PittaRosso: Artificial Intelligence-Driven Pricing and Promotion

1. Is it a good or bad idea for PittaRosso to adopt the AI tool? <mark>Sunny</mark>

Strategic Recommendation: Adopt the AI Tool

PittaRosso should move forward with the implementation of the AI-based pricing and promotion tool developed by Evo Pricing. The current retail environment — characterized by excessive inventory, inconsistent pricing strategy, and varying customer behaviour demands a scalable and data-driven solution. The AI system enables PittaRosso to respond more precisely to market demand and optimize product-level pricing, discounting, and promotion.

Key Benefits:

- Enables SKU-level dynamic pricing across 200+ stores and e-commerce.
- Improves sell-through of aged inventory, reducing holding costs.
- Aligns pricing decisions with real-time customer behaviour and demand trends.
- Enhances coordination of online and offline marketing efforts.

Risks & Mitigation:

- Internal resistance from legacy teams → Mitigate via training and transparent communication.
- Initial calibration inaccuracies → Address with pilot testing and phased rollouts.

2. Who should own the AI tool? Which business unit or person? <mark>Sunny</mark>

Primary Owner:
 Valentina Labate, Head of Merchandise Planning & Allocation

Justification:

- Labate is already leading the tool's implementation.

- Her team oversees core AI-relevant areas: assortment planning, pricing, and inventory.
- She has cross-functional experience from previous roles at Bata and strong alignment with CEO's vision.

Governance Model:

- Create a cross-functional advisory committee comprising representatives from:
  - Finance (cash flow, margins)
  - Buying (assortment expertise)
  - Marketing (campaign planning)
  - IT/Data (system support and data quality)

This team will oversee performance reviews, objective function updates, and issue resolution.

3. What is the right objective function for PittaRosso? <mark>Sunny</mark>

The AI tool requires a clearly defined objective function to guide pricing and promotion decisions.

Recommended Objective:

Maximize a weighted combination of:

- Sell-Through Rate
- Gross Margin
- Net Revenue

Objective = 0.4 × Sell-Through + 0.3 × Gross Margin + 0.3 × Revenue

Rationale:

- Sell-through is essential to reduce inventory age and improve cash flow.
- Margins ensure sustainability without deep discount dependency.
- Revenue supports near-term liquidity and financial recovery.

Weights should be re-evaluated each season depending on inventory levels, macroeconomic outlook, and financial targets.

4. *[Spreadsheet related]* What is your recommended strategy:
a. The desired objective function?
   Objective Function (as implemented in the tool):
   Maximize:
   0.4 × Sell-Through + 0.3 × Gross Margin + 0.3 × Revenue
b. What products to markdown and by how much?

Markdown Strategy:
 Focus on older and seasonal summer SKUs that have low sell-through projections and high inventory levels.

- Example: Markdown 20–30% for summer shoes with low recent sales velocity but decent historical margins.
- Avoid aggressive markdowns for spring shoes with higher residual demand or margin potential.

c. What additional broad promotions, like 3x2 (3 for the price of 2), to apply and when?

Broad Promotions (e.g., "3x2" offers):

- Launch in **late July** to clear summer inventory before fall lines arrive.
- Target categories like casual sandals or outdated designs.
- Coordinate with loyalty emails and mobile messages for full-funnel amplification.

d. If and how much to spend in online marketing, e.g., e-mail and text messages?

Online Marketing Spend:

- Moderate investment (e.g., €15,000–€20,000) in **email and SMS campaigns** directed at loyalty program users.
- Focus promotions on the "3x2" campaign and markdown categories with large inventory.
- Use A/B testing to optimize message format and timing.

e. What is the output of your decisions (the value in E12)?
f. Why is your recommendation the best strategy?
- It accelerates inventory turnover for aging SKUs without over-relying on steep discounts across all products.
- It leverages data-backed, SKU-level decisions that outperform traditional heuristics.
- The 3x2 promotion offers perceived value and volume movement while protecting margin on premium products.
- Targeted online communication ensures spend efficiency and customer engagement.

5. What other recommendations do you have for PittaRosso?

6. *[Spreadsheet related] Bonus question*: check the "advanced usage" option and examine how your assumptions impact your answers to 1 and 2.

With the **advanced usage** toggle enabled:

- **Assumptions such as demand elasticity, competitor pricing reactions, or marketing lift curves** materially alter the AI recommendations.
- For instance, increasing the **price elasticity** assumption may shift markdown recommendations to deeper cuts to ensure sell-through, while reducing marketing lift assumptions may deprioritize SMS investments.
- Recommendation: Revisit these assumptions quarterly based on actual outcomes and customer behavior analytics.