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dm and Globus Simulate Prices

Drugstore chain retailer tests Dacos Price Engine – self-service department stores buy agent technology for promotion optimization

Karlsruhe dm and Globus are enthusiastic about the simulation software from Dacos. While the drugstore chain retailer has extended testing of the price optimization software, Globus has already purchased the Dacos modules for promotion and product mix calculations for wide-range implementation.

“As a result of the agent technology, we can connect diverse factors and data from many dimensions”, explains dm management member Petra Schäfer about this new type of software. The “Price Engine” from Dacos simulates the effects of price changes in an entire merchandise group to forego scaring away customers. It reviews sales movement, cannibalization effects or even customer migration. dm itself speaks of “tactical price optimization”. The goal is to increase the profit of the entire merchandise group, but also with a view to customer satisfaction.

“The system recommends more price reductions than increases to us”, says Schäfer. “What good is it to us if an article that could potentially bring a 40 or 50 per cent margin doesn’t move off the shelf”, describes the assortment decisionmaker the point of view in Karlsruhe. In many cases sales increase after only minimal price reductions and result also in improved profits. The software checks the effect of every change in price on the merchandise group – beforehand.

The dm manager stresses, though, that the company does not allow “the decision about the price to be made for them”. The simulation system is, however, well-suited to simulate the effect of price changes or even exclusions and as a result, delivers warning signals before a wrong decision reaches the markets.

Admittedly, Schäfer still sees this new kind of software as “being in the fledgling stages”, and emphasizes that dm drugstore markets have not yet reached a decision subsequent to the testing phase that would involve a potential live application. In following the first, optimistically attuned results, the chain store operator has just decided upon extending the test phase to three to four additional merchandise groups.

The self-service department store operator Globus is already one step ahead of dm. The Saarland-based company signed a purchase contract in the beginning of the year for the Dacos modules “Product Engine” for Category Management and “Promotion Engine” for the optimization of sales promotions.

The Globus order is the first corporate-wide implementation of Dacos software. “We’ll be deploying the system wide-scale as of the fourth quarter of this year”, confirmed Bernd Grande, Change Manager at Globus. Before that happens, though, the technical requirements must be generated so that the simulation software can directly access the retailer’s Oracle data warehouse. That’s where the receipt data from the past two years are stored, which are the basis of the model calculations. “We need the data from all 38 markets”, declared Grande about the requirements of the self-service department stores with extensive and regionally-oriented assortments.

Globus tested the “Retail Simulation Engine” from Dacos in two test phases before the management gave the green light for the widespread live deployment. “The tests are promising”, commented Grande. Globus studied two modules – both seemed to convince the retail manager.

The “Promotion Engine” from Dacos was specifically employed in the tests by the St. Wendeler corporation to optimize their weekly promotional flyers. The objective was to find the right articles for the flyer. “We wanted to increase the customer reach and achieve a greater scattering effect – and we were able to do so”, explains Grande. Potentially, the simulation system promises even more: “There is also the option of optimizing profits in promotions – that’s something we still have to approach”, says the Change Manager.

According to Grande, the implementation of the “Product Engine” is viewed as a medium for Category Management. The objective being “to create a better assortment for our customers”, under consideration of the customer value documented in the receipts.

“It concerns profits in relation with quantities sold – not only the margin” Petra Schäfer, dm Company Management

Careful calculators: dm drugstore tests simulations with artificial intelligence