



KEYS TO EFFECTIVE PRICING ARCHITECTURE FOR RETAILERS

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March 2016

Effective retail pricing architecture delivers desired value perception and business results while increasing customer engagement and loyalty. It must answer the following questions:

- *What is the target price position versus reference competitors?*
- *What is the optimal mix of price and promotion by retail department/category?*
- *Which customers and trip missions matter most and how does that impact our pricing strategy?*
- *How do our most attractive customers shop?*
- *What drives price perception?*

Step 1 – Overall

We need to determine overall strategies and tactics that answer key questions for the business.

Overall Pricing Competitiveness:

- Do we price relative to competition or do we price to achieve a targeted gross margin or some blend of these approaches?
- Are we going to be a price leader or a price follower?
- If we are a price leader, will we lead with the lowest price or the highest price?
- If we are a price follower, what is the average price gap we desire versus the targeted competition?
- Do we have different allowable price gaps for different classifications of items i.e. KVI = key value item, KVC = key value category?
- Are we going to use one price for the entire company or have different pricing zones?
- What are the pricing parameters on items not covered by the KVI and KVC list?

Assortment, Price Image & Pricing Strategy

- Where do we want to play in the price value spectrum for the entire business and then for specific categories? LPP – Lowest Possible Price; Good; Better; Best or Premium; Super Premium
- How will we price in different classes of trade?

Customer Facing & Price Execution Rules and Guidelines

- What is our customer-facing pricing strategy?

- EDLP “everyday low prices” – consistent “low” prices everyday with minimal promotional pricing reductions.
- High / Low Promotional – regular retails are set above the EDLP competitors (and sometimes well above the EDLP competitors) supplemented by regular, impactful promotions and/or TPR (temporary price reduction) activity
- Medium / Low Promotional – regular retails that are set slightly above the EDLP players but are supplemented by regular, impactful promotions and/or TPR activity
- EDLP / Low Promotional – consistent “low” prices everyday supplemented by a limited number of even lower promotional features to create excitement and traffic
- What are our executional guidelines?
 - Odd number pricing e.g. 3, 4, 5, 7
 - Even dollar pricing e.g. \$5.00 versus \$4.97
 - Psychological price points e.g. 99
 - Operational price points (to identify the current status of an item) .
 - Price Bundling
 - Relationship pricing within a category
 - Line pricing
 - Preferred customer pricing

Price Checking

While it may seem obvious, having a pricing strategy that is not monitored through some regular and consistent form of price checking and reporting, is a price strategy in name only.

- How often are competitive price checks performed? Who does them? Who sees the results?
- Do we price check all items in our “basket” or a selection of items?
- How do we report on the results from the price checks?
- Who maintains the “basket” of items that are to be price checked?
- How do we approach selecting comparable items when the brands may be different?
- How often is the competitive shopping basket, KVI’s and KVC’s updated?

Step 2 – Department, Category & Item Pricing

Retailers recognize that shoppers only recall prices for a small number of items, tending to be directional rather than precise. Given consumer understanding and recollection of actual prices, retailers can shape shoppers’ value perceptions by pricing competitively on the items that matter most to the shopper (KVC’s and KVI’s) while earning higher margins on items that aren’t as important to them.

How do you set KVC’s and KVI’s? Ideally, you would use three types of inputs:

- Transaction & basket data - analyze and rank order category & item-level performance
- Shopper price-perception data via research
- Merchant & Operations (sales) judgment

There can be four types of KVI's:

- i) Value Perception Drivers. These are items that typically shape retailer traffic over a longer time frame
- ii) Traffic Drivers. These are high velocity items that drive incremental shopping trips
- iii) Basket Drivers. These are items that drive or inspire incremental purchases in a shopping trip
- iv) Assortment-Perception Drivers. These are items that highlight a retailer's merchandise authority

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