

MANAGE YOUR PRICE IMAGE FOR STRATEGIC ADVANTAGE

The Power of Price Image™

When retailers successfully apply a demand-driven strategy, they gain profound marketplace advantages, reflected in increased profits, basket size, share of visits, and share of wallet. A demand-driven strategy also creates longer-term outcomes in the hearts and minds of shoppers. How and what customers buy has a direct link with how they perceive your store and its price competitiveness – a foundation of your retail brand proposition and a critical part of the shopping experience you present to customers.

This is retail price image: The collective impression formed by your shoppers based on their view of item prices. Khimetrics Price Image is derived from elasticity – the mathematical relationship between sales and price. Because shoppers only retain specific price information about items that are important to them (known value items or KVIs), that impression may be formed from relatively few everyday or promotional prices. Measuring, managing, and ultimately maximizing this retail price image is crucial for effective retail strategy. Customer Demand Solutions (CDS) provide fact-based decision support for this activity – an opportunity to manage retail price image for strategic advantage.

FIVE CONSIDERATIONS

:: Measure, manage and maximize your price image is crucial for effective retail strategy.

:: Price perception is a foundation of your retail brand proposition, and of the shopping experience you present to customers.

:: Known Value Items drive image perception, but KVI lists based on item movement alone may overlook some highly sensitive items.

:: A Customer Demand Solution model is needed to properly account for demand elasticity, halo effects and cannibalization.

:: CDS provides scalable, systematic, and transparent support for managing Retail Price Image.

Measuring Price Image

Retailers generally know quite a bit about price management and focus on it closely. The retail professional makes use of several useful practices, ranging from competitive shopping to price indexing (comparing own item prices with prices within a competitive marketplace). Retailers also routinely compile lists of KVIs (based primarily on sales ranking and market research) and pay closer attention to pricing these items.

Users of these tools recognize the importance of taking a systematic approach to setting prices. But price indices and KVIs go only so far in supporting a retailer's strategic goals. They do not permit deep insight into the relative differences in importance among items and therefore do not accurately reflect the relationship between price and demand. They do not account for the relationships between items. They do not always accurately identify the items that have the greatest influence on price image.

Moving to the next level of effectiveness requires recognition that when it comes to price image, a penny is not always a penny. The distinction is *elasticity*, a microeconomics term that describes how sales of a product will vary as its price changes. Differences in elasticity can matter a great deal. A ten-cent increase on a quart of milk, for example, may have a significant downward effect on sell-through, while the same dime added to a can of olives may have no effect whatsoever on its rate of sales. We recognize milk as a highly *sensitive* item, while olives are not. Customer Demand Solutions are designed, in part, to let retailers measure item elasticity and sensitivity and build those measures into a model that lets them manage item prices and their impact on price image.

Demand modeling may be applied both from bottom up (from individual items up to category, store and chain) and from top down (goal-setting for the brand, role-setting for the category, down to individual item decisions). Image is not a single score. It applies at different levels: A particular supermarket may acquire a reputation for having the best values on fresh meats, for example – a category level image that may be earned by running very competitive on ground beef and chicken. An apparel chain might use sharp sale prices on a wardrobe basic like khaki slacks to pursue an image as a great place to find bargains.

:: continued on reverse

Managing KVIs – Or Not?

Retailers know instinctively that some items are more influential than others, and absent of demand data, they rightly focus pricing attention on the items that generate the largest sales volumes. KVI lists typically reflect this type of ranking. But sheer volume is not the only indicator of a known value item. Some slower-turning products may be highly sensitive and important to certain groups of customers. Overlaying Khimetrics Price Image – a demand metric defined by customer behavior that is weighted by elasticity and willingness to pay – can reveal a markedly different KVI list.

Understanding which items customers care most about is a major element in improved strategy. Demand modeling takes retailers a big step further. Price Image adds up to more than the sum of its parts as defined by KVIs. Product interactions, both cannibalization and halo effects, also have impact. Interactions happen when pricing or promotion decisions taken on one item or category have a secondary effect on sales of another item or category.

Cannibalization occurs because shoppers' budgets are finite after all. A sharp sale price on jeans, for example, may cause a shopper to buy several pairs and skip the shoe department. Halo effects may affect purchases of related items – a promotion on chips boosts salsa sales for example. If a retailer has a reputation for low everyday prices in its shoe department, it may enjoy an overall favorable price image even though it is less competitive in dresses.

Both types of interactions are quantified within the CDS model, leading to better informed pricing decisions. Additionally, KVIs may vary by location, time or season, and customer type. Understanding when to match the competition on these items – and when not to – is then improved greatly by customer demand modeling and understanding customer behavior.

Maximizing The Shopper Experience

Ultimately, Price Image – the combined impression shaped by your everyday, sale and store brand prices – is a key component of your shoppers' overall experience. Like other key strategic levers available to retailers, Khimetrics Price Image may be employed to reinforce customers' positive feelings about the store – a step toward attracting a greater share of that limited wallet. As the drivers of retail price image become better understood, its strategic and competitive importance increases as well. Industry leaders are weighing price image as they develop category roles and plans and they are learning how price image influences the total customer experience alongside other drivers like customer service, store ambience, and merchandising.

Optimizing Performance, Managing Image

Customer Demand Solutions are ushering in a new era where price image can be beneficially managed and its drivers clearly understood by retailers. CDS provides new transparency to customer demand. It gives retailers an empirically derived means of measuring and managing to a specific price image based on demand elasticity for prices and promotions.

Maximizing retail price image has become a competitive necessity. It begins with measuring price image by identifying and managing prices on known value items. It accounts for the important effects of demand elasticities on customer perceptions and behavior. It leads to performance benefits from the SKU level through the category level and higher. CDS makes this process scalable, systematic and understandable to managers while supporting superior strategy.



*Khimetrics, the publisher of **Business Insights**, is dedicated to helping its customers improve business performance through a better understanding of customer demand. Responses to this article are encouraged and welcomed; please send your comments to businessinsights@khimetrics.com.*