

## Proven Pricing Strategies for Retailers to Drive Measurable Top- and Bottom-Line Improvements



### Consumer-Centric Lifecycle Pricing Practices Help Retailers Achieve 5 to 15% Gross Margin Improvements and 1 to 5% Increases in Revenue

With their profit and revenue goals on the line, retailers are striving to build stronger bonds with their customers. A strategy gaining notice with leading retailers is consumer-centric pricing and promotions. Early adopters are pricing and promoting items according to local demand, consumer demographics and other factors to maximize value. These retailers are connecting any price changes back into their demand plans to ensure that inventory is readily available for customers to purchase.

Pricing and promotional processes have a direct and immediate impact on bottom-line performance, yet too many retailers still use dated zone or corporate price strategies along with disparate systems or spreadsheets to execute. Indications show that there is a growing demand among retailers for price optimization solutions that link promotional planning, price determination and advertising execution with localized consumer preferences and competitive activity for the best practices in lifecycle pricing.

To plan and execute lifecycle pricing efficiently requires advanced technology solutions that integrate and optimize three key areas: setting initial prices, promotional prices and markdowns. By doing so, a retailer can gain visibility into the impact of a pricing decision on the supply chain and drive more profitable decisions related to store clustering, pricing rules, promotional opportunities and cycle times. The following are examples of results that early adopters of price optimization solutions have reported<sup>1</sup>:

- Helped to increase revenues by 1 to 5 percent
- Improved gross margin by 5 to 15 percent
- Improved forecast accuracy by 15 to 30 percent
- Supported inventory reduction by as much as 12 to 33 percent
- Decreased transportation costs by as much as 15 to 30 percent
- Realized productivity improvements of 30 to 40 percent

Outlined below are three price optimization strategies that retailers must first adopt in order to form the foundation for high-performing lifecycle pricing:

#### Establishing the Optimal Initial or Everyday Price

Setting the “right” initial or “everyday” product price is one of the most important and complicated steps companies can take to ensure solid profit margins and top-line revenue. Consumers vary greatly from market to market, so determining preferences based on local demographics, as well as geographic location and economic conditions is critical. Beyond basic product assortment indicators – such as differentiation in client preference based on geographic store location – it’s also critical for retailers to have an understanding of nuanced customer preferences. Advanced technologies can detect nuances such as spikes in demand, for example, for ski attire in Phoenix due to a large population of consumers who travel north for ski season. Retailers can then accurately tailor assortments and determine the most appropriate initial price.

Another important factor to consider is cross-product pricing to ensure that no product is priced in isolation. For example, a grocer selling a soft-drink product in a two-liter bottle and a six-pack, 12-pack and 24-pack assortment needs to ensure there is some distance in the prices between each item. Without a shared view of products, companies run the risk of under-pricing products. Knowing which key items drive traffic into the store and pricing them at or below market value is also critical to attracting customers. Retailers can then recoup any lost revenues by appropriately pricing convenience or complimentary products that customers will buy simply to avoid the hassle of going to another store at a slightly higher profit margin.

#### Increasing Sales and Revenue with the “Right” Promotional Pricing

Promotions can be powerful tools for increasing sales and customer demand. To set the optimal promotional prices, retailers need to understand a wide range of variables. In addition to cross-product impacts, competitive activity and brand loyalty, retailers need a thorough understanding of the uplift of demand on other products. Non-promoted accessories such as bracelets, earrings or belts could also see an uptick in sales if paired and displayed with a promoted dress. Understanding these factors can help retailers to capture better visibility into consumer demand.

Since not all promotions are worthwhile, retailers must proceed with caution. A manufacturer may offer a discount on promoted items that may seem ideal for driving sales, but can actually reduce profit margins. For example, promoting soft drinks over the fourth of July, when consumers are already buying soft drinks, is not necessary unless the sale of these soft drinks can drive incremental sales at everyday prices of such related items as hot dogs, chips and salsa. Products such as toothpaste, as another example, tend to have high brand loyalty. Offering a promotional price may only attract the segment of consumers who already buy that brand of toothpaste and may result in pantry loading at a lower margin to the retailer.

“Price changes and the marketing associated with them can have enormous impacts on demand,” said Usie. “Retailers using advanced pricing systems can proactively plan for expected lifts in sales, ensuring inventory is readily available during the promotional period and sales and customers are not lost.”

## Optimizing Markdowns: The Ultimate Balancing Act for Retail

While consumers have long been trained to only shop when items are marked down or on clearance, retailers must strive to shift the consumer mindset in terms of markdowns. Because they create a continuous cycle of lost margin on sales, markdowns should be the last thing that any retailer does in order to get goods off of its shelves. The reality, however, is that inventory must be cleared in order to make room for new items. Retailers therefore must carefully assess the true margin impact of markdowns and partake in the ultimate balancing act in price setting. Tailoring markdown plans by store/location, factoring in the price sensitivity of the customer base and understanding opportunity costs are essential.

Knowing how a 40 percent markdown today will prevent a 70 percent markdown in two weeks is critical to the decision-making process. Having a comprehensive view of demand with the right pricing optimization solution can make this possible. Equally important is setting localized markdowns based on customer

demand at the individual store level. According to a recent survey from the National Retail Federation, 33 percent of retailers surveyed said they plan to install markdown optimization software systems over the next 18 months to help calculate discounts according to local demand<sup>2</sup>.

## Bringing It All Together: Next-Generation Price Optimization Solutions

Price optimization solutions can set initial, promotional and markdown plans while factoring in demand, consumer demographics, cross-product relationships and convenience sales. However, it’s critical that pricing decisions not be made in a competitive vacuum. By leveraging competitive pricing intelligence these companies have the opportunity to improve the price optimization decision-making process and drive more effective revenue generation.

Using price optimization solutions efficiently creates a united planning and execution platform – from accurate price management to advertising and promotional planning – that can easily adjust to shifting customer demand and challenging economic conditions.

As a result, retailers can improve customer satisfaction and, ultimately, revenue generation even in tough times. They’re also gaining new insights into how customers shop and respond to pricing, which enables them to align inventory levels with base and promotional demand.

<sup>1</sup> Represents actual results realized by JDA customers

<sup>2</sup> US Retailers Find New Ways To Fine-Tune Discounts, Wall Street Journal, July 3, 2009

Wayne Usie, JDA Software’s senior vice president, retail, is responsible for JDA’s retail industry strategy and executive-level relationships with JDA’s retail customers and key prospects.

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