

JULY EDITION

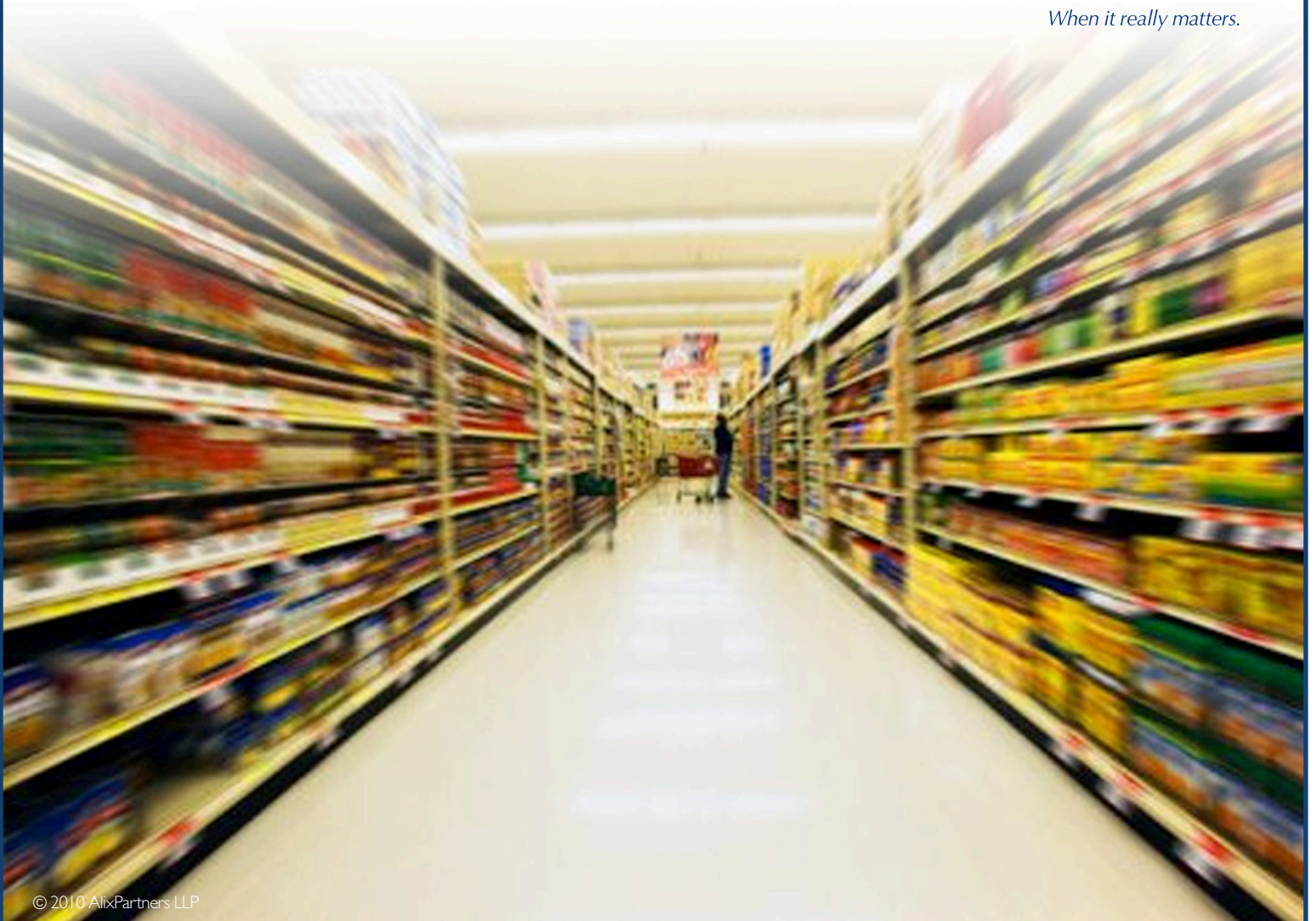
Lessons from the Front

Price Repositioning

INSIDE:

4 Keys To Winning With Price

AlixPartners
When it really matters.



Introduction

As the U.S. economy continues its long, slow recovery, grocery retailers remain locked in a price war. With its early 2010 price “rollbacks” in a number of key grocery categories, Walmart is setting the pace. Given its market position, Walmart’s pricing moves have placed considerable pressure on other grocers to respond. AlixPartners’ data shows that once a customer is lost to Walmart, that customer rarely returns. Over two thirds of Walmart grocery shoppers buy 100% of their groceries there.

Maintaining margins in the face of price deflation is hard work. Some are trying with high-low pricing strategies. This is a high risk game as the likelihood of winning back a customer if she tries a new channel is getting slimmer and slimmer. Grocers must bring the pricing gap on “the basket” to less than 10% if they will have a fighting chance. With an overall gap of 10% or less, other value drivers like convenience, selection and service allow grocers to maintain and grow their volume.

Grocers must implement a methodical approach to selecting the right categories, products, promotion calendar, and price points to focus on. This is a multi-disciplinary effort that requires a large data set and effective analytics. Merely price-matching specific competitors will ultimately lead to deteriorating margin and customer loss. However, by carefully combining your goals, budget, organizational capabilities, and competitive intelligence with a robust data set, you can turn pricing into an offensive weapon and a growth initiative.

Keys to Winning with Price

1. Combine Price With Another Attribute

The first step to any effective strategy for any grocer is to understand how the customer perceives your pricing. Combining this understanding with detailed knowledge of the competitive landscape enables companies to understand what adjustments—and investment— will be necessary to manage price positioning.

It is critical to compete on a specific value proposition. In their best-selling book, *The Myth of Excellence*¹, AlixPartners CEO Fred Crawford and Ryan Matthews proved that aligning strategies along five consumer sentiment attributes (product, price, experience, access and service) and dominating on one, exceeding on another and achieving parity on the remaining three is how winning retailers succeed. Price is just one element of a value proposition. Balancing price with another attribute allows retailers to customize the message most appropriate for their specific customers. In other words, pick your battles. Put the lion’s share of your time and resources into excelling and defending two strategically aligned attributes.

(1) Fred Crawford and Ryan Matthews, *The Myth of Excellence: Why Great Companies Never Try to Be the Best at Everything* (New York: Crown Business, 2001)

2. Data Availability and Flow

To implement an effective strategy, systems, data flow and enabling organizational structures must be in place. If data is incomplete, inaccurate or slow to reach the ultimate pricing decision makers, your strategy cannot be executed. If you misprice key items at the wrong time you will give away unnecessary margin or, even worse, lose a customer.

3. Building Analytics

Grocers should start by building an analytical framework to measure the impact of pricing changes. These analytics can measure and improve category-specific plans and vendor-specific programs and make necessary adjustments when the results do not meet expectations or the competitive landscape changes. Benchmarking prices paid for the same or “like” items across geographies and demographics is essential to provide insight and to allow for better forecasting of volumes at a specific price point.

It also can provide a basis to understand price elasticity which is a predictive input to improve sales and margin forecasting when trying to “close the gap with Walmart.”

4. Align for Execution

An execution framework should be comprehensive and linked to category management activities. These activities should ensure alignment of everyday and promotional pricing with specific category plans and overall advertising and customer communication. In addition to external communication, store signage, POS marketing material, and in-store price messaging should be coordinated and reflect the overall pricing strategy.

In summary, many have failed trying to merely match competitor pricing. In fact, your competitors hope you try. Yet ignoring pricing gaps is also perilous. You might protect margin percents, but your customers are walking out the door for better value – and many are not going to return. Proactively developing a “price war” response strategy is a must.

AlixPartners conducts a broad range of surveys and research in industries around the globe. To learn more about our publications, please visit www.alixpartners.com, or write to Retail@AlixPartners.com.

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