

Omnichannel Retail. Exercising Price Leadership

In our last whitepaper, Volume 5, we introduced omnichannel demand management as a class of applications which use a rigorous analysis of customer demand and competition to inform merchandising strategy for product, price and promotion - across channels. In this paper we investigate current omnichannel retail pricing practices, redefine important industry concepts and affirm retailers that price leadership is possible with advancements in technology designed to reduce complexity.

Where is Retail Growth

According to Internet Retailer in their Top 500 2014 report, total 2013 retail sales grew 3.7%; total eCommerce sales grew 16.9% and the Top 500 e-retailers grew 17.1%. One of the stand-out retailers in this research was The Home Depot. In 2013, eCommerce was Home Depot’s fastest growing channel, increasing about 54% to \$2.8 billion. Online sales increased eight times faster than the retailer’s comparable-store sales growth of 6.8% and accounted for 68% of the growth in the total revenue of \$78.8 billion - and The Home Depot isn’t alone.



How Are Chain Retailers Responding

Data from Internet Retailer’s 2014 Top 500 Guide, shows many of the retail chains growing the fastest online are those doing the most to ‘tie together their stores and web’ in hopes of maximizing convenience for shoppers.

Of the 159 chain retailers ranked in the 2014 Top 500 Guide, the 24 chains that used their bricks-and-mortar locations to offer services such as buy online and pick-up in store; ship to store; and return to store, grew their combined annual web sales 27%. For Home Depot, 30% of their 2013 web purchases were picked up in a store, according to Kevin Hoffman, SVP and president of online for Home Depot.

“Store-based retailers are investing millions of dollars – in some cases hundreds of millions – on initiatives aimed at using their stores and web in concert to keep customers from defecting to Amazon and other web-only rivals.” *ChannelAdvisor Online Marketing*

Unsustainability of Promotions

Looking at the 2014 holiday sales season, according to Internet Retailer, the popularity of price matching jumped 187.5% with the top 500 e-retailers combined, with 70% of the top 1000 e-retailers offering free shipping during the November-December period.

“You know you are in trouble when the biggest shopping day of the year (2014) is the day after Christmas.”
Paula Rosenblum, RSR Research

The question posed by Internet Retailer and one that should be on the minds of every retailer is, if these trends continue how will retailers compete effectively and maintain profitability? When same-store sales are up across the board only 2% and you have a segment of your business that will produce 15-20 percent annual growth; there is a case for investing in

technology innovation to drive online. The question is how and where to invest. In this paper we explore the business considerations and the corresponding technology innovations available to answer tough questions.

Ask the Tough OmniChannel Questions

The above data from Internet Retailer makes the case for ‘tying store to web’, but tough questions remain for how to proceed methodically. Those questions include:

1. How do I manage online and in-store sales?
2. How can I respond effectively to competition without violating pricing rules?
3. How do I compete on sensitive key value items and maintain my category margins?
4. How do I localize pricing against my competition?
5. How do I define and manage my pricing strategy by category?
6. What are my optimal good-better-best price gaps; my optimal competitive price gaps?
7. How do I reduce the time spent digging through data for insights and simultaneously elevate the strategic contribution of team members?

“The question among retailers is not how low can you go, but how low should you go?”

Jim Sills, CEO, Clear Demand

With these questions in mind and the scale of the corresponding challenge for retailers, technology will be asked to play a greater role. The good news is that much has evolved recently to enable a more methodical approach to answering these questions; sustainably. Consider what has changed for the omni-merchant:

Retailers Need Strategic Pricing not only Dynamic Pricing

With the increasing availability of competitive pricing data, there is even more data to justify competitive price changes. Dynamic pricing is largely the process of changing prices in response to internal factors such as sales and profit goals, price image and inventory; and external factors such as competitor prices, costs and demand. Amazon invented dynamic pricing more than a decade ago. Many have followed. The single largest challenge with dynamic pricing lies in avoiding the trap of a simple “price matching” strategy. The 2014 Holiday Season saw a 187% increase in retailers price matching. Price matching, commonly characterized as a “race to the bottom”, can erode profitability, long-term price image and is not sustainable.

A more evolved and recent approach to dynamic pricing is to use pricing science to analyze the effect which competitive price moves have on category profitability, substitutable products, overall price image, and price consistency across product lines. These effects can now be accommodated within current pricing solutions, providing a more sustainable, long term pricing strategy which will accelerate adoption of pricing innovations.

Price Optimization has Evolved. 2.0 And More Compliant

Retail price optimization in its first generation, introduced over 10 years ago – and still promoted today by a handful of first-generation optimization providers, proved less nimble and somewhat ineffective at addressing enterprise-wide financial objectives. At times effective at increasing profit, it often did so at the expense of price consistency and price image. Optimization science has evolved and is more relevant today because it achieves pricing strategy for profit and revenue while complying with a retailers’ business rules.

Merchants Require Actionable Information not just Big Data

Retailers are swimming in data and yet today have less actionable information than necessary to respond effectively to competition. The speed of retail has accelerated, in large part due to online transparency and online checkout technology. Retailers must move faster while maintaining consistency and protecting profitability. Although big data as a technology is useful at consolidating unstructured information from multiple sources, it requires additional retail science to deliver “exception-based” merchandise insights. See our white paper, [Big Data Converges with Omni-Channel Retailing for Competitive Advantage](#).



Recent technology eliminates the need to dig for merchandise insights and can now push strategic information to merchants and analysts. For example, systems now **deliver** “competitive alerts” only for product prices which are out of compliance with competitor rules; **isolate** key value items (KVI) which must be priced competitively and non-KVIs which present a margin opportunity; and **identify** product line inconsistencies which must be corrected to present a consistent shopping experience.

Omni-Science must be more Broadly Defined. 1-2-3

Attribute-Based Demand Modeling. #1

Because of online transparency, products now have more competitive substitutes which shoppers study in the purchase decision. Consider televisions: Smart, OLED, Ultra HD, screen size and shipping options, represent merely a few of the attributes which influence decisions and therefore demand. Elasticity defined strictly based on the relationship between sales and each SKU price is simply no longer adequate. Attributes need to be modeled for their effect on demand, sales and profits and then prices decided based on a composite picture of total attribute-based demand.

Competitive Pressure is Measurable & Separate. #2

Competitors’ prices have proven to demonstrate a unique and measurable effect (pressure) on sales that is separate from traditional price elasticity. Sometimes referred to as cross-competitive elasticity, science can now measure the effect which competitor’s price moves have on the sales of comparable items within a retailer’s assortment. Such effects have now become an input to the demand model.

Substitutability. #3

In today’s more transparent marketplace, product lines have expanded, creating numerous substitutes within a retailer’s own product lines. Promotions on one item may cannibalize sales and profit on another. An understanding of these effects and their impact on category sales and profits, can now be incorporated in the demand model.

Last Word on Technology

With recent advances in technology, retailers now have the opportunity to exercise price leadership and not simply adopt a “follower” strategy. It requires a fact-based analysis of:

- Customers’ tastes, preferences and shopping habits and their sensitivity to price & promotions;
- The role which different categories and products play in your assortment and their associated impact on financial performance; and
- The effect competitors’ prices have on a retailers’ sales.

Current technologies have made it possible to master this complexity and turn it into competitive advantage with less labor and price management effort. Armed with this merchandising intelligence - which adapts as conditions change in near real-time - retailers can differentiate themselves and build customer loyalty.

About our Authors

Dr. Adam Rosenberg and Dr. Jim Sills, co-founders of Clear Demand, are committed practitioners of retail pricing and optimization technology. With more than 30 years of combined practical experience in pricing technology and optimization science, their commitment is to elevate the awareness for the **practical** role of science in retail technology.

About Clear Demand

Clear Demand’s mission is to help retailers compete more effectively by leveraging a long history of retail domain expertise together with current technology and practical innovations which promote speed and flexibility. Clear Demand’s omnichannel demand management solutions are architected on Big Data and delivered as a SaaS solution to simplify adoption and use. Visit us on the web at www.ClearDemand.com.