WHITE PAPER

Will omni-channel be the death knell of localized pricing?

Even before the current consumer-driven omni-channel marketplace took hold, retailers knew they needed to get closer to their customers in order to grow revenue by better satisfying customers' needs. Accordingly, retailers have spent considerable effort and made significant investments in better understanding local demand so they can provide localized promotions, assortments and pricing. But with the rapid rise of ecommerce and consumers' ability to compare prices online from anywhere around the world, it would seem the concept of localized pricing is in direct conflict with the price transparency that ecommerce offers. Hyper-connected consumers now expect pricing to be consistent across all channels they shop. Does this mean omni-channel will be the death knell of localized pricing?

Localized pricing versus the need for price transparency is not the only challenge ecommerce has presented retailers, however. There is now much more competition on price across channels and geographies. With technology assistance, retailers have begun using dynamic pricing approaches to match prices found elsewhere in the selling universe. While this solves the immediate threat of losing sales on pricing issues, it tends to be a "race-to-the-bottom" where revenue is gained at the expense of margins. This dynamic pricing trend will likely subside as retailers realize the negative effect on their margins and bottom lines. However, a better approach is needed to both cater to local demand and ward off the negative impact of price transparency and race-to-the-bottom price wars.

Personalization is the new black

One aspect of the consumer-driven marketplace that is both a blessing and a curse is personalization. Consumers want their shopping experience and the products they buy to be personalized to their unique preferences and paths to purchase.

This personalization is wonderful for the consumer, but creates headaches for retailers. Personalizing products and services adds complexity and cost to the selling process, which translates to higher risk at lower margins—not a great recipe for success.

Personalization can have a silver lining for retailers, however. Think of it as localized assortments and pricing taken to the next level. While on the surface this might sound difficult, especially since many retailers are just now struggling to get their localized assortments and pricing in place, or haven't even gotten that far yet, it has the advantage of potentially mitigating the price comparison problem.

Retailers have long known that one way to avoid direct price comparisons is to never give consumers the opportunity for apples-to-apples comparisons. That's why the same Whirlpool-made washing machine you can buy at Sears under the Kenmore brand can be purchased from Lowe's under Whirlpool's brand. In fact, except for their labels or packaging, many private label products are exactly the same (even made by the same factory) as their brand name counterparts, but sell at different price points.

Personalization provides the opportunity to similarly deflect apples-to-apples comparisons while better serving the customer. For example, a consumer shopping in your store sees a Colman cooler she wants. She scans the tag to comparison shop the price. Your beacon and CRM technology recognizes this customer often buys soda for her children, and provides an instant electronic coupon on her smartphone for a free pack of Coke with the purchase of the cooler. The next consumer who scans the cooler shelf tag gets a coupon for 50 percent off a six-pack of Miller Lite because the beacon/CRM technology detected this customer and knows he typically buys that brand of beer when he shops in your store. This expansion of the market basket provides value to the customer that is no longer defined by an apples-to-apples price comparison,and you have personalized the offer to the customer's buying preferences, which drives customer loyalty.

These examples are necessarily simplistic. Many other options are available to leverage personalized offers to shift the comparison off price to total value. Besides expanding the market basket, offers could discount price based on loyalty points, offer related services, offer discounts on future purchases, offer extra loyalty points, and so forth.

So what's the catch?

This sounds simple enough, right?—personalize the offer and the pricing issues go away. What's the catch? The catch is that it isn't really that simple and few retailers have the technology to be this agile in responding to customer shopping journeys as they occur, especially within the store. Personalized offers and pricing require an advanced set of integrated capabilities to perform effectively, including:

- **Customer shopping history—**You can't make effective personalized offers without understanding the customer's shopping patterns and preferences. This needs to extend across all channels and touchpoints, and can be significantly enhanced with information from other sources such as social media, loyalty data and partner information. However, RSR Research found that 37 percent of "winners" and 35 percent of all others in their survey do not have a single view of the customer across channels and that a surprising 54 percent of winners say their IT systems are not designed to incorporate customer insights into their processes.[1]
- **Inventory visibility and intelligence—**A basic building block for making personalized offers is an accurate view of all inventory. It does no good to offer a discount on a product that is out-of-stock, for example. Having visibility to inventory is not enough, however. You also must understand how it is being consumed. Our previous example of bundling in free Coke with the cooler may not make sense if the store is expected to sell out of Coke at list price before the next replenishment. Similarly, it may not make sense to use store inventory to fulfill an online order when the item is forecast to sell out at list price, but may make sense if that same item is already marked down at that store. Having intelligence into how inventory will be used at what price points is critical to making optimal personalized offers and pricing decisions.
- **Execution costs and constraints—**In addition to knowing how inventory is being priced and consumed across channels, you have to understand the costs and constraints to execute the offer—the cost-to-serve. What will it cost to pick and ship an order from a DC versus the store, and how does that relate to the pricing and consumption issues above? Is sufficient labor available in the store to execute the order? Can the customer be incented to pick up the order at

the store to save shipping costs, and what is the impact on store labor availability and cost for this option? These and many similar questions must be considered in order to create personalized offers that are as profitable as possible.

Once you have all of the information and intelligence described above, dynamic pricing can evolve from race-to-the-bottom price matching to creating personalized offers that drive loyalty and profitability. These systems must be real-time. The customer standing in the aisle won't wait. But that doesn't mean creating personalized offers should be a knee-jerk reaction to customer actions. It takes coordinated planning across the enterprise to be prepared to react with the right offer while the customer is shopping.

It takes a village

Just as raising a child takes a whole community working together, so too does creating effective and profitable personalized offers require a whole community of planners and planning systems working together. Pricing, promotions and personalized offers are not just about merchandising. They must be integrated with financial planning to ensure pricing strategy will produce the financial results desired. They also must be integrated with supply chain planning to ensure the right inventory will be available in the right places to support the offers, whether online or in stores. This will require a new approach to planning.

Annual and seasonal planning processes must evolve to incorporate strategic pricing plans and tactics for each category segment. For example, certain destination categories might be competitively priced to bring shoppers in the door while convenience categories may seek higher margin opportunities while the shoppers are there. These rules-based pricing and personalized offer plans, therefore, must be developed in concert with overall financial objectives and supply chain strategies and constraints to support revenue and margin goals while adhering to realistic inventory and fulfillment plans.

Creating strategic pricing plans requires a more holistic view of the customer and demand incorporating the following factors:

- **Customer preferences—**Retailers must know more than a customer's past purchase history. It requires a broader understanding of the customer's motivations for their purchases and their reactions to variations in price (price elasticity). For example, a large discount on a moderately-priced item may have little impact on an upper income buyer who doesn't bother with coupons while a modest discount on the same item may significantly impact a price-conscious shopper. Sources such as social media and loyalty program data are becoming more important in gleaning shopper intentions and motivations like these examples. However, as mentioned earlier, few retailers have a consolidated view of customer behavior across channels or the ability to build these insights into pricing decisions. This must change if retailers are to leverage personalized offers to their advantage.
- **Bottom-up view of demand—**The ability to personalize offers and strategically price merchandise starts with an understanding of demand at the source—the point of purchase. But traditional demand planning systems have forecast demand at too high of a level—typically relying on DC shipments as a proxy for actual demand. They don't know what is actually selling in each store or what individual shoppers want. This creates a disconnect between the demand plan and the shopper's buying intentions. Demand must be sensed from the bottom up if it is to be used to position inventory and create effective personalized offers, priced appropriately, for the shopper.

- **Enterprise view of demand—**The more accurate bottom up view of demand must be aggregated into an enterprise view of demand that can be incorporated into financial and assortment planning. In this manner personalized offers and pricing can be aligned with strategic pricing and revenue plans so that actions carried out at the shopper level are in sync with corporate financial goals.

- **Partner collaboration—**Since many promotion and pricing decisions are based on partner trade funds, it is critical that this be included in both corporate pricing strategy definitions and personalized offer calculations. Thus, trade funds must inform both high-level and low-level pricing decisions to create profitable offers.

It's a new world

We are all tired of hearing how omni-channel has created a new world for retailers. You know that; you get it! Putting that knowledge into action to attract and retain the new consumer, and to do so profitably, is a lot harder, however. It requires a much more agile and integrated organization to accomplish. Pricing and promotion strategies are part of the solution, but localized pricing and assortments seem at odds with the price transparency offered by omni-channel shopping. Omni-channel does not spell the death knell for localized pricing, however. Rather, it is pushing localized pricing to the next level, which is personalized offers. Personalized offers enable retailers to increase the benefits of localized pricing while simultaneously creating happy and loyal customers who feel their unique preferences are being met.

1. Brian Kilcourse and Paula Rosenblum, Omni-Channel 2015: Taking Time, Money, Commitment And Technology, RSR Research, September 2015

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