

PERSONALIZED PRICING

Know your customer ... and how much they'll pay

by SANDY SMITH

Today's retailer may feel trapped in an epic movie, searching for the Holy Grail — an idea that rewards its finder with a combination of great-and-growing profits and rabidly loyal customers. If so, consider personalized pricing a major clue.

Like any action-adventure movie, there are a few boulders to outrun and death-defying leaps to try. But first, the wise sage: Personalized pricing is “Prices that are set based off individual customer behavior or characteristics,” says Nikki Baird, managing partner of RSR Research and co-author of “Retail Pricing 2017: The Dawn of Personalized Prices.”

“There is *the* price and there is *your* price,” Baird says.

The strategy impacts both pureplay online sellers and bricks-and-mortar stores, as well as those who play in both spaces. Peril approaches in the form of shoppers unwilling to purchase without a deal.

“There are several potential pitfalls — customer frustration from not receiving a ‘fair’ price on a product that someone else received, and possibly negative sentiment if it is perceived that a customer group is overlooked or targeted,” says Dan Mitchell, director of retail and consumer packaged goods global practice for SAS.

“Another challenge is the operational difficulty ... With more price variability, it can be difficult for the retailer to accurately estimate demand, resulting in out-of-stocks.”

KNOWING THE CONSUMER

“There is one group of people for whom the promotion does exactly what it’s designed to do,” Baird says. “You make the offer and incent them to buy. But what comes along is a group of people who have bought no matter the price. So you gave away margin.”

Also in the mix: Those who are annoyed by the offer.

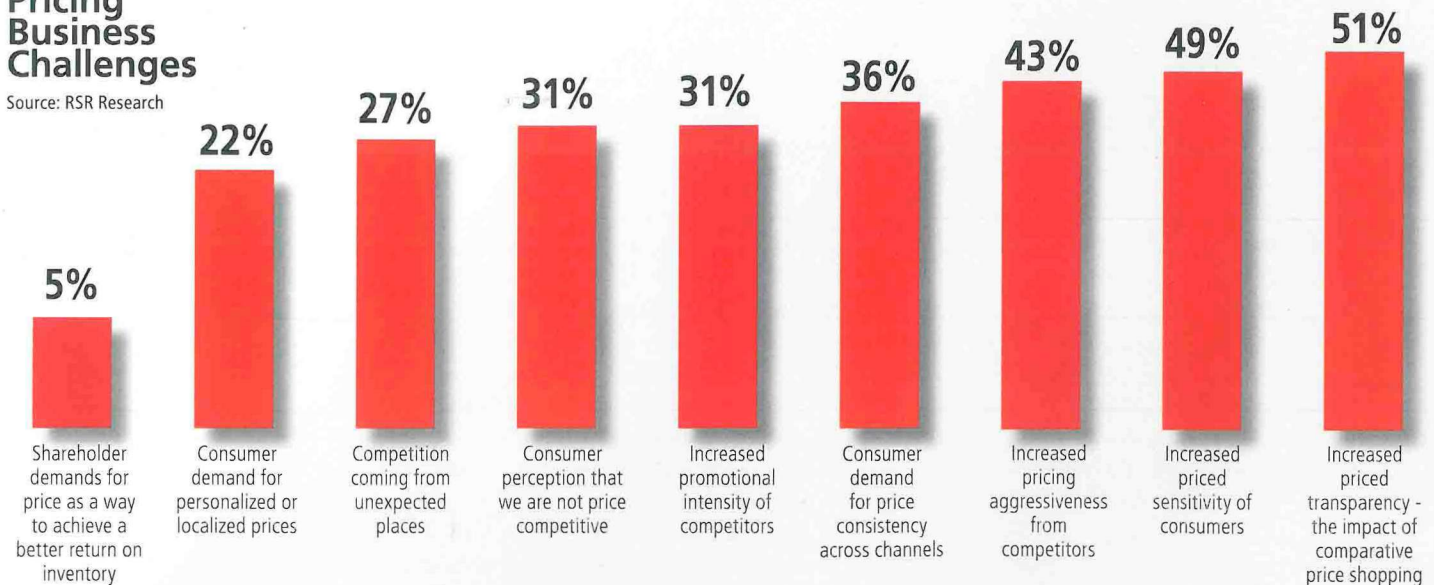
“What we’re starting to see with the erosion of loyalty and price sensitivity is the impact of the group of people who are actively annoyed,” Baird says.

The second category is dangerous since retailers leave profits on the table, a risky proposition. “Retail Pricing 2017” found that 48 percent of retailers say their top pricing strategy is to maximize profits — up slightly from 2016. Pricing strategies that drive demand (42 percent) and create brand excitement (38 percent) are also growing.

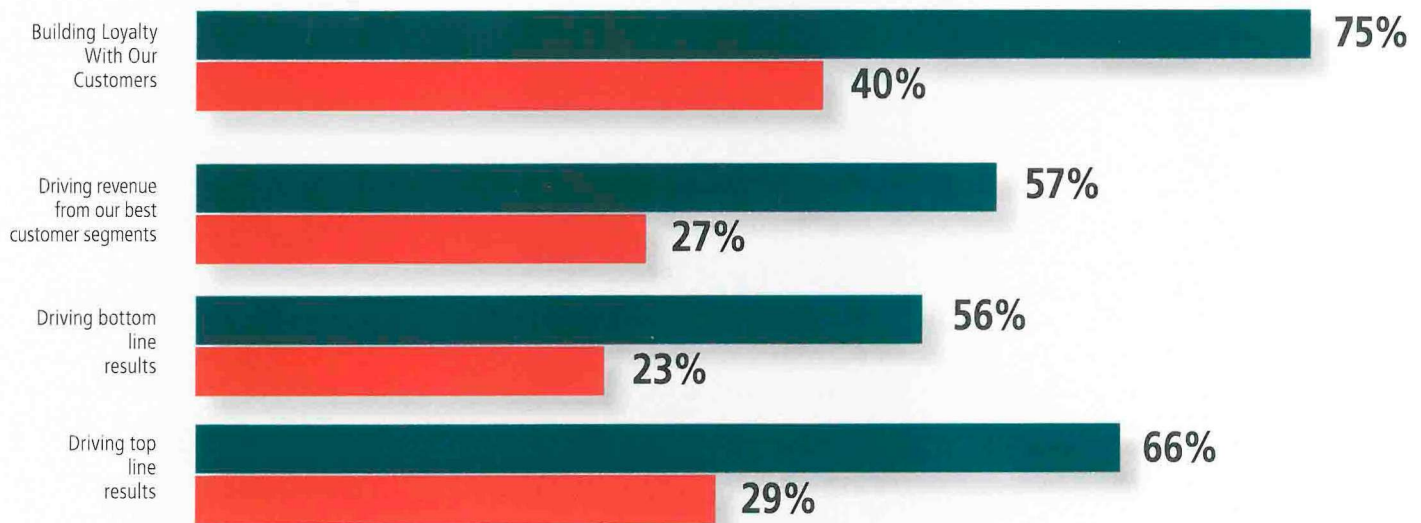
“With personalized pricing, there are theoretically huge opportunities to strengthen relationships with shoppers and become more relevant,” says Suzanne Valentine, chief data scientist for IBM Watson Customer Engagement. What she hasn’t yet seen is “an

Pricing Business Challenges

Source: RSR Research



Price Strategies Are “Very Effective at: ■ 2017 ■ 2016



Source: RSR Research

integration with inventory management, focusing on your perishable or seasonal inventory and figuring out who you might match it to with a small discounted offer before automatically taking it into a mass markdown.”

Ultimately, the shopping experience has changed dramatically — and personalized pricing can only go so far in making up ground.

“Shopping processes are much more linear,” says Traci Gregorski, senior vice president of marketing for Market Track, which delivers intelligence on promotional strategies. “It eliminates some of the add-ons that people would encounter as they walk by an end cap or display. It requires caution. If you lose margin on too many things, you may not be able to make it up on other items.”

PERILS AWAIT

It’s a familiar foe: Data that doesn’t deliver.

“You have to have good customer data and good price history data — not just what the price was, but the offer that went with that price,” Baird says. “Almost everybody captures ... the price it was sold for, but it’s rare that they capture the discount applied. You have to have clean data along those three dimensions: the customer, the offer and the ultimate price.”

Retailers have searched for the key to personalized pricing before. “I can safely say that I’ve seen three times that the industry as a whole has attempted to go after personalized pricing,” Baird says. “The first time, they backed off when they found their data was not as good as they thought. The second time, it was more of an issue of execution. This time around, those issues are more resolved.”

Easier said than done. But is personalized pricing just another way of keeping consumers hooked on deep discounts?

“That’s a never-ending battle,” Baird says. “If consumers aren’t savvy about waiting for better pricing, there will be somebody out there to insert themselves into the relationship by offering value.”

She points to price tracker and travel websites like Trivago. “There will always be companies that are able to exploit algorithms or the richness of information available to help consumers to get a leg up,” she says.

EXPERIENCE AS GUIDE

Grocery has offered personalized pricing for more than a decade through shopper loyalty cards and related coupons.

“Grocery is probably the most frustrating use case,” Baird says. “They have all this data, but it’s really only been in the last 10 years that they’ve actively pursued using this data. There is something to say for watching the incentives that they put in place.”

Valentine notes another factor that can be learned from grocery: Why offer a discount on products customers will buy anyway?

“I remember when personalized coupons based on loyalty programs first started coming out,” Valentine says. “I always bought cereal and coffee from the same place. There was a convenience factor built in. And if they looked at my shopping history they would see that I bought these items regularly, regardless of price. But by giving me coupons for these items, they would essentially charge me less than I was willing to pay.”

Grocery has grown in its sophistication of personalized couponing, and is focused on “ways to broaden the basket,” she says.

That’s a challenge for other industries. The frequency of purchases and the variety of items means grocery has deep shopping history data, compared with an average retailer that doesn’t encounter shoppers that often.

“But the same general principal can be applied,” Valentine says. “Use personalized promotions to expand people into other product segments based on what you know about them and grow the basket.”

Grocery proves that “coupons are still a driver,” Gregorski says. “It doesn’t matter what category.” Grocery will provide additional insights when it fully moves to ecommerce — that will put even more pressure on retailers to make sure they don’t lose shoppers, she says.

Market Track research shows that people change stores or products at a rate of 80 percent if they are incentivized by a competitor. “People are much more fickle than they used to be,” she says. “They know retailers are working really hard to capture their share of wallet.”

That may not be a negative; personalized pricing offers an opportunity for “retailers to understand price sensitivity and catch high-value customers before they switch to another retailer,” Mitchell says.

“Or they can offer more aggressive pricing on a set of products that can build customer loyalty without giving away excessive margins compared with trade area market pricing.”

DANGER AHEAD

A quick internet search on personalized pricing and another, more ominous term shows its power: pricing discrimination. As data is used to segment shoppers based on certain patterns, there is a risk of crossing a line.

“People want to trust that a business they are engaging with is fair,” Valentine says. “Once you violate that trust, it’s hard to get it back.”

Retailers shouldn’t be afraid to try personalized pricing, which has long roots — Valentine points to bartering and student or senior discounts. The key to success lies in transparency. “In socially accepted examples, nothing is hidden,” she says.

“You know that you have to negotiate, or to meet certain age criteria. The more that enterprises can have that transparent relationship and let people review the

information that you have about them, the more sustainable personalized pricing will be.”

ANOTHER CLUE

As with so many aspects of today’s retail, data is the key. “Our advice is to make sure that you can walk really well before you run,” Valentine says.

She recommends that retailers first work on their internal foundation, which includes integrating data across channels and being able to match a single consumer’s behavior across those channels, and then go after competitive data.

“I don’t think anyone has perfectly solved the competitive data issue for stores,” Valentine says. Many collection mechanisms are antiquated, though innovative companies are taking a creative approach with a combination of data collection and imputation algorithms.

Gregorski notes that retailers must get up to speed on pricing differences by market and ZIP code. “That seems a tier above personalized pricing, and it is,” she says. “But if you don’t have that, you can’t gather data on your shoppers and be informed in their habits, propensity to buy and thresholds before they’ll go to the next retailer.”

Some retailers are successfully identifying what to market to individual households and customer segments. “Next they need a well-oiled process to analyze the impact of price changes by hyperlocal geography,” Mitchell says.

“The goal is to marry online and offline demand signals — which involves capturing online shoppers and those geolocated in specific trade areas — into a pricing strategy tailored for specific customer segments.”

Retailers who can capture that stand to gain profitability, Gregorski says. “I do think it’s a challenge based on the fact that you are aggregating that behavioral data from a lot of different places and trying to culminate that in one profile.”

Ultimately, today’s retailer has to forge a new relationship with the shopper by “giving them things that they value and not giving them things that they don’t value,” Baird says.

“That’s the part where retailers have been getting into trouble. Consumers ... expect that ‘You know something about me. If you know something about me, I expect you to use it to my benefit, too.’ I don’t think we can come back from that. That’s what is pushing this more than anything else.” **STORES**

Sandy Smith grew up working in her family’s grocery store, where the only handheld was a pricemarker with labels.