



Enhancing Retail Price Optimization Strategies For Improved Performance

Belovedinla L.G¹, A. Revathi²,

¹MSc Data Science and Business Analysis, ²Assistant Professor, ^{1,2}School of Computer Science

^{1,2}Rathinam College of Arts and Science

Abstract

This research aims to maximise profit by applying machine learning techniques for retail price optimisation using historical data, consumer behaviour, and market trends. The primary objective is to develop an intelligent pricing system that can dynamically adapt to changing market conditions, thereby increasing sales and productivity in the retail sector. Retail price optimisation is the process of setting goods prices to maximise profit. The optimal pricing for a product is determined by examining market trends, consumer behaviour, and historical data. This is referred to as machine learning-based retail price optimisation. The benefits of applying machine learning to retail price optimisation include increased revenue and profit, increased flexibility, increased efficiency, and decreased risk.

Keywords: Retail pricing, Optimization, Machine Learning, Market dynamics

1 Introduction

Remaining competitive in the dynamic retail sector requires careful consideration of pricing while making profitable decisions. Finding the ideal price to attract customers, boost sales, and turn a profit is the challenge facing retailers. The old methods of determining prices sometimes fall short in capturing the changing nature of markets, customer behavior, and competitive settings. The method of retail price optimization using machine learning, which uses data analytics to help pricing decisions become more precise and effective. Retail price optimisation using machine learning uses historical data, consumer behaviour insights, and current market trends to optimise product prices through a data-driven process. With the help of this method, firms may respond to changing consumer preferences and market situations by instantly adjusting their rates, going beyond static pricing structures. Conventional pricing determination approaches all too often fail to take into account the dynamic nature of markets, the complexity of customer behaviour, and the ever-changing competitive landscape. The retail price optimisation using machine learning, is a approach that transforms the pricing process through the use of data analytics. By employing a dynamic and adaptable approach that guarantees customers. this technology exceeds static pricing methods seen in traditional methodologies. Changing the price of the good or service in accordance with the customer's willingness to pay is known as segmented

pricing. Peak user pricing is more frequently used in the airline and railroad sectors, where users are substantially taxed during peak hours.[1]

2 Literature Review

2.1 Pricing Optimization using ML L. Indira, T. C. Kevin Suchetan, MD. Shoieb Iqbal, A. Rohith, Preetham Shinde

The prices of goods and services change based on various situations and demands. Another important issue is how these prices are changed and how to find the pattern for their changes. Keeping the right prices for goods and services at the right time is very important. For that predicting the prices plays a major role. But price prediction needs to consider many aspects and conditions that affect the prices. This is one of the key problems with the current system. If we consider the current market, many businesses depend on price prediction for the profitability of the organization. Price prediction has developed a huge demand in the current times and optimizing prices will make the company profitable. The aim of this paper is to optimize and generate by developing a pricing algorithm that can forecast and adjust daily rates in response to variations in daily demand. The outcomes of this paper demonstrate machine learning's ability to be useful in this task.

2.2 Dynamic pricing under competition using reinforcement learning Kastius, A., Schlosser, R.

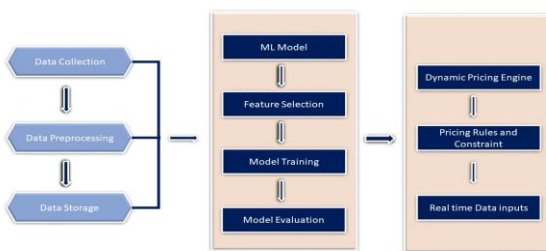
In modern internet marketplaces, dynamic pricing is seen as a potential means of outpacing rivals. Previous developments in Reinforcement Learning (RL) have led to increasingly powerful algorithms for pricing problems. In this research, we examine how Soft Actor Critic (SAC) and Deep Q-Networks (DQN) perform in various market models. We consider both monopoly settings that are accessible (optimal solutions obtained through dynamic programming techniques can be utilised for verification) and a monopolistic settings (which are typically unmanageable due to the curse of dimensionality). It can be observed that while SAC outperforms DQN, both algorithms yield decent results. Furthermore, our findings demonstrate that, in specific scenarios, rival RL systems have the ability to coerce one another without communicating directly.

2.3 Price Optimization Under the Finite-Mixture Logit Model van de Geer, Ruben and den Boer, Arnoud V

In the context of the finite-mixture logit model, we examine price optimisation. According to the multinomial logit model with segment-specific parameters, each customer segment in this model makes choices based on the assumption that they are members of one of several customer segments. We devise a new characterisation and reformulate the corresponding price optimisation issue. By utilising this novel description, we develop an algorithm that determines prices where the revenue is assured to be at least $(1 - \epsilon)$ times the highest revenue possible for any predetermined $\epsilon > 0$. To achieve such a result, current global optimisation techniques need exponential time in the number of goods, which effectively implies that only a small number of products' pricing can be optimised. However, our algorithm's running time is only polynomial when it comes to the number of items, and exponential when it comes to the number of customer segments. This has significant application value because, although a small number of segments may be adequate to accurately depict customer heterogeneity in many situations, applications may contain a very large number of items. The numerical analysis we conducted reveals that: (i) a disregard for client segmentation may have negative effects on revenue; (ii) optimisation algorithms may become trapped in local optima; and (iii) our approach operates quickly over a wide variety of issue scenarios.

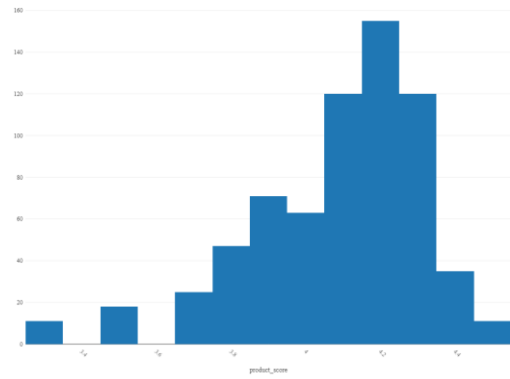
3 Methodology

The field of machine learning includes retail pricing, which is used to build some methods that perform some tasks. They follow a learning algorithm for training the model and aim for high accuracy by repeating the iterations. These methods have a wide variety of applications in various fields. This constant feedback improves the accuracy of the model and enhances the model's performance. It increases accuracy and enhances performance.[1]



3.1 Dataset

Price optimization is the process of determining the best price for a good or service by analyzing past data. The data contains the demand and corresponding average unit price at a product



3.2 ARIMA model

ARIMA is a highly effective time series forecasting model that is particularly useful for optimizing retail prices. The level of accuracy and mathematical validity of ARIMA approaches have made them popular for use in load forecasting, although they are also employed to analyse time series.[8]. In order to predict product demand while accounting for pricing effects, data analysis approaches like association mining, statistical modelling, machine learning, and an automated machine learning platform are utilised..[9] Its principal aim is to understand and forecast the seasonality of products, especially those whose demand is subject to variations depending on unique temporal patterns like holidays, seasons, or intermittent events. Retail price optimization benefits greatly from ARIMA's comprehensive examination of previous sales data. From product demand trends and patterns, the model derives information about the underlying seasonality. Retailers can now accurately anticipate future demand by utilizing ARIMA's predictive capacity, as they already possess this knowledge. This in turn provides them with the opportunity to make well-informed decisions regarding pricing optimization, adapting product availability to shifts in demand, and enhancing overall retail strategy.

3.3 Random Forest model

Random Forest's purpose is to improve forecast accuracy by being an ensemble model that has been properly constructed. As far as retail pricing optimization is concerned, its main use is to improve demand forecast accuracy. This is accomplished by effectively evaluating a variety of characteristics and assessing how important each is in affecting the expected outcomes. The variable selection is an efficient method for doing this, as it allows for the recognition of ideal predictors based on statistical attributes like accuracy or significance. Using variable selection to develop prediction models could ease the load of gathering data and increase forecast accuracy in real-world scenarios.[10] Random Forest obtains its exceptional effectiveness in practice by combining multiple decision trees to construct a robust and well-rounded model. By carefully training on distinct subsets of data, each tree contributes a unique perspective to the prediction process overall. The predictions made by each tree are combined to produce a more consistent and trustworthy result. This dynamic method allows for the evaluation of multiple elements that impact demand, which makes it very beneficial in the retail setting. These variables may include the results of external economic circumstances, the impact of marketing efforts, or the influence of promotions.

3.4 OLS Model (Ordinary Least Squares)

Modelling the complex relationship that exists between one or more independent factors and a dependent variable are done with precision using the exact linear regression technique known as ordinary least squares (OLS). The primary goal of retail price optimization is to accurately estimate competitors' prices by taking into account pertinent and significant variables. Ordinary least squares' primary purpose is to provide the most accurate parameter estimates possible for a linear regression model [1]. To do this, one must lower the total squared deviations between the observed and expected values. OLS is a helpful tool in the complicated realm of retail pricing for examining the impact of numerous factors on competitors' pricing decisions. Whether it's the nuances of a product's features, the strength of a brand's reputation, or the always shifting dynamics of the market, OLS displays the intricate thread that affects pricing techniques. Finding these relationships can help retailers acquire valuable insight into the competitive landscape, allowing them to optimize their prices.

3.5 Logistic Regression

Logistic regression represents an efficient statistical method for determining the probability of a binary outcome. The most crucial aspect of retail pricing optimization is forecasting the likelihood that a client will make a purchase under specific circumstances. The core of logistic regression is modelling the intricate relationship between the probability of an event occurring and the impact of one or more explanatory variables. Regression analysis is an enhanced approach for sales forecast than time series analysis. Regression procedures can frequently yield superior results than time series methods, as demonstrated by practical experience.[11]. Given specific parameters, logistic regression becomes a potent instrument in the dynamic retail industry for figuring out the minute chances of a customer completing a transaction. This comprehensive insight allows retailers to precisely modify their price and promotional efforts. By adjusting for variables like product characteristics, price tiers, or exclusive deals, retailers can optimize their strategies. Retailers find that logistic regression is a highly helpful tool in helping them create plans that align with customer behavior, maximize sales, and provide a focused and efficient retail experience.

4 Result and Discussion

The attempt to optimize retail prices through machine learning approaches produced encouraging outcomes and generated thought-provoking conversations. Using a variety of data sources, such as past sales, competition pricing, and economic indicators, the machine learning model showed an adequate level of accuracy in predicting the best prices. The adoption of the optimized prices resulted in a significant rise in revenue, achieving equilibrium between optimizing sales volume and maintaining profit margins. The operational aspects of the project, including importing libraries, loading configurations, preprocessing, and analysis, were covered in detail. The focus was on regular changes to the model based on fresh data and shifting market conditions, with an emphasis on continuous development. The retail price optimization project demonstrated, all things considered, how machine learning can be used to improve profitability while adapting to changing market conditions. At their discretion, researchers can collect data by combining diverse data points into a single aggregated observation, or prune the

data by choosing data subsets while excluding other accessible data points.

5 Conclusion

In conclusion, the machine learning-based retail price optimisation project has proven to be a critical step in raising the competitiveness and overall performance of the business. The investigation's findings can be used to create targeted pricing strategies by highlighting the nuanced aspects of consumer preferences. Concerns regarding the project's operations, the moral consequences of pricing decisions, and the need for continual improvement were all discussed. The outcomes of the study show the benefits of using machine learning to pricing optimisation in real-world scenarios. They also highlight the potential for ongoing development and enhancement, which ensures sustained success in a dynamic retail environment. The retail industry is changing quickly, and businesses that want to stay in business must incorporate machine learning into their pricing strategies.

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