

April 19, 2012



#RetailPricing

Retail Pricing

In A Post-Channel World

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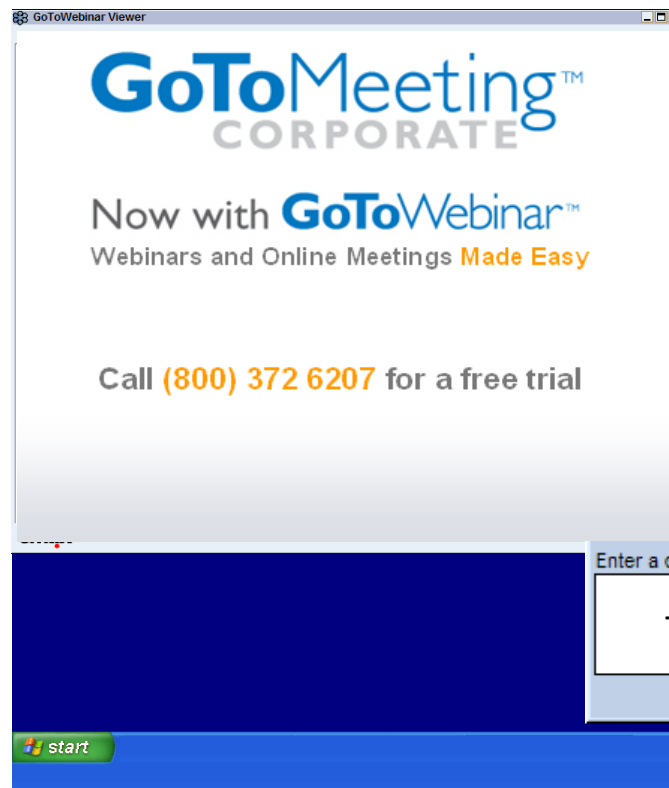
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TouchPoints
STRATEGIES TO OPTIMIZE EVERY CUSTOMER INTERACTION

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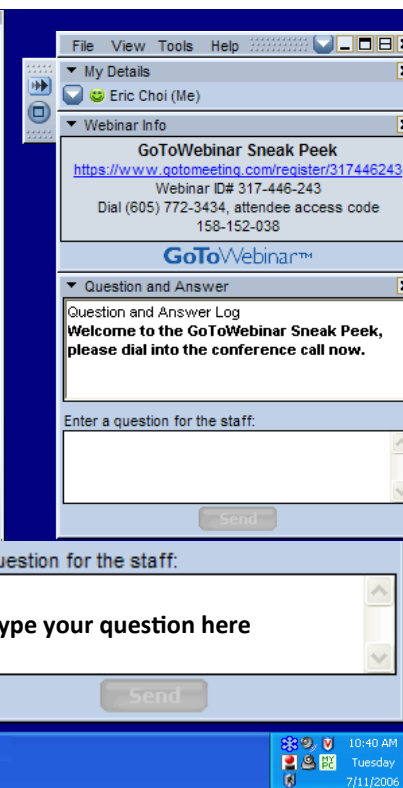
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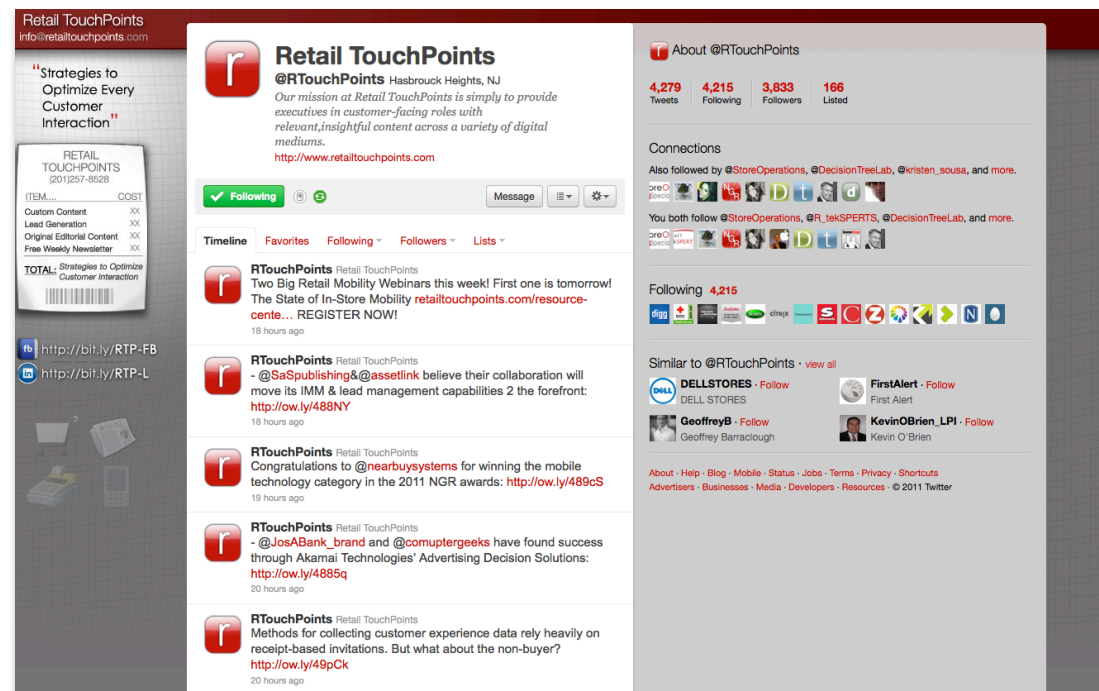
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- ✓ Over 20,000 subscribers
- ✓ To provide executives with relevant, insightful content across a variety of digital medium

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Panelists



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Andrew Gaffney
Publisher
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Retail Pricing in a Post-channel World: Benchmark Report 2012

PAULA ROSENBLUM, MANAGING PARTNER

APRIL 2012



Agenda

- **About RSR & the BOOT Methodology**
- **Report Goals**
- **Findings**
 - Overview
 - Business Challenges
 - Opportunities
 - Organizational Inhibitors
 - Technology Enablers
- **What Does it All Mean for Retailers?**

Who / What is RSR Research?

A group of retail industry veterans providing:

Insight into business and technology challenges facing the extended retail industry

Thought leadership and advice on navigating these challenges for specific companies and the industry at large



Nikki Baird



Paula Rosenblum



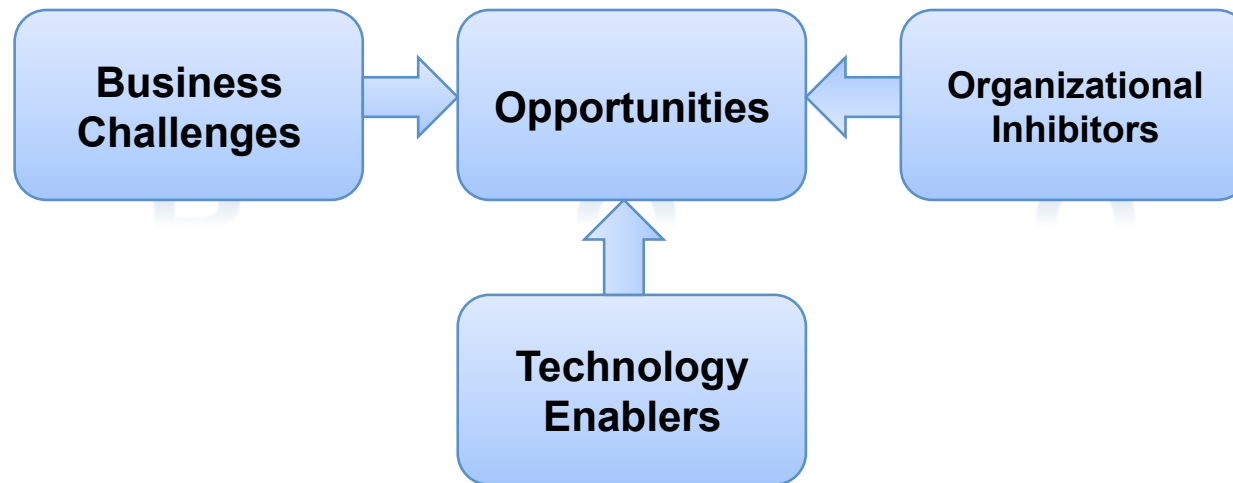
Brian Kilcourse



Steve Rowen

Our research products include technology adoption benchmark reports, custom research, and comparative personal benchmarks.

Our BOOT Methodology



Retail Winners: Year-over-year comparable store sales outperform inflation.

They sell more “stuff” but... they also think and act differently than their competitors.

RSR's 5th Annual Pricing Benchmark

- **Responses received from 70 respondents, February – March 2012**
 - **Products Sold**
 - 21% Fashion/Short Lifecycle
 - 27% Seasonal
 - 52% Basics/Replenished Items
 - **Revenue**
 - 37% Small (< \$50mm / year)
 - 21% Medium (\$50mm - \$999mm / year)
 - 26% Lower Tier 1 (\$1-5bb / year)
 - 16% Upper Tier 1 (>\$5bb / year)
 - **Headquarters**
 - 63% North America
 - 7% Central/South America
 - 8% AsiaPac
 - 22% EMEA
 - **Performance (average 3%)**
 - 23% Below average
 - 44% Average
 - 33% Above average

Report Goals

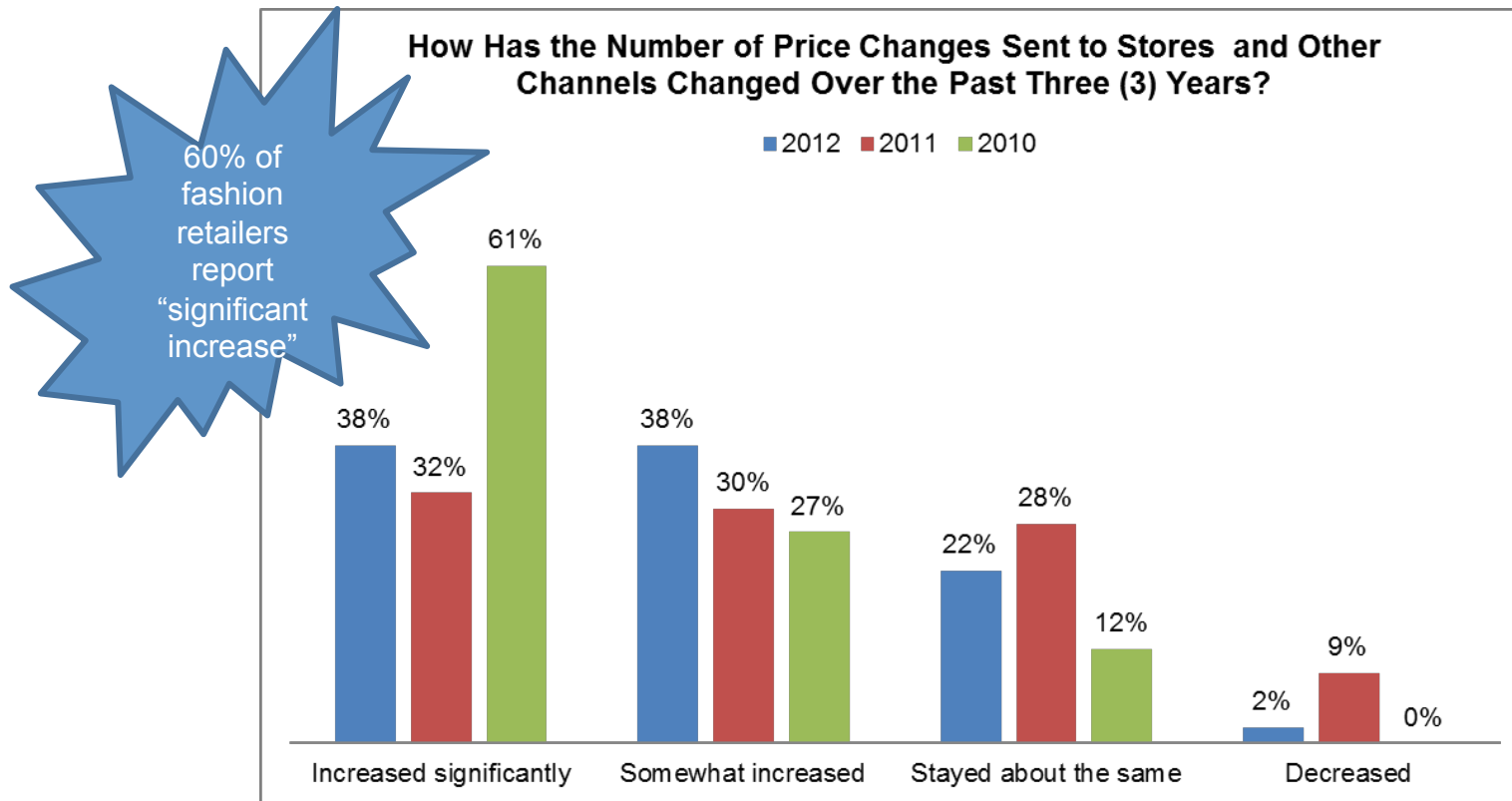
- Investigate and understand the implications of omnichannel retailing, the consumerization of IT, and price transparency on retailers' pricing strategies
- What we actually found was very different
 - A race to the bottom
 - Continued increases in the number of price changes
 - Fashion/Short lifecycle product retailers driving promotions bus
 - Retail Winners generally less hyper-promotional
- Retailers having trouble managing their high-performance pricing tools
- Little clarity on the impact of price changes

Overview

Quick Hits

- **Volume of price changes continues to rise**
- **Promotions have become a way of life (Do they work? Not too many can measure)**
- **Winners believe they are less promotional than others**

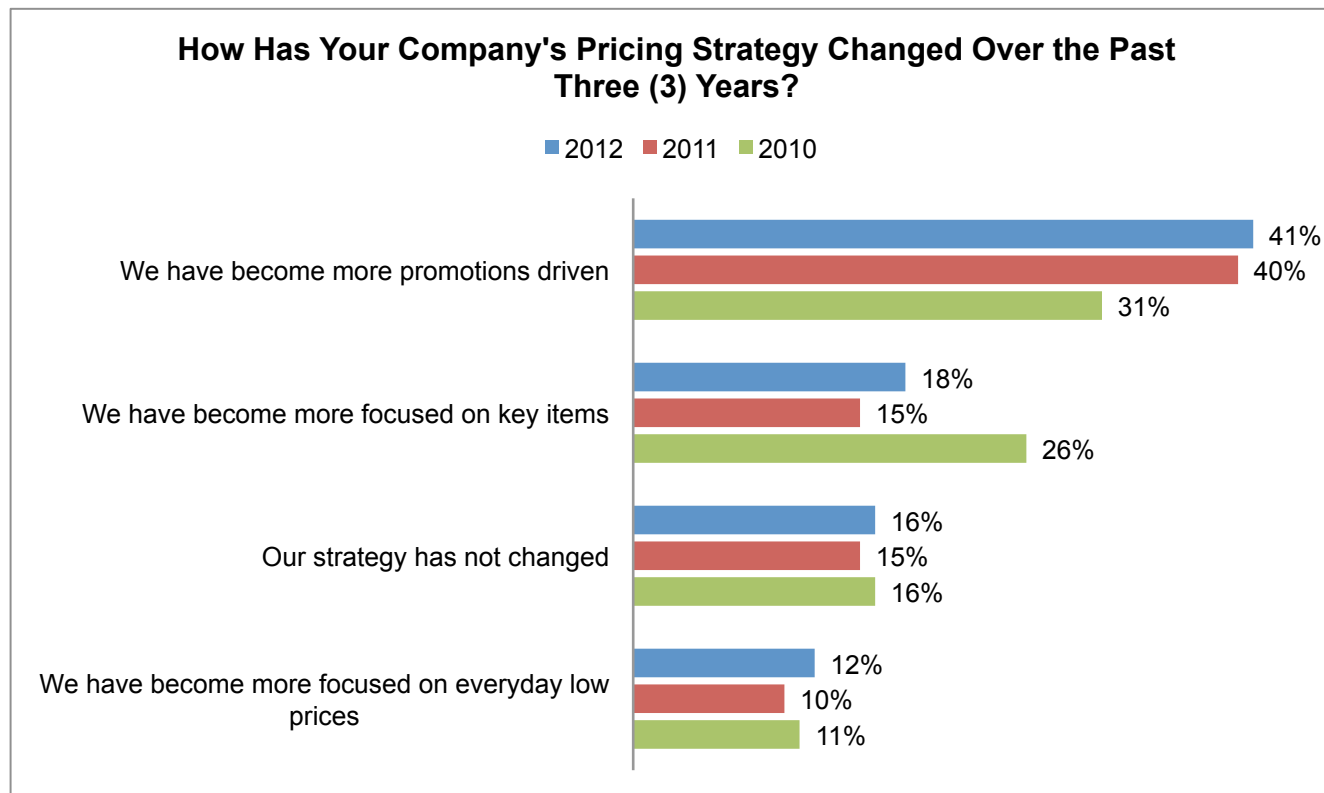
The Volume of Price Changes Continues to Rise



Source, RSR Research, April 2012

76% of all respondents continue to increase the number of price changes sent to stores and other channels!

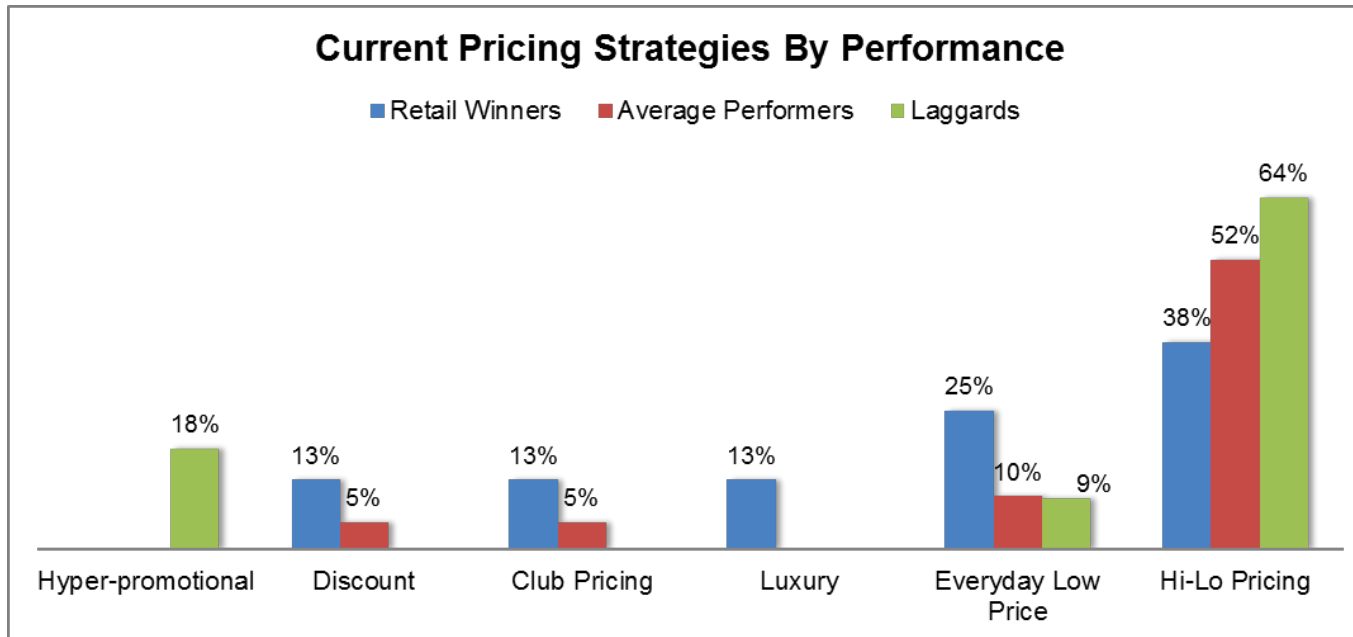
Promotions as a Way of Life



Source, RSR Research, April 2012

70% of Retailers selling fashion/short lifecycle report becoming more promotional, underperformers also riding the bus (55% vs. 35% of all others)

Winners Perceive a Slightly Different Tack



Source, RSR Research, April 2012

**However.....the sheer volume of price changes
seems to tell a different story**

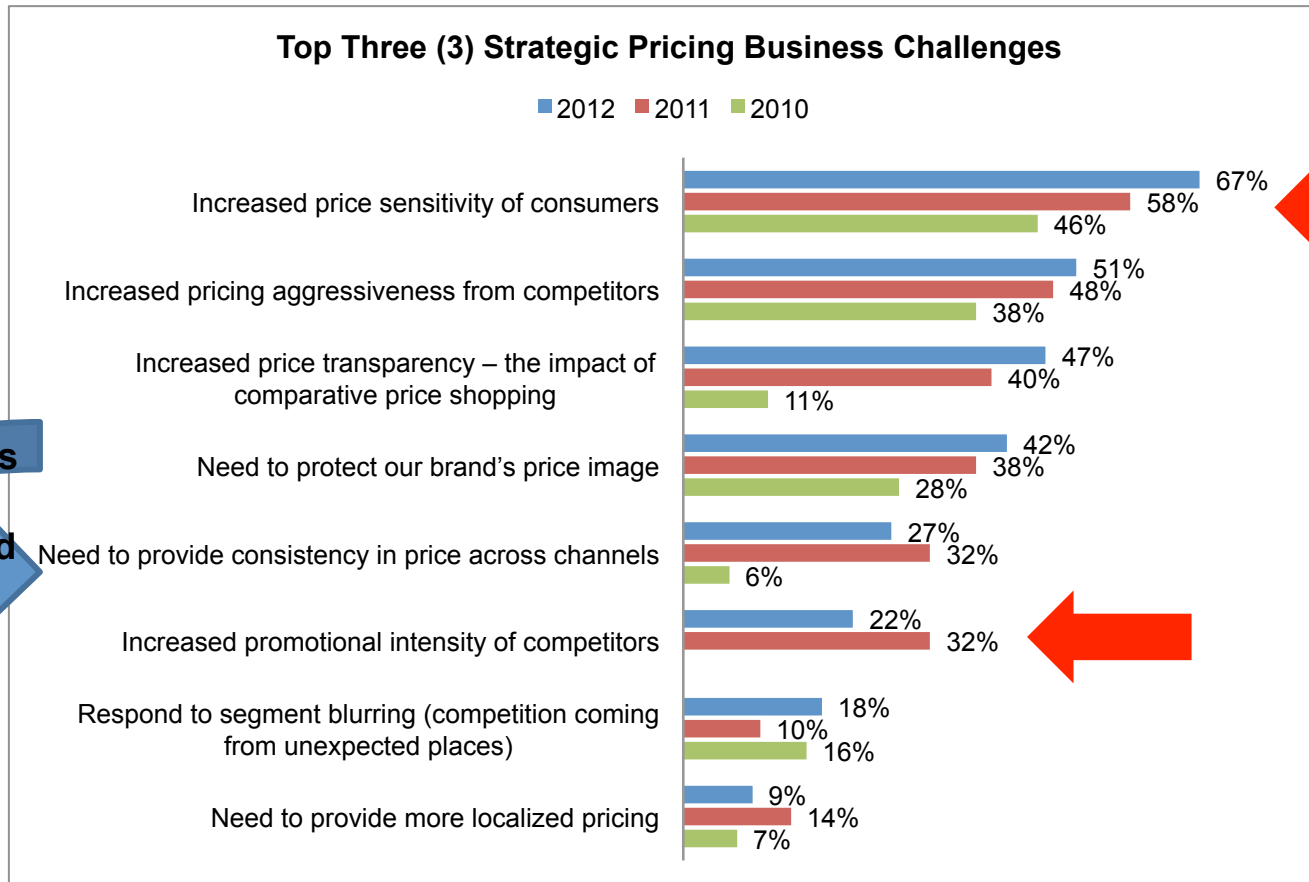
Business Challenges

**PERCEPTION BECOMES A SELF-
FULFILLING PROPHECY**

Business Challenge High Points

- **In Retailers' minds, consumer price sensitivity trumps everything**
- **Seasonal Retailers' territory under attack**
- **Channel proliferation has an impact on pricing thought process**
- **Commoditization and price erosion plagues laggards, as does the competitors**
- **Retail Winners tend to be more worried about the customer**
- **Mobile price comparisons still not too high on the "hit parade," but definitely rising**

Downward Pricing Pressures



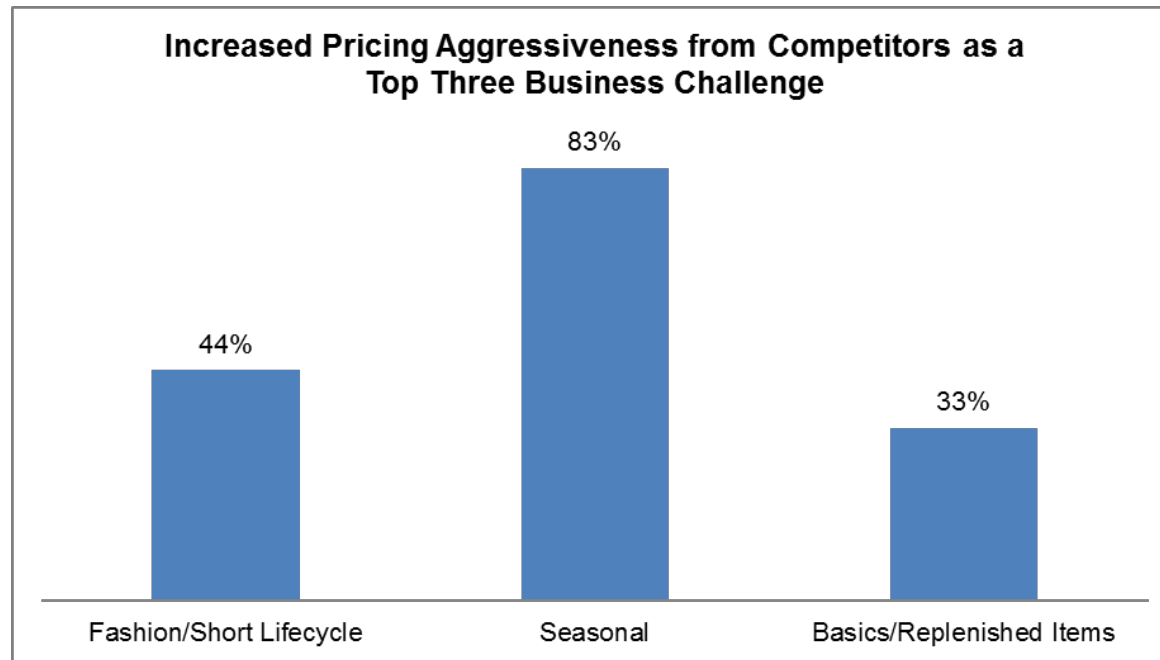
**Winners
more
focused
here**

**Laggards
more
focused
here**

Source, RSR Research, April 2012

Even in a continued improving economy, Retailers
obsess on the race to the bottom

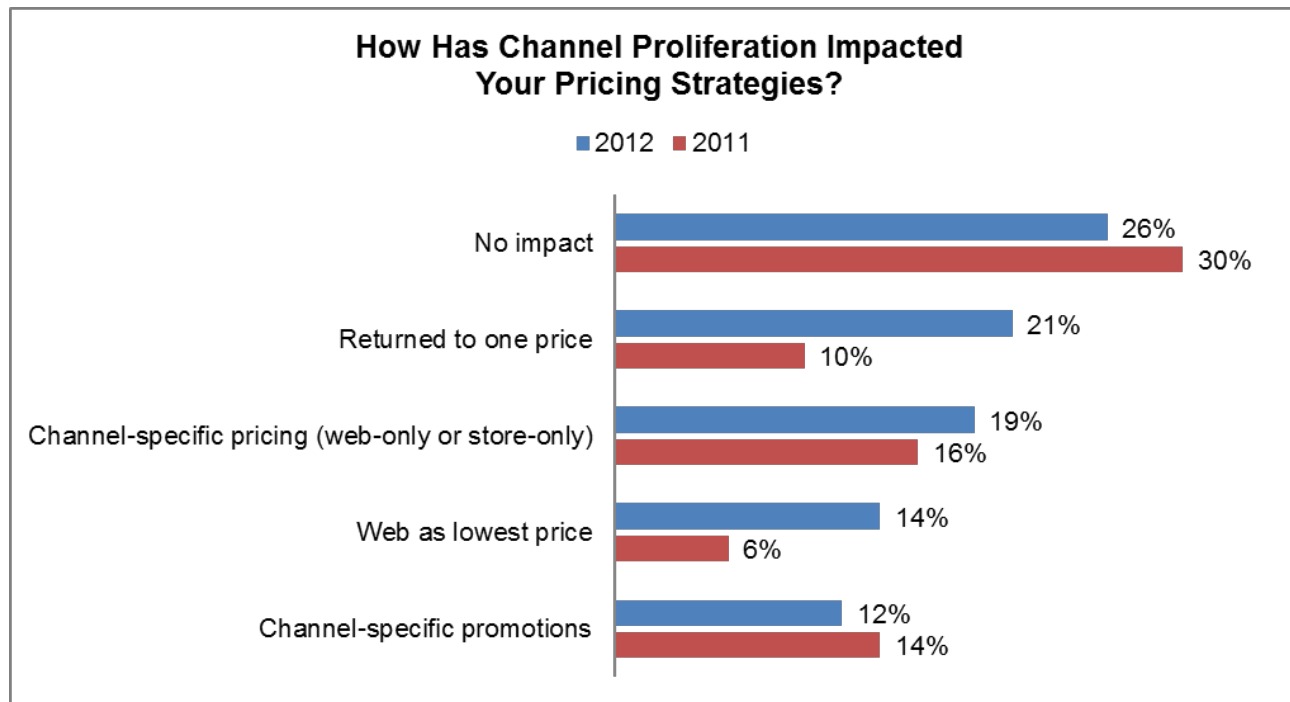
Everyone's Getting into the Seasonal Act



Source, RSR Research, April 2012

Nothing makes a great loss leader like a timely seasonal product

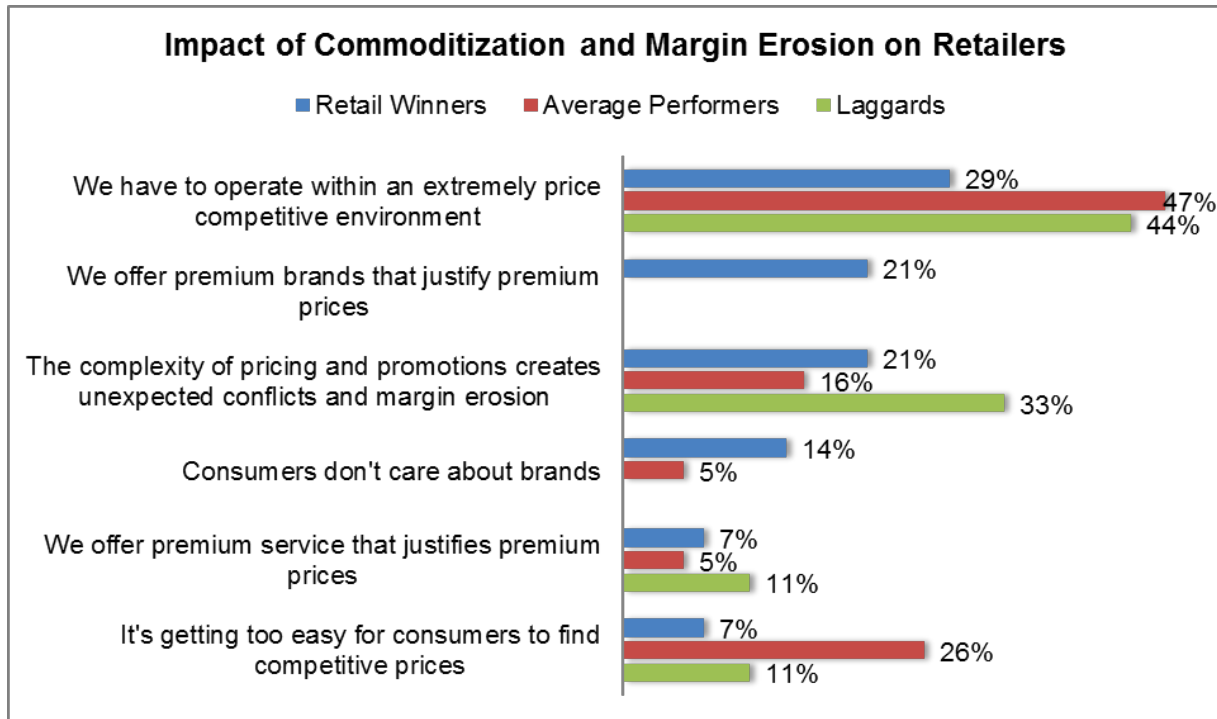
The Impact of Channel Proliferation Does Grow



Source, RSR Research, April 2012

- # of retailers returning to a single price has doubled, from only 10% to a fifth of respondents.
- 34% of respondents report that their zone pricing plans have been damaged by consumer price transparency.
- Fashion retailers lagging behind in adjusting pricing strategies. Twice as likely as the overall report channel specific pricing and promotions
 - None say the web has the lowest price

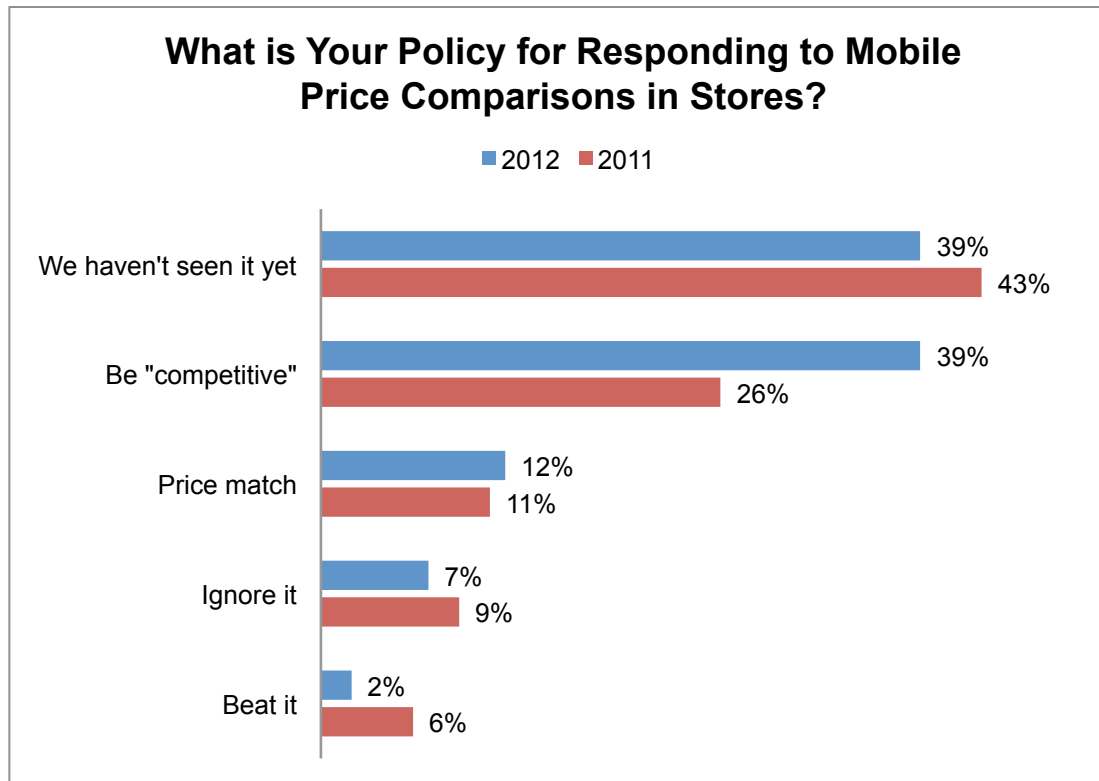
Commoditization and Margin Erosion Hitting Laggards Hard



Source, RSR Research, April 2012

Retail Winners look outward, to the customer, others look at competitors.

Mobile Price Comparisons: Mixed Messages



Source, RSR Research, April 2012

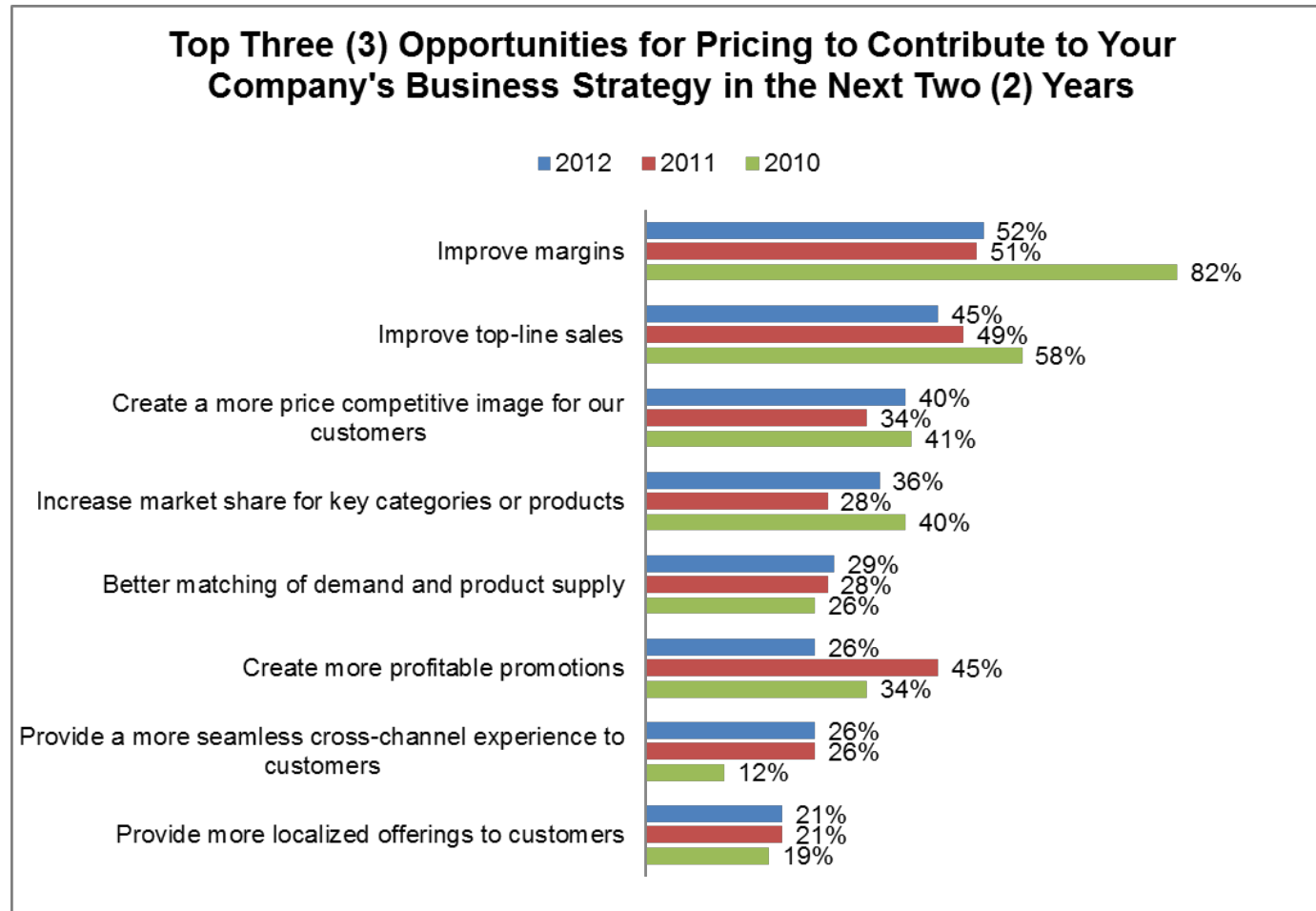
Oddly, the one place retailers do NOT race to the bottom

Opportunities

Where are the Opportunities?

- **It has always been about top line and margin improvements**
 - The smallest retailers hoping to change their image
 - Explains the rise of Groupon, LivingSocial
 - Retailers more focused on margin, they've already got the top line
- **Retail Winners leading in gathering data from new channels to help set prices**
- **Winners more confident in promotion effectiveness**

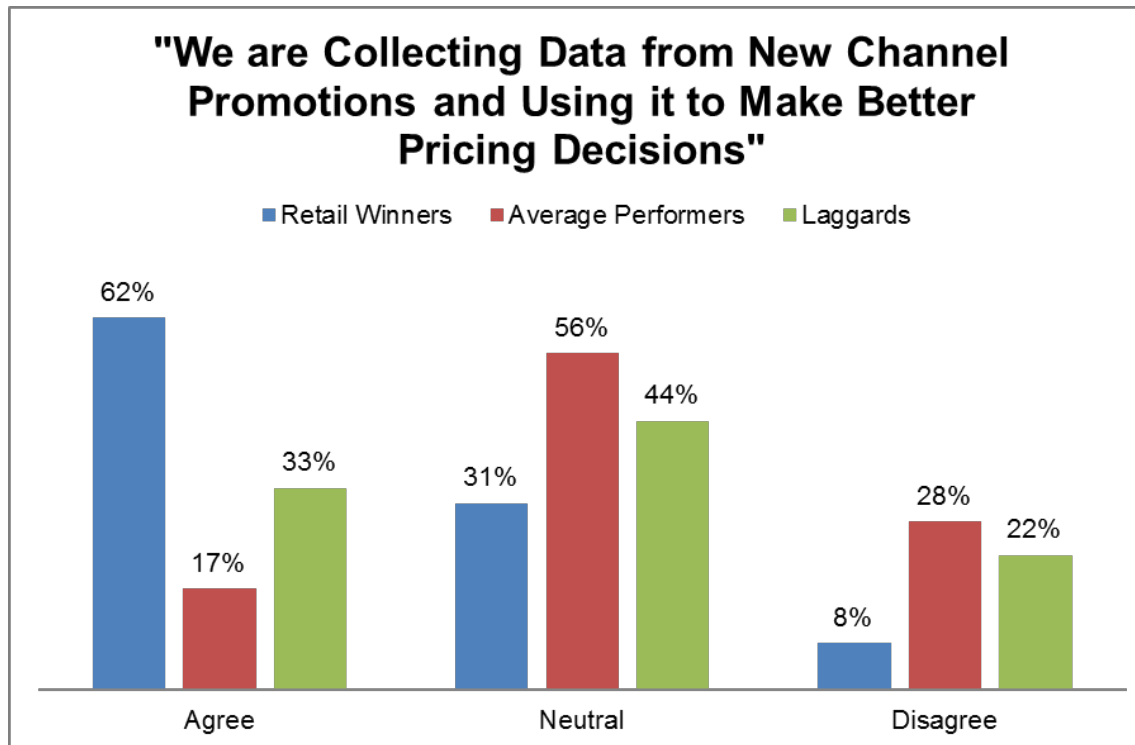
Expectations Stabilize, More or Less



Source, RSR Research, April 2012

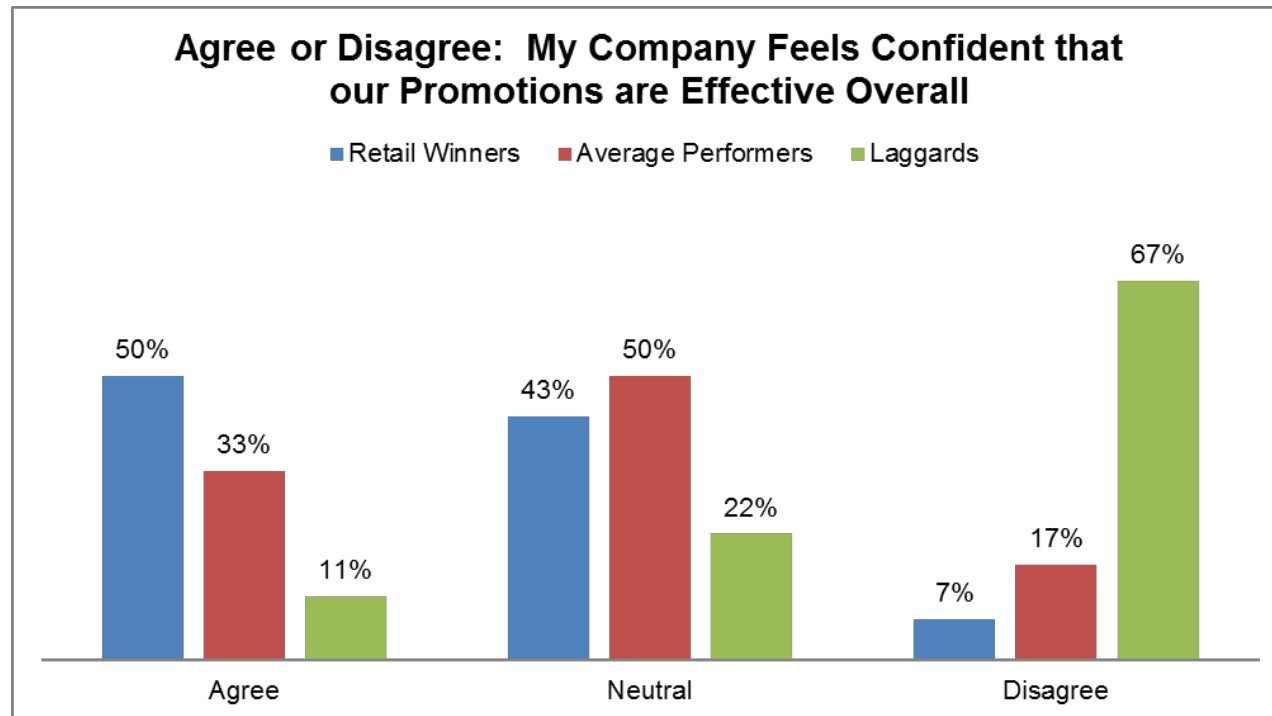
Note drop in expectation of profitable promotions. It's all about the overall price strategy now.

Winners Grabbing New Sources of Information



Source, RSR Research, April 2012

We're Running Lots of Promotions, but.....



Source, RSR Research, April 2012

Confidence in effectiveness declines in proportion to performance: laggard downward spiral continues.

Organizational Inhibitors

Significant Shifts

The Problems

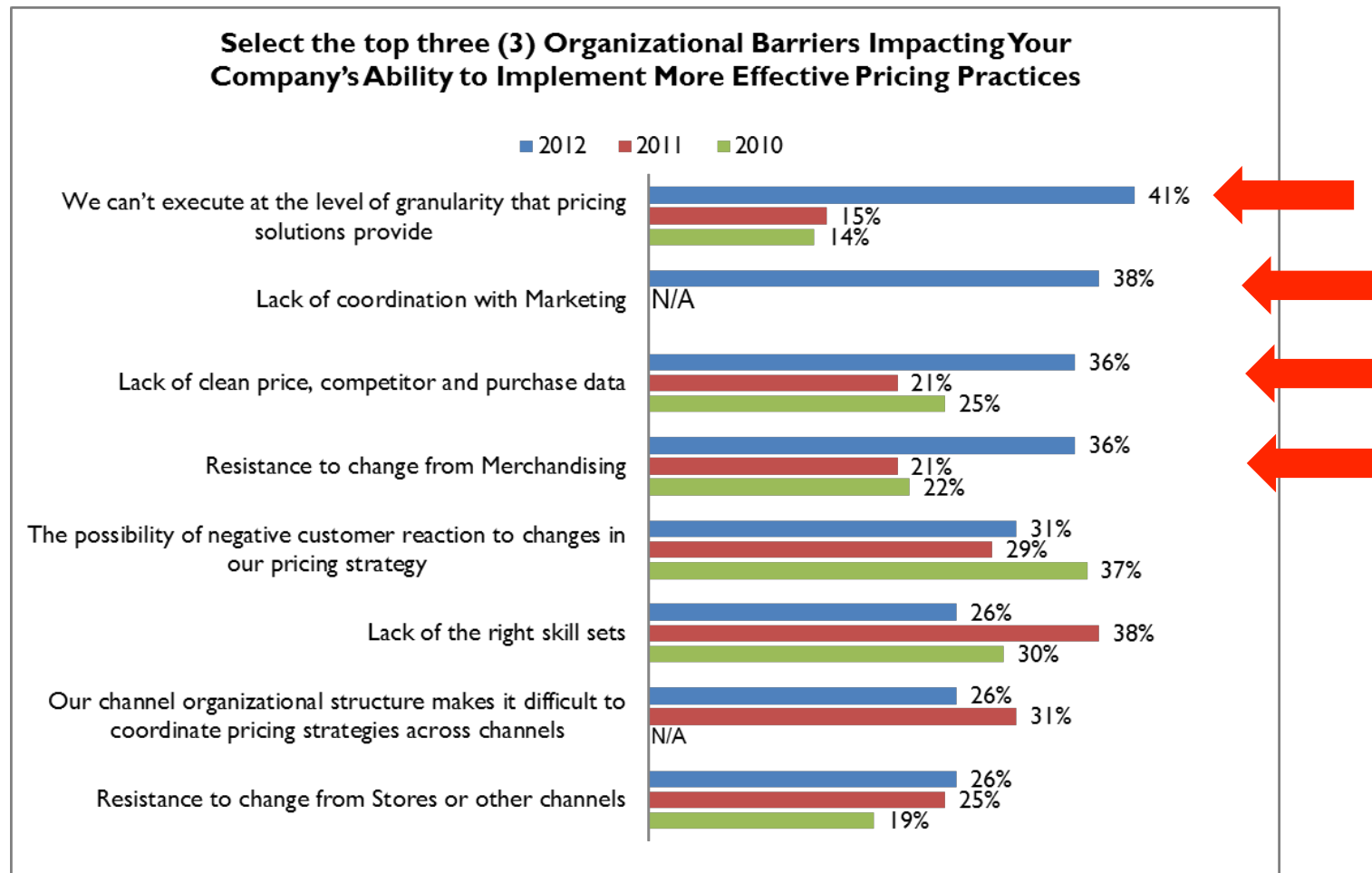
- We've got the tools. What the heck do we do with them?
- Dang! We've got to get marketing into the mix? We still haven't quite got merchandising on board!
- The Fashion Merchant Prince dying a very slow death
- Data quality issues become more pressing

The Solutions

- Consider crawl/walk/run approach
- Get some help to re-engineer outdated processes
- Better integration tools
- Better cross-cultural conversation

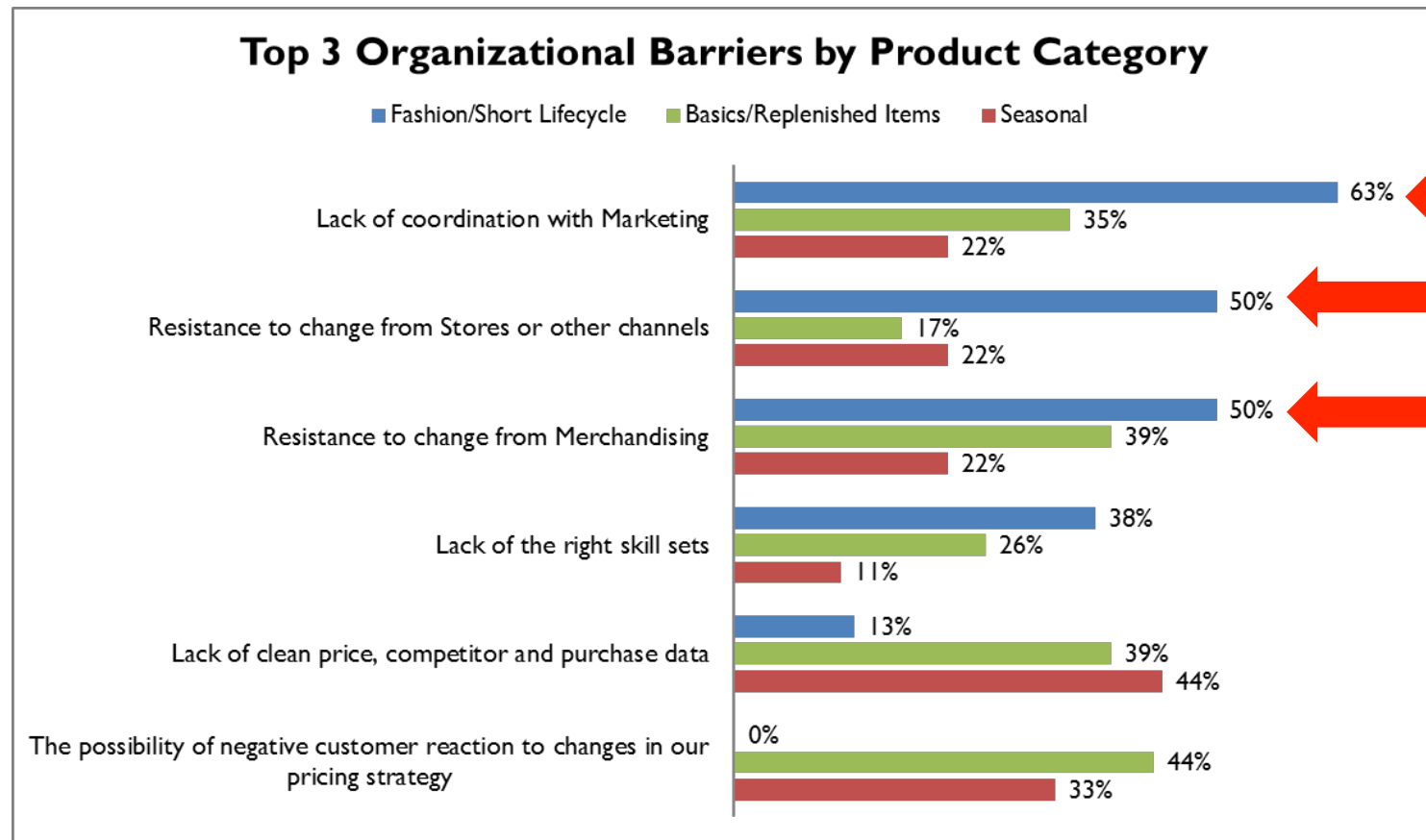
Operationally Speaking: How can we decide what to do, and how do we know if it worked???

This Turns out to be Complicated!



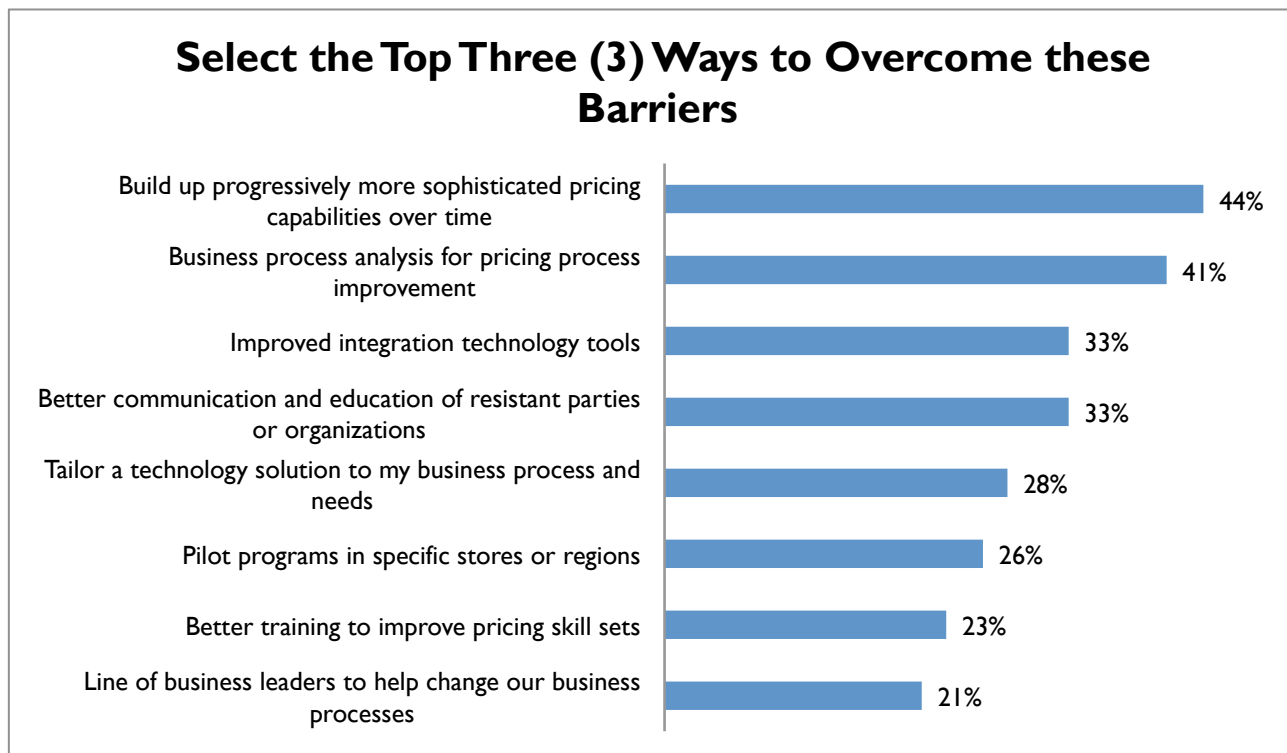
Source, RSR Research, April 2012

And in Fashion, Old Habits Die Hard



Source, RSR Research, April 2012

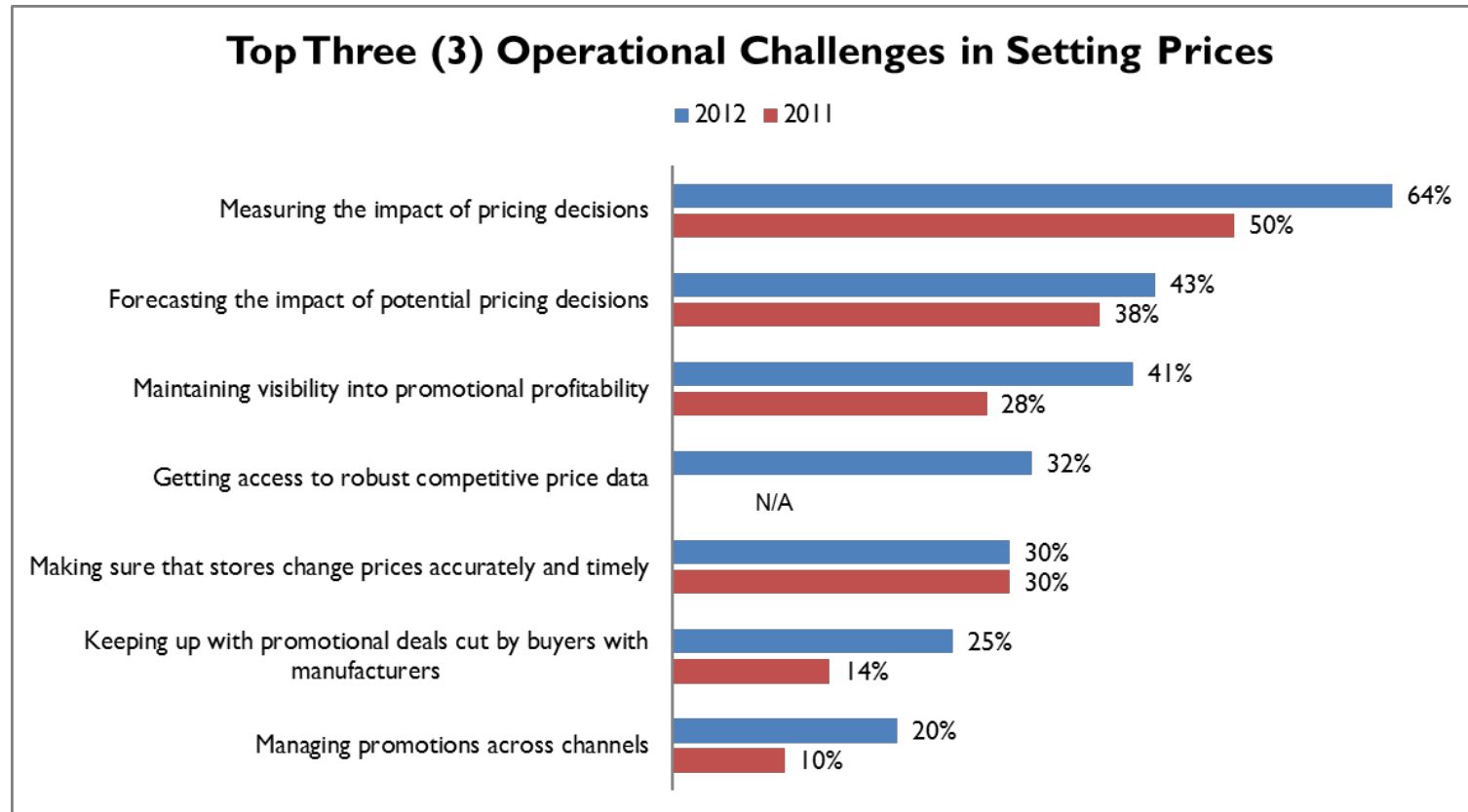
Crawl, Walk, Run; with Outside Help



Source, RSR Research, April 2012

This is rare: Recognition that Sr. Management can't just "demand it"

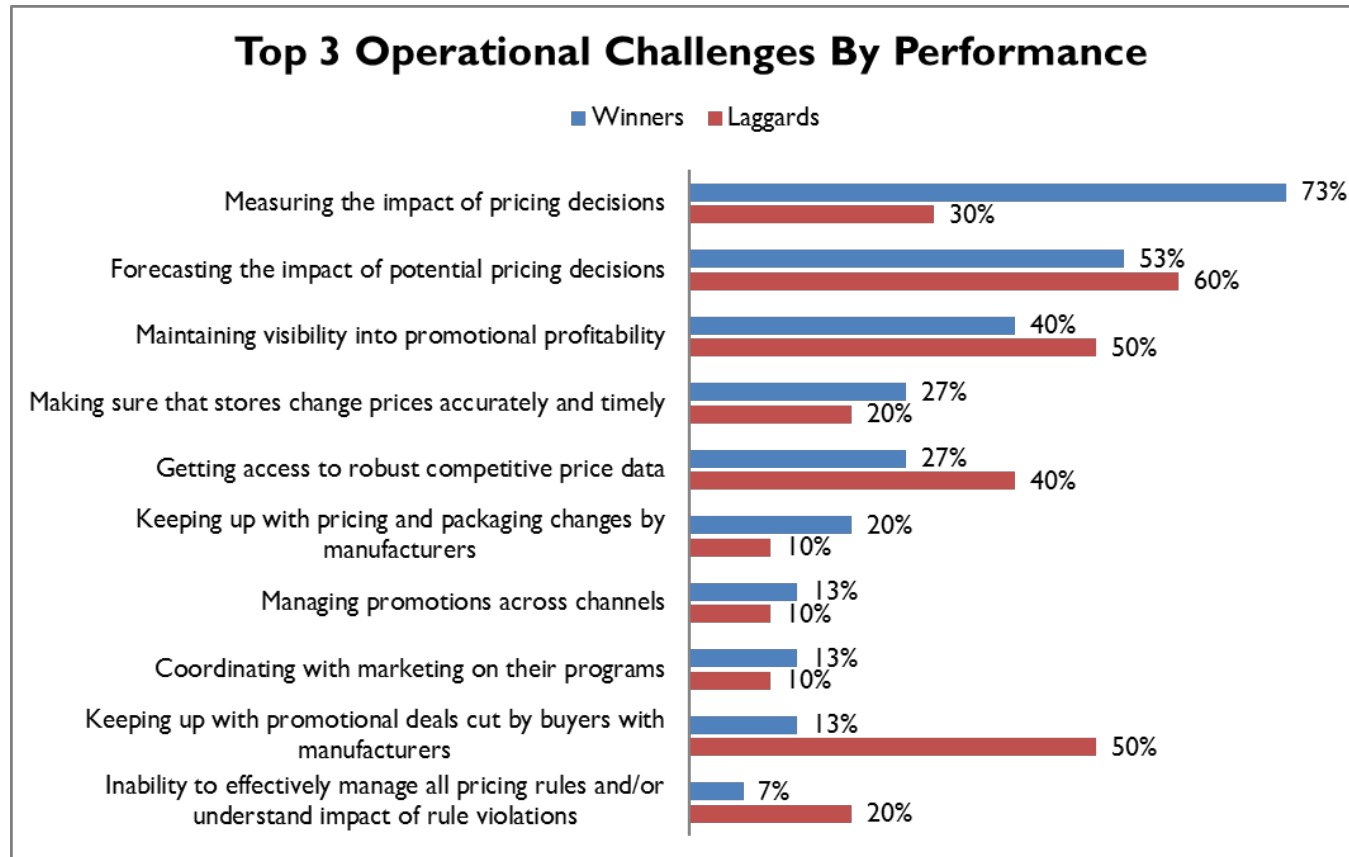
And Finally...A Stunning Lack of Clarity



Source, RSR Research, April 2012

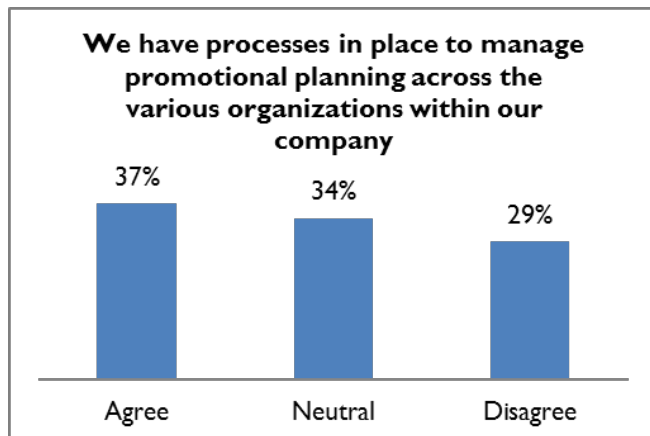
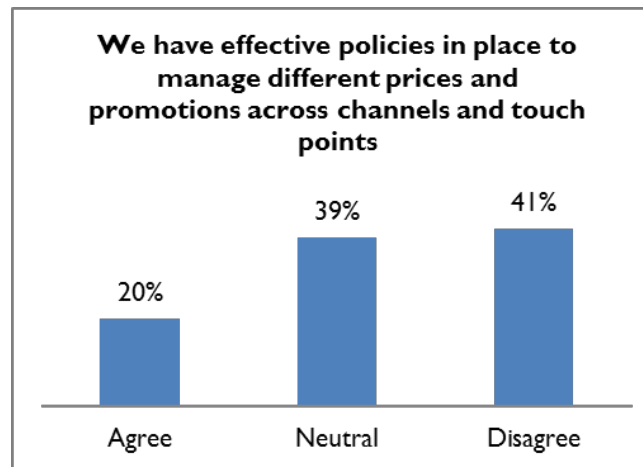
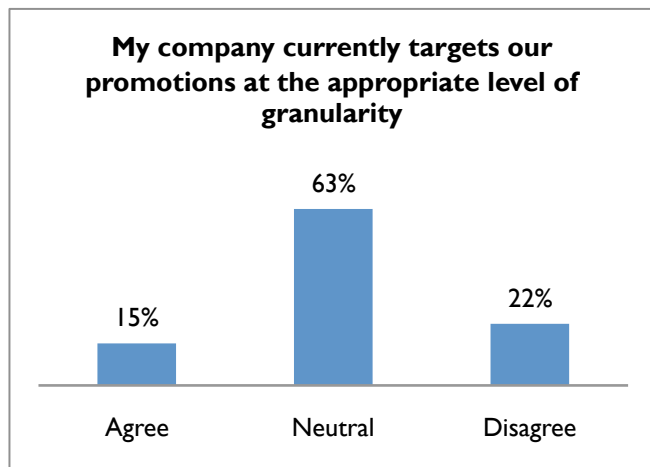
There is some good news in here for vendors, but some tricky problems too.

With a Surprising Exclamation Point...

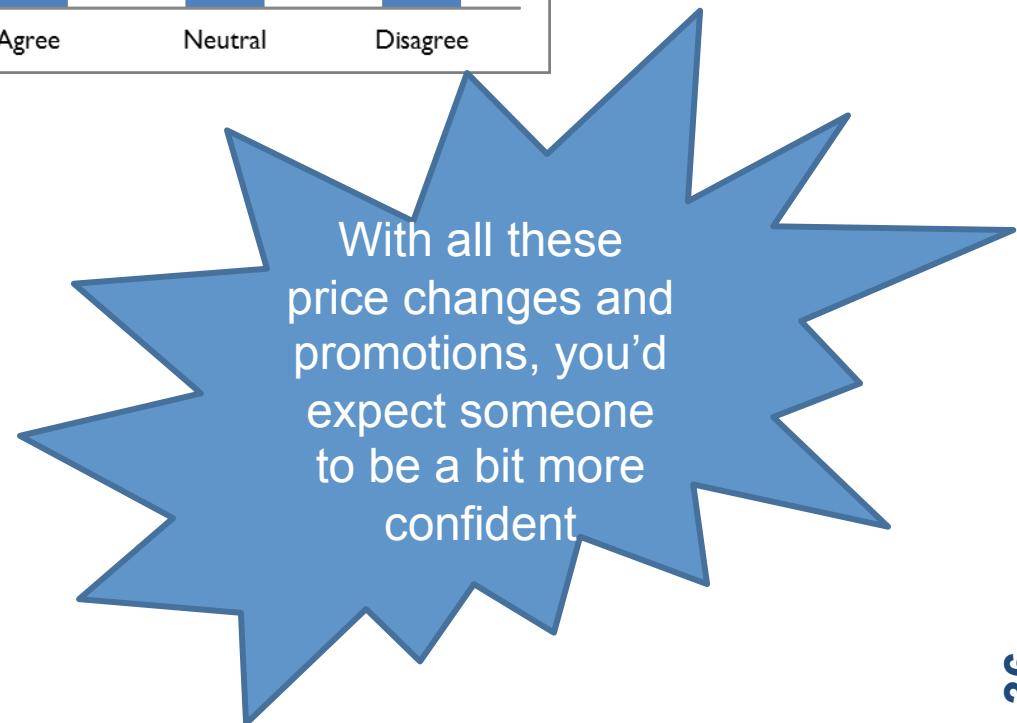


Source, RSR Research, April 2012

And a Few Words About Promotions



Source, RSR Research, April 2012

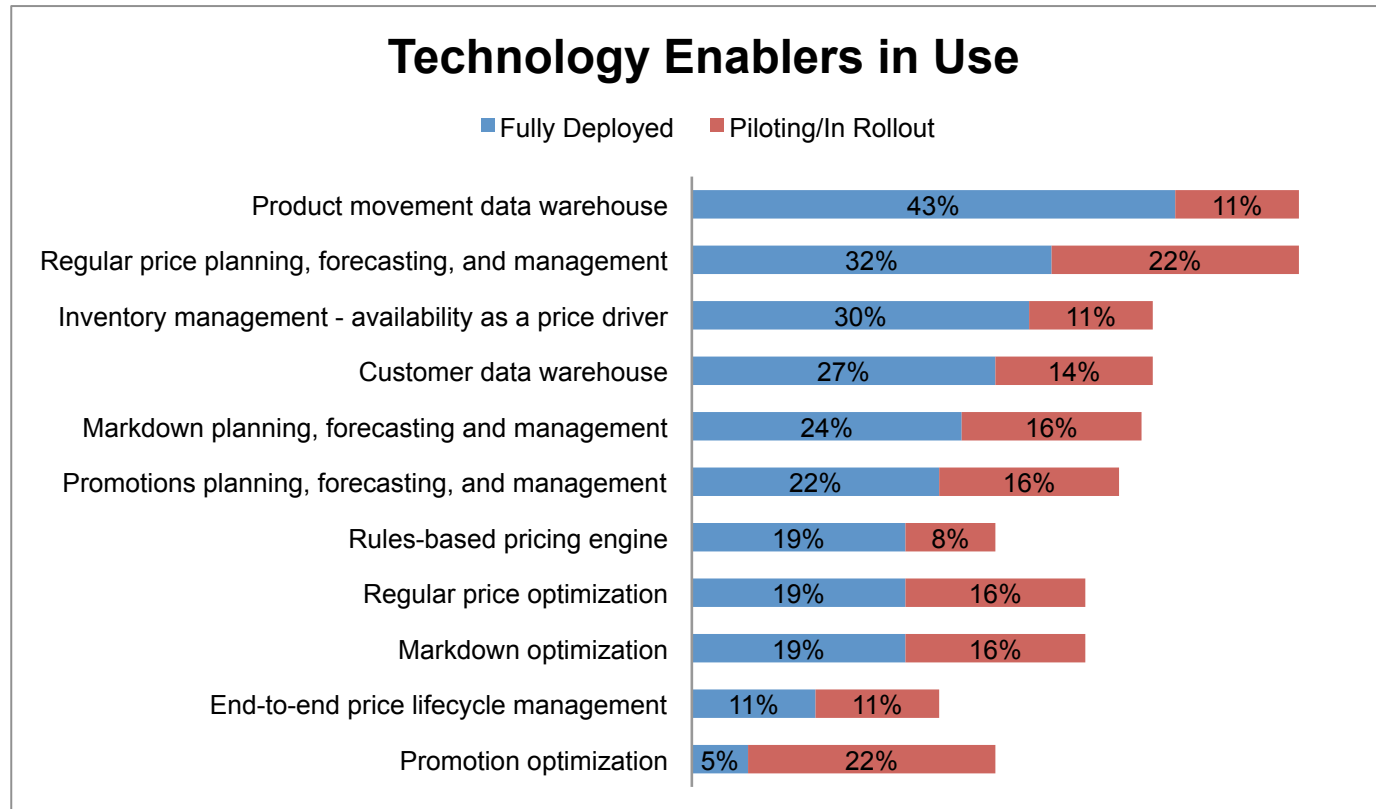


Technology Enablers

Tech Enablers, State of the Union

- **Foundations with a house, and a house without foundations**
 - With all these promotions, you'd think we'd have tools
- **Data elements – at least we're using the right ones when we use them**
- **But what happened to all that customer data?**
- **The bottom line: A race to the bottom that no one can win**

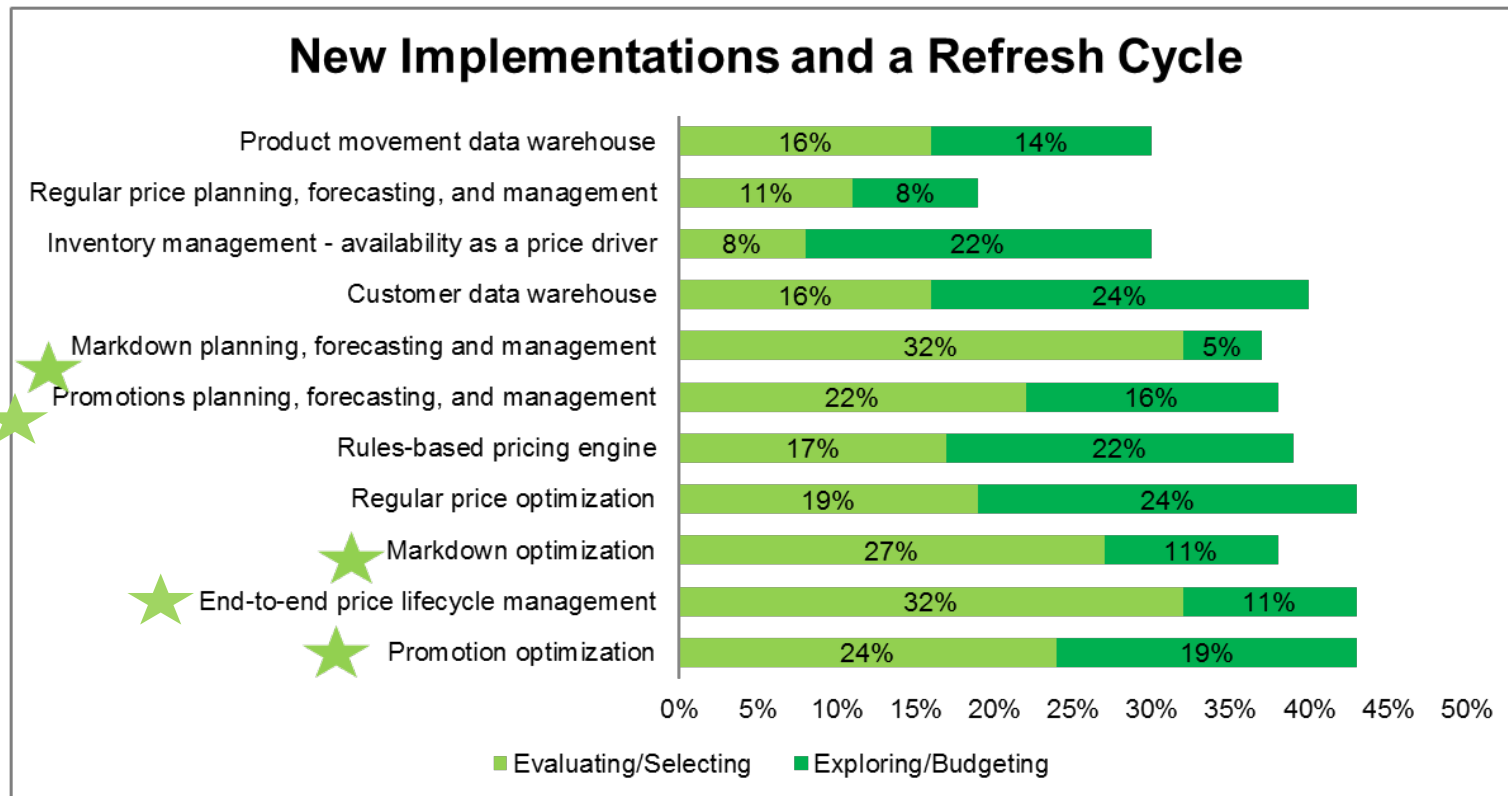
Technology Usage



Source, RSR Research, April 2012

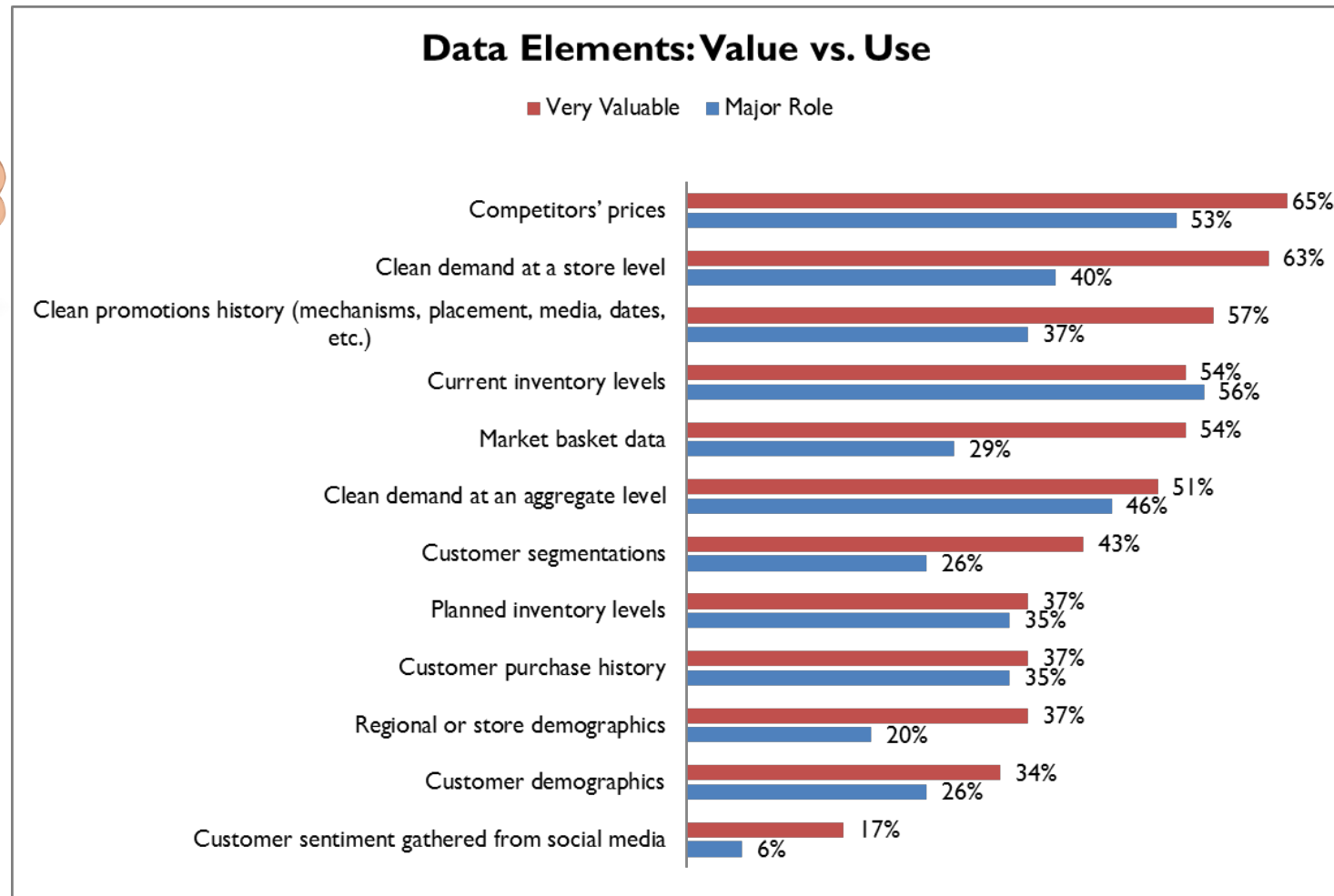
Data warehouse most frequently used, but how can you run all those promotions without technology help?

The Answer: Change is Coming



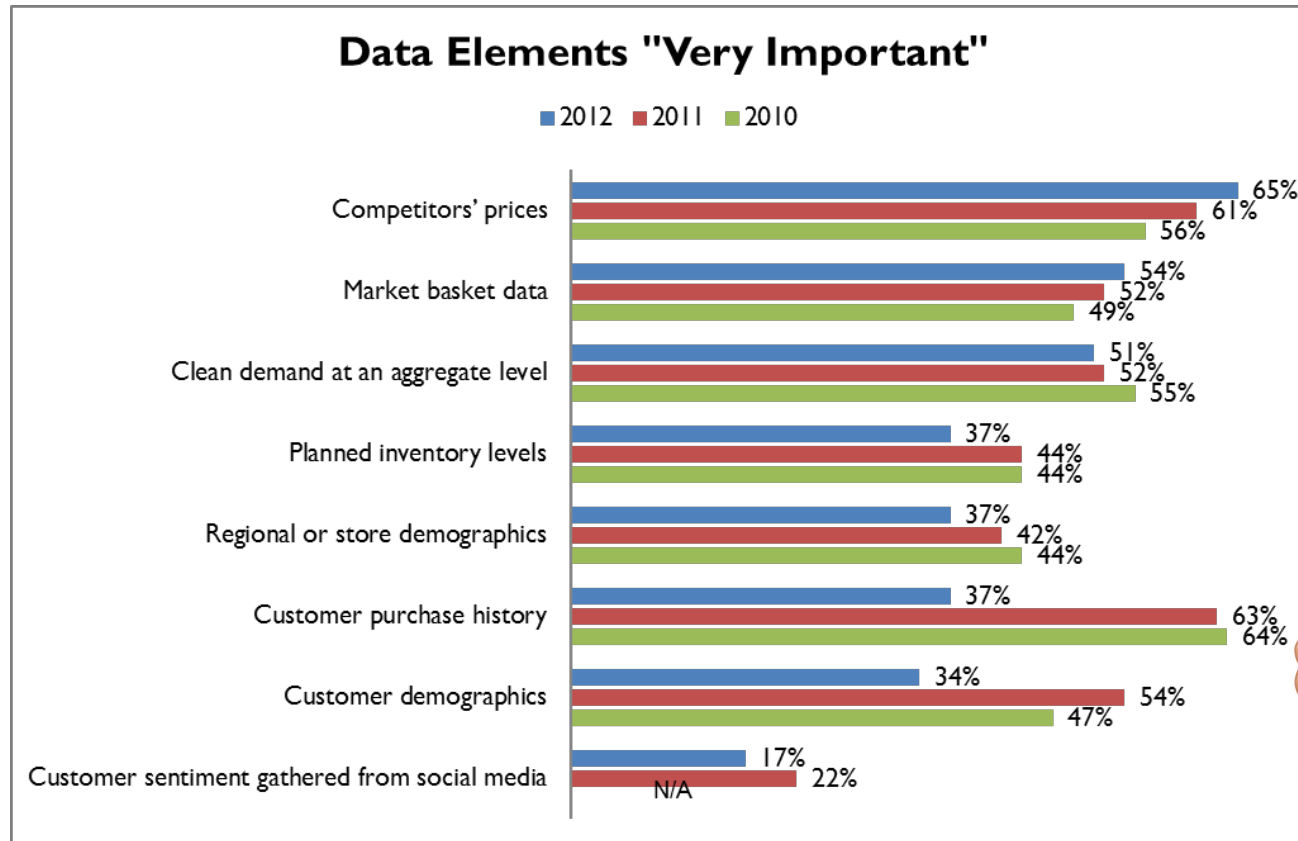
Source, RSR Research, April 2012

Data Valued vs. Usage Come into Alignment



Source, RSR Research, April 2012

But Customer Data No Longer as Highly Prized



Source, RSR Research, April 2012

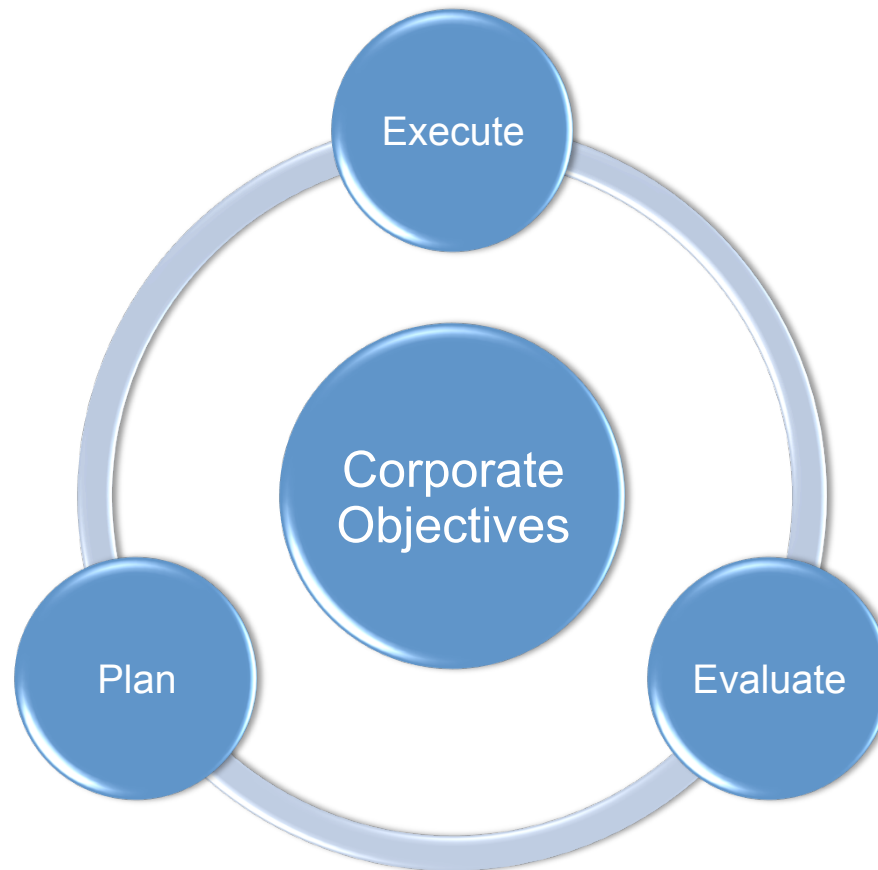
We maintain the race to the bottom is retailer generated, not customer-created

What Does it All Mean for Retailers?

Recommendations

- **A return to sanity is in order**
- **A three-step process to “get back to good”**
 - Plan
 - Execute
 - Understand/Evaluate
- **In the use of technology, also need a three-step process**
 - Crawl: Use the technology in selected categories (using 3 step process) to set regular prices
 - Walk: Expand out to remaining categories, full life-cycle pricing
 - Run: Drive promotions with appropriate tools
- **At every step of the way, discipline is in order. Promotions are a drug the entire industry is hooked on.**

A Virtuous Pricing Lifecycle



Sounds so simple, yet so rarely implemented in today's environment!

Thank You!

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BETTER DECISIONS. **BY DESIGN.**

Rafael Gonzalez Caloni

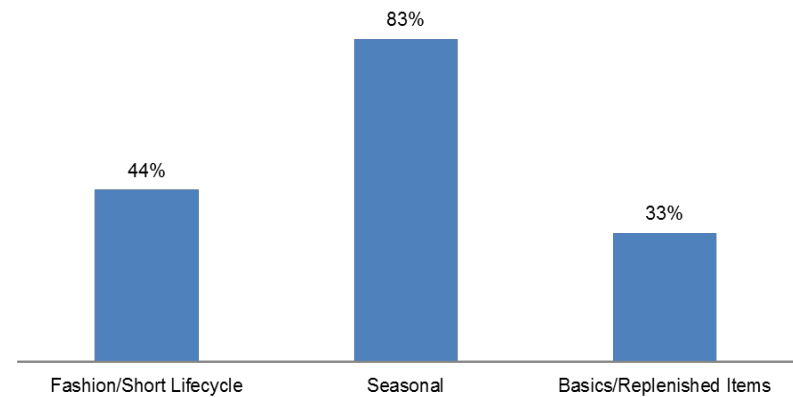
COO & EVP Marketing

Do retailers have the right tools to win this high-risk game?

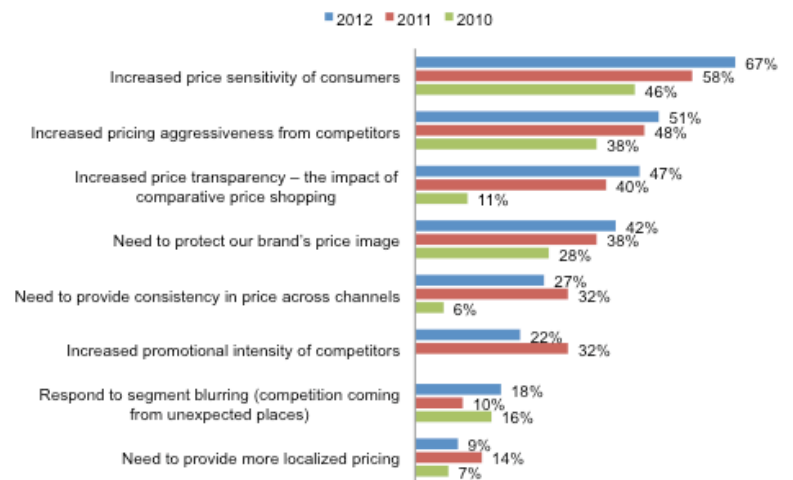
- ✦ Multi-channel pricing & promotions drive today's business and tomorrow's loyalty
- ✦ Yet retailers find themselves locked in a "race to the bottom"
- ✦ And unable to make decisions that "hit the mark" with their customers



Increased Pricing Aggressiveness from Competitors as a Top Three Business Challenge



Top Three (3) Strategic Pricing Business Challenges



Predictix

Traditional approaches present poor options



- ✦ Black box
- ✦ Underpowered
- ✦ Difficult to use
- ✦ No concept of the customer
- ✦ No support for process



- ✦ How do I plan across customers and channels?
- ✦ What are my best options and why?
- ✦ What will happen when I execute?
- ✦ How do I execute?

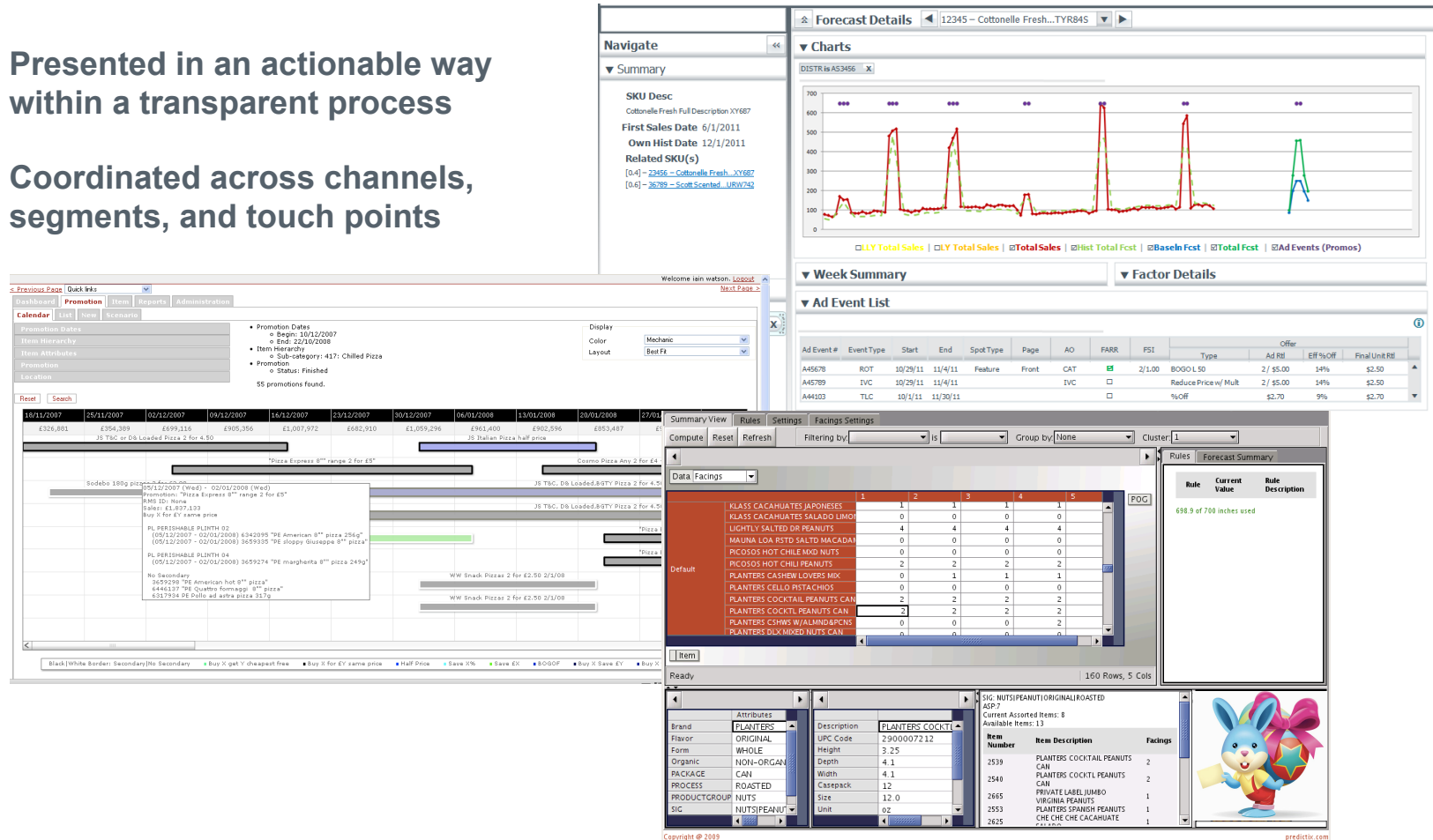


- ✦ User intensive
- ✦ Underpowered
- ✦ Disconnected
- ✦ Error-prone
- ✦ No support for process

Predictix

“We need processes in place to make sophisticated decisions, the data to support those decisions, and a way to execute those decisions profitably.”

- ✦ Real-time, accurate Big Data analytics tailored to data and needs
- ✦ Presented in an actionable way within a transparent process
- ✦ Coordinated across channels, segments, and touch points

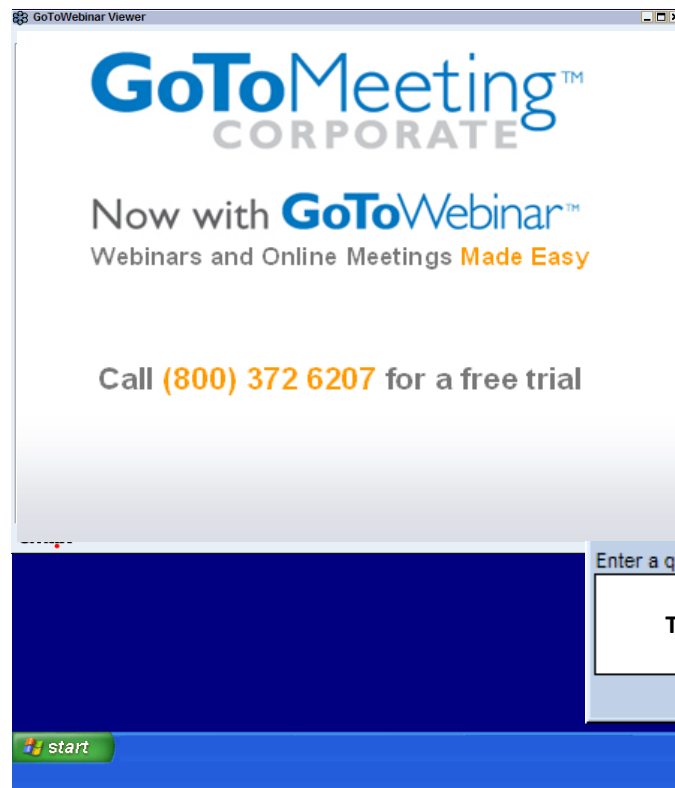


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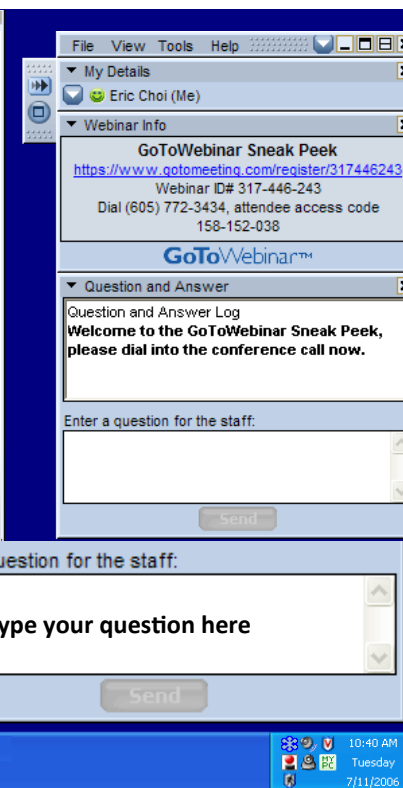
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