Pricing Challenges In An Omnichannel World

Written by Alicia Fiorletta, Associate Editor
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Today's shoppers are savvier than ever, using tablets and smartphones to research potential purchases and compare prices both online and in-store, leading to ever-increasing competition among retailers.

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In fact, showrooming, or digital price comparing from store aisles, played a pivotal role in consumers' holiday shopping strategies, with 60% of consumers comparing in-store prices to an online retailer, according to Prosper Mobile Insights.

These more advanced price comparison strategies were a clear tipping point for mobile showrooming: As many as 96% of consumers plan to use their mobile devices more often to research prices while in stores, according to a recent Retail TouchPoints article. "This research confirms what many in the retail industry have suspected," said Sucharita Mulpuru, VP and Principal Analyst at Forrester Research. "Showrooming is here to stay."

At IDC Retail Insights, Greg Girard, Program Director of Merchandising and Marketing Strategies and Retail Analytics, said the continual evolution of value-minded consumers "will cause price transparency to play an expanding role," he stated. "This largely is because mobility brings price comparison to the moment of truth in the store."

IDC estimates that the number of showrooming shoppers will grow from 60 million in 2013 to 70 million in 2014. Girard emphasized that due to economic pressure, consumers have spent the last four years hunting for value. Combined with the profusion of mobile devices, "these behaviors have become habits that define the character of today's shoppers."

Mike Murphy, Senior Analyst of Retail Markets at CFI Group, reaffirmed the role of mobile devices in consumers' shopping and price comparison behaviors: "Price has come to the forefront due to the increasing abilities consumers have to conduct mobile comparisons while shopping." The increasing penetration of smartphones is "a huge factor," Murphy added, "because every year, more consumers have the ability to compare prices while in aisles, as well as decide on an impulse purchase or plan online before shopping in the store."

Retailers Combat Mobile Showrooming With Price Matching

With mobile price comparison on the rise, retailers are vying to combat showrooming by leveraging competitive pricing strategies, according to an exclusive research report from Retail TouchPoints, titled: ***Completing The Cross-Channel Challenge***. Specifically regarding the issue of price comparison, merchants were asked if in-store employees were empowered to match competitors' prices. Results were as follows:

- Yes, store associates can match prices in some instances (33%);
- Yes, store associates can match prices in all instances (20%);
- No, we have no plans to institute price matching (26%); and
- No, but we plan to institute price matching (21%).

Simply stated, 74% of retailers surveyed are, or soon will be, involved in price matching programs.

During the 2012 holiday season, a variety of large retailers, including **Best Buy**, **Target**, and **Toys "R" Us**, enacted price-matching strategies to pique consumer attention and win more wallet share.

In two separate programs that ran during November and December 2012, Best Buy promised to "match the price if you find a lower price on an identical available product at a local retail competitor's store, a local Best Buy retail store or BestBuy.com," according to the company web site. To receive a matching adjustment, however, shoppers had to call a help line and provide proof of a lower cost from a competitor.

Target followed a similar model, offering holiday shoppers the ability to match "select online competitors' prices in stores." However, the Target limited the number of competing retailers consumers could consult to four: Amazon, Best Buy, Toys "R" Us and Wal-Mart.

To further improve shopper sentiment, Target also committed to:

- Compare prices on more 25,000 items to ensure efficient pricing;
- Accept manufacturer coupons; and
- Organize stores to make deals easy to find.

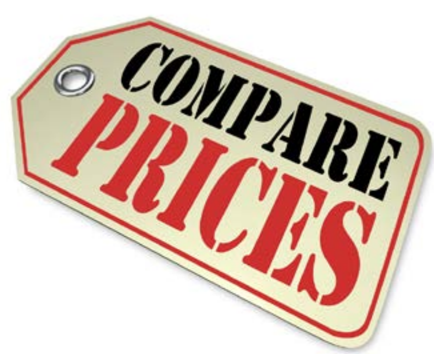
In order to receive price matches, Target customers had to provide the original Target receipt along with proof of the competitor's lower rates. The compared items had to be identical in brand name, size, weight, color, quantity and model number.

As proof that the competitive pricing model was successful, on Jan. 8, 2013, Target announced that it would extend the price-matching model and honor competitor rates year-round. "We know that our guests often compare prices online," said Gregg Steinhafel, Target Chairman, President and CEO, in a press release.

> "Not only can ongoing price matching be a dangerous strategy that isn't sustainable for all retailers across all merchandise, but some tactics can confuse shoppers then backfire, resulting in lost sales and customers."
>
> Kathleen Egan
> VP of Price Strategy
> Revionics

For its holiday pricing program, Toys "R" Us ensured price matches would be honored at the time of purchase, or within seven days of original purchase date with a valid receipt. Later, the retailer revised its policy, stating that it would match all online product prices to in-store inventory, as well as with all competitors' advertised prices. Shoppers simply had to provide the original, complete competitor advertisement at the time of purchase. Adjustments were valid for in-store purchases only.

The Pros And Cons Of Price Matching



By promising to honor competitors' prices, retailers are banking on an improvement in overall shopper satisfaction, and a reduction in the likelihood that consumers will seek lower prices online, then venture elsewhere to complete purchases.

Used in earnest by retailers to increase sales and improve customer sentiment over the 2012 holiday season, the price matching "habit" may be hard to break, and can even be "dangerous," according to Kathleen Egan, VP of Price Strategy for Revionics.

Because of the benefits reaped during the holiday shopping season, "price matching policies are going to be difficult to immediately sunset after the holidays, so I'd expect many retailers to extend them in some way into 2013," Egan said in an interview with *Retail TouchPoints*. However, margins made on some products during lower-demand periods make the policy unprofitable for select categories and retailers.

"Essentially the strategy is a classic race to the bottom, designed to bring in traffic," she said, "but sacrificing margins with every ring of the register."

Not only can ongoing price matching be "a dangerous strategy that isn't sustainable for all retailers across all merchandise," asserted Egan, "but some tactics can confuse shoppers then backfire, resulting in lost sales and customers."

To reduce risk but still be price competitive, Egan advised that retailers match only certain items at specific times, or only through certain channels — similar to the strategies implemented by Best Buy, Target and Toys "R" Us.

Outside of a holiday shopping period, "a price matching program is most viable for the largest retailers who can operate at scale," Egan stated. "Even then, it is best used as a temporary customer acquisition strategy."

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Pam Goodfellow
Consumer Insights Director
BIGinsights

The Future Of Mobile Price Comparison

Despite potential obstacles, price comparison strategies are becoming standard practice. Continuous advancements in mobile technology — coupled with a barrage of new device releases — make showrooming easier and more commonplace for consumers.

"Technological improvements in the mobile space, including better Wi-Fi, 3G/4G and other advancements make it easier for consumers to compare, identify and act on the lowest prices," said Pam Goodfellow, Consumer Insights Director at BIGinsights. "This is true for mobile users at home, in the store, or anywhere their on-the-go lifestyles take them."

Nikki Baird, Managing Partner at Retail Systems Research (RSR), added: "Showrooming looks poised to dominate over the next 12 to 18 months. While the term hasn't necessarily caught on among consumers, the behavior hasn't diminished. At the same time, we will see more movement into digital channels to complete transactions. Online retailers' holiday aggressiveness, including faster, more convenient delivery methods, will play a role in that trend."

Beyond the sheer growth in number, "showroomers will become more adept in the practice while e-Commerce and omnichannel retailers abet them with new mobile shopping apps," noted Girard. "Mobile shopping apps is an arms race where the winner is clear: the consumer."

Inconsistent Pricing Across Channels Remains A Key Challenge For Retailers

Amplified price transparency — due to the instant availability of information via the web and mobile devices — has encouraged retailers to rethink their omnichannel pricing strategies.

In fact, results uncovered in the Retail Systems Research (RSR) report, titled: ***Retail Pricing In A Post-Channel World***, show that retailers are facing a wide variety of strategic business challenges in determining the cost of products across channels. They include:

- Customers' increased price sensitivity (67%);
- Amplified pricing aggressiveness from competitors (51%);
- Increased price transparency (47%);
- Need to protect a brand's price image (42%); and
- Need to provide consistency in price across channels (27%).

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Nikki Baird
Managing Partner
Retail Systems Research (RSR)

To address these pain points, 21% of retail executives said their companies have transitioned to leveraging one item price across all channels, while 19% of organizations still have channel-specific rates.

Consumers are utilizing a larger variety of channels to browse and buy. So offering consistent pricing across all channels will become even more imperative to winning customer sales and loyalty, according to Baird.

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Refining Prices And Promotions Based On Shopper Loyalty

Some retailers strive to increase purchases by releasing unique promotions and offers based on specific channels. However, greater depth and relevance can be added to these tactics by harnessing customer data and pinpointing the overall loyalty of specific shoppers, a strategy becoming more prevalent among best-in-class retailers.

"The end game of omnichannel pricing is personal pricing and promotions — if not one price to one customer then one price to a like-minded segment of customers," Girard said. "Airlines were able to do this in extremis — and make a lot of money because they could convey the price they offered to each customer privately, forecast price-elastic demand, and allocate inventories to different customer segments. Mobile coupons are a means to convey prices privately. Now retailers have to develop the science behind price setting and the omnichannel platform to manage the communication of that price to each customer and keep them connected through to the transaction."

Baird also confirmed the new role of personalized sales and coupons based on unique shopper journeys: "With total price transparency, the only way that retailers can avoid competing on price alone is to offer promotions based on customers rather than on products. Customer-oriented promotions, like loyalty offers or behavior-based triggers, are going to be more important than mass discounts in the future."

For example, **Audible.com**, a division of Amazon, offers targeted promotions based on browsing and purchasing history. The audio book eTailer examines customer carts and wish lists to highlight products in which promotions can be applied.

Shoppers Drug Mart also leverages personalized offers successfully, according to Alexander Rink, CEO of 360pi. "Rather than sending a weekly digest of all the sales and promotions currently available," he explained, "this retailer now sends each loyalty program member a weekly email with three or four individual promotions." Sales and offers provided by the Canadian drug retailer are tailored to each consumer's preferences based on past purchase behavior.

Creating An Omnichannel Pricing Strategy

Best-in-class retailers are moving from channel-specific products rates and instead are collaborating across their organizations to implement omnichannel pricing strategies. A number of solution providers shared their outlook on omnichannel pricing with Retail TouchPoints:

"Many retailers are going through a transition to re-organize the merchandising and marketing teams for in-store and digital channels for both regular and promotional pricing," Egan said. "Organizations have to align to shopper behavior across channels, as well as pricing types."

While there is not a "one-size-fits-all" approach to achieving omnichannel pricing, the ability for retailers to create an optimal strategy relies on one key factor: understanding the unique cross-channel shopping preferences of target customers.

"Retailers need to monitor customer expectations of cross-channel experiences. Regardless of pricing strategy, they must make sure consumers understand the reasoning behind the prices of products."

Ellen Dixon
VP of Global Sales Consulting
Predictix

"Retailers need to monitor customer expectations of cross-channel experiences," said Ellen Dixon, VP of Global Sales Consulting at Predictix. "Regardless of pricing strategy, they must make sure consumers understand the reasoning behind the prices of products."

One way retailers can differentiate online and in-store shopping experiences is to leverage a single price across all channels, but develop unique promotions, offers and discounts online and in stores, stated Rink.

"Consumers are much more likely to accept inequitable pricing across channels if it is in the form of a channel-specific promotion, such as 'Like us on Facebook and receive a $10 discount,'" Rink explained. "As such, we believe the optimal way to differentiate online from offline prices is to keep a base of uniform pricing, but then use targeted, channel-specific promotions that are based on the retailer's marketing strategies."

To better establish base pricing for specific products, retailers can tap price intelligence solutions. These solutions provide retailers with better visibility into competitors' rates and in turn, help them make smarter, more profitable decisions regarding their pricing and promotions strategies.

“In making a purchase decision, consumers will evaluate numerous factors, including the purchase experience in its entirety, as well as price, shipping rates, service and support,” Rink said. “Retailers must assess the value of their overall offerings to shoppers, and then price accordingly. Price intelligence solutions shift the advantage from the consumers back into the retailers’ hands by providing organizations with access to more detailed information. With complete visibility into the market prices, the retailer can decide how they want to price specific items.”

Competing Beyond Price To Maximize Customer Loyalty

The economy slowly is recovering, encouraging consumers to research and purchase products more frequently. However, today’s tech-savvy shoppers still are researching aggressively across channels and devices to find the best buy.

Mobile price comparison and other new ways shoppers are researching products have prompted retailers to implement new strategies, including price-matching models and more consistent pricing across channels — in an effort to attract price-conscious consumers.

While addressing pricing challenges, however, merchants must continue to address customer wants, needs and expectations, noted Girard.

“Today’s showroomers and mainstream shoppers are in complete control. They represent the crucial ‘Five I’s:’ instrumented, informed, interconnected, in-place and immediate.”

Greg Girard
Program Director of Merchandising, Marketing Strategies/Retail Analytics
IDC Retail Insights

“It is imperative that merchants deem the customer as the ‘end all, be all,’” Girard said. “Today’s showroomers and mainstream shoppers are in complete control. They represent the crucial ‘Five I’s:’ instrumented, informed, interconnected, in-place and immediate.”

But as merchants continue to compete in a price-sensitive retail environment, they should consider adding incentives and services that can help drive foot traffic and impulse purchases, as well as generate long-term loyalty.

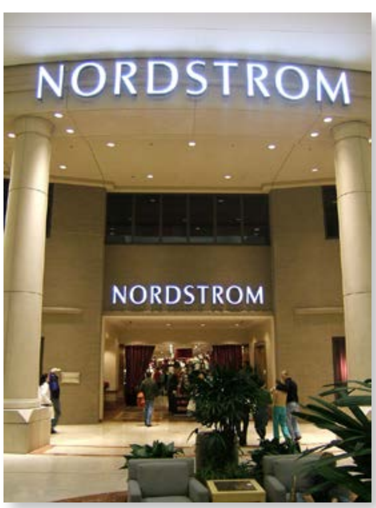
In fact, a strong value proposition that includes these enhancements can empower retailers to differentiate themselves from competitors, noted Goodfellow. "That proposition may focus on great customer service, a unique merchandise selection, higher quality, or a fun store environment. Truly *knowing* their customers — who they are and what they want and/or expect from a shopping experience — helps retailers maximize their efforts in creating loyal, long-term shoppers."

Murphy also commented on the importance of adding value to the retail experience: "Attractive prices are an effective means to get people in the door, but it's not enough to maintain loyalty, drive future purchases, and generate customer recommendations. Customers need to be satisfied with the shopping experience and the products, in addition to feeling they are receiving good overall value."

Innovative Services Drive Engagement

It's no surprise that best-in-class retailers are connecting more effectively with shoppers, not through their wallets, but through their minds and emotions. **Nordstrom**, **Bloomingdale's** and **Sephora** all leverage added services in their loyalty programs that are designed to make consumers feel "special" and generate incremental purchases. By offering consumers special incentives and VIP access to products and special events, these retailers are encouraging shoppers to purchase more frequently.

Nordstrom is an example of a retailer that has continuously focused on creating exemplary customer experiences across every touch point. The retailer offers a variety of "value-adds" via the Fashion Rewards program, which is available to all Nordstrom credit card holders. Consumers receive two points for every net dollar spent in a Nordstrom store or on the e-Commerce site.



Once 2,000 points are earned, shoppers receive a $20 "Nordstrom Note" gift certificate. Points are earned faster when shoppers spend money during "bonus point events." As cardholders obtain more points, they increase their access to higher levels of service and VIP events. For example, the highest-level of loyalty shoppers, called Tier 4 members, receive early access to the Nordstrom Anniversary Sale as well as invitations to special holiday shopping parties and private shopping events hosted at their favorite brick-and-mortar locations.

Bloomingdale's utilizes a similar, tiered program that delivers added perks and benefits to stimulate loyalty over lowest price. Through the Bloomingdale's "Loyallist" rewards program, members earn one point for every dollar spent in-store, online and in the retailer's outlet stores. Every shopper is eligible for the program, but those paying with their Bloomingdale's credit cards receive additional incentives, such as amassing three points, rather than one, for every dollar spent. All members receive double points on cosmetic and fragrance purchases. Top-level club members — those spending $3,500 or more in a single year — receive many additional benefits, including four points for every dollar they spend, and eight points per dollar spent on fragrances and cosmetics.

"If the enhanced services create a notable price disparity, the benefits must be in line with what shoppers perceive as truly valuable and worth the added cost."

Bob Hetu
Research Director
Retail Industry Services branch of
Gartner Research

Bloomingdale's also rolls out short-term campaigns in which "Loyallists" can earn more points and in turn, more rewards. For example, during the 2012 holiday season, the retailer accelerated pre-Black Friday by offering double points for online and in-store purchases. Additional perks these loyal customers receive include free shipping, unlimited gift-wrapping services and discounts for the Bloomingdale's restaurant.

Arguably, other commerce channels are taking some sales away from the brick-and-mortar location, by offering better deals. In order to draw customers back in to the store, smart retailers are offering enhanced services and special offers to these deal seekers.

"The primary goal for brick-and-mortar retailers is to identify and deliver the kinds of services customers really want enough to draw them to the stores," noted Bob Hetu, Research Director with the Retail Industry Services branch of Gartner Research. "However, it's a tricky matter to deliver on those wants: If the enhanced services create a notable price disparity, the benefits must be in line with what shoppers perceive as truly valuable and worth the added cost."

At Sephora, for example, a series of rewards and incentives add value to the in-store experience and help compensate for the higher cost of **Sephora** products.

The [Sephora Beauty Insider Club] acts as a standard loyalty program for online shoppers as well as those in the retailer's 1,300 stores worldwide: The more money they spend, the more points they earn towards discounts and free products. Beauty Insider Club members also get exclusive access to new product releases and offers, as well as personal consultations and guidance from store employees.

The strategies implemented by Nordstrom, Bloomingdale's and Sephora indicate that while consumers still are hunting for deals across channels, they still value a great shopping experience. Added services and benefits available via loyalty programs enable consumers to have more unique and intimate brand experiences. This form of exclusivity, in turn, can make consumers more willing to spend their time — and money — with a retailer.

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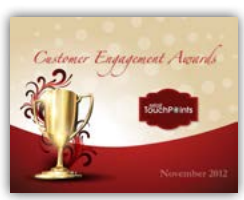

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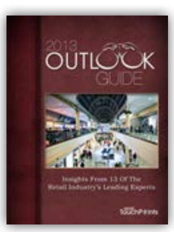

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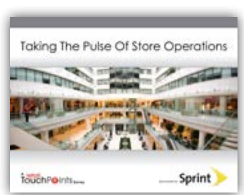

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