



Results of a RetailWire Study

Pricing Transparency: *Can Retailers Regain Control?*



EXECUTIVE SUMMARY

Underwritten by



OVERVIEW

In the last year, “showrooming” has made significant inroads into retail industry lexicon. Recent studies indicate that consumer use of mobile apps for competitive price searches in-store may not be a major problem, yet may be symptomatic of broader issues stemming from greater pricing transparency.

In this *RetailWire* study, retailers, brands and other industry practitioners voiced their concerns about pricing transparency and the loss of strategic control. This report summarizes sentiments of respondents who considered how pricing transparency influences their competitive positions and/or positions of their industry partners. The results provide a clearer picture of how pricing transparency is affecting decision making; which aspects are of most concern; and what role participants see pricing strategies, assortment and marketing playing in remedying ill effects radiating from the trend.

Many study findings may simply support best practices already in place, but some contradict commonly held assumptions about how retailers and manufacturers are reacting to increasing pricing transparency. Differences in opinion on how to respond to these issues may presage more friction ahead in trade relationships.

Notable observations:

Pricing transparency is not at the top, but mid-way down gripe list. Pricing transparency is definitely “on the radar” but of moderate concern to retail industry respondents, less worrisome than: shifting consumer shopping habits, competitive pressures and the economy.

Price sensitivity is the biggest worry, but not for manufacturers. Among pricing-related issues, showrooming is ranked as the biggest concern by about one in five respondents, second to “price sensitivity on the part of consumers” ranked highest by about one-third. Manufacturers, however, diverged from the group, pointing to rampant discounting and promotional activity as the heaviest influence on pricing practices.

Best Buy is the poster child for showrooming. Survey respondents largely believe that showrooming is having the biggest impact on consumer electronics retailers, plus other hardlines such as pet and office supplies. Grocery is not seen as being greatly affected; only 15 percent of respondents appear terribly concerned about grocery in this regard.

It’s not pricing inconsistency, it’s strategy. Almost half of respondents say it’s OK to sometimes price like-items differently online vs. in-store, while nearly an equal number disagree, saying retailers should always present the same prices, regardless of the selling environment.

Not seeing eye-to-eye on pricing practices. To combat the ill effects of pricing transparency, brands say retailers should use price matching on select SKUs while retailers lean more toward personalized pricing (perhaps based on relevancy.)

“Special versions” are a popular weapon; store brands, not so much. In ranking the effectiveness of assortment practices in combating transparency ills, by far the greatest number put “customized SKUs” (i.e., retailer-specific SKUs) at the top. A “strong private label program” came in a strong second in this regard.

Emphasize customer service... rinse and repeat. In the closest thing to consensus reached among respondents, nearly 6-in-ten chose “emphasis on customer service and customer experience” as their #1 choice among marketing/customer experience weapons for fighting the ill effects of pricing transparency. Loyalty programs ranked a distant second.

Pricing management = control. When battling transparency effects with pricing management solutions, the biggest group expressed a strong desire to use tools to win customer favor without falling into the deep discounting pit. Use of data-driven price optimization tools to aid in pricing decisions also ranked highly.

OUR ADVISORY PANEL

We asked three members of RetailWire’s BrainTrust panel of retailing experts to review the study results. Their comments are featured throughout.



James Tenser
Principal
VSN Strategies



Richard Seesel
Principal
Retailing In Focus LLC



Dan Frechtling
VP, Global Product
Management
hibu, PLC

METHODOLOGY & DEMOGRAPHICS

Definition of Pricing Transparency

As applicable to this survey, “pricing transparency” refers to the ability to learn the relative price positions of a particular item across competitive retailers. These views are being made publicly available to consumers, competing retailers and other trading partners by way of price comparison websites, mobile apps, social media platforms and other services.

The ***Pricing Transparency: Can Retailers Regain Control?*** survey was conducted from June 7 to June 22, 2012. Respondents were recruited from the RetailWire professional retail audience and from elsewhere in the retail industry. The survey was completed online.

The study sampled information and opinion from 284 executives and managers.

Organization type:

- 35% - Retailer; Wholesaler
- 27% - Consultant; Research; Design
- 21% - Manufacturer
- 11% - Agency; Media; Marketing; Promotion
- 6% - Tech provider: Equipment; Applications; Services

Job position:

- 31% - Executive (President, CEO, etc.)
- 30% - Management (VP, Director, etc.)
- 14% - Sales; Account management
- 12% - Marketing; Brand management
- 5% - Retail category manager
- 3% - Retail store operations
- 3% - Manufacturer category manager
- 1% - Retail merchandising executive
- 1% - Retail buying; Purchasing

Retail channel:

- 29% - Operate in multiple channels (no single one dominates)
- 23% - Supermarket; Grocery
- 9% - Mass; Discount; Club; Dollar Store
- 8% - Category specialty (books; gourmet; crafts, etc.)
- 5% - Department store
- 5% - Home center; Garden center; Hardware store
- 5% - Apparel; Accessories
- 4% - Consumer electronics; Video; Music
- 4% - Online retail
- 2% - Category superstore (pet; office; toys; sports, etc.)
- 2% - Drug store
- 4% - Other (C-store; Gas; Restaurant; Consumer Services, Entertainment, etc.)

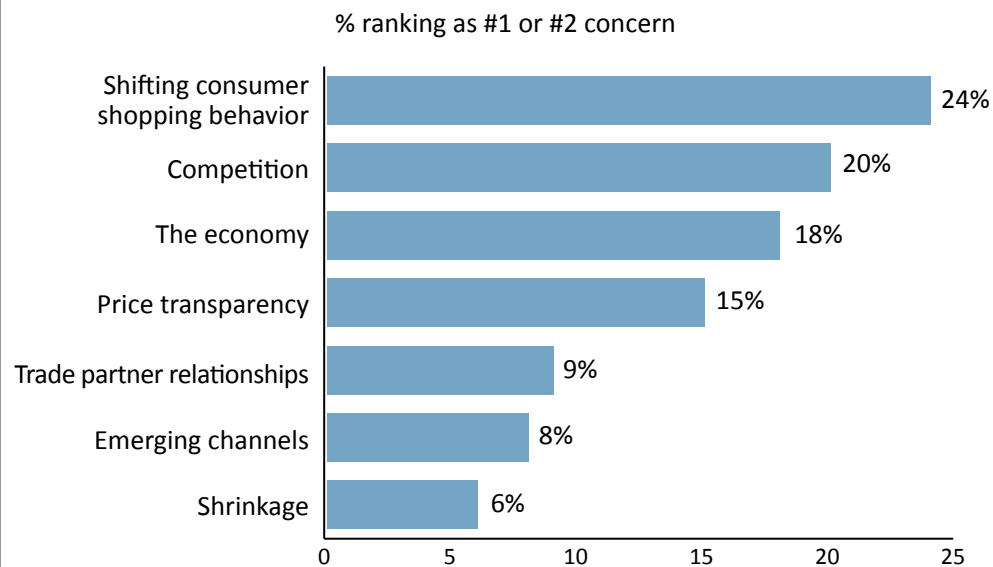
A SENSE OF PERSPECTIVE

We first sought to put concerns about pricing transparency into perspective.

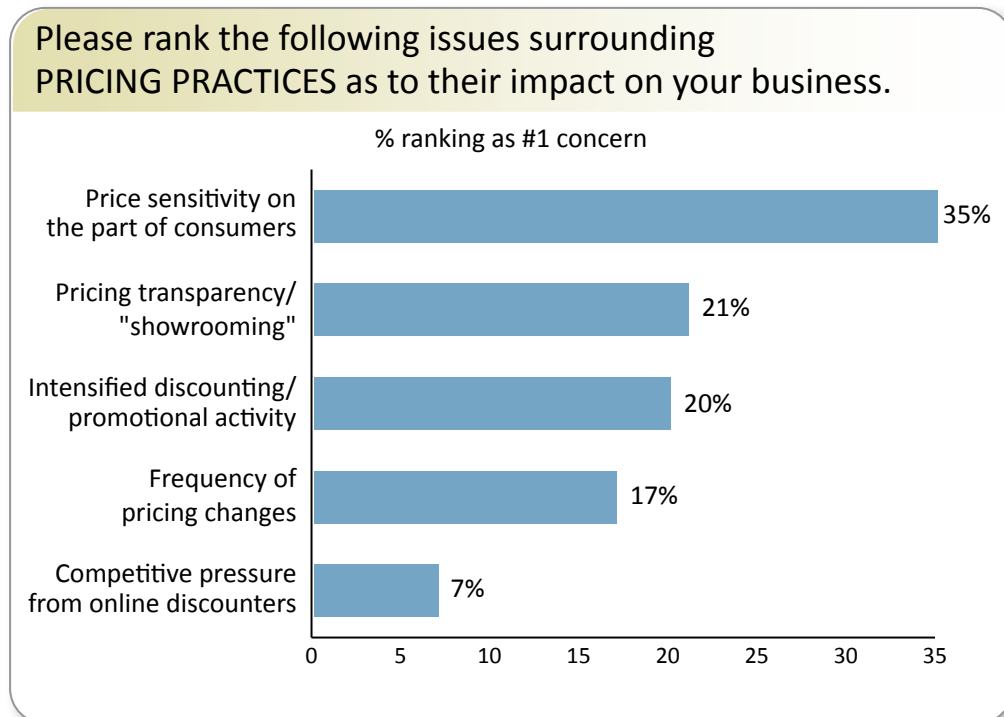
Within a broad spectrum of **general retailer concerns**, our retail industry respondents saw pricing transparency as having significance. Unsurprisingly, three more far-reaching topics of concern did outrank it in terms of impact on business: shifting of consumer shopping habits, general competitive pressures and the economy. Of course, in this complex business, it's impossible to completely isolate any one source of anxiety. Economic uncertainty undoubtedly colors thinking on most if not all of the items ranked in this question. And it could be said that shopper behavior is shifting largely due to tougher competition, pricing transparency and, certainly, the emergence of new shopping channels, such as m-commerce.

"Perhaps the biggest shift in behavior involves consumers' use of technology to 'take their business elsewhere,'" commented Richard Seesel, principal, Retailing In Focus and a member of the *RetailWire* BrainTrust panel.

Please rank the following GENERAL RETAILER CONCERNS as to their impact on your business.



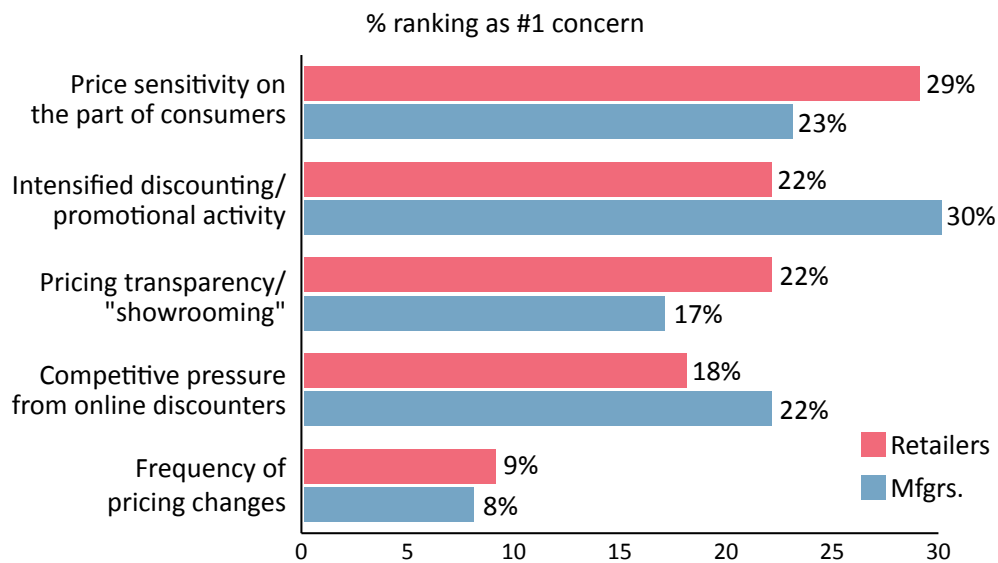
We next narrowed the area of business concern down to issues surrounding **pricing practices**. The biggest group of respondents (over a third) rank “price sensitivity on the part of consumers” as having the greatest impact on their business. Pricing transparency (including the “showrooming” trend) is also high on the radar, coming in neck-and-neck with “intensified discounting and promotional activity.”



Commenting on our study findings, James Tenser, principal, VSN Strategies and *RetailWire* BrainTrust panelist summed it up nicely.

“Increased price sensitivity seems to be an enduring consequence of the recent protracted economic downturn, which has caused many shoppers to re-evaluate their consumption and purchasing behaviors,” he wrote. “The availability of online and smart phone applications is an enabler of these behavioral changes that also serves to reinforce or codify them.”

Please rank the following issues surrounding
PRICING PRACTICES as to their impact on your business.



When focusing on just retailer and manufacturer respondents for this question, other patterns emerge. While retailers align closely with the overall group, manufacturers point to rampant discounting and promotional activity as the heaviest influence on pricing practices and also see competition from online discounters as having a greater impact than does the general group. Of course, it's in a CPG category manager's job description to worry about the promotional discounting activities of their competition, while it's natural that retailers are more attuned to the buying behavior of consumers that flow through their checkouts each day.

And surely, whether you're a fashion label or market small appliances, you are likely to be concerned about the downward pressure on prices being exerted by Amazon, eBay and other online powerhouses.

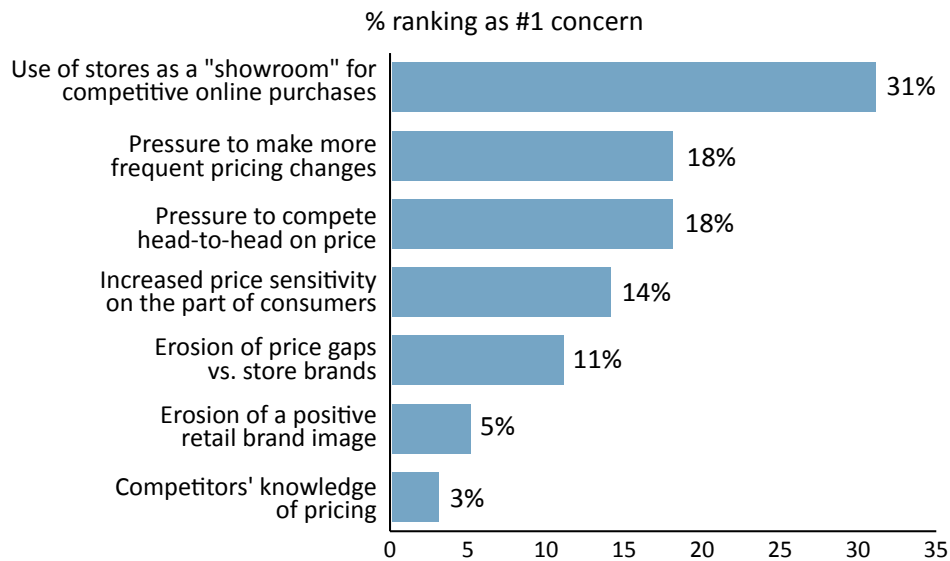
Sharpening our gaze even further into the area of **pricing transparency**, again it's consumers' obsession with price that is seen by most respondents as having the greatest impact on their business. The highly publicized showrooming trend was ranked #1 by the second largest segment of respondents, tied with "pressure to compete head-to-head on price."

Notably low on the list of concerns are the narrowing price differentials between national brands and store brands. Pressure to continually make pricing changes — presumably due to increasing competitive pressure from discounters — was ranked as the #1 concern by only 3 percent of the overall group.

Showrooming worries are certainly top of mind, due mainly to a spate of media coverage, but it seems cooler heads prevail among this respondent group.

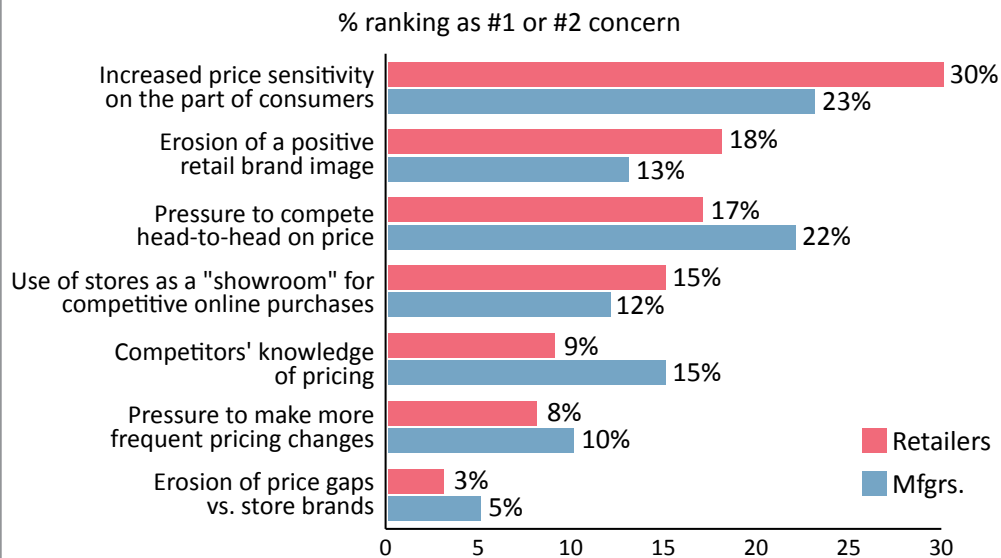
- JAMES TENSER

Please rank the following issues surrounding **PRICING TRANSPARENCY** as to their impact on your business.



A segmented view of the data reveals two interesting points. Retailer respondents are more worried than their supplier partners about how pricing transparency might undercut their image among consumers. When price is top of mind with shoppers, having competitors' prices readily available presents a much greater challenge for retailers looking to differentiate with quality, selection and customer service.

Please rank the following issues surrounding PRICING TRANSPARENCY as to their impact on your business.



Manufacturers, for their part, seem to be nagged more than retailers by the thought of competitors learning more easily about their prices.

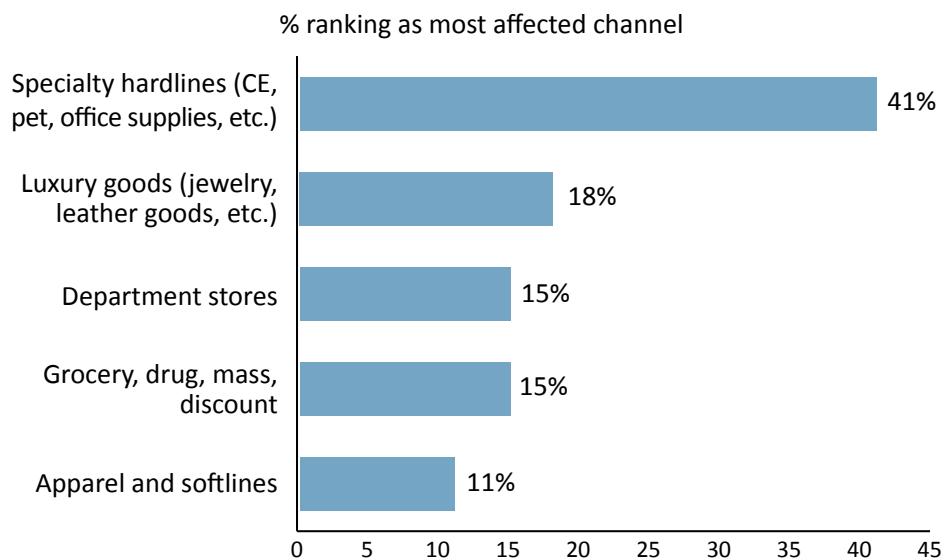
Whether **showrooming** is keeping retail industry practitioners up at night may be more a function of what channels they serve. Most prevalent among survey respondents was the opinion that showrooming is having the biggest impact on consumer electronics retailers as well as other hardlines such as pet and office supplies. Grocery, represented by a large portion of respondents, is seen as being the most affected by only 15 percent of the total group.

Apple is a role model for a brand (and retailer) that has avoided the pricing trap even in its other accounts like Best Buy and the discounters.

- RICHARD SEESEL

Our BrainTrust advisor, Richard Seesel, feels that the big box hardline retailers have been less proactive than department stores and specialty stores in using “exclusive content” to combat the trend. “Best Buy has developed the Dynex and Insignia products but otherwise is a sitting target for showrooming,” he wrote.

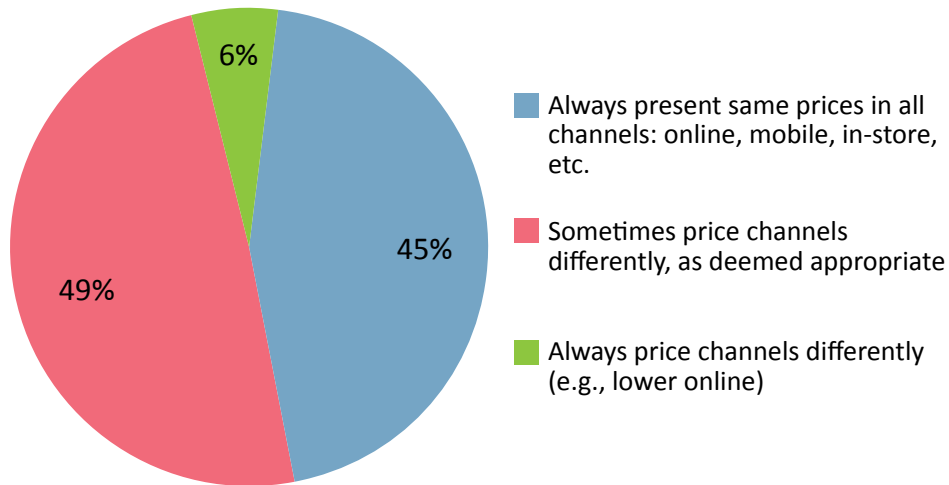
Please rank these channels in terms of the impact you believe "SHOWROOMING" (in-store research for online purchases) is having on retail business.



WAGING THE BATTLE

Within the general discussion of how to deal with pricing transparency, there was a broad split as to how multi-channel retailers should manage pricing.

How would you recommend retail chains with both a physical store and online presence handle price consistency?

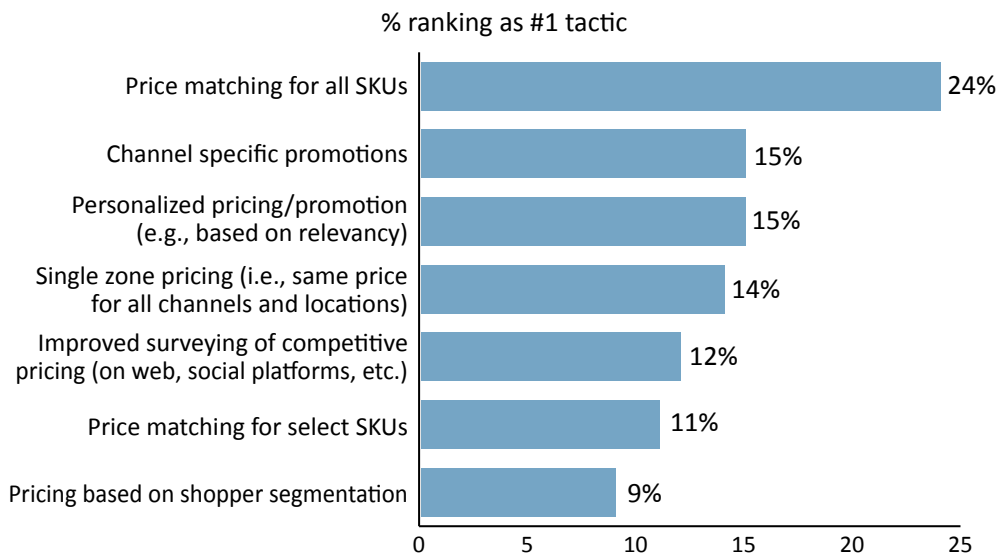


Almost half say it's OK to sometimes price like-items differently online vs. in-store, while nearly an equal number disagree, saying retailers should always present the same prices, regardless of the selling environment. Of course, for many retailers, multi-channel pricing consistency may be an impractical notion. For others, although able to accomplish consistency, the use of demand analytics allows for a more sophisticated, customized application of pricing channel-by-channel.

We asked survey respondents to consider tactics for combating the negative effects of pricing transparency in three different areas: **pricing practices**; **assortment practices**; and **marketing/customer experience practices**.

Related to **pricing practices**, the largest group (24 percent) sees the competitive tactic of “price matching for all SKUs” as being the most effective. Interestingly, “price matching for select SKUs” wasn’t as highly regarded, even though one might assume this technique would offer more flexibility in maintaining margins.

Please rank the following PRICING PRACTICES as per their effectiveness in combating the problems caused by pricing transparency.



Breaking out the results of the pricing practices question by type of organization, however, reveals a much more nuanced view of the data. Among manufacturers, the practice of price matching the competition on select SKUs ranked top-most. But most retailers were not at all warm to that technique, instead ranking “personalized pricing” at the top. Retailers seem much more attuned to the benefits of using customers’ purchase history to make relevant offers than are manufacturer respondents.

Please rank the following PRICING PRACTICES as per their effectiveness in combating the problems caused by pricing transparency.

[Across organization types. 1 = top ranked, 7 = bottom ranked]

	Mfgs.	Retailers	Tech, Equip	Media, Mkting	Consult., Research
Price matching for all SKUs	2	7	2	3	7
Price matching for select SKUs	1	6	4	5	5
Single zone pricing (i.e., same price for all channels and locations)	3	3	7	7	2
Pricing based on shopper segmentation	4	4	3	4	6
Personalized pricing/promotion (e.g., based on relevancy)	5	1	1	2	4
Improved surveying of competitive pricing (on web, social platforms, etc.)	6	2	5	1	3
Channel specific promotions	7	5	6	6	1

Many retailers were keen on using the web and social media as tools for keeping tabs on competitive pricing, a practice not ranked highly by many manufacturers. Also noteworthy is that few retailers see across-the-store price matching as a good choice when trying to combat problems caused by pricing transparency, undoubtedly seeing this as a “knee-jerk” reaction to competitive pressures.

Another *RetailWire* BrainTrust panelist, Dan Frechtling, VP, global product management, hibu, PLC, was surprised to see price matching rank so low among retailers. “I would expect individual product margins to play a bigger role in the decision to match (discount) or not,” he wrote, also pointing out that, “‘Price matching’ isn’t literal. In many cases, retailers want to be within a certain band, e.g., 10 percent rather than exactly ‘matching.’”

We also looked at responses from those retailers with pricing decision-making positions vs. those who have no influence at all in such matters. Again, personalizing pricing based on relevancy to the consumer and the use of the web/social to keep an eye on the competition were highly regarded among the largest groups of decision-makers. However, those retailer employees without (essentially) their jobs on the line for pricing decisions were most favorable on “single zone pricing.” Perhaps the latter respondents are not as knowledgeable about the use of price optimization tools and other methods of tailoring prices based on customer segmentation.

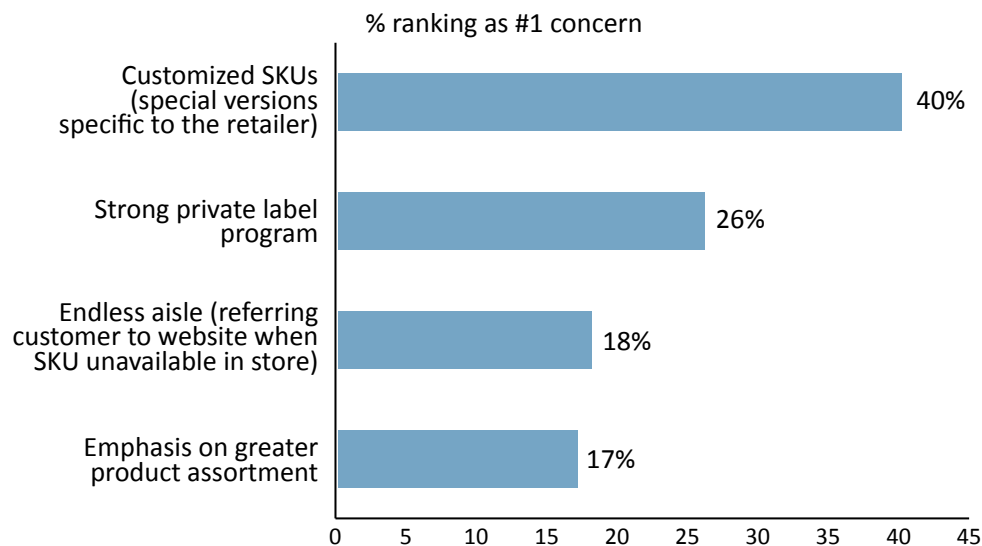
Please rank the following PRICING PRACTICES as per their effectiveness in combating the problems caused by pricing transparency.

[Retailer pricing decision makers vs. non. 1 = top ranked, 7 = bottom ranked]

	Retailer Decision-makers	Retailer Non Decision-makers
Price matching for all SKUs	7	3
Price matching for select SKUs	6	2
Single zone pricing (i.e., same price for all channels and locations)	3	1
Pricing based on shopper segmentation	5	5
Personalized pricing/promotion (e.g., based on relevancy)	1	6
Improved surveying of competitive pricing (on web, social platforms, etc.)	2	4
Channel specific promotions	4	7

Survey respondents next ranked **assortment practices** relative to how they can be used to combat the negatives that can result from pricing transparency. The greatest number put “customized SKUs,” i.e., retailer-specific SKUs, at the top of their ranking list. The maintenance of a “strong private label program” was ranked highest by over a quarter of participants, not surprising considering that highly regarded retailers such as Trader Joe’s, Wegmans and Whole Foods take their store brands very seriously and as a result are believed by many to be less vulnerable to price comparisons with other grocers.

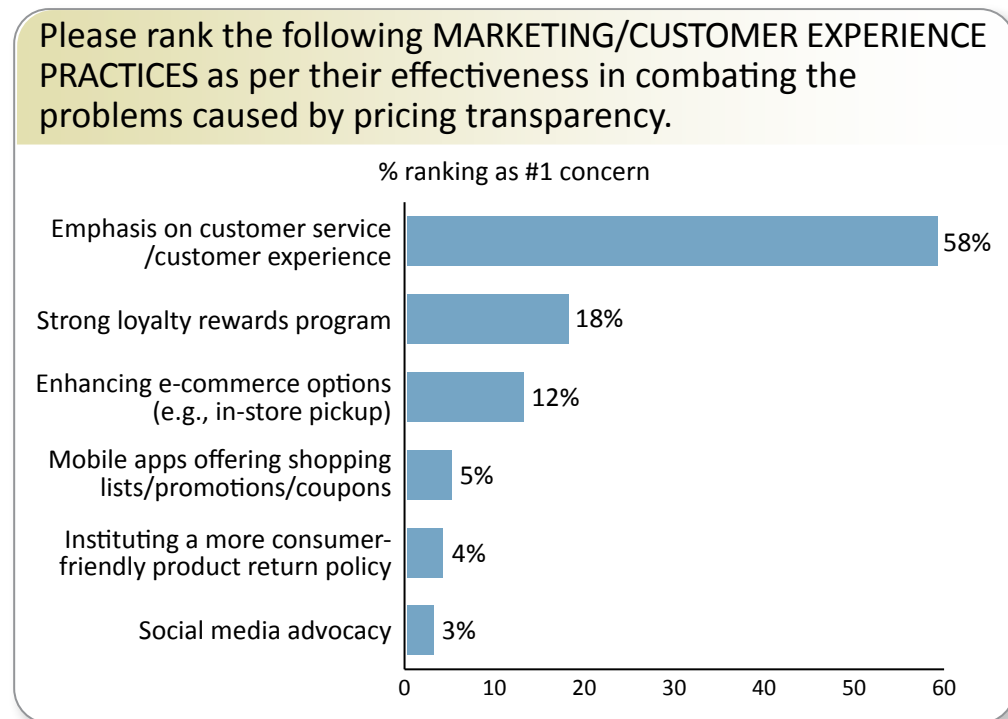
Please rank the following ASSORTMENT PRACTICES as per their effectiveness in combating the problems caused by pricing transparency.



While Richard Seesel recommends retailers emphasize both exclusive products and private/exclusive brands, citing Target as a good example, James Tenser is more skeptical of the latter. “I suspect custom SKUs look like a clever way to sidestep price transparency, but shoppers can get wise to this very quickly. Dollar stores may carry smaller pack sizes of some branded items to allow them to meet a price point, while club stores may offer shrink-wrapped multi packs that drive up the purchase size.”

Mr. Tenser also found poignancy in the fact that greater assortment won so few adherents. “Retailers and others have repeatedly run into operational limitations (i.e., inventory inaccuracy problems) that have made larger assortment impractical,” he wrote. “We might speculate, however, that a relevant, broadened assortment can help win trips and incorporate items with much lower price sensitivity (hence higher margins), enhancing category performance overall.”

Respondents were also asked to consider the **marketing and customer experience** weapons in their arsenal for combating the ill effects of pricing transparency. Here, there was an overwhelming winner: Nearly 6-in-ten respondents chose “emphasis on customer service and customer experience” as their #1. This was the consistent sentiment across types of organizations polled and is an obvious nod to employing methods that appeal more to shoppers’ emotions vs. struggling to cultivate loyalty by providing cents-off savings.



Maintaining a strong loyalty rewards program came in a distant second. Many see frequent shopper programs as nothing more than a secondary discounting technique, while others perhaps think of some of the better programs that enhance the customer’s perception of the retail brand. Notable also, is that among the general response, a consumer-friendly return policy was the top pick among a relative few, which seems to contradict the top choice of emphasizing superior customer service.

The split on this question between retailer decision-makers and non perhaps illustrates the difference between those who deal with these decisions in practice and those who consider them only in theory. Far more of those responsible for making pricing decisions ranked a friendly return policy at #1 than the general group. Those not responsible for making pricing decisions were very hot on loyalty programs and more of these folks see social media advocacy as a key to battling the problems caused by pricing transparency.

Please rank the following **MARKETING/CUSTOMER EXPERIENCE PRACTICES** as per their effectiveness in combating the problems caused by pricing transparency.

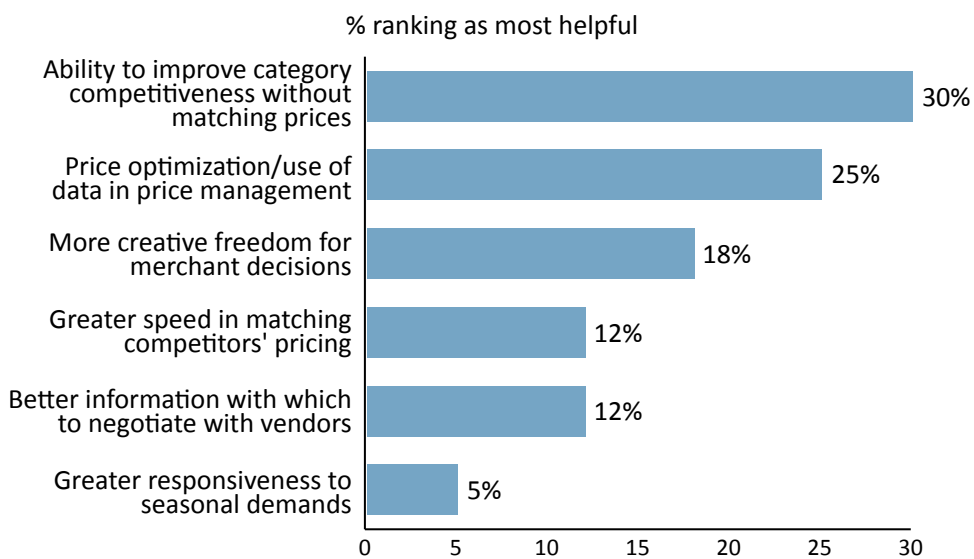
[Retailer pricing decision makers vs. non. 1 = top ranked, 6 = bottom ranked]

	Retailer Decision-makers	Retailer Non Decision-makers
Strong loyalty rewards program	2	1
Emphasis on customer service /customer experience	1	2
Instituting a more consumer-friendly product return policy	3	4
Social media advocacy	6	3
Mobile apps offering shopping lists/promotions/coupons	5	6
Enhancing e-commerce options (e.g., in-store pickup)	4	5

Another interpretation is that the non-decision makers (i.e., mostly middle management) work closer to the point of customer interaction, making rewards programs feel more important.

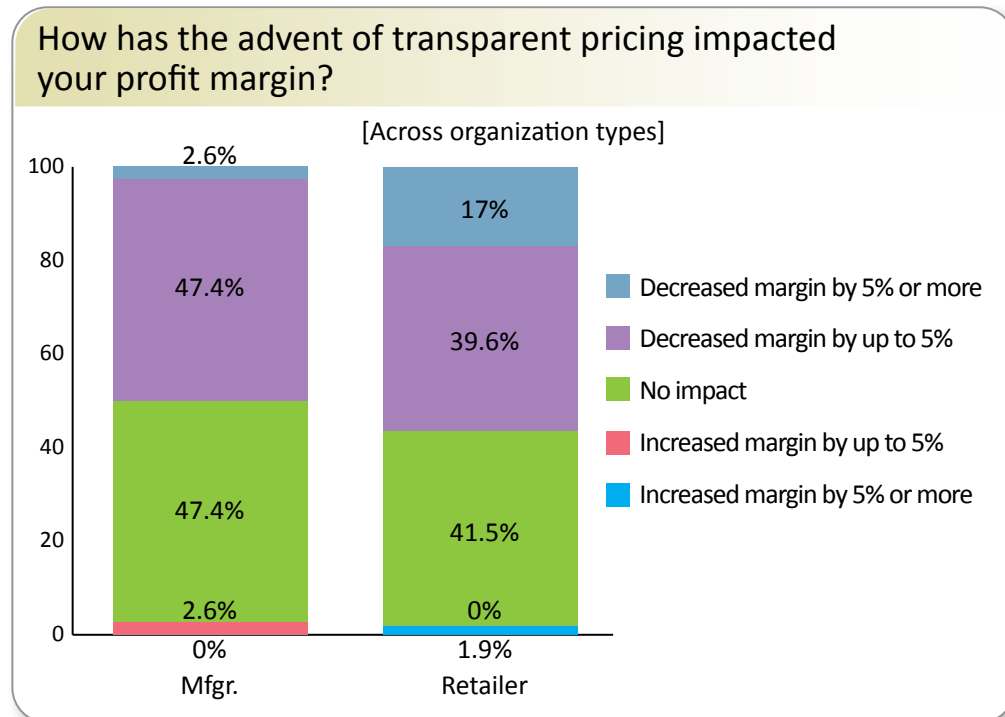
This question looks at the use of more advanced **pricing management** solutions as a way to stem undesirable effects of pricing transparency. Applications that can draw insights from POS data are the catalyst here, so it's not surprising that the second largest group flagged as their top choice price optimization, i.e., drawing out data-driven insights to make pricing decisions.

To what extent do you see these PRICING MANAGEMENT approaches helping to stem the negative effects of pricing transparency.



The largest group, however, perhaps spoke most directly to the immediate problem at hand: how to win customer favor without falling into the deep discounting pit. As reflected elsewhere in our study, nimble responsiveness to competitors' pricing changes and to seasonal demands wasn't a major concern. Perhaps it's generally believed that technology has made these tasks routine – true more so for those with the right enterprise tools in place.

We see here how transparent pricing is believed to be affecting **profit margins**. While a sizable number of retailers and manufacturers see no real impact, a nearly equal number say margin decreases could be as high as 5 percent. It's important to note that not all respondents are in a position that gives them a clear picture of cause and effect on pricing transparency. In fact, that determination may not even be possible, so these results are more reflective of perception than fact.



CLOSING THOUGHTS

It's apparent that pricing transparency sets off a lot of complex feelings into play, and some of the issues radiating out from this trend are at least moderately worrisome to retail professionals. Our panelists point out that retail innovation has historically brought with it downward pressure on profit margins. Technology innovation tends to be the catalyst for most game-changing movement in our era and, especially when power appears to be shifting into consumers' hands, it draws into question the retailer's ability to maintain control.

However, industry practitioners do not appear to be "conflicted" over these developments and are going about their business firm in their long-held beliefs that fundamental principles still apply:

Customers can be distracted from making head-to-head pricing comparisons through satisfying shopping experiences. As James Tenser advises, this should be "built on a foundation of relevant assortment, good-enough prices, a dependable in-stock position and respect for the shopper's time."

Retailers need to constantly refine processes to eke out greater efficiencies. Innovation that drives down prices is a given in the retail business, so innovative methods are a must for maintaining healthy operating margins.

A good price image can be cultivated in radically different ways. Depending on the channel, demographic and customer service culture, a retailer or brand may find success with across the board price matching, single zone pricing, or personalized pricing. Others will likely have the opposite experience.

For more information, please contact:

Al McClain

CEO, Founder, RetailWire

amcclain@retailwire.com

(561) 627-4974

Elizabeth Magill

Retail Industry Marketing, DemandTec Solutions

IBM Smarter Commerce

emagill@us.ibm.com

(650) 226-4732



ABOUT IBM SMARTER COMMERCE and IBM DEMANDTEC

Launched in March 2011, IBM's Smarter Commerce initiative delivers software and services to help companies transform their business processes to more quickly respond to shifting customer demands in today's digital marketplace. Extending these capabilities to the cloud gives organizations immediate access to consumer information, providing instant return on investment.

IBM DemandTec solutions deliver cloud-based analytics software to help organizations improve their price, promotion, and product mix within the broad context of enterprise commerce: retail, business-to-consumer, and consumer goods. As a result, companies can spot trends and shopper insights to make better price, promotion, and assortment decisions that increase revenue and profitability. By gaining a quick analysis of consumer trends, for example, a category manager at a consumer products company can collaborate with the retailer to understand price elasticity and set a more competitive price point.