



# Deploying a Data-driven Pricing Strategy

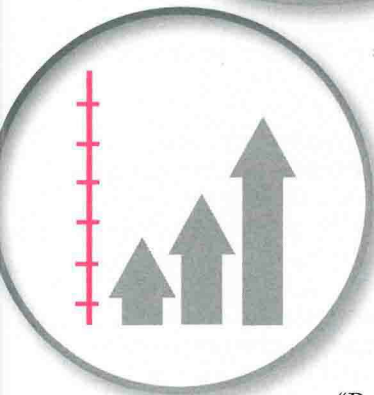
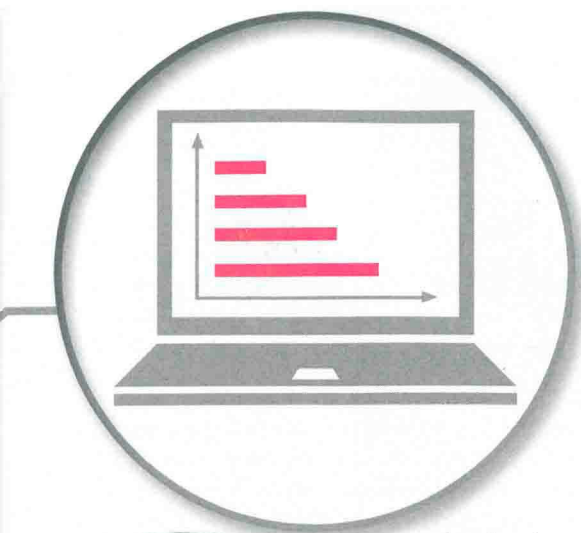
Focus on customers is key.

By John Karolefski

**G**rocery retailers are under pressure to improve profitability and gain a greater percentage of the customer spend, so it's not surprising that more companies are realizing the value of price optimization to increase same-store sales and improve their competitive position.

But how can retailers optimize pricing most effectively? Experts advise grocers to move away from a "gut-feel" approach to a data-driven pricing strategy. That should lead to the right offer, at the right location, at the right price, with the right range of products to gain a greater share of shoppers' wallets.

"To remain competitive, it is important for grocers to embrace data and analytics to establish



a localized price and promotional strategy, then execute against it," says Alan Lipson, global retail and CPG marketing manager for SAS, a Cary, N.C.-based provider of business analytics software and service. "Best practices start with data-driven customer insights. Grocers who take their data seriously and exploit it with analytics are in a strong position to identify trends, focus activities and seize opportunities to improve performance."

Karen Dutch, of Revionics, agrees.

"Pricing needs to be strategically driven and technology-enabled. Demand-based optimization provides a granular view of shopper and competitor behavior, blended with business and financial strategy and rules, enabling grocers to surgically execute competitive positions while maximizing profit opportunities," says the SVP of marketing for the Austin, Texas-based provider of price optimization solutions.

Jim Sills, president and CEO of Scottsdale, Ariz.-based Clear Demand, stresses that getting pricing right — and avoiding the "gut feel" — requires advanced demand science that analyzes sales data and produces "fact-based" insights so that retailers can operate practically and profitably. "Emerging best practices in pricing technology leverage rigorous rules engines that achieve the goals for price image and competitive position without losing margin," he says.

Not to be overlooked in this focus on technology-enabled solutions are consumers who shop in different ways and in different places. Some scour weekly circulars and plan their stock-up trips to the grocery store accordingly. For these shoppers, ad placement becomes key. Others have made the digital leap to shopping online and having their groceries delivered or ready for curbside pickup.

Regardless of shopping preferences, Todd Michaud, of Chicago-based NCR, says consumers expect supermarkets to have the right prices and the right promotions in place, regardless of whether those consumers shop online, on a mobile device or in the store.

"Price and promotion execution at the point of sale must be consistent and logical," adds the global VP and general manager of NCR global enterprise, merchandising and supply chain solutions.

### **Lessons in Optimization**

One grocery retailer that has validated its approach to price optimization is Milwaukee-based Roundy's Supermarkets, the \$4 billion operator of 150 stores in Wisconsin and Illinois under four banners: Mariano's, Metro Market, Copps and Pick 'n Save.

"At Roundy's, we're looking to increase sales and margins, while improv-





“Roundy’s effectively uses the solution with a customer-focused approach,” notes consultant Mark

Kelso, of St. Louis-based Price Revolution, who spoke

with Roehl at FMI Connect. “Their process has resulted not only in improvements in unit movement, sales and gross margin, but has also reduced the amount of time spent on developing price recommendations.”

SAS’ Lipson lists several other retailers that have benefited from deploying a price optimization strategy:

- A midsize North American grocer integrates regular price and promotional price activity into a comprehensive approach, allowing the company to take into consideration promotional activity across a timeline to achieve overall pricing goals.
- A European grocer uses price optimization as part of its category review process. It was able to identify a combination of price increases and price decreases to meet category financial objectives.
- A North American regional grocer used localized customer segmentation and promotion optimization to develop new circulars customized to local neighborhood markets, resulting in an increase in market basket revenue of 3 percent to 5 percent.

Howard Langer, of U.K.-based Dunnhumby, advocates a customer-centric pricing strategy because consumers respond to prices differently. Consequently, he notes that retailers need to understand which customers buy which products, and then set pricing strategies from there.

“Instead, most retailers evaluate what their competitors are doing with pricing and product costs, and that’s how they’re setting their prices,” reveals Langer, the firm’s global managing director for price and promotions. “This compare-and-contrast strategy will no longer work, as it no longer resonates with the consumer. Oftentimes, retailers and software providers talk a big game about treating customers differently, but in reality they don’t set prices in that way at all. Consumers expect personalized experiences. Until grocery retailers customize pricing based on their customers’ behavior and shopping habits, they’ll continue to fail to meet the consumer’s needs.”

Sills, of Clear Demand, agrees, saying it’s a mistake to watch competitors to evaluate pricing decisions without examining whether those competitors are “the right ones.” He also lists two other errors: a lack of pricing consistency across product lines, and not knowing which products are price-sensitive.



ing price perception,” Laura Roehl, Roundy’s VP of pricing, said in a presentation at the recent annual FMI Connect conference and trade show in Chicago. “As you know, those objectives can be at odds with each other, particularly in the short term. So this is where we saw the need for a data-driven tool. We also wanted to improve price integrity and consistency.”

Roehl presented five lessons learned from Roundy’s price optimization work with Revionics, which enabled the grocer’s stores “to thrive in hypercompetitive markets”:

- For a smooth transition, pre-work and setup are crucial prior to implementation.
- Review suggested details using tribal knowledge (promotional plans, etc.) to complement pricing strategy.
- Fine-tune the tool after initial installation for better results.
- Document and measure results for management review.
- Using a price optimization solution provides visibility to elasticity in a way that was previously unavailable.

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—Todd Michaud, NCR





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—Howard Langer,  
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### Learning from Mistakes

Such a pricing misstep is only one way grocery retailers can fail.

According to NCR's Michaud, the biggest mistake a grocer can make in pricing is adopting price management and optimization systems without a price strategy known, understood and thought through before, during and after implementation. He asserts that pricing systems are typically underused by grocers, with most using only a fraction of available technology, due to a "complete lack of comprehensive pricing strategies." This can include competitive and loyalty-pricing strategies, private label positioning, cannibalization policies, zone nuances, ending-numbers price thresholds for changes, and category-specific strategies.

"I think the biggest mistake made by retailers is failing to use customer-based techniques as the cornerstone in creating value offerings," says Kelso, of Price Revolution. "These retailers generally use rules-based techniques such as margin target and competitive shop/index. The problem with rules-based techniques is that they fail to focus on the retailer's customer. Margin techniques only focus on the retailer's needs, while competitive shop/index techniques focus on competition, neither of which consider the customer. With only a few exceptions, rules-based techniques should play a limited role in a retailer's overall price management strategies, and not be used as a cornerstone strategy."

According to Lipson, of SAS, to have an effective pricing and promotion strategy, it's necessary to adopt a comprehensive approach based on an understanding of targeted customer segments, and products that appeal to those segments.

Such a strategy includes:

- Which customers/customer segments are to be targeted
- Which products index highly with the targeted segments
- Which segments demonstrate higher levels of price sensitivity, and on which products
- The degree to which customer segments respond to marketing stimulus through vehicles such as weekly circulars, displays, in-store promotions, direct-to-consumer marketing, etc.

"Grocers are often taking the recommendations of CPG companies and modifying prices and promotions in ways that may not be right for customers," notes Channie Mize, general manager for the retail sector at New York-based Periscope, a McKinsey solution. "Instead, they need to stay in line with their own overall pricing strategy and adapt suggested prices as needed to maximize their competitiveness, pricing optimization and assortment planning, changing the mix of these within store clusters as necessary."

Despite such errors, success is still possible. To illustrate that point, Revionics' Dutch offers one of her favorite grocery client quotes: "Customer-driven pricing is now a way of life and is embedded in our business philosophy. I would equate pricing without optimization to how someone would respond if you took away their cell phone. It would be like wandering around lost in the dark. I don't know how anyone can compete in today's complex environment without optimization science and analytics." **PG**

