



2016 Pricing Regroup: To Hike Or Not To Hike

Retailers might be forgiven for being just a tad schizophrenic when it comes to the topic of pricing. On one hand, they know that competitive price intelligence and price optimization are “business basics” in today’s retail environment. Consumers can compare products and prices virtually anywhere via their mobile devices, and because [Amazon](#) can shift prices multiple times per day, advanced pricing tools are a must-have for all other retailers.

Yet when it comes to implementing the recommendations provided by price optimization tools, many retailers are still skittish. They fear that even a small price hike will send customers scurrying to their competitors.

Price is the reason more than 90% of shoppers leave a store to buy from a different retailer, according to the most recent [Shopper Experience Study](#) conducted by Cognizant. And as many as 55% of shoppers leave and seek out another store if they feel the price of an item is too high.

In addition, while many retailers have the real-time data required to provide dynamic or personalized pricing, they still lack the operational tools and processes needed to present these offers to customers. This is a particular challenge in the brick-and-mortar environment, where 90% or more of transactions still take place.

Transparent Vs. Invisible Price Optimization

So even though retailers today have a wide range of analytical, forecasting and price optimization tools at their disposal, there’s still a disconnect about using them to their fullest potential.

“Fifteen-odd years after price optimization reached its tipping point in retail, retailers seem to feel that they are ready to truly design a pricing process — one that takes advantage of the capabilities they already own,” said RSR Managing Partners Nikki Baird and Paula Rosenblum in the June 2015 report, titled: *Pricing 2015: Learning to Live in a Dynamic, Promotional World*. “That’s the good news. The bad news is they are increasingly afraid that the more sophisticated they make their pricing process, the more consumers will notice — and react negatively.”

Those fears may well be outdated given shoppers’ advanced price savviness. In fact, some of today’s pricing innovators are quite transparent. There’s [Jet.com](#), which offers a “have it your way” approach to pricing, according to Greg Girard, Program Director for Merchandising and Marketing Strategies and Retail Analytics, IDC Retail Insights.

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-Greg Girard, IDC Retail Insights

“Customers can choose whether to pay with a debit card and get a lower price or with a credit card for a higher one,” said Girard in an interview with *Retail TouchPoints*. “They can decline the right to return an item for a lower price. Final prices can reflect the total value of the basket, a volume discount in effect. The beauty of this model is that Jet.com lets the customer participate in setting the price.”

The Psychology Of Pricing

Yet many retailers still believe that the best kind of price optimization is the one that's least visible. That's the philosophy of Steve Schnur, Director of Merchandise Planning, Analytics and Pricing for [MGM Resorts International](#). And [Amazon's](#) actions reveal its understanding that price increases can be a strong disincentive to purchase.

During holiday 2015, Amazon made more price increases than price decreases, but the price of its average gift assortment went down. In other words, the increases were shallower while the decreases went deeper, according to *I Know What You Did Last Holiday Season: Pricing Trends & Insights*, a January 2016 report from Revionics and Marketyze.

According to the report, “This pattern reflects an interesting view of consumer psychology: small increases (that improve margins) are less noticeable and hence will not impact negatively on sales volumes; large decreases, on the other hand, will catch the shopper's attention and lead to higher sales conversions.”

“It's almost against human nature to raise prices,” said Amos Peleg, CEO and Co-Founder of Upstream Commerce. “If a product is selling well, you don't want to mess with the formula. If it's not selling well, the tendency is to drop the price to increase volume.”

How Personal Can A Price Be?

“Personalization” is a top buzzword in retail, but as with other elements of pricing, retailers and experts are divided about just how personal to get. The goal is to present a price that takes into account each shopper's price elasticity, providing the best margin to the retailer while convincing the customer that he's gotten a good value for his money. In other words, a win-win. Following are different ways retailers can approach this problem:

Option 1: Be Both Personal And

Contextual: “Leveraging cloud-based intelligence, retailers can dynamically adjust prices with zero latency based on external factors and customer context including: sales volumes, changes to wholesale prices, inventory levels, seasonality, competitor prices, time of day, weather, or forecasted weather, natural disasters, shopper traffic, and customer preferences and history,” said Ken Morris, Principal, Boston Retail Partners in an interview with *Retail TouchPoints*. “With the right price optimization and analytics tools, retailers can implement this strategy via coupon, markdown or markup instantaneously across all channels.”

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-Amos Peleg,
Upstream Commerce

Option 2: Increase Omnichannel Understanding:

“To extend personalized pricing, not only do you really need to understand your customers intimately, but you have to understand them effectively across every channel they shop in,” said Jerry Sheldon, Analyst with IHL Group. “And not only do you need to do the first part well, but you need to have the capability to do that well for a lot of customers. If you are able to do these two things, then I think there is great opportunity to return your investment.”

Option 3: Use Online For Experimentation And Testing:

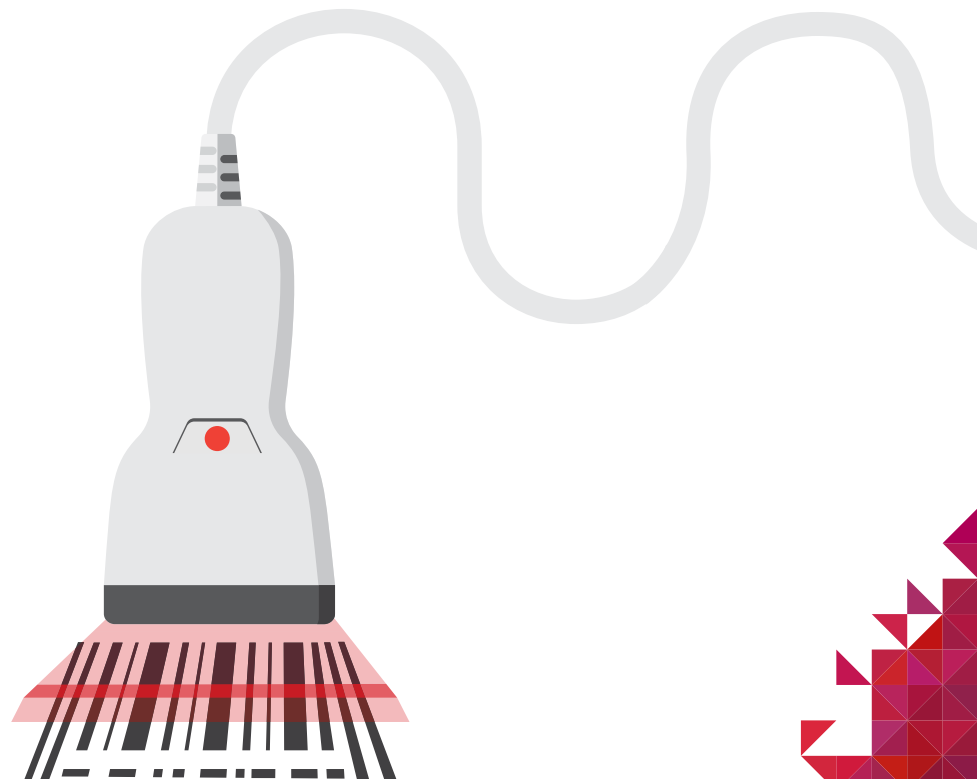
Despite the difficulties involved in personalized and dynamic pricing, the consensus is that retailers need to learn as much as possible about them. The digital realm is an excellent laboratory, according to RSR’s Baird and Rosenblum: “While retailers are increasingly afraid of negative consumer reaction, the fact that dynamic pricing exists almost solely online today is a boon — it gives them the opportunity to carve off small segments of consumers to provide them with a different price experience than the general population of shoppers. Retailers can experiment without exposing their price strategy for all to see.”

Option 4: Involve Multiple Internal Departments:

One thing the experts do agree on is that for price optimization to be effective, it needs to be thought of as part of a retailer’s entire brand presentation and customer experience, not viewed in isolation. “I think the whole notion of pricing needs to be thought anew in terms of ‘an offer’ as the whole bundle of what’s offered, how, when, and where it’s offered, how it’s rated, how it’s described in text and images, and the like,” said IDC’s Girard. “Right now no one has the analytical chops to understand how all of these factors affect a shopper’s decision. If anyone is close, the best of the lot come from marketing, not merchandising and pricing.”

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Price Optimization Success Stories

Many retailers are taking advantage of price optimization every day. For example, zone-based pricing can have a major impact for many big box retailers. “We see Home Depot varying their pricing strategies by zip code, even online,” said Joleen Wroten, Business Insights Analyst at 360pi. “That’s interesting because this category is so seasonal and also affected by weather. When it’s sunny, people are inspired to do home improvement projects. When snow hits, there’s a whole different set of needs. We see the retailer looking down to the individual store level, and using it to drive strategies and hyperlocal product assortments.”

Other success stories include:

- Ace Hardware Boosts Product Matches By 300%.** Ace Hardware, which operates 4,400 stores under a cooperative model and manages 90,000 products across several regional markets, had been dealing with limited and inaccurate data on product matches, as well as outdated data and no support for zone pricing. The retailer used a pricing intelligence solution from 360pi that brought a 300% improvement in product matches, providing competitive insights for exact and “like” products across regional markets. Improved price intelligence drove up both store and corporate revenues and margins, and access to timely data allowed Ace stores to “right price” for local markets.
- Lowes Food Stores Creates Customer-Centric Pricing.** Lowes Food Stores implemented a new pricing strategy as part of a customer-centric rebranding effort. In partnership with Revionics, the retailer was able to optimize prices and maximize margins, even on items that matter most to shoppers. Zone-based pricing also allows the pricing model to vary from area to area while still making sense to Lowes’ omnichannel consumer.
- Margin Growth Across Channels.** A large general merchandise retailer used price optimization solutions from Boomerang Commerce to generate double-digit margin growth across six categories sold online and in over 600 stores. Another Boomerang customer, one of the three largest home improvement chains, used its solution to identify key competitors in a specific category, create a pricing strategy based on market pricing and margins, and optimize prices with a price-change feedback loop using data collected from its own customer actions.
- Do-It-Yourself Solution.** Restoration auto parts business **Original Parts Group** found it was unable to manage pricing for tens of thousands of SKUs and to keep those prices updated on a regular basis. The retailer built its own price management and optimization solution, PRICEXPERT, designed for mid-market retailers. It can be delivered as a SaaS solution from Advanced Pricing Logic.



Revionics Case Study

Sally Beauty Supply Banks On Price Optimization To Maximize Profitability

A lot of science goes into the business of being beautiful, from the chemistry that creates hair coloring to the design of precision salon tools. Sally Beauty Supply, a 50-year-old company with nearly 3,000 stores in the U.S. and Canada, decided to bring more science to its pricing capabilities by adopting the Revionics Price Optimization solution.

Until now, the retailer had used fairly manual spreadsheet processes for both product pricing and store clustering, according to Group VP of Merchandising Linda Voracek. But these home-grown solutions didn't have the state-of-the-art analytics [Sally Beauty Supply](#) needed to optimize profitability and fuel the company's global growth.

"We felt it was important to focus on using more predictive modeling in our pricing," said Voracek in an interview with *Retail TouchPoints*. "Price is one of the most critical things you do as a retailer, so we want to ensure we're zoning our stores correctly and applying the right pricing strategy to each store, and to each product category."

Sally Beauty Supply stores carry an average of 6,700 SKUs, with hair coloring and hair care the two largest categories, followed by styling tools,

nail care, multicultural hair care, cosmetics and tools for professional salons. The [Revionics](#) solution will be used across all the retailer's categories, providing transparent, optimized pricing recommendations that will allow the retailer to conduct "what-if" scenario planning and simulations.

In addition to product and category data, the retailer will be able to incorporate shopper insights to improve revenues and margins, and the Revionics Store Clustering and Elasticity Workbench modules will provide additional insights.

"We already do some regionalized pricing in different areas of the country, but we wanted to bring a stronger analytics perspective to it," said Voracek. "We're also interested in price elasticity and better determining the categories that will drive traffic versus those that don't. For example, we know that we have to have best-in-class pricing in the hair care and hair coloring categories, but we want to know more about how the rest of our categories behave around those categories in different stores."

Price is one of the most critical things you do as a retailer.

-Linda Voracek, Sally Beauty Supply

The solution's broad range was one of the reasons Sally Beauty Supply chose Revionics: "We are looking to do promotional and markdown optimization along with base pricing and store clustering," said Voracek. "We wanted a solution that would support long-term growth, as well as a partner that would integrate well with our current systems and bring best-in-class modeling capabilities."

Adding In-House Pricing Expertise

Sally Beauty Supply is approximately four months in with data and business rules integration processes. The retailer's lead merchandisers are involved in these preparations, along with a team from Revionics. Sally Beauty Supply also is adding its own pricing team to provide in-house expertise when the solution becomes part of daily operations.

"Pricing is not a role we've had at Sally Beauty Supply before, but we're onboarding a director this month and building out the team with some analysts," Voracek reported. "It is a bit of a structural and cultural change, but we felt the need to put people on staff who had worked with these types of systems and had an analytical background specifically in the pricing area."

As for Sally Beauty Supply's goals, they are simple: "It's all tied to profitability," said Voracek. "We want to optimize to ensure we get the best we can out of category performance, and also to maximize the use of vendor partnership dollars in our promotional strategies. We also want to optimize our markdown strategies, but our first pass will be seeing the benefits in the store clustering and categories areas."

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-Linda Voracek, Sally Beauty Supply





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About Revionics

Revionics is a proven leader in End-to-End Merchandise Optimization solutions. Over 62,000+ retail locations around the world optimize with Revionics across 18M+ products and 2.6B+ SKU/store combinations are modeled weekly. Revionics empowers retailers around the globe to profitably execute a data-driven omni-channel merchandising strategy by utilizing one of the most comprehensive set of shopper demand signals to increase financial performance and improve customer satisfaction. Revionics' solutions are powered by unmatched demand-based science and advanced predictive analytics to help ensure retailers have the right product, price, promotion, placement and space allocation to drive business performance and seamless shopper experience – online, in-store, social and mobile. Delivered on a scalable, SaaS-based platform, Revionics solutions offer realtime insights and dynamic decisions at speed, scale and frequency, while providing fast ROI. Revionics has been recognized as a Deloitte Technology Fast 500™ and JMP Securities' Hot 100 Software Company. To learn how you can compete more profitably, please visit www.revionics.com.