RetailWire

WHITEPAPER

When the KVI Price is Right

Driving growth through precision pricing strategies

Datasembly

Intro

Though retailers differentiate with product assortment, branding and customer service strategies, price ultimately drives customers to purchase.[1] This is especially true for retailers selling groceries and household goods that shoppers buy repeatedly.

When a shopper purchases a specific item often, they usually have a benchmark price in mind. If they find the product below that benchmark price, they feel like they've found a bargain. If a retailer lists the product at a price above what that shopper has in mind, they risk losing the sale — and if the retailer is consistently high on the shopper's essential goods, they risk permanently losing that shopper's business.

These essential goods, or Known Value Items (KVIs), ultimately drive shoppers' perception of a retailer's brand. So, pricing KVIs accurately is vital for driving sales. However, competitive pricing strategies require constant data leverage. Retailers need to know what those consumer expectations are and make data-backed pricing decisions based on consumer, geographic, and competitor data.

The problem? Gathering, maintaining, and analyzing the data needed to implement competitive pricing strategies is more than a full-time job. Further, without real-time views into competitor pricing data, retailers are often at a disadvantage relative to competitors and trade partners.

In this whitepaper, you will learn:

- How competitive dynamic pricing impacts retailers' bottom line
- Strategies for leveraging data holistically to implement precision pricing strategies
- Why real-time pricing intelligence on KVIs is key for gaining market share in today's retail landscape

Dynamic pricing is driving retail's bottom line

There's no question that today's quickly-shifting retail landscape is full of challenges. But over the past few years, one thing hasn't changed: price is consistently the number-one factor in shopper purchasing decisions.[1] For this reason, dynamic pricing is the backbone of successful retailers, especially in markets like grocery, dominated by value-oriented shoppers.

Dynamic pricing strategies allow stores to reduce waste by lowering prices on items that are about to expire. In addition to reducing waste, a dynamic pricing strategy can inspire loyalty from customers through surprise bargains.

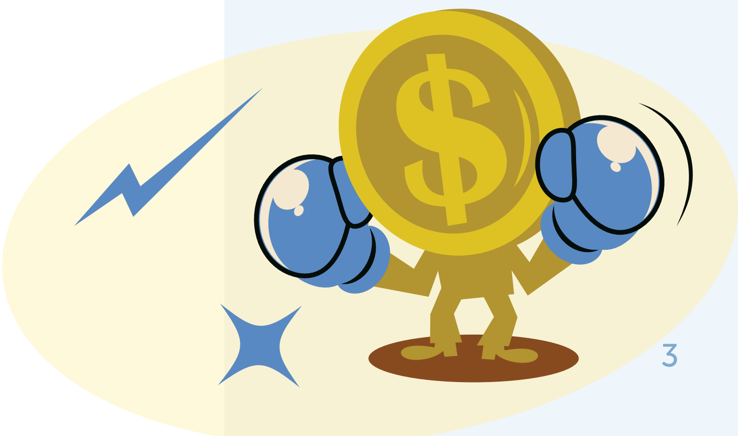
Retailers can continue to drive loyalty and traffic with low prices on household staples. And smart pricing can increase basket sizes by optimizing on goods that encourage add-on purchases.

Historically, retailers leaned on in-store manual collection and CPG brands for insights into product assortment, pricing strategies and promotion guidelines. However, dramatic advancements in technology have provided retailers with access to competitor pricing data and proprietary customer insights that allow them to make intelligence-based pricing decisions in-house. As a result, retailers are no longer solely reliant on CPG suppliers for default pricing data.

Retailers are taking matters into their own hands — and for a good reason. Driving strategies in-house allows retailers to react quickly to widespread or localized market changes and leverage consumer data. This drives sales in an increasingly price-conscious market. Additionally, leveraging consumer and market data puts retailers in a stronger position to negotiate lower prices from CPG suppliers.

Responsive pricing strategies are crucial to profitability, but it is easier said than done. Often, retailers do not have access to competitor data needed for real-time accurate insights. To have a true picture of competitor pricing, retailers need to see price changes at regional, hyper-local and store-level. And retailers who have managed to scrape up all of this competitor pricing information often struggle to organize it and derive usable insights.

As a result, while more consumer data is available, to inform pricing strategies for competitor pricing data, retailers are still forced to rely on partial or incomplete data sets, data supplied by CPG brands or burdensome manual store audits.

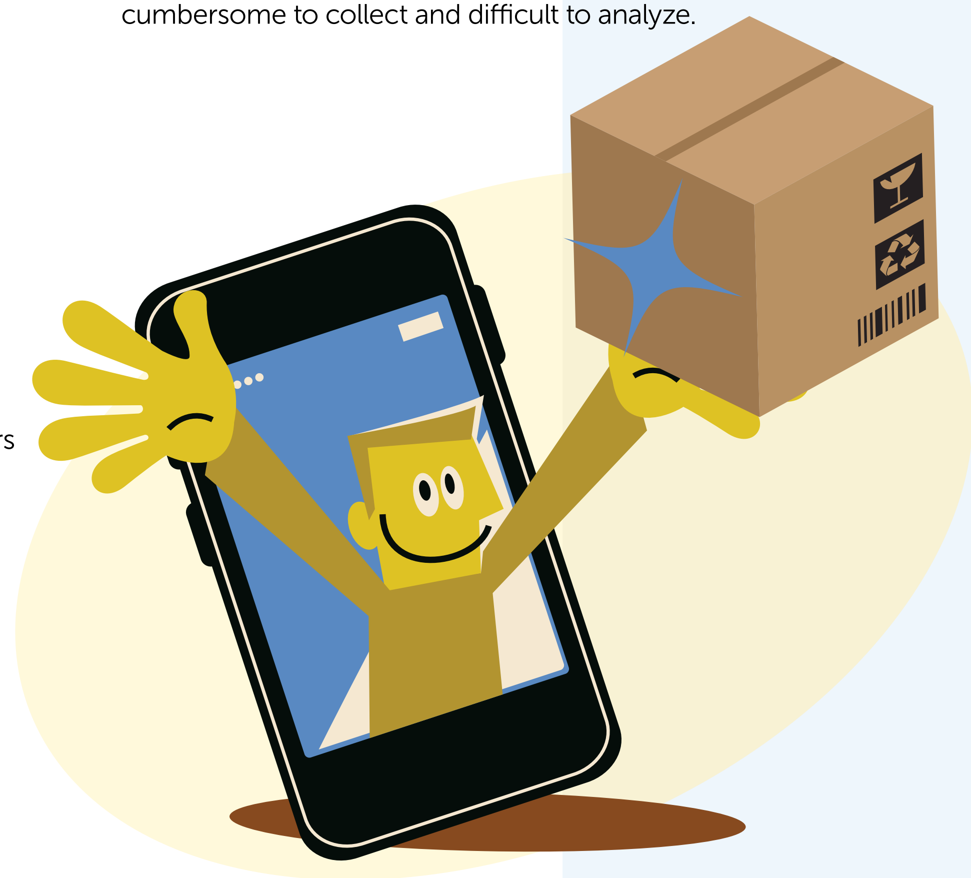


Responding to changing consumer price perceptions

How retailers identify KVIs, and implement their pricing strategies, has evolved significantly over the last ten years. In the past, retailers might create broad category segments, such as KVI and non-KVI. With omnichannel shopping and more grocery buying happening online, retailers need a more flexible data set that accommodates both online and in-store buying. Simultaneously, retailers need data that allows them to quickly respond to consumer demand, competitor movements, and overall economic factors. Instead of simply KVI and non-KVI, retailers need multiple segments that offer granular insights.

Grocery shoppers were significantly slower in moving online than other retail sectors.[2] However, that all changed in 2020, as more people bought groceries and household goods online than ever before. Online shopping trains consumers to be more value-conscious because price comparison is much easier. Shoppers can check multiple retailers, for grocery pricing and availability, before heading in-store or placing a pickup order. Previously, CPG shoppers relied on memory to compare prices to previous shopping trips or other retailers. Now, they don't need to.

However, moving from a static segmented list to a responsive data set is not without challenges. Generally, it means retailers need to monitor more products and in a faster way than before. And catering to omnichannel shoppers means adjusting pricing according to both nationwide and localized competitor data; data which can be complex and cumbersome to collect and difficult to analyze.



COVID-19 impact

The pandemic and declining economy have consumers more budget-minded than ever and more willing to shop around for the lowest prices. According to a McKinsey survey, since the COVID-19 crisis began, 51 percent of respondents have shopped at a new grocery store, and 48 percent have changed primary grocery stores.[4]

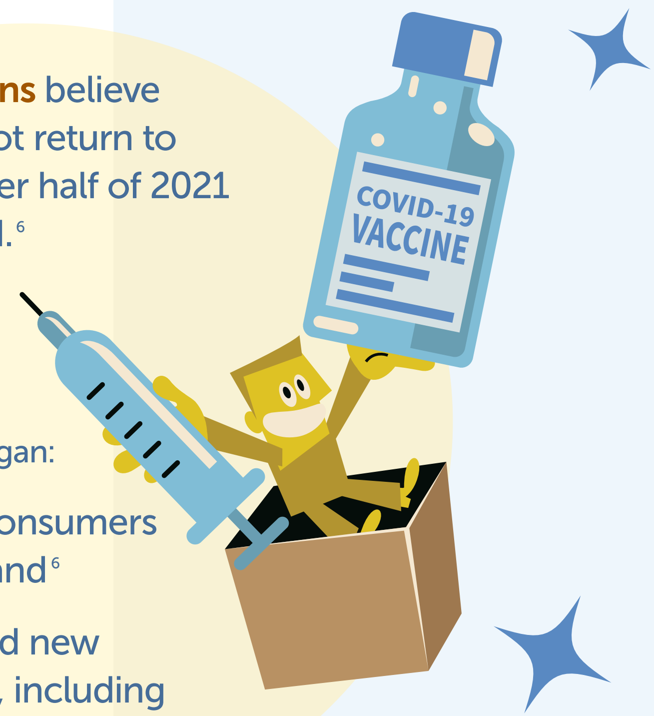
Dynamic pricing strategies allow retailers to build a more robust value perception and attract new customers. However, during the pandemic, having a clear-eyed view into competitor product assortments is just as important. Typically, grocers and other retailers are now carrying smaller selections to keep shelves stocked with customer favorites while streamlining operations to manage diversified fulfillment strategies along with following safety protocols.[8]

What's more, product selections are not expected to bounce back to normal. As a result of the pandemic, 95 percent of retailers will focus on reassessing KVIs, and 96 percent will focus on developing stronger competitive pricing strategies.[9]

In general, this environment puts immense pressure on margins in a retail sector that already has notoriously thin profit margins. Having insight into what products competitors are stocking and dropping, and the corresponding price points, can help retailers make strategic decisions on where to invest safety stock, when to pressure suppliers for lower pricing, which unique KVIs to promote and where to raise pricing.

Significantly, raising pricing can lead to a higher payoff than reducing fixed costs or increasing sales volume. A one percent increase in price, assuming no loss of volume, can typically increase operating profit by 11.1 percent, whereas a one percent increase in sales volume will yield only a 3.3 percent increase in operating profit.[10] Analyzing competitors and market data to see where to increase prices presents an excellent opportunity for bottom line growth.

4 out of 10 Americans believe their finances will not return to normal until the latter half of 2021 or 2022 and beyond.[6]



Since the pandemic began:

35 percent of U.S. consumers have tried a new brand[6]

77 percent have tried new shopping behaviors, including channels, stores, and brands[7]

Understanding KVIs in the next normal

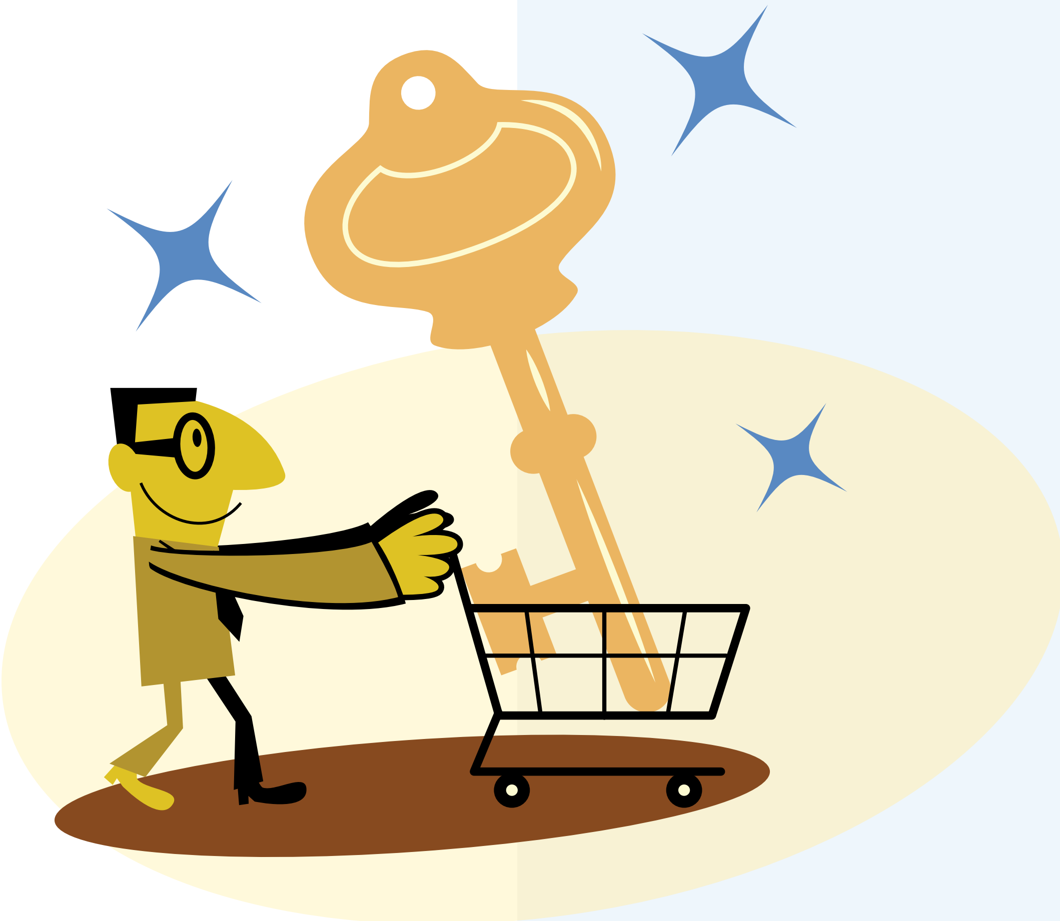
Given shoppers' current increased price sensitivity, when we reach the other side of the pandemic, affordability and perceived value will still be the most critical factor in consumers' purchasing decisions. In fact, it could become an even more influential factor. Right now, shoppers are also balancing safety protocols and contactless ordering options.

Focusing on products you define as known value items and competing on price with the likes of Amazon can feel like a race to the bottom. However, precision dynamic pricing strategies can protect retailers' profit margins.

Expanding to a wider and real-time data set, instead of relying on category managers' institutional knowledge alone, or basing pricing off of just one competitor, helps retailers spot trends and provides a detailed benchmark that can be layered with in-house purchasing and consumer data.

Taking this information, and then leveraging category managers' expertise and commercial teams for practical application and additional optimization, offers a rich formula for building a next-generation dynamic pricing strategy.

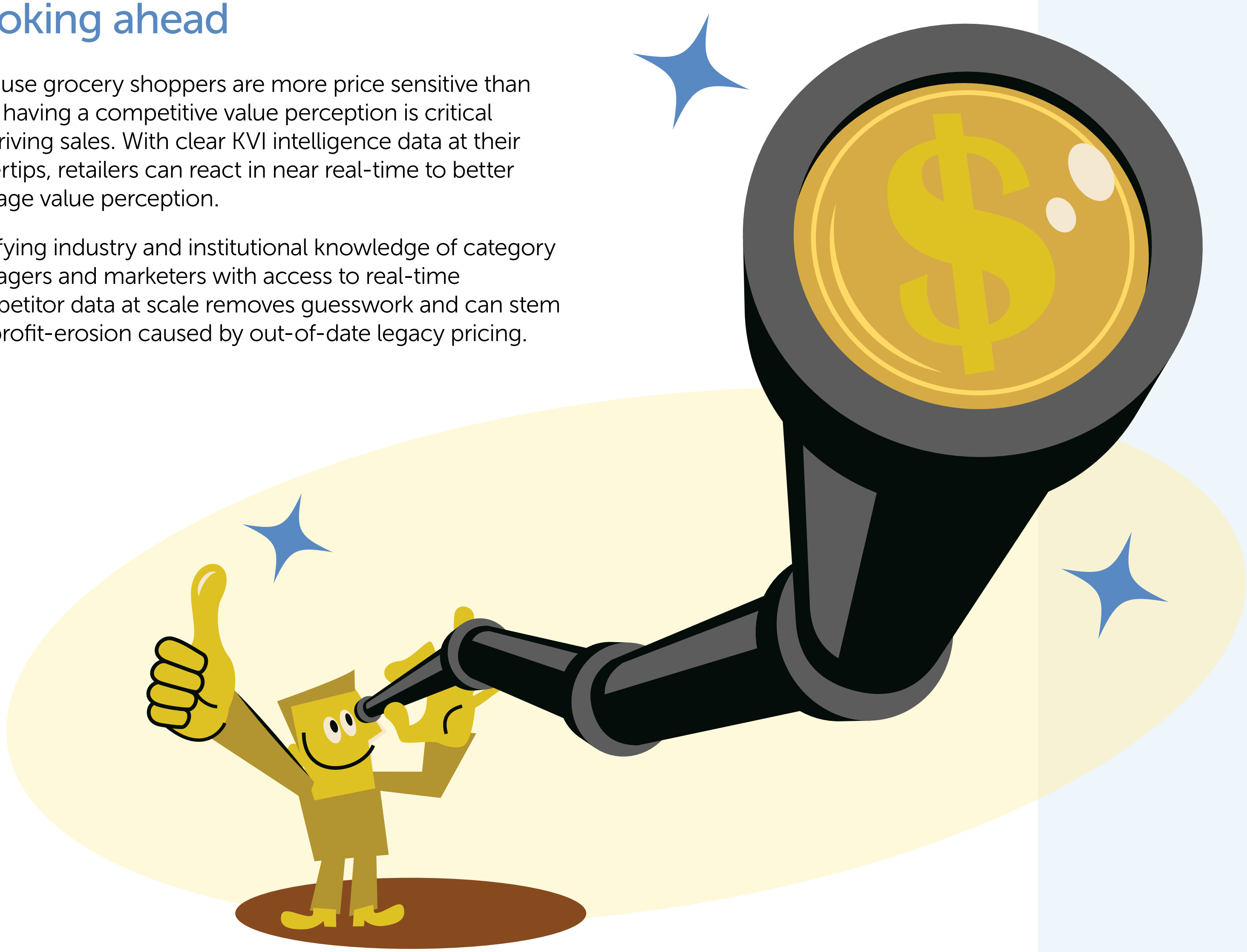
For example, after using basket data to identify store-wide KVIs, retailers can drill down further to leverage personalized and channel-specific KVIs. While retailers can leverage individual competitor store data to optimize local KVIs, like milk, the items consumers are more likely to buy online, like household supplies, can be set on a national scale.



Looking ahead

Because grocery shoppers are more price sensitive than ever, having a competitive value perception is critical for driving sales. With clear KVI intelligence data at their fingertips, retailers can react in near real-time to better manage value perception.

Fortifying industry and institutional knowledge of category managers and marketers with access to real-time competitor data at scale removes guesswork and can stem the profit-erosion caused by out-of-date legacy pricing.



RetailWire®

Whitepaper author:

Meaghan Brophy for RetailWire

For information, please contact:

Al McClain
almcclain@retailwire.com
(561) 398-0613

References:

1 - "Customer Decision Making Criteria and the Importance of Price" – Stax Insights

2 - "Why People Still Don't Buy Groceries Online" – The Atlantic

3 - "Redefining value and affordability in retail's next normal" - McKinsey & Company

4 - "Covid-19 Propels Amazon to Top U.S. Grocery Retailer for the 2021 dunnhumby Retailer Preference Index" – dunnhumby

5 - "Survey: US consumer sentiment during the coronavirus crisis" – McKinsey & Company

6 - "Coping with the big switch: How paid loyalty programs can help bring consumers back to your brand" – McKinsey & Company

7 - "Less is more: Why retailers and CPGs are moving toward selling fewer products in stores" – FoodDive

8 - "Strategic report: How retailer pricing strategies are losing customers" – RetailWeek

9 - "Managing Price, Gaining Profit" – Harvard Business Review