

IS IT TIME TO RE-EVALUATE YOUR PRICING AND PROMOTIONAL STRATEGIES?

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 C-STORE DIVE

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Introduction

The retail environment is more complicated than ever with shifting consumer behaviors and consumer stressors. This environment puts retailers in a difficult position: how to respond to cost increases without upsetting customers or losing loyalty.

As a result of this challenge, retailers must be more accurate with their prices and promotions. There is no room for bad decisions. However, pricing and promotional strategies that worked before don't work as well now, so retailers must determine how to change and get better information.

With inflation's impact and rising costs, unthinkingly slashing prices isn't practical — it cuts too deeply yet doesn't deliver the needed results. Retailers feel they are in a no-win situation, where price-conscious shoppers can easily compare deals and, in an uncertain economic environment, prioritize immediate savings over loyalty.

Although pricing and promotional strategies are challenging to develop, they can be implemented effectively. What's more, they remain the most critical levers to get right, as they shape the value and perception of their company in the eyes of their customers.

It's time for retailers to evaluate their current pricing and promotional strategies, identify actions that are no longer effective or tactics that result in missed opportunities, and develop initiatives to create future success.

Using this blueprint, retailers can determine signs of struggle and uncover insights into new approaches to pricing and promotion that counter competition yet strengthen loyalty and revenue.



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JIM SILLS

CEO and Founder, Clear Demand

Navigating today's grocery landscape

The grocery industry has always fluctuated, but recent shifts are forcing grocers to re-evaluate foundational aspects of their operations.

Rising inflation and vendor costs squeezed grocers and, ultimately, shoppers, explained Jim Sills, President & CEO of Clear Demand. “As a result, the consumer is revolting. They’re pulling back on groceries. They’re buying private label items, shopping promotions, going to different stores for different deals, opting for lower cost meals or just doing without.”

Recent inflation rates dipped slightly, and while some retailers have reduced prices, there’s more to the story.^{[1][2]}

“The biggest pressure [grocers] are seeing out there is the media narrative that big box stores are lowering prices,” explained Josh Schwartz, Director of Pricing, at MOM’s Organic Market. “While customers are expecting grocery prices to come down, the reality is we are just entering a period of stabilization. We are not experiencing any significant reduction in the cost of goods.”

Schwartz added that many price reductions in big box stores are on private label products. “The challenge for a small retailer like us is we are limited in our private label offerings due to lack of volume for favorable costs.”

Given today’s dynamics, managing grocery prices is difficult, but even during “normal” times, traditional pricing strategies don’t help grocers advance their business.



Why traditional pricing and promotional strategies don't optimize opportunity

Sills said that traditional markup pricing and promotional discount strategies don't meet retailers' growing needs and don't give the flexibility to meet customers' increasing expectations. He explained that retailers often implement a standard markup. If a grocer paid \$1 for an item, they would charge \$1.39. They may also seek prices that yield a specific margin.

"The issue with these strategies is they overlook the shoppers' willingness to pay," Sills said. "Especially in convenience stores, but also in grocery stores, shoppers walk in with some number in mind they're willing to pay for an item they want." This could be an exorbitant amount or not very much, but still enough to make a profit if a retailer sells it at that price versus giving up margin by using the predetermined marked-up price or margin goal. Similar issues occur with promotion discounts, Sills added.

The discount is based on the regular price. In many cases, the promotion price and the regular price are coupled and should not be managed in silos.

Sills explained that pricing and promotional strategies are complicated to track, especially when grocers use spreadsheets like Excel rather than more sophisticated tools. Without measurement or insights, it's difficult to know the overall effect of lowering or raising a product's price or how placing a promotion on the front page versus the back influences purchases.

Another problem is that promotional forecasts aren't integrated with the supply chain, making it difficult for grocers to ensure they have the correct number of products. "Being wrong either way can eat away any results you get from promotions," Sills said.

Time to evaluate current pricing and promotional strategies

Because of the modern challenges that traditional strategies no longer solve, retailers, especially those in the grocery and convenience segments, must rethink their pricing and promotion approach.

"It's a game of trying to understand your shoppers and how to give them the most value," Sills explained.

One way to measure that value is through price elasticity. Every item in every store has some price elasticity. Price elasticity shows how much more you will sell if you drop the price to a certain point. Price optimization technology using AI and machine learning can provide that direction.

"Pricing is multi-dimensional and complex," Schwartz agreed. "The days of using spreadsheets to manage something as dynamic as pricing has passed. Partnering with Clear Demand has given us the tools needed to continuously evaluate and re-evaluate our pricing. It gives us a clear look at how our pricing and promotional strategy affects units, profits, and customer satisfaction."

Grocers and convenience store leaders should consider their pricing and promotion strategies at a high-level view as part of their branding and organizational goals. Sills recommended asking, "Where are we today, and how does that compare with what an efficient, well-run retail organization is doing?" Organizations that take these steps are on the path of continuous improvement and optimization and have responsive, localized pricing targeted at what their customers want.



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JOSH SCHWARTZ
Director of Pricing, MOM's Organic Market



Signs of pricing and promotional strategy issues

To level up their pricing and promotions, retailers should first look for indications that the strategy isn't effective, Schwartz said. He suggests asking yourself the following questions:

- Do you measure your promotional effectiveness?
- Do you measure the value of your price changes?
- Do you measure your price image?
- Do you measure your competitive position?
- Do you understand halo and cannibalization impacts?
- Do you maintain price parity across brands and size?
- Is the market share declining?
- Is there a decrease in unit sales despite price decreases or competitive matching?
- Do you have lower comparable store sales?
- Are there fewer customer visits?
- Do customers have smaller basket sizes?
- Are prices and costs aligned?
- Is the competitor price index going up, but your customer count is decreasing?

Schwarz added that these questions highlight potential issues, but it's essential to dig deeper. "You could see an increase in basket average and think people are buying more stuff. But you have to look at that in the context of units. Are sales comps increasing but units are going down? If so, there's a good chance you're losing customers to an alternative somewhere else."

What is your pricing maturity level:

Ad Hoc, Managed, Standardized, Predictable, and Innovative?



Adhoc

- Managing prices in spreadsheets with each category operating independently.
- Typically time-consuming, prone to errors and little corporate guidance or governance.



Managed

- Implemented corporate pricing processes, but still managed outside a core system.
- Generally agreed to pricing rules, but governance, tracking, compliance and reporting are challenging.
- This results in mispriced items that go unnoticed and are slow to implement.



Standardized

- Replaced Spreadsheets with Enterprise Software.
- Generally running a rules-based, price management system that ensures compliance with the company's direction and offers reporting insights into prices, competitive positioning, sales and revenue.



Predictive

- Added AI and machine learning to optimize prices and promotions and forecast results.
- A constrained optimization provides optimized prices that maximize the revenue, profitability and unit sales within the parameters of defined pricing rules while identifying items' roles, affinities and cannibalization.



Innovative

- The next level of pricing and promotion consists of integrating lifecycle pricing with planning and supply chain.
- Some of this includes jointly optimizing prices and promotions together, integrating detailed promotional forecasts into replenishment systems, and identifying potential overstocks and understocks when planning prices and promotions.

Key factors for evaluating your pricing and promotional strategy

Whether leaders want to fix a pricing or promotion problem or optimize the program they already have, they should consider the following aspects:

Be clear on the objective:

Sills said retailers should start at the foundation: "What is the purpose of the strategy, and how does it fit with the store's branding? Am I going after revenue with lower prices and more units? Or a profit strategy with fewer units and higher margins? Or a balance between the two?"

Ensure the strategy fits the company direction:

Schwartz added that having a high-level conversation with the company leadership was critical. "This way, you can figure out what you are doing. What is the pricing strategy? How do you want to fall in the market? Then, translate your pricing strategy into rules."

Anticipate how the strategy impacts other products:

Schwartz said many leaders create pricing and promotional strategies without considering the portfolio of products. Using price optimization tools, "leaders can think about how to move all these chess pieces around to adjusting the portfolio to ensure you stay competitive on items that matter to your customers and balance that investment with a higher return in other areas."



"Price optimization is not an event; it's a process."

JIM SILLS
CEO and Founder, Clear Demand

A segment analysis can divide items into different groups. "We may use one group as loss leaders because these items are in 80% of our customers' baskets and based on the data we're getting back from Clear Demand, they also carry a very high level of price sensitivity."

Schwartz said that on the other end are high basket items with low elasticity. "You might want to use these items more as a profit center for your company. Think of it less as we need to hit a specific margin rate. It's okay to push that price slightly on these items because these are often for impulse buys or products with no substitutes."



The price optimization advantage

Schwartz said that AI-powered price optimization tools provide modeling so retail leaders can see the cause and effect across the portfolio or products. If grocers lower the price of yogurt, they may increase the number of units sold as customers trade down for a better price point. However, that move can erode the overall profitability of the yogurt category if incremental sales don't cover the margin dollars made previously.

"A lot of the value in using the price optimization versus just doing it in a spreadsheet is that it takes all of those different factors into account whenever it's recommending a price change."^[6]

Customers using price optimization tool like Clear Demand saw:

- 3-8% gross profit improvement
- 2-3% increased sales revenue
- 1-3% unit sales
- 400 basis points increase in promotional effectiveness^[3]
- 18% sell-through rates of clearance items^[4]
- 12% increase in revenue of clearance items^[5]



Beyond the price optimization tool

Although price optimization technology is robust, leaders must do more than implement it to succeed.

“Pricing is ultimately all-encompassing,” Sills said. “It covers your regular and promoted prices, how they’re assorted, where you put the product on the floor, whether it’s on end caps or displays, and how effectively am I keeping it on the shelf. So pricing, merchandising, assortment, and supply chain all go together.”

To create an effective pricing strategy, good data is essential, Schwartz added. Not just at the beginning of the process, but with constant evaluation. “Sometimes something on the back end changes and a data file suddenly begins duplicating records. This is not something you want to wait until the end of the quarter to find out. That’s something you want to catch in the moment.” Sills agreed, adding that once retailers have clean data,

it’s easier to mine to better understand their customers. “One of the benefits of taking on a pricing solution like Clear Demand is that it’s going to find your bad data and help you fix a lot of problems that come with it.”

Another aspect retailers need for a successful price optimization strategy is understanding the context of what is being sold. Go beyond answering the basic questions of the item’s name, size, national brand or private brand and pricing history to consider if that product—and in that packaging — is a good fit for that specific retail environment.

“If it’s a large size product, and I’m a convenience store retailer, why am I even selling it?” Sims said. Customers aren’t likely to come to convenience stores to buy a jumbo package.

Furthermore, retailers shouldn't offer discounts that encourage shoppers to buy a bigger size because they won't need to return to the store as frequently.

Sims added that in contrast, the pricing and product selection for grocers could be quite different, because they might want to be very aggressive on jumbo sizes to compete with warehouse stores. In that context, offering discounts on jumbo packaging makes sense.

Price optimization strategies offer clear benefits to retailers and it also helps consumers. It provides frictionless transactions. Moreover, when shoppers perceive the pricing as being fair, it builds trust and loyalty.

As volatility in the grocery industry continues, Sills predicted that retailers will increasingly rely on price optimization tools to provide insights on maximizing pricing and promotional strategies. "In this world, you're competing with very sophisticated retailers, who are, or will be, engaging in price optimization. So you'd better start moving in that direction."



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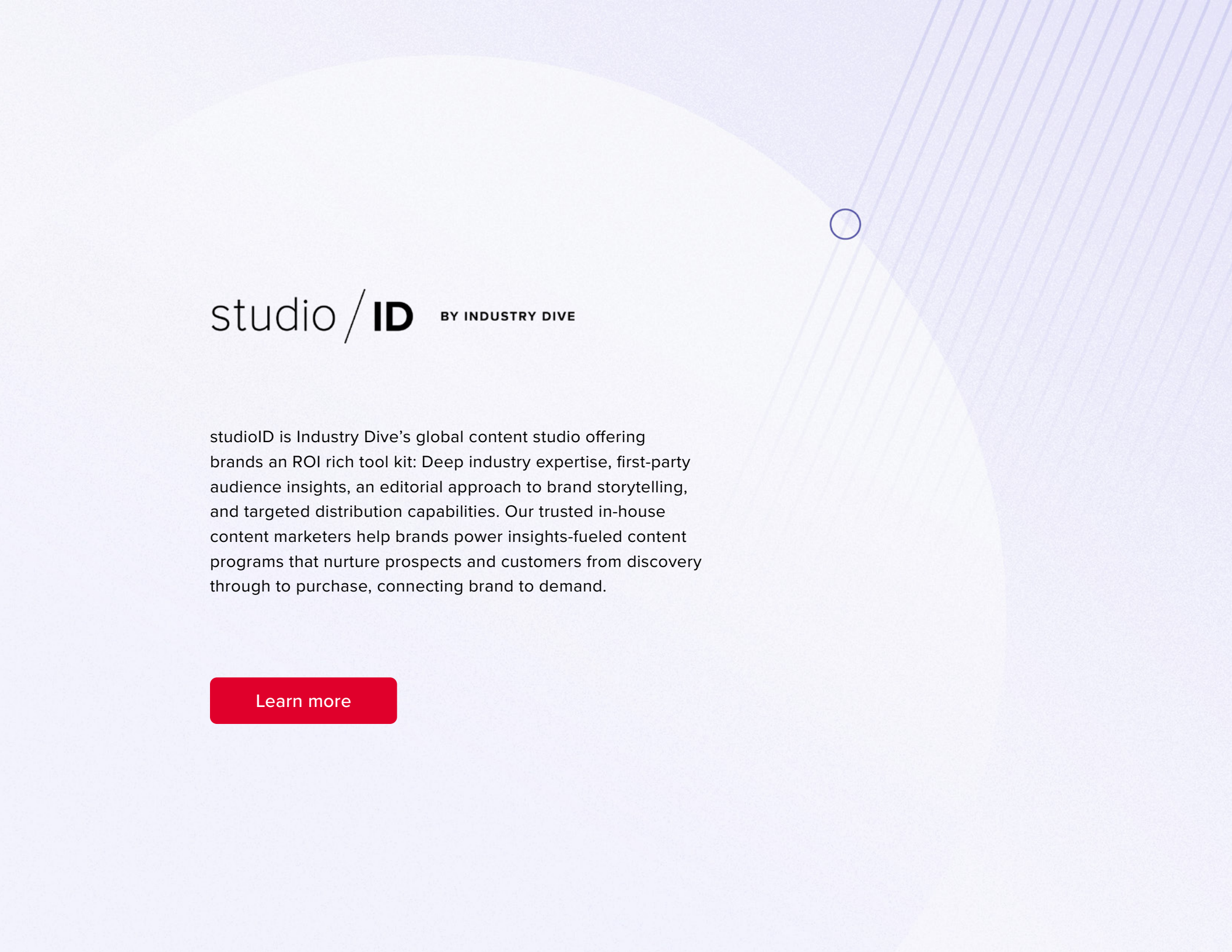
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CLEARDEMAND

Clear Demand is the leader in Intelligent Price Management and Optimization (IPMO) for retail. We were the first company to deliver an omni-channel lifecycle pricing solution that synchronizes prices, promotions, and markdowns online and in-store to produce a consistent brand and shopping experience. Clear Demand is the leading innovator in retail pricing solutions with patented science that analyzes historical sales to understand shoppers' sensitivity to price and generate price and promotion strategies that account for pricing rules, cost changes, and competitor prices to achieve profit and revenue goals. Architected on big data and delivered through Software-as-a-Service (SaaS), Clear Demand's Intelligent IPMO solution can be administered from a public or private cloud. Clear Demand's innovations in retail science simplify adoption and use, while allowing retailers to see value in just weeks with more transparency and minimal disruption to existing business.

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