



Why It's Time to Update Your Pricing Playbook

DemandTec
by acoustic



When Amazon established itself as the “everything store,” it made a commitment to provide customers with the broadest range of products at the best price possible, utilizing dynamic pricing to respond to real-time market conditions. Since then, retailers have rushed to respond. The most common tactic has been to implement oversimplified and broad-brush pricing practices and policies, such as competitive price matching.

Even prior to the pandemic, dated pricing practices were costing retailers. As the industry continues to face dramatic COVID-19-era market disruption — driven by economic uncertainty and rapidly shifting consumer behaviors — it’s even more critical to innovate and adopt proven, data-driven pricing practices.

Taking a science-driven approach activated by powerful AI capabilities can empower retailers to optimize their pricing strategies, giving them the ability to identify and implement prices at the category, store and item level that best align with shoppers’ behaviors and the brand’s business goals.

Read on to discover best practices for innovative pricing strategies that meet today’s shoppers’ needs.

Price Matching and Reactive Pricing: Stop the Race to the Bottom



Years ago, when the store down the street provided retailers with their greatest competition, certain retailers would provide a lowest-price guarantee, matching a competitor's documented lower price for a customer who requested it. As technology has evolved, many retailers found themselves transitioning from a selective price-matching policy to a broad-based, automated price-matching approach, resulting in an escalating — and deadly — race to the bottom. If retailers don't selectively determine which items to price competitively, a price matching strategy can ultimately spell doom.

Delivering selective, surgically focused prices gives retailers new ways to compete differently, without the need to sacrifice overall margins in order to maintain strong sales. Innovative pricing solutions with strong data science enable retailers to understand which prices are most relevant to shoppers in their markets, allowing you to meaningfully tailor prices and promotions to your local market and your shoppers. This delivers a win-win: You deliver prices that engage customers in their moment of need while at the same time safely recovering margins elsewhere in the assortment to maintain a healthy business.

80% of shoppers believe private-label items are of similar or higher quality than their national brand counterparts.

— DemandTec, commissioned global shopper study conducted March 2021

An obvious area of focus for retailers kicking off their price optimization journey is their private-label products, which consumers are purchasing more often as they look to trim their spending without sacrificing quality. By optimizing your private-label pricing strategy, you can capitalize on these margin-rich offerings while differentiating from national brands. Price optimization software balances between the tight rules of private labels, including abiding by private-label gaps to the associated national brand product, while also delivering prices that meet shoppers' expectations.

Cost-Plus Pricing: Where is the Strategy?



Cost-plus pricing is over-simplifying price by taking the full cost of the item and adding a markup, either across the board or by category. It guarantees your margins remain unchanged. But this dated pricing practice leads to lost revenue and alienated shoppers. Cost-plus pricing doesn't consider price perception on key value items (KVIs), those items on which your customers demand a more competitive price. Being out of sync not only alienates shoppers but erodes your price image. It also leaves money on the table by overlooking less price-sensitive items where you can safely recover margin.

Infrequent and Labor- Intensive KVI Updates



Historically, retailers refreshed KVIs as a one-off occasional analytical service that would leave them with stale data almost as soon as it was complete. With the market shifting faster than ever before, refreshing your KVIs must become an ongoing and dynamic process. A combination of real-time price sensitivity and competitive elasticity science enables retailers to apply advanced pricing practices with real-time KVI visibility, allowing for both relevant pricing on select items and margin recovery on others. This supports offering relevant prices where most needed and margin recovery to meet overall business objectives.

93% of retailers expect to re-assess KVIs in light of pandemic-driven shifts in price sensitivity.

— RIS News, “Aligning Your Pricing Strategies in the New Normal of Heightened Shopper Sensitivity,” Aug. 8, 2020

Uniform Omnichannel Pricing Is **Losing** **Significance**



The reflexive belief that the same pricing strategies should apply across all channels is also outdated and often self-defeating. Given the number of shoppers who moved online during the pandemic, channel-specific pricing now brings greater value. Research has shown, today's shoppers do not always expect the same prices in different channels for certain products and channels. Their expectations are a reflection of varying degrees of price sensitivity depending upon the channel and product. For this reason, it's critical that retailers use data science to truly understand their shoppers preferences, so they can more effectively meet their ever-changing needs.

Shoppers are accustomed to receiving dynamic promotions, finding varying offers and weighing price differentials as they shift between online and in-store interactions. COVID-19 prompted dramatic changes in shopper preferences—what makes up their basket, how often they shop and on which KVI's make them pay more attention to prices. Using data to drive pricing strategy in each sales channel, and updating that strategy often, helps you protect margin and ensure your KVI's remain tuned to customers' interests.

The pandemic accelerated the shift away from physical stores to online shopping by roughly five years.

— IBM, U.S. Retail Index, August 2020

Manage Your Markdowns, Protect Margins



The era of uniform markdowns is behind us. The velocity with which inventory will clear varies significantly by store, and a science-based markdown plan (i.e., the cadence and depth of discounting to clear merchandise), utilizing store-level data accounts for those variations. Science-driven markdown optimization enables the creation of carefully crafted plans with distinct mark depths and timing for each item to be cleared. This ensures the retailer clears stock to align with specific clear-by dates and margin preservation targets. It's an important distinction from traditional promotions and markdowns that relied on gut feel and repetition of past offers.

You don't want to implement too deep a markdown too soon for fear you'll leave margin on the table. But you don't want to be stuck with inventory you can't liquidate. A science-driven approach helps you avoid those traps and takes the guesswork out of markdowns. With AI capabilities and powerful analytics, you can now fine-tune your markdown plan around store-by-store data, per-item price elasticity, hyper-local market conditions and inventory metrics to achieve optimal results.

57% of retailers report they expect consumer behavior and market trends to change much more rapidly over the next two years.

— RIS News, “Smart pricing strategies for the post-COVID world,” 2020

Shifting consumer behaviors due to COVID-19 have also made the promotion landscape more complex. One example is the in-store grocery shopper, who historically used a list while also grabbing items that caught her interest. Today's health concerns and occupancy limitations are pushing those customers to trim their time in the store, leading to fewer impulse buys. Simply put, markdowns and promotions that resonated before aren't going to perform as well in the current environment.

Localized and Targeted Pricing Wins over One- Size-Fits- All Pricing, Every Time



One-size-fits-all pricing strategies are less relevant today than in years past. Shopper demographics are increasingly narrow, and customers in different cities and markets will have varying preferences, even within a single store. Everything from the presence of lively ethnic communities to regional economic pressures to the level of health consciousness among local residents can create a diverse array of key value items that garner shoppers' attention and can vary from store to store. Without a targeted, AI-driven approach that considers store-level insights, retailers using outdated methods of broad-brush pricing are likely leaving money on the table and failing to connect with important customer segments.

64% of consumers said their shopping behaviors are impacted by health-related eating programs, up from just 49% two years ago.

— FMI, “Transparency Trends: Omnichannel Grocery Shopping from the Consumer Perspective,” 2020

Reduce the Rules, Increase the Revenue



The availability of strong data science has revealed some of the problems inherent in leveraging too many rules as you develop and implement price strategies. A traditional rules-based price management approach still lends value to the process, but over-constraining your pricing with more rules than necessary creates complexities and often costs you money in the long run.

You no longer need to guess how rules are affecting your results. Analytics applied to your existing constraints enable you to uncover instances where removing a rule would have gained your store X% more margin in the past 30 days, for example. When your strategy is complicated by rigid rules that aren't informed by the latest science or tied to AI capabilities, the result may be reduced revenue. The right technology platform allows you to analyze your rules and select those that are most advantageous, resulting in fewer unanticipated demand effects and better margin and traffic metrics.

Make the Best Use of Trade Funds



Retailers have long had to deal with clunky, manual trade deal management practices. Pricing solution innovations now offer ways to better integrate that data, helping to automate and speed flows, prevent potential leakage, and provide visibility and tracking around all the offers vendors make.

New, powerful platforms provide the option to track promotions, support record queries and maintain everything you need for reporting and compliance. You're able to eliminate spreadsheets, reduce human data entry errors and increase your business agility as you achieve better promotion performance and improve your trade partner relationships. It's a fundamental part of operations that may not be sexy, but it's absolutely key to getting the most out of vendor trade deals.

Protect Your Price Image



More than half (56%) of shoppers who experienced what they perceived as price gouging in a grocery store reported that they would not commit to visiting that store in the future, and 32% said they “definitely” would not shop there again. Combined, that means 88% of shoppers will not return to the store if they perceive arbitrary or unfair pricing.

The pandemic heightened price sensitivities for many shoppers and put consumer trust to the test. Though retailers faced cost pressures, lurching prices and supply chain havoc at every turn, shoppers don’t think about those factors, and some felt they were presented with unfair prices. It’s something they don’t easily forgive, and now retailers must regain customers’ confidence.

74% of shoppers report encountering unfair pricing during the pandemic.

— DemandTec, “Impact of COVID-19 on shopper behaviors and pricing perceptions,” July 2020

Timely and accurate insight into shoppers’ expectations empowers you to make informed decisions on where to sacrifice margin to protect your price image with customers. A top-tier solution also provides visibility into where you can make up margin elsewhere, giving you the opportunity to meet your business goals without alienating shoppers.

With a modern solution powering your price strategy, you can better understand your KVs as well as how shoppers perceive your prices. Knowing that consumers are more economically stressed than many have been in a decade or more, sensitivity to key items must be acknowledged and accommodated. Optimization and science allow you to attract value-minded consumers while you continue to build their trust and loyalty.

Technology Integration Wins the Pricing Game



Dynamic, AI-powered pricing and promotions are critically important in today's challenging and highly competitive climate. Outdated legacy systems, often nestled within siloed environments and used alongside old-school spreadsheets and other manual processes, dot the retailer landscape. In today's hyper-connected, data-rich market, those disparate systems simply can't keep up with innovative pricing efforts. A more modern solution enables you to assess market changes and quickly adjust as needed, integrating critical data components from multiple platforms in your enterprise to achieve the best results.

Retailers expect their 2021 IT budgets to grow by 44.8%.

— IDC, "COVID-19 impact on IT spending survey," July 2020

Automation is a primary benefit of top-tier price management platforms, and that automation translates directly into business agility. Keeping pace with the pandemic's effects—such as selective store closures related to regional lockdowns and supply chain disruptions impacting retailers' ability to stock high-demand products—is challenging.

As the situation continues to evolve, it's important to maintain alignment between pricing and current conditions. That parity can't be maintained manually. An automated system with robust integration capabilities evaluates market variables and demand signal at a granular level and adjusts pricing intelligently. Rather than falling out of sync, you can be assured you understand shoppers' expectations and that your pricing strategy and execution match consumers' needs and preferences.

Update Your Pricing Playbook or Perish; There's No Margin for Error



Don't treat your shoppers like guinea pigs. If you get your pricing wrong once, it may be the last chance you have to get it right. Your shoppers are in control, and they do not have patience for unfair and arbitrary pricing. It's time to update your pricing playbook now. With a leading-edge price technology solution, you can elevate your price strategies, drive engagement with shoppers and maintain revenue. As consumer behaviors continue to evolve, next-generation AI capabilities will keep your pricing aligned with KVIs and shopper sentiment, while powerful analytics enable you to identify prime markdown cadences, develop promotions that resonate with shoppers, enhance your omnichannel strategy and protect your price image.

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DemandTec, a strategic business unit of Acoustic, is committed to taking AI automated lifecycle pricing to new heights. With deep and commanding worldwide retail pricing domain knowledge and experience, DemandTec enables retailers and CPG partners to deliver optimal pricing, promotions, and markdowns across all retail channels to thrive in today's hyper-competitive retail landscape. Ranked among the top 10 providers in 21 categories in the 2021 RIS Software LeaderBoard, DemandTec addresses retail pricing challenges today and into the future with relentless focus, commitment and ongoing investment. For more information, visit www.demandtec.com.

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