MASTERING COMPETITIVE PRICING

Lessons for Success

CLEARDEMAND

OVERVIEW

Economic uncertainty and weak consumer spending power are shaping the challenges for grocers and supermarket operators. With weak forecasted growth, grocers and supermarket operators may only see growth by grabbing market share. According to Scott Mushkin, founder and managing partner of R5 Capital, "If you look at an industry volume trend of about down 3%, and taking inflation down to zero, that would say people are going to be doing a negative-3 comp unless they are gaining share. This is the overall macro picture for next year, and from our vantage point right now, it's looking pretty difficult." (1)

The outcomes of such an environment are consolidation, market expansion through new physical locations and offerings, and competitive price decreases. Given such high costs and inflation, it seems strange to talk about potential price deflation and significant price cuts, but the conditions are there, and some are already facing the issue.

-3%

COMP

(1) https://www.supermarketnews.com/retail-financial/grocery-battlefield-2024-food-retailers-put-their-mitts-pricing-arena

KNOW YOUR VALUE

A consumer's choice to buy from your business is never about only lowering or raising prices. That isn't to say that price isn't crucial, but several other factors influence consumers' willingness to pay or buy from you. Despite increased pressures, you must be true to your model - who you are and what you are to your customers. Are you always the lowest, most frugal option? Is that why customers shop there, or how much do convenience, options, and speed?

These decisions should shape your price-ending rules. People typically associate quality brands and products with whole numbers ($5) and value brands with round numbers ($4.99) (2). If you want to be known for high-quality meat, you're better off rounding up to a whole number on your premium meats or considering 0.50 and 0.75. Even in competitive times, you could grab both value and premium, such as $9/lb vs $8.99/lb for a steak. Don't assume that the 0.99 ending is always fitting for your business.

$10 **QUALITY PERCEPTION**

$9.99 **VALUE PERCEPTION**

(2) Palmer, Melina. The Truth About Pricing. Released Jan 2024

EMBRACE LOCALIZATION

Execute pricing with greater granularity. Set prices by geo-demographically defined zones or store groups and, when necessary, embrace localization. Set prices at the store level, incorporating competitive and behavioral differences. Proper execution allows for outstanding speed and competitiveness while having the flexibility to handle relevant regulatory or vendor requirements – like state minimums, buy-downs, or compliance.

ENSURE RULES AND COMPLIANCE

Many grocers have rules and regulations that they believe they are complying with. The reality for many is that compliance is an issue due to spreadsheets or legacy systems. Worse, it is unnoticed by the retailer, as they believe they were implemented, but noticed by the customers who walk through the stores and compare your prices across brands and sizes to each other and the competition. Worse still, customers remember the pricing oddity and assume your entire business operates like that.

Let's look at how this could occur. Suppose a customer notices that a dozen eggs cost $1.89 but $3.89 for a 24-count (2 dozen) package. They would expect a deal for buying more, but they are paying more per egg in this case. How does this happen? New competitors wreak havoc on your pricing and rules. They may have only lowered the price of a dozen eggs, which caused you to price-match it. But they didn't carry the two dozen eggs, so your system didn't price match it or enforce a sizing rule. Hence the strange pricing.

BECOME INTIMATE WITH YOUR KVI'S & SUPER KVI'S

What are your Key Value Items? OK, and out of those, which ones do you care about? Now, which ones do your consumers care about? Are you winning and setting the right impression with those items? Are you proactively managing your strategies and 100% sure of their execution? Are there any differences in regions, stores, or store formats? Are any of these changing over time? Properly managing your KVI's and being proactive in their management becomes vital to winning over customers.

KNOW YOUR VALUE

Sadly, many promotions don't attain their goals, but due to the conservative nature of retailers and prior agreed-upon vendor deals, most deals are done again next year. However, a shift is underway. A report by POI found that 79% of consumer product organizations are adding tools and analytical capabilities to improve promotion, pricing, and assortment effectiveness (3). These changes will flow toward retailers, but if one grocer can't identify, negotiate, and execute the best promotions for their business, you can be sure their competition will.

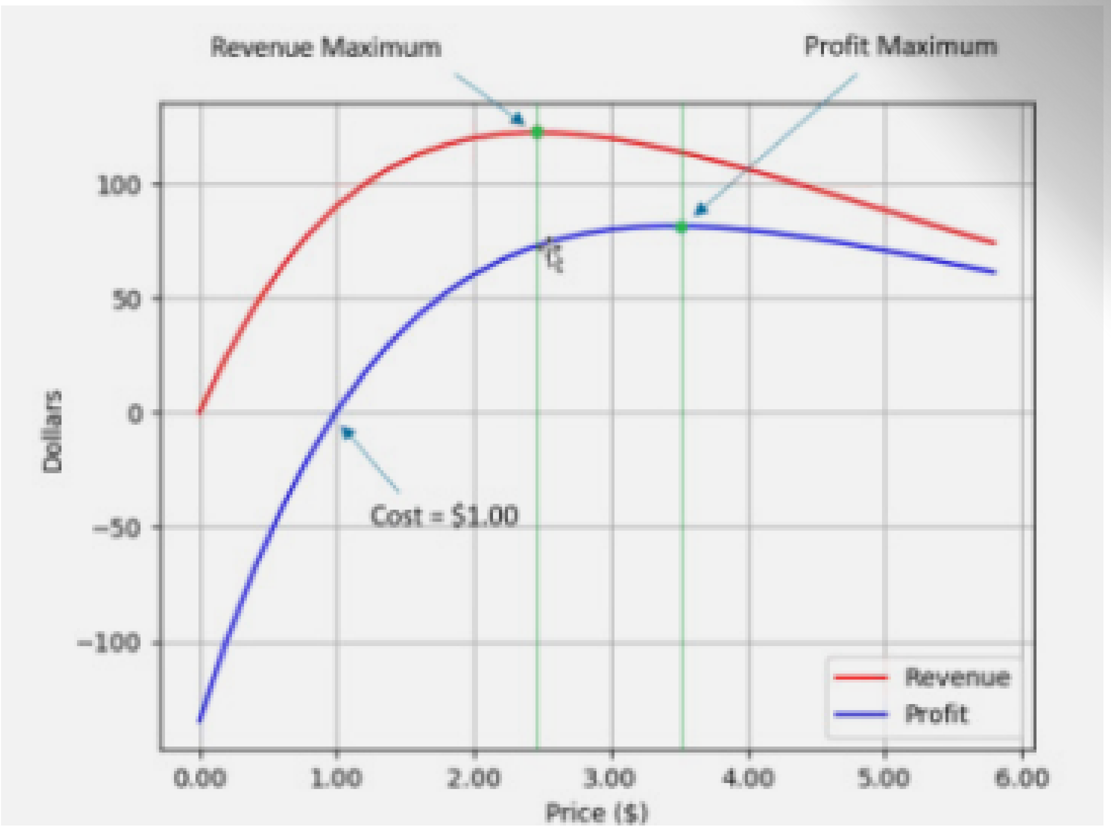
Retailers must plan promotions and vehicles that achieve their goals. They must also accurately forecast the demand for these promotions and ensure they have the correct quantities. Relying on last year's promotion and rudimentary analysis to assess new promotions is ineffective. AI and machine learning must be used to adapt to shopping behaviors and influences while evaluating new vendor funding and promotions.

79%

(3) https://www.prweb.com/releases/promotion-optimization-institute-identifies-2023s-top-holistic-enterprise-planning--revenue-management-vendor-capabilities-301936005.html

IDENTIFY PRICING OPPORTUNITIES

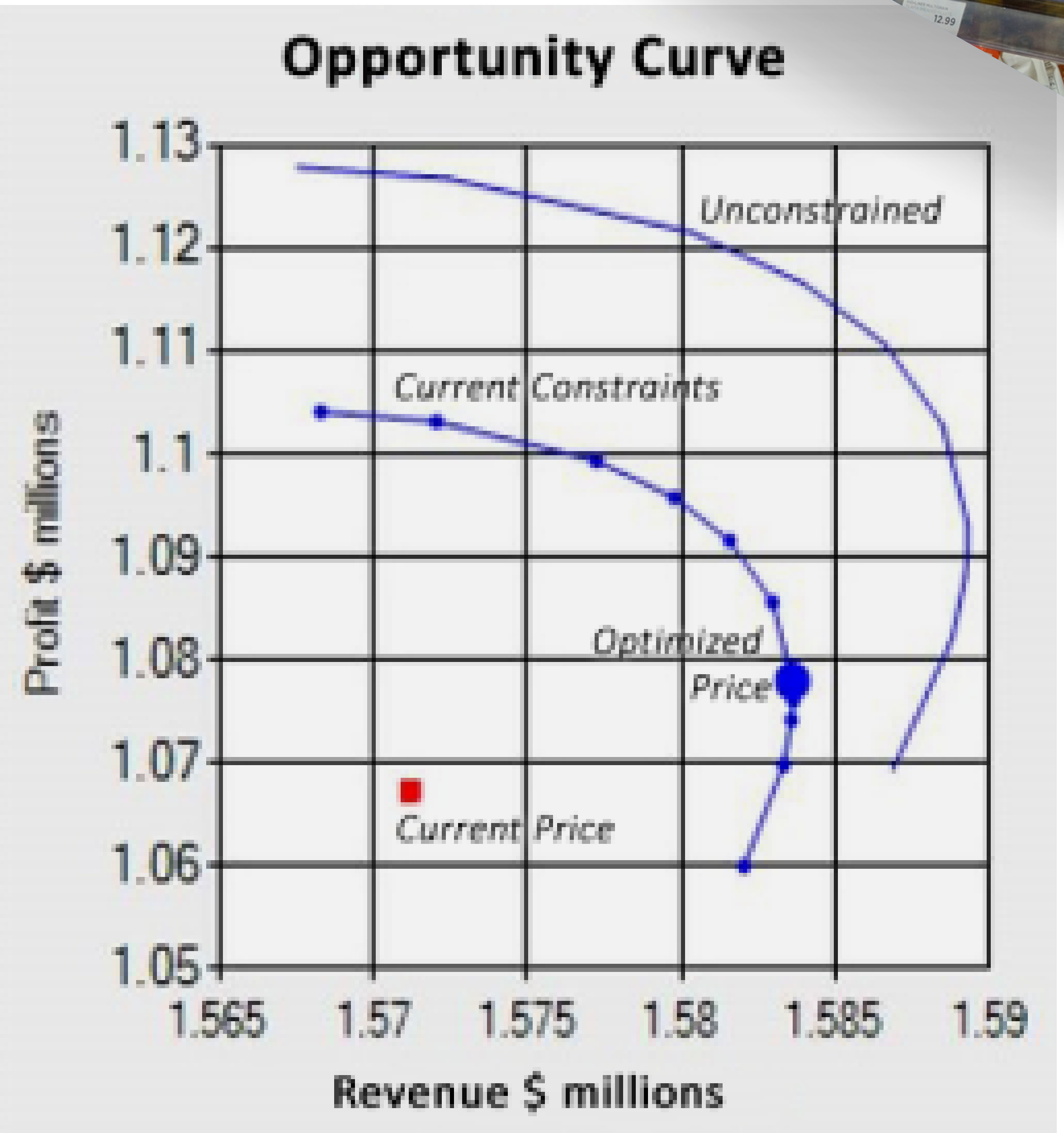
Build on your pricing rules to identify the most accessible and urgent pricing opportunities by examining response curves. You can find that sweet spot between maximum profit and revenue. For example, if moving a price only a minimal amount earns more profit and revenue, why wouldn't you take it? Or find that a high-value price change that yields significantly more profit for a small sacrifice in revenue or units. Then, take those profits and invest to capture additional revenue and market share by lowering prices in items that drive traffic and customer price perception. Ultimately, you can extend goal setting across categories, locations, or regions to determine the most effective mix of interrelated price points.



EXPAND THE OPPORTUNITIES

Retailers always have a variety of bounded pricing decisions through constraints, such as cost of goods, regulatory requirements, competitor prices, price gaps with categories, price parity across categories, margin requirements, and more. Each of these constraints has a cost on the opportunity. While some are valid, some should be examined. After all, just because something has been done before doesn't mean it should continue to be done – and at some point, it should be examined.

And there is no better time during market disruption than when new competitors enter the market, consolidation occurs, or competitive pricing heats up.



ABOUT

CLEAR DEMAND

Clear Demand is the leader in Intelligent Price Management and Optimization (IPMO) for retail. We were the first company to deliver an omni-channel lifecycle pricing solution that synchronizes prices, promotions, and markdowns online and in-store to produce a consistent brand and shopping experience. Clear Demand is the leading innovator in retail pricing solutions with patented science that analyzes historical sales to understand shoppers' sensitivity to price and generate price and promotion strategies that account for pricing rules, cost changes, and competitor prices to achieve profit and revenue goals. Architected on big data and delivered through Software-as-a-Service (SaaS), Clear Demand's Intelligent IPMO solution can be administered from a public or private cloud. Clear Demand's innovations in retail science simplify adoption and use, while allowing retailers to see value in just weeks with more transparency and minimal disruption to existing business.

Learn more at cleardemand.com