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Retail Pricing Wars

A report on UK retailer pricing strategies

Research by Omnia Retail I December 2018

Foreword from
Sander Roose
Founder and CEO

For UK retailers, pricing is more important than ever before. Consumers can now research and compare products easily so, when picking which retailer to shop with, they will often look at price ahead of place, people and even product.

To stand out, many retailers mistakenly conflate offering consumers the "best" prices with simply offering the lowest compared to their competition – a damaging false economy, which can greatly diminish margins and overall profitability.

More concerningly, some retailers underestimate the importance of price and simply do not monitor prices at all. Retail brands that ignore such a key competitive advantage risk of falling out of touch with a rapidly-shifting market.

Of course, constant price monitoring and modification can be an onerous task. After all, the average retailer now needs to consider millions of pricing decisions daily to keep up, and many retailers simply do not have the time to monitor pricing as much as they should.

Thus, we often see pricing strategies that are ineffective, not fit-for-purpose or even absent altogether.

We need to think on how to price more intelligently; not about taking part in a damaging price war – which merely takes into account external factors such as competitor pricing - but rather about taking a broader view of the market as a whole.

This means considering a range of factors both external and internal, such as ongoing commercial strategy, inventory levels and stock purchase prices.

It's high time we paid more attention to the cost of unintelligent pricing.

It's time for a change.

About Omnia Retail

Omnia Retail is led by founder and CEO Sander Roose, who has more than 15 years of retail experience. Since launching in Amsterdam in 2013, the business has grown to service more than 100 leading retailers including Decathlon, Samsung, Media Market, Windelen.de, Tennis Point, Wehkamp, Signa Sport United and Coolblue.

The leading SaaS solution for integrated pricing and online marketing automation, Omnia uses intelligent, self-learning algorithms to help retailers regain control, save time and drive profitable growth. It does this by automating optimal pricing and maximising returns from online marketing channels.

Its Dynamic Pricing module has already helped existing clients see up to 50% improvement in sales and margin growth, while its Dynamic Marketing product has helped clients experience up to four times more growth on marketing channels like Google Shopping.

Introduction

A sound pricing strategy has always been a crucial part of any retail business. However, in today's changing market, it has never been more critical. As the sector becomes increasingly fragmented, pricing strategies are no longer as simple as they may have been 20 years ago.

Indeed, of the 150 UK retailers we surveyed, 34% said they operate solely online, with 43% describing themselves as omnichannel and 23% remain purely bricks and mortar; highlighting the diversity of business models currently operating in the market.

Pre-internet, the average brand had to consider around 4,000 price and marketing combinations per quarter to stay ahead of competitors. However, with information on goods and services now available for consumers to see 24/7, the number of pricing combinations that businesses must consider has risen to 60,000,000 combinations a day; making pricing an extremely complex proposition.

Worryingly, many brands - in a bid to remain competitive amidst ongoing high-street closures and the growing influence of online - have tried to stand out by simply offering the lowest prices.

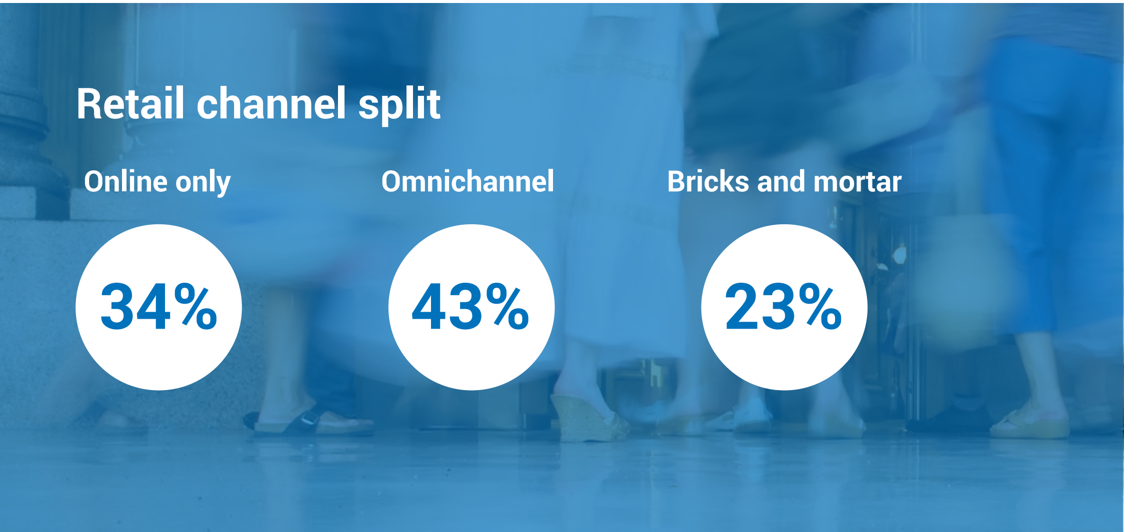
This was thrown into particularly sharp focus by John Lewis's announcement of a 99% profit slump, which the brand largely blamed on its ambitious "never knowingly undersold" pledge.

When even industry heavyweights can find themselves in a destructive "race to the bottom," it's clear that pricing strategies may not be being given enough consideration by retailers of all sizes.

Pricing is driven by a vast array of factors, from external pressures such as sector conditions, consumer demand and competitor activity to internal variables like stock levels, marketing bids and individual commercial strategy.

The huge growth of e-commerce, which allows prices, products and retailers to be compared in just a few clicks, has therefore had a powerful impact on retailer strategies.

The UK has become one of the most competitive global marketplaces, with online retail now constituting almost a fifth of all transactions made – higher than any other country in the world.



In this report, we will explore the pricing strategies of 150 top UK retailers. We will look at what pressures they face when it comes to pricing and whether they price check competitor products, as well as how often and how much time and effort it takes them to do so.

We will explore whether businesses are taking pricing seriously enough and how much revenue is being lost through ruggedly undercutting competitor costs.

We will also discuss how many retailers are not pricing effectively or wasting too much time and resource on price wars.

Finally, we will evaluate the solutions available to support retailers of all sizes with growing sales and profits - without going into a retail pricing war.

Executive summary of results

96% of retailers said they have a pricing strategy in place, but only 43% see it as important

34%

Just 34% of retailers say their pricing is always accurate

36%

36% of retailers have missed the mark in the past

34% of retailers feel under pressure to change prices on a regular basis but only 15% find the time to do so frequently

27% of retailers have lost out on margins due to price cutting in the past

Retailers lose roughly 1.97 million hours (246,000 working days) price checking every week

88% of retailers carry out competitor price checking but only 48% act on it

83% of retailers think price watching is ineffective for their business – suggesting they aren't doing it properly

Section One Pricing Strategies

Pricing strategies are nothing new; in fact, there are numerous different pricing models in today's market. At its core, every approach aims to meet business objectives; for example, maximising profit or increasing market share.

However, despite the fact that pricing is such a vital part of the marketing and sales matrix, we found that many retailers aren't considering it as an integral part of their overall business strategy – or one which drives profitability.

Although almost all (96%) of the organisations we surveyed said they have a pricing strategy in place, only 43% see it as important. Just a fifth (27%) said they see pricing as a very important part of their business. A further 7% of retail organisations said they see their pricing strategy as unimportant, with 13% even saying it's very unimportant.

Given that certain models, such as dynamic pricing, have been proven to boost margins and revenues by as much as 50%, this figure is concerning. It's estimated that there are almost 200,000 registered retailers in the UK, so our figures suggest that huge numbers of these are either investing in a strategy that doesn't work or not dedicating enough time to pricing in order to maximise its potential.

This is supported by the fact that only 34% of business say their product pricing is always accurate, with another 36% saying they have missed the mark in the past.

Perhaps unsurprisingly, the importance placed on pricing strategies is dependent on the type of retail business in question. A third of retailers that sell electronics (33%) and 37% of those that sell fashion clothing and accessories said that pricing is a very important part of their business.

Often driven by seasonality and emotive consumer demand for the latest thing, these markets are particularly saturated and at the mercy of rapidly-changing trends.

They therefore must work harder to stay ahead of the curve in terms of pricing in order to entice customers to spend. Moreover, many UK fashion retailers are online-only and so more at risk of direct price comparison online.

Interestingly, given headlines around the pressures of discounters on the grocery sector and the constant chipping-away of low margins, 21% of food and drink retailers said that their pricing strategy is "very unimportant" to their business.

21% **of food and drink retailers said that pricing strategies are "very unimportant" to their business**

Section Two Price Alteration

3% of retailers never change product prices

25% only do so rarely

Given that 98% of retailers employ a pricing strategy – and that this necessarily suggests that they would change prices on an ongoing basis - the number of brands that do so frequently was relatively low.

This doesn't mean to say that retailers aren't aware of how important price flexibility is to their business, with over a third of those surveyed (34%) saying they feel under pressure to change their prices regularly. However, only 15% do it frequently and only 6% very frequently.

Concerningly, 3% of retail businesses surveyed said they never alter their product prices. A quarter (25%) said they only change their prices rarely - once or twice a year – and a third stated that they only do it sometimes or several times annually.

A further 24% said they change their prices once or twice per month. There are a vast range of factors that determine why retailers alter their prices – and the businesses we surveyed reflected this diverse mix.

Almost half (48%) of businesses said they base their pricing on that of their competitors, while 41% said they alter their prices as per the season – for example, when festive stock is heavily discounted immediately after the Christmas period.

A further 37% of retailers said their prices are affected by sales events such as Black Friday; a relatively low number given the growing importance of it these days.

However, this does point to a more positive fact; that retailers are not getting drawn into the flurry of these events and therefore losing out on margins as a result.

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Around a quarter (23%) of retailers said that they take the weather into account when changing product prices. An unexpected hot spell, for example, may limit the availability of fans or cooling systems, so brands could choose to take advantage of this demand and increase the price of these items to boost margins. Seasonal items – for example, sunglasses – are also likely to change with the weather.

A further 32% of retailers said they base price changes on stock levels; what's selling – or not selling - at that moment in time.

Similar to the restaurant industry, in which 'special' menu dishes are often pushed based on the excess ingredient stock in the kitchen, so too will retailers dramatically discount prices on products that have not sold as well as planned and – as such – are taking up too much space in the warehouse or stock room.

A third (33%) of retailers also said they will change prices based on margins. For example, if the import cost for a product increases due to currency changes in the global economy, the end retailer may choose to up their costs to maintain margin.

There have been many examples of where this discrepancy between increasing prices and keeping the customer happy has caused friction; such as "Marmitegate", when Tesco temporarily stopped stocking Unilever products after the supplier increased its prices.

Lastly, 19% of the retailers we surveyed said they change their prices due to stock levels. This forms part of dynamic pricing, in which a retailer changes prices dependent on market fluctuations. Dynamic strategies have existed in some form for decades.

For example, fuel companies will regularly change prices at the pumps dependent on the weather, wholesale availability or seasonality.

Similarly, travel retailers such as hotels and airlines have historically increased their rates at weekends, around Christmas or during the summer months to take advantage of booking spikes.

Price cutting: avoiding a race to the bottom

In any pricing strategy, retailers must find the balance between being undercut by competitors and potentially losing sales and the "race to the bottom" where constant price-cutting destroys profits. Indeed, amongst the retailers we surveyed, many admitted they have got the practice of price-cutting wrong in the past and it has cost them dearly as a result.

More than a fifth (22%) of retailers said that undercutting competitors is a key strategy for their business. However, a further 27% said they have had to lose out on margins due to price cutting in the past.

Another 15% of retailers said that they are usually the first to cut prices ahead of their competitors, whilst almost a fifth (19%) said that an incorrect pricing strategy has negatively impacted their business in the past.

Retailers must therefore find the balance between being undercut by competitors and subsequently losing sales, and a strategy whereby constant price-cutting destroys profits.

Sander Roose
Founder and CEO

"Demand for individual products will be differently affected by changes in price – a concept known as "price elasticity of demand".

"Therefore, offering the lowest prices on everything isn't the way forward; indeed, such a strategy can create a false economy wherein retailers lose money on selling "inelastic" products at far below market value and thus see vastly diminished returns.

"Retailers can avoid this by deploying an elastic "high runner" pricing strategy. This involves discounting more aggressively on more elastic products – thus increasing demand and footfall while diminishing margins – and then making up these margins by cross-selling and charging higher prices for complementary goods, which tend to be less elastic.

"For example, a TV is highly elastic, while demand for the wall mount it often sells with is far less affected by price. Therefore, it makes business sense to price more aggressively on the TV—as that will lead to a demand spike—while taking more margin on the wall mount which sells with it."

Section Three Price Checking

The concept of product "value" is almost entirely relative; a bottle of Coca Cola, for example, varies enormously in price across the world, suggesting that its true value is not based on the simple cost of ingredients and packaging alone.

Another example of this is designer perfume; often costing far less to manufacture than its price tag, which is attributed to factors such as the intangible value of the brand attached to it.

Competitor price watching plays a critical role in the pricing process as e-commerce continues to dominate the retail sector. Consumers can check how much their competitors are charging for the same products with a few clicks, so real-time benchmarking is key if brands are to keep pace with other players in the industry.

Interestingly, although almost nine in 10 (88%) of the retailers we surveyed said that they carry out competitor price checking, only 48% actually use this as a reason for either increasing or cutting their prices.

Few retailers carry out price checking frequently enough. Just 16% complete a price check on a daily basis – however, 14% of retailers said they do this hourly.

More than a quarter (27%) of retailers said they only carry out competitor price checks on a weekly basis and this dropped to monthly for a further 27% of the businesses surveyed.

Worryingly, 16% of retailers said they only check their competitors on an ad-hoc basis, suggesting that their strategy is sporadic and ineffective as a result.

16% **of retailers lack clear strategy in competitor price checking**

A further 13% of retailers admitted that they don't spend enough time monitoring their competitors' prices. This highlights that they may not have the resources or right tools to do so efficiently.

Additionally, despite 57% of retailers saying they complete competitor price checks on at least a weekly basis, only 17% of companies stated that they believe price watching has helped it to achieve its business goals. This points to a potentially ineffective use of the insights gleaned from such activity.

Retailers are also committing far too much resource to competitor price checking – an average of 10 hours per week - suggesting that they are not doing it efficiently.

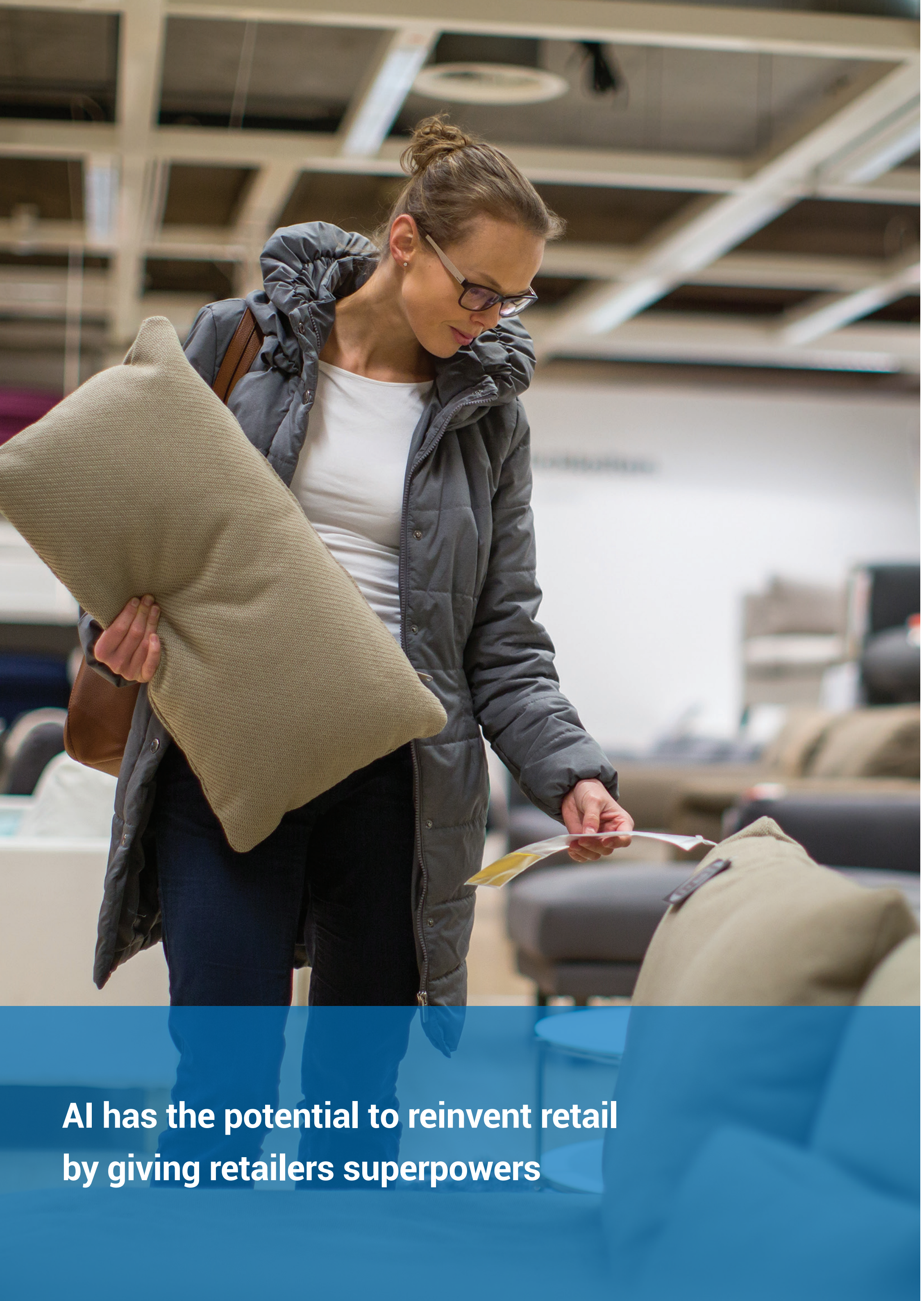
Just over half (55%) said they dedicate at least 1-10 hours to monitoring market pricing, with 24% of retailers saying they commit 11-25 hours per week to the practice. One in 10 brands surveyed said that they spend around 26-50 hours per working week on the practice; the equivalent of one full-time salary – while 1% said they spend more than 50 hours.

This leads to a huge amount of wasted time across the entire sector. If retailers could automate competitor price checking, the process would require almost no time or resource to manage.

13% **of retailers admitted that they don't spend enough time monitoring their competitors' prices**

This means that companies are needlessly spending an average of 10 hours per week on manual checks; amounting to almost 1.97million hours or 246,000 lost working days across the UK retail sector.

Section Four AI Systems



AI has the potential to reinvent retail by giving retailers superpowers

What does a good retail pricing strategy look like? And how is best to implement it?

Essentially, it's important to remember that staying ahead of the competition is not just about cutting prices; it's about pricing intelligently. That's why investing in agile IT infrastructure - that can gather market insights and automate decision-making on a large scale - can be so effective for retailers.

Much as it has in other sectors, AI – in particular machine learning – has quickly become an indispensable asset, helping retailers to collate and analyse huge volumes of data far more efficiently than any human can.

AI-powered systems allow retailers to move beyond simple strategies such as "match my competitor's price" or "rank third most expensive in Google Shopping". They do this by accessing, storing and analysing huge sets of data to set completely new prices based on product price elasticity.

In the future, AI could advise retail category teams to adjust pricing strategies based on automated analysis of performance data. The use of AI tools in business has been the target of negative press, with some criticising the impact that such software could have on employment levels across the UK. However, rather than automating away jobs, AI has the potential to reinvent retail by giving retailers superpowers.

Research shows that delivering excellent customer experience will be increasingly important in the coming years – so, by freeing up time throughout automation, retailers will be able to focus on creativity and improving their businesses in other ways.

Success Story: DECATHLON

How do you double your growth in a highly competitive market? Decathlon NL asked itself this question in 2015, and ultimately found Omnia as a solution.

Omnia's pricing software helped Decathlon NL increase their conversion rates on dynamically priced products by as much as 80%. Additionally, Decathlon recovered 20 hours every month that was wasted on manual labor, giving the pricing team more time to focus on strategy.

Even more impressive were Decathlon's results with Omnia's Dynamic Marketing tool. With the optimization of their marketing channels, Decathlon outperformed their already-aggressive 2x growth goal and increased their Return on Ad Spend (ROAS) by 50%.

The optimization of Decathlon's online marketing channels also created significant uplift in the number of products bought in-store; the omnichannel bid strategy demonstrated that for each online sale in Google Shopping, an additional sale of the same product was made in-store.

"The performance of Omnia exceeded our expectations, both on our marketing and pricing strategy."

Jesper Elders, Lead Paid Traffic Team at Decathlon NL

Conclusion

The retail landscape of today has completely changed.

Purchase decisions are increasingly researched online, with retailers, products and prices open to immediate scrutiny and comparison.

These changes have had a huge impact on how retailers must do business and it's for this reason that price has quickly become the most important factor in a brand's overall strategy.

It is therefore concerning to discover how few brands are fully capitalising on pricing (or ignoring it altogether); particularly given the current difficulties on the UK high street.

The retailers that prosper in this competitive landscape will be those that take pricing seriously – and use it to their advantage.

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