

What is the Retail Pricing Strategy Series?

Retailers face mounting pressure to compete effectively with Amazon and its contemporaries in an environment where shoppers are more sophisticated and informed. This paper is part of a thought leadership series dedicated to addressing the most current pricing strategy concerns facing retailers and providing honest commentary which moves the retail industry forward!

Volume #4: Competitive Pricing in OmniChannel Retail. What are you missing?

Mobile and online technologies have changed the competitive landscape by providing consumers broader assortment choices with increased price transparency. This disruption has altered the basis of competition in favor of assortment and price and prompted in some cases indiscriminate price matching. A competitive response is imperative, but with whom, where and on which products? In other words, we need to rethink how we compete on price and assortment in a changed retail economy. In this paper we explore the pitfalls of price matching and introduce new important merchandising questions for competing effectively in OmniChannel retail.

"If I had an hour to solve a problem I'd spend 55 minutes thinking about the problem and 5 minutes thinking about solutions."
 Albert Einstein

The Pitfall of Price Matching. Apples to Apples?

A predictable and decidedly reactive response to the current online competitive transformation has appeared in the form of wide-scale price matching. Characterized by most as a "race to the bottom", price matching holds serious consequences such as margin erosion and misaligned competitive price image. The most significant pitfall in price matching is the assumption that SKU-to-SKU product matches represent an *apples-to-apples* comparison, when in fact it is much more complicated. The more fundamental need in competitive pricing is to know who you are competing with and on which items. Competition for Sales originates from "substitutable items" in your assortment and your competitors' assortment, online and in-store. Quantifying the "competitive pressure" exerted from these items on your Sales - over time - is critical to a sustainable pricing strategy. For example, it is necessary to be priced more aggressively on items with more competitive pressure. Historical competitive prices combined with a retailer's historical sales data can now reveal these forces and help shape price strategy.

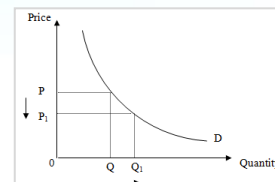


New Merchandise Questions for Competing in OmniChannel Retail

Historically, competitive pricing involved finding a single matching competitive product, adjusting the price of your product, and monitoring further price changes according to some recurring interval, weekly, monthly or quarterly. Understanding sensitivity to price on your assortment was useful in predicting sales, and assortment decisions were based on historical category merchandise planning. Online transparency has rendered these practices less effective today and raised important new questions fundamental in crafting sustainable merchandise strategy.

1. **Products now have multiple "blind" competitive alternatives.**
 - a. Which products do your shoppers consider competitive or acceptable substitutes for your products?

2. **Sensitivity to Price Alone is not sufficient to predict Sales.**
 - a. What amount of competitive pressure is exerted on your products across channels, and what affect does that have on your sales?



3. **Product attributes now drive price image and purchase decisions.**
 - a. What product attributes do your shoppers attach value to, what is their monetary value and how should this be used for pricing and assortment planning?

4. **Assortment breadth is a more important basis for competition in the endless aisle.**
 - a. Where are the gaps in your assortment, relative to competitors' assortments, that your customers care about?

Winning in OmniChannel Retail. Understanding the Data.

Each of the above questions can be answered with data available today. Retailers have rich store-SKU sales data, product attribute data, competitive price history, online browsing and online purchase behavior data. Competitive price scraping technology has evolved and provides improved data quality (improved match %), increased frequency and more "reach". Current data science uses this data to deliver new insights necessary for competing effectively in OmniChannel retail. The fundamental breakthrough is a more rigorous demand analysis which combines 1) traditional price elasticity for retailers' own-products, 2) competitive cross- elasticity with competitors' products, 3) substitution effects from a retailers' own-assortment, and 4) discrete demand impacts associated with own-product attributes. This rigorous approach to analyzing and forecasting demand delivers more precise and repeatable competitive intelligence with which to plan assortments, prices and promotions.

"If you want something new, you have to stop doing something old."

Peter Drucker

Technology Advances. Rigorous, Dynamic, Automated

Merchant departments cannot realistically manage the increased demands associated with a more rigorous demand analysis without some assistance from technology. Fortunately, *Big Data Analytics* can be used to quickly capture and analyze data from any source (store, online, mobile, kiosk, social, loyalty, etc.) and provide consumable data for evolved *Science Engines* to interpret and recommend prices. New *Enterprise Attribution Platforms (EAP)* compare and contrast prices across channels to understand the value associated with each attribute on the path to purchase. Prices are automatically updated in response to changing competitive pressure; and merchants are alerted on sensitive items which require attention. Enterprise Attribution Platforms are an evolution from traditional rules engines as they now incorporate product attributes, channel and competitor in a "single view of the enterprise".

About our Author

Art Klebanov, Director of Professional Services for Clear Demand, has over 10 years of working with the most prominent pricing technology vendors in retail. Art has implemented pricing solutions for retailers across all segments including grocery, mass merchandise, drug, home improvement and others. With a depth of retail understanding and pricing technology experience together with a unique commitment to delivering demonstrable value, Art continues to perform a vital role in helping retailers interpret data and develop and implement sustainable pricing strategy. Send your questions to aklebanov@cleardemand.com.

About Clear Demand

Clear Demand is an innovative software company committed to answering today's complex retail business issues with practical innovation - innovation which complements and not disrupts the art of retailing. Clear Demand is the first to introduce a comprehensive OmniChannel merchandising solution architected on *Big Data* with a focus on three pillars; strategy, transparency and usability.