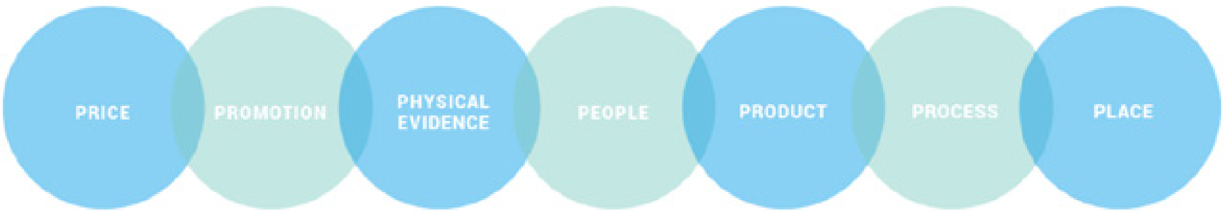
omnia | reinventing retail

Why Pricing and Marketing Go Hand in Hand

No matter your product or industry, there are 7 P's that play a role in every company's marketing: price, promotion, physical evidnece, people, product, process and place.



In the modern e-commerce marketplace, price is easily the most important one of these elements. It's the kingpin for online shopping, where consumers will often make a purchase based on price alone.

But how should companies compete when consumers are looking for the lowest price? If all shops battle to lure customers with the lowest price on every product, a race to the bottom is inevitable.

To avoid this, today's marketing managers need access to pricing data more than ever before. These insights help you maintain control of the vast online retail landscape by boosting your price perception and improving your marketing performance.

The result is a better return on the time you invest on marketing, as well as more control over your marketing strategy.

The relationship between pricing and marketing explained

Pricing and marketing go hand-in-hand, especially in the online marketplace. The display price you show in your Google Shopping advertisements will dramatically affect the amount of traffic you get.

The above graph shows two metrics over the course of two months: a store's price and the number of units sold. The line graphs represent the price, and the bar chart at the bottom shows the number of units sold. You can see that the number of units sold was higher during "aggressive" pricing periods - a strategy where the display price is lower than the competition on the same search query.

At first glance this is a win. A lower price means that there is more traffic to the product, and more traffic to the product increases the likelihood of a sale.

But if you haven't factored your pricing information into your online marketing plan, you might lose money with each sale, even though you're selling more.

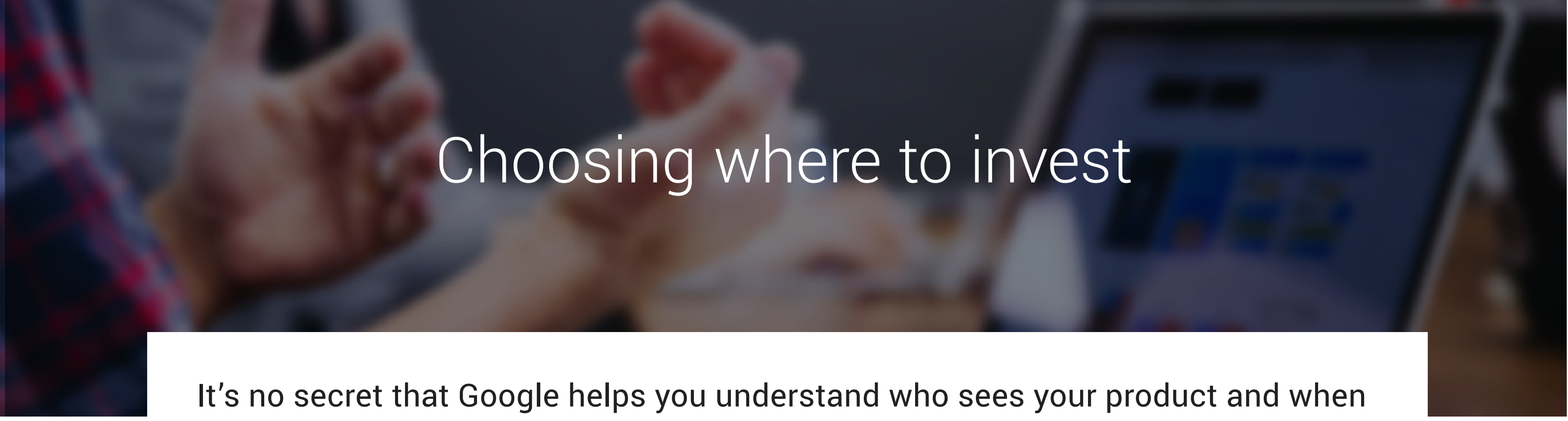
This is because of product margins, which product price determines.

The price of a product determines how much margin it will make, a portion of which marketers can reinvest into advertising. If the product has high margins, marketers have more money to spend advertising a product. However, if a product has lower margins, there is less money for a marketing strategy.

This can be a disaster if your price changes and the marketing team doesn't know. They might continue spending money marketing a product without knowing the margin changed. As we wrote in one of our blog posts:

> To make a profit, you need enough margin to carry the marketing cost. Let's say you pay 50 cents per click. If you need 40 clicks to get a conversion (conversion rate of 2.5%), your marketing cost per sold product is €20 (€0.50*40). If your margin on this particular product is €15, you lose €5 for every sold product.

Conversion rates are typically higher on competitively priced products, so it's worth bidding aggressively on them if your margin allows for it. But if you change your price on an inelastic product and your conversion rates don't budge, this is a sign you should scale back on your bids.



Choosing where to invest

It's no secret that Google helps you understand who sees your product and when they see it. Through channels like Google Shopping and the power of data, you can gain all kinds of insights about the people who are searching for your products online

But after you've used Google to choose who should see your products and when they should see that advertisement, how do you decide which products to show them or what price to display?

And now for the even bigger question: how do you make those decisions for every single product in your assortment?

That's where pricing insights and internal data help you. With this information, your marketing team can make smarter marketing choices.

1. Turnover vs. margin

Many marketing strategies are built around maximizing the number of products sold, so marketers will bid aggressively on high-traffic, high-converting products. This is partially due to a focus on maximizing ROAS, or Return on Ad Spend.

However, it also means that some profitable items are overlooked. Take this example of a video camera vs. a tent below:

STANDARD MARKETING AUTOMATION SOFTWARE

PRICE: €274,95

SOLD: 20 per day

MARGIN: €0,50 = €10 profit per day

OMNIA MARKETING AUTOMATION SOFTWARE

PRICE: €99,95

SOLD: 4 per day

MARGIN: €25 = €100 profit per day

In this case, it's more profitable overall to sell 4 tents every day than 20 of the the high-traffic cameras. Since the tent has a higher margin, you can make significantly more profit with less effort.

If your marketing teams know which products have higher margins, they can adjust their bids and focus on the products that bring in a profit, not just traffic.

2. Omnichannel vs. online-only

Let's imagine you're preparing for a run, but you need to buy a new pair of shoes. You might research a pair of running shoes online and know exactly which pair you want to buy. But chances are you'll make your final purchase in-store after testing the shoe for size and comfort.

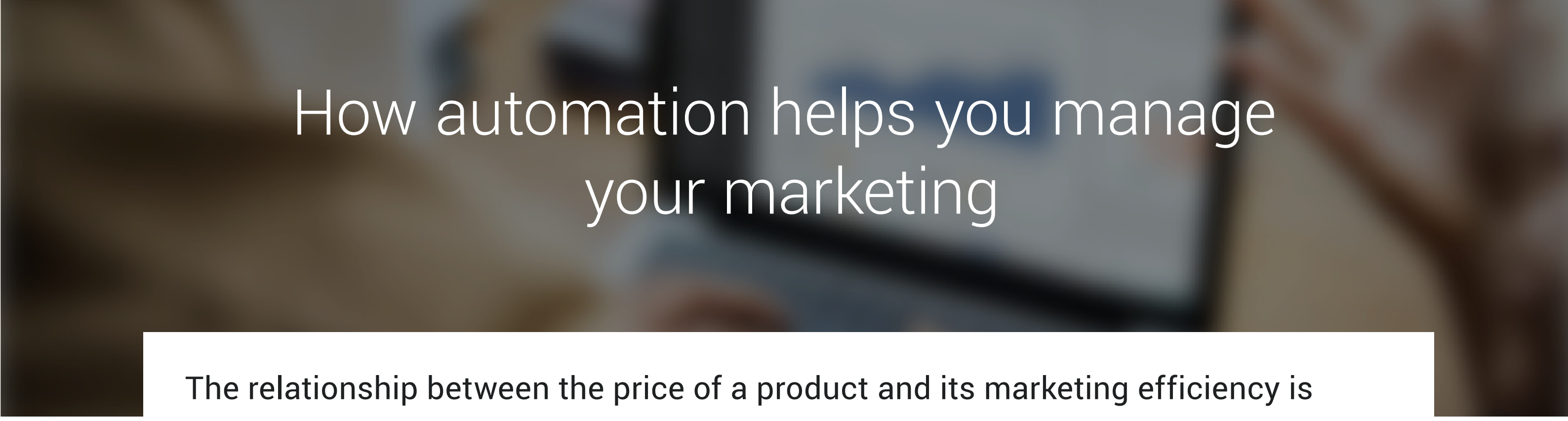
This is the Research Online, Purchase Offline (ROPO) Effect. And it's something marketers should consider when making their online bids.

That's because roughly 60% of in-store sales are influenced by a digital touch point.

Many products that are powerful in-store drivers are overlooked. But by incorporating omnichannel conversion rates, Omnia's software discovers these products are and lets you build a more cost-efficient marketing strategy around them.

Going back to the running shoes example, it's worth spending some of your marketing budget to display your shoes online, even if online conversions are low. This will help athletes know you offer the product they need, and will direct them to your physical store when they're ready to buy.

How automation helps you manage your marketing



The relationship between the price of a product and its marketing efficiency is further complicated when you consider that the balance is different for every single product. This is due to price elasticity: a measure of how demand for a product shifts with small changes in price. For example, an increased price for a popular TV (an elastic product) will most likely lead to a significant decrease in click-through and conversion rates. But an increased price for a TV wall mount (often sold alongside the TV) may have negligible effects on click through and conversion rates.

Automation doesn’t replace a well-planned pricing or marketing strategy. And it doesn’t mean you hand control of your decisions over to a computer. Instead, it helps you keep track of every factor that the modern e-commerce marketplace demands — for every single product in your assortment.

How Omnia can help

Omnia’s software allows you to combine your pricing and marketing information in one easy-to-use portal. You can then use that information, such as omnichannel and online sales, margins, and more, to create pricing and marketing strategies optimized for maximum profitability or sales, depending on your commercial strategy.

You can then tell the Omnia software how to execute that strategy, where your organization‘s limits are, and what to do if it reaches a limit. Our proprietary algorithms then execute your strategy for you — recovering hours of your time previously spent manually changing prices and marketing bids throughout the day. This lets your category and market managers focus their time on the strategy behind building your company, not chasing online prices.

Interested in learning more? Get in touch with Omnia today. Click here to book a demo and connect with our consultants, or call us at +31 (0)85 208 3140.

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