The PRICING ADVISOR
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# When Data Doesn't Give You the Expected Answers

*When it comes to connecting dots from the pricing optimization analysis results, pricing experts need to adopt a mindful approach. Data might be incomplete, variables might be missing, data might be corrupted or biased, and pricers have to know what strategies to employ to accurately interpret and apply their data to pricing strategies, as the author explains. Author Stephan Liozu, CPP, is President & CEO of Ardex America Inc (www.ardex.com), a CPP Faculty Member and a frequent PPS contributor and presenter. He is also a PhD candidate in Management at Case Western Reserve University and can be reached at sliozu@gmail.com.*

More and more pricing decisions are made based on data coming out of proprietary models, pricing optimization software and other modeling tools. Pricing optimization software gives you a rich array of options on how to look at data, how to segment your customers and how to correlate variables in your pricing operations. However, it is important to note that results coming out of these models and tools do not necessarily give you all the elements to conduct an exhaustive scientific analysis and to make a fully scientific decision.

Data might be incomplete, variables might be missing, data might be corrupted or biased, etc. In addition, intuition, managerial judgments and gut feeling also enter into the decision-making process. Management literature has started paying more attention to the intuitive dimension of the decision-making process.

Scholars posit that good decisions come from a combination of analytical and intuitive analysis. But what happens when data does not give you consistent and coherent trends, patterns and overall results? How do you manage the ambiguity coming from optimized pricing data? When data doesn't make sense, managers might be tempted to create stories, make connections and conclusions that are not there. This is dangerous business.

This article will focus on five potential pitfalls of using interpretation systems to draw conclusions and make connections that do not exist in the data.

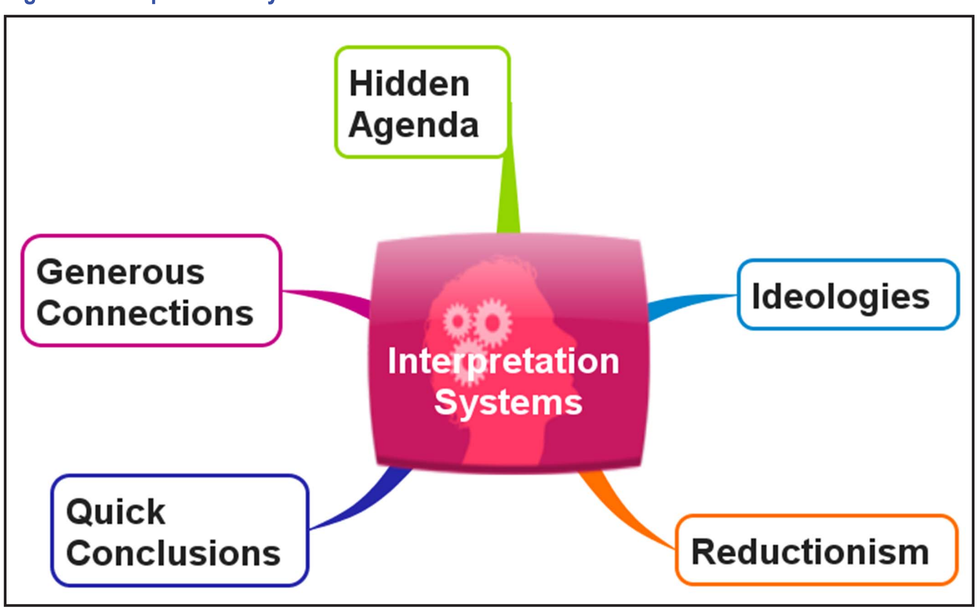
### *1) Ideologies*

Ideologies are probably the most dangerous type of interpretation system that exists in organizations. Experts are so convinced of a story that they create an ideology they promote day in and day out. Ideologies are pushed on people and teams as if these were truths. That happens when practitioners are so convinced about something happening in the business that they take it as a personal mission to prove it to teams, whether the data supports it or not. This is poison for both the organization and the pricing function, as it defeats the purpose of investing in optimization and modeling tools. If you run across pricing experts that believe in something so much that they preach it and try to recruit people to adhere to their story, you need to sit them down and explain the concept of ideological poison and use data to get some sense into them.

### *2) Reductionism*

Avoiding reductionist tendencies is equally difficult. Pricing data can be complex, and models can be complicated when you're using hundreds of variables and millions of data points. Reductionism means taking this complexity and boiling it down to simplistic conclusions and findings. As a researcher, I have learned to accept limitations with any research project and complex analysis. The

Figure 1: Interpretation Systems



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results are never black or white. Data analysts have to be mindful to avoid simplistic explanations and definitive conclusions. Models are never perfect, and the truth does not exist.

### *3) Hidden Agendas*

**Closely related to the notion of ideologies, hidden agendas can also bias the nature and intensity of pricing data analysis that's conducted and communicated in organizations.** Agendas might materialize by the type of analysis that is requested and the filtering/screening of what is being communicated throughout the organization. Pricing analysts are at the mercy of what is being communicated up and throughout. Pricers know the pricing discipline can generate tension between various departments in firms. Hidden agendas and power struggles exist and are a reality of organizations.

### *4) Generous Connections*

**The role of analysts is to connect the dots between all the data that enters at various points of the organization. When it comes to connecting dots from the pricing optimization analysis results, pricing experts need to adopt a mindful approach.** Drawing cause-and-effect correlations from data needs to be done carefully. Connecting quantitative data to qualitative business information is also a perilous exercise. Data analysts need to avoid these generous connections or at least use a conditional tone when making them. Additional data mining might be required to reach the comfort level to be able to make these connections.

> Sometimes, quick wins may appear from data trends, but more often there is need for careful analysis before drawing quick conclusions.

### *5) Quick Conclusions*

Results from data mining and data optimization analysis must be carefully considered, discussed and reviewed in teams. Sometimes, quick wins may appear from data trends, but more often there is need for careful analysis before drawing quick conclusions. Business managers are the worst offenders in taking pricing optimization results and in drawing quick final conclusions. They might sometimes forget about limitations of the analysis or big caveats being mentioned by the pricing teams. Conclusions have to be carefully worded so they carry the proper credibility and validity.