How Modern Age Consumerism Drives Pricing Complexity

Key shopper expectations are driving the need for retailers to re-assess their pricing (and re-pricing) capabilities.

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A Modern Shopper is Experimental.

Shoppers are increasingly using new experiences such as subscription services, showrooms, rental retail, meal-kits, cashier-less stores and flagship brand experiences.

Shoppers have an endless variety of experiences available to them across retail categories.

BIRCHBOX◆

Birchbox is a cosmetics subscription service. Its stores feature exclusive products and an in-store salon.

BONOBOS

Bonobos is a fit focused men's apparel retailer with inventory-less stores that offer styling assistance by appointment.

RENT THE RUNWAY

Rent the Runway offers rental retail for fashion apparel and accessories.

NORDSTROM

Nordstrom Local is a services-centric small-footprint store format that complements Nordstrom's larger department stores.

Plated.

Plated is a meal kit service, acquired by Safeway, serving up to 17,000 unique ingredient combinations.

Kellogg's   Chobani

Consumer goods companies such as Kellogg's and Chobani have opened flagship stores where they can showcase and curate retail experiences around their products.

ß

B8ta offers brands a retail-as-a-service platform - sort of like a Shopify for brick and mortar stores.

盒马

Hema is a heavily automated, cashier-less store format of the Alibaba Group.
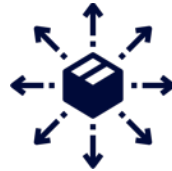
FARMER'S FRIDGE

Farmer's Fridge is a network of kiosk dispensing machines for fresh, daily-made meals.

Adding new formats and experiences adds great **complexity** to retailers' merchandising processes.

A retailer must be able to:

Launch new business models such as subscription services rapidly, while remaining integrated with their core business.	Optimize price and promotions across more complex assortments, including value-added services and exclusive products.	Support a variety of different store formats and layouts.	Adapt to new pricing models that new formats will require.

A Modern Shopper is Digital-First.

From search to service, shoppers are increasingly starting their journey with digital. Even in stores, shoppers are demanding retailers re-imagine the very purpose of stores through a digital-first lens.

Shoppers are increasingly embracing experiences that offer them pricing transparency and flexibility.

Uber Eats is Uber's food delivery service. Uber has brought its dynamic "surge" pricing concept to food delivery. It charges a higher fee for delivery during busy times (or from busy restaurants), but is transparent about this with its users. McDonald's has scaled its initial McDelivery partnership with Uber Eats to now include more than 1,000 stores.

Jet.com was acquired by Walmart within 1 year of launching. It offered shoppers discounts based on what items they added to their basket. It is now an integral part of Walmart's strategy to compete and win against Amazon.

b8ta is a unique consumer electronics store-in-a-store concept. It offers OEMs and product companies a way to directly control price and promotions for their featured products in a retail environment. It does so by converting retail foot traffic and browsing data into insights brands can act upon. In 2017 Lowes announced a partnership with b8ta across 70 of its stores. In 2018 Macy's acquired a minority stake in b8ta.

Everlane, an apparel retailer, provides radical price transparency to its shoppers, sharing information about its cost of goods, cost of production and product margin.

Shoppers' digital behavior offers data about their preferences that retailers can use to price and promote smarter.

A retailer must be able to:

Analyze the rich trail of information shoppers leave about their needs and preferences through their digital search behavior.

Combine insights through data relating to price elasticity, supply and demand, competition and market trends, and make more frequent price changes across channels.

Allow customers to customize their experience by choosing features (such as shipping speed, free returns) that impact final price.

Be transparent about its pricing practices including describing how it uses customer data to make pricing decisions, and allowing customers to view and edit their data.

A Modern Shopper is Discontinuous.

Shoppers mash-up their digital and physical worlds, interacting with multiple channels simultaneously (web, mobile, app, store).

Shoppers' seamlessly fuse physical and digital experiences to suit their preferences in a stop-start buying journey.

Shopper visits a store to pick-up a buy-online pick-up in-store (BOPIS) order, and makes an impulse purchase of a related item at the store.

Shopper adds items to her online cart (mobile app), then forgets to check out. On her next store visit she is reminded of items in her mobile cart that are available in-store at a 10% discount.

Shopper is in a retailer's store with an intent to buy an item. She compares prices online on her smartphone, finds a lower price on a competitor's website, adds it to her online cart and abandons her store trip.

Shopper visits customer service at the store to return a dress due to a fit issue. Service rep converts the return into an exchange by finding her right size at another store and having it shipped to her for free.

This digital + physical shopper behavior creates a unique set of challenges and opportunities for retailers.

A retailer must be able to:

Support the vision of a frictionless, personalized, channel-agnostic customer-experience with a unified merchandising plan across channels.

Drive sustainable revenue growth using a unified price, promotions and markdown optimization capability throughout the entire merchandise lifecycle.

Capture greater value, protect margin and deliver customer delight by empowering store and customer service associates to make smarter decisions with more detailed price and margin information.

Manage the complexity of orders across channels.

A Modern Shopper Craves Personal Attention.

Shoppers expect personalized suggestions, deals and offers based on past purchase and browsing behavior.

Shoppers are willing to pay a premium for brands that help them express themselves through **personalized** products and experiences**.**

zulily

Every Zulily app home-page is personalized. Products are curated based on shopper preferences and shoppers routinely wait 2-3 weeks for items to ship.

allbirds

Allbirds has sold 1 million shoes in 2 years, positioning itself as the most comfortable all purpose footwear brand that also happens to be socially responsible (its shoes are made from wool or Eucalyptus trees).

The RealReal
AUTHENTICATED LUXURY CONSIGNMENT

The Real Real is a second-hand luxury goods consignment marketplace. It helps increase the life-time value of luxury goods.

WHOLE FOODS MARKET

Whole Foods recently launched Plant & Plate at its Bridgewater, NJ store – a curated lifestyle shop dedicated to beauty, garden and home goods.

IMPOSSIBLE™

The Impossible Burger is a food-tech company focused on offering a plant-based, meat-tasting burger that is healthier and more environmentally friendly.

STORY

Story, recently acquired by Macy's, merchandises its "store" like a magazine, frequently refreshing the space and curating assortment based on a central theme.

Retailers can **curate** products, services, promotions, and even price, based on a greater understanding of shopper needs and wants.

A retailer must be able to:

Gain a better understanding of what customers value and are willing to pay a premium for.

Personalize offers and promotions for shoppers based on their preferences and past purchase behavior.

Use science-based insights to price with agility and effectiveness on those things (products, offers, services, bundles) that matter most to customers.

Engage shoppers in a more meaningful, empathetic, bi-directional dialogue rather than subject them to unidirectional broadcast communication.

A Modern Shopper is Value-Conscious.

Shoppers value price leadership (both real and perceived). They are hooked to deals, promotions and discounts.

Retailers propagate deal-seeking behavior through constant promotional cycles that train shoppers to never buy full-price.

amazon

Amazon is the retail industry's price perception leader. It combines that perception advantage with an unmatched "dynamic pricing" capability. It is estimated to change prices up to 2.5 million times a day.

RALPH LAUREN   **MICHAEL KORS**   **tapestry**

Luxury retailers such as Ralph Lauren, Michael Kors and Coach parent Tapestry have made a concerted effort to reduce distribution through department stores and off-price chains, sacrificing top-line revenue for healthier gross margin.

4 in 5
shoppers search for the best deal on a product they wish to purchase.

Analysis of a random sample of 100 products revealed price on an item can fluctuate
260%
from low to high.

76%
of Baby Boomers will not pay full price when shopping for home electronics, home appliances, furniture, smartphones and vehicles.

All cited data on this slide is sourced from Incisiv's data-pool that tracks macro, consumer, industry and market trends.

This value-conscious, bargain-hunting behavior means retailers must protect against margin erosion.

A retailer must be able to:

Conduct pricing experiments and forecast impact scenarios of price change on volume and margin.	Move from optimizing prices for a smaller list of key value items (KVIs) to a larger, more dynamic list that is refreshed frequently.	Manage price lifecycle from product setup to markdown, making decisions based on the most accurate science available.	Maximize value capture through segment specific pricing (vs. one-size-fits-all pricing).

In Summary.

Digital age consumerism exhibits itself in a few key consumer traits. The modern shopper is:

- Experimental
- Digital-First
- Discontinuous
- Selective
- Value-conscious

Retailers must create value for shoppers through new customer experiences, and be able to capture part of that value through price, promotions and markdown optimization.

- Launch new products, services and business models rapidly.
- Use data-science to drive decisions across the pricing and promotional lifecycle.
- Be able to make frequent price changes across channels
- Move to planned promotional cycles through improved markdown optimization.

Rethinking pricing as a customer experience strategy is a fundamental change for many retailers. It goes beyond simply selecting a price and promotions optimization software. Retailers must consider, and plan for, the **organizational impact of this change**.

Talk to us to dig deeper.

Incisiv offers digital transformation insights to consumer industry executives navigating digital disruption.

www.incisiv.io

Omnichannel price optimization software from IBM allows you to coordinate pricing across channels, ensure compliance with pricing strategies and optimize prices for products – from new offerings to markdowns – by automating time-consuming pricing tasks using advanced merchandising science. The pricing software improves responsiveness to competitor pricing and drives efficiency, accuracy and consistency by automating pricing tasks. Plus, our cognitive capabilities automatically assimilate new data and improve their pricing recommendations without requiring any human intervention.

https://www.ibm.com/us-en/marketplace/omni-channel-pricing