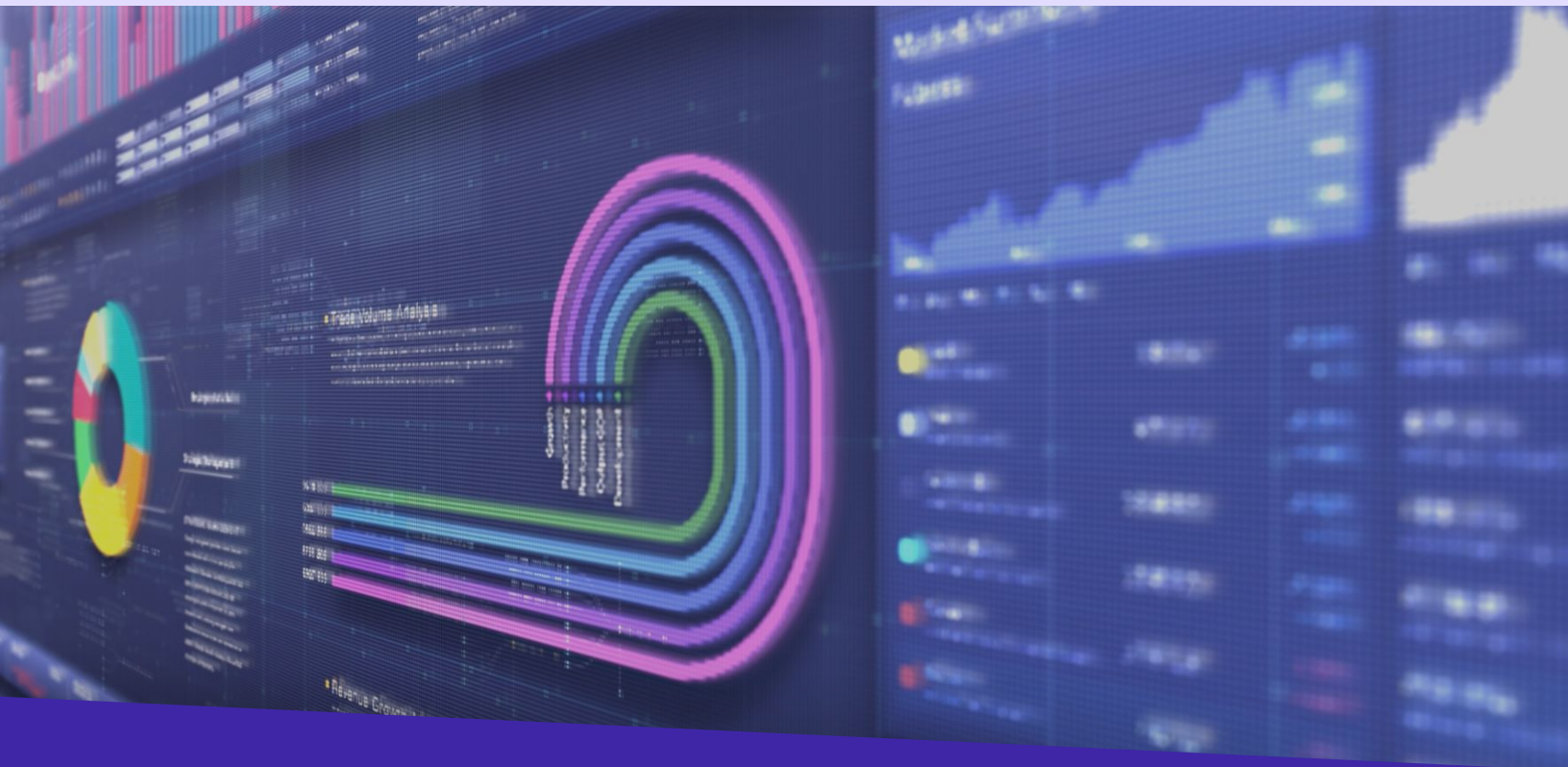
Let's Chat

Web	spresso.ai
Email	sales@spresso.ai
LinkedIn	linkedin.com/spresso.ai
Instagram	@spresso.ai

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