PRINCIPLES OF EFFECTIVE PRICING ARCHITECTURE FOR MANUFACTURERS

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Pricing is both an art and a science. The design of pricing architecture utilizes a clear process that is informed by various quantitative inputs. At the same time, it also relies on sound judgment and experience from those stakeholders most impacted by its outcomes.

Objectives of Pricing Architecture:

For manufacturers, pricing architecture must:

- Reflect the brand's image
- Drive distribution, revenue and profitability
- Encourage purchase of product while striking a desired balance with promotion depth and frequency
- Be logical and consistent between brands and product sizes, stimulating desired consumer purchase behaviours (such as trading up or switching from Private Label)
- Work within retailers' overall and category pricing strategies
- Meet retailer objectives for category dollar sales and profitability

Core Principles:

There are several core principles that apply in most instances of brand pricing. These include:

1) Establish appropriate retail pricing relationship between package sizes
    - Price / unit (e.g. per ounce) decreases as product size increases
    - Consumer to see value in trading up to larger package size
2) Managing logical branded & Private Label price gaps
    - Target maximum of 30-35% price gap versus value tier Private Label
    - Enable customer to make an intelligent trade-up or trade-down decision
    - Maintain integrity of value tier positioning for retailer brand
    - Retail price based on consumer opportunity versus product cost
3) Manage discounting levels to create consumer excitement and purchase incentive while maintaining profitable regular business
    - Regular features at no more than 25 – 35% off regular retail
    - Branded regular features should not be below regular Private Label retails
    - Hot features to be no more than 45% off regular retail
4) Conventional (market) and discount retail price gap

    - Regular price gap between conventional and discount stores of no more than 15%
    - Feature pricing in discount to be within 5% of conventional regular feature pricing
    - Hot feature pricing to be the same (within $0.01 - $0.03) within all channels
5) Manage regular retail price gaps between channels to avoid inter-channel conflict, costing pressures and consumer confusion
    - Food, mass merchant and drug
    - With growing importance of dollar channel ensure that this channel doesn't limit retail price levels in remaining channels
    - Larger price gaps between club and other channels are acceptable
6) Ensure competitive pricing on key value (known value) items (KVI)
    - A SKU designated by a retailer as a KVI must be priced in accordance with their pricing strategy versus the retailer's designated competitor(s)
7) Retailer margin generally has an inverse relationship to product movement
    - Higher unit volume SKU's generally offer lower retail margins
    - Niche, low volume SKU's should enhance $ and % profitability
8) Private Label provides higher profitability than similar sized branded SKU
    - Both Margin % and $'s / selling unit
    - Minimum 500 bps rate advantage for Private Label versus branded