

Accenture Interactive – Point of View Series

# Optimizing pricing and promotions in a digital world

From product-led to  
customer-centric strategies

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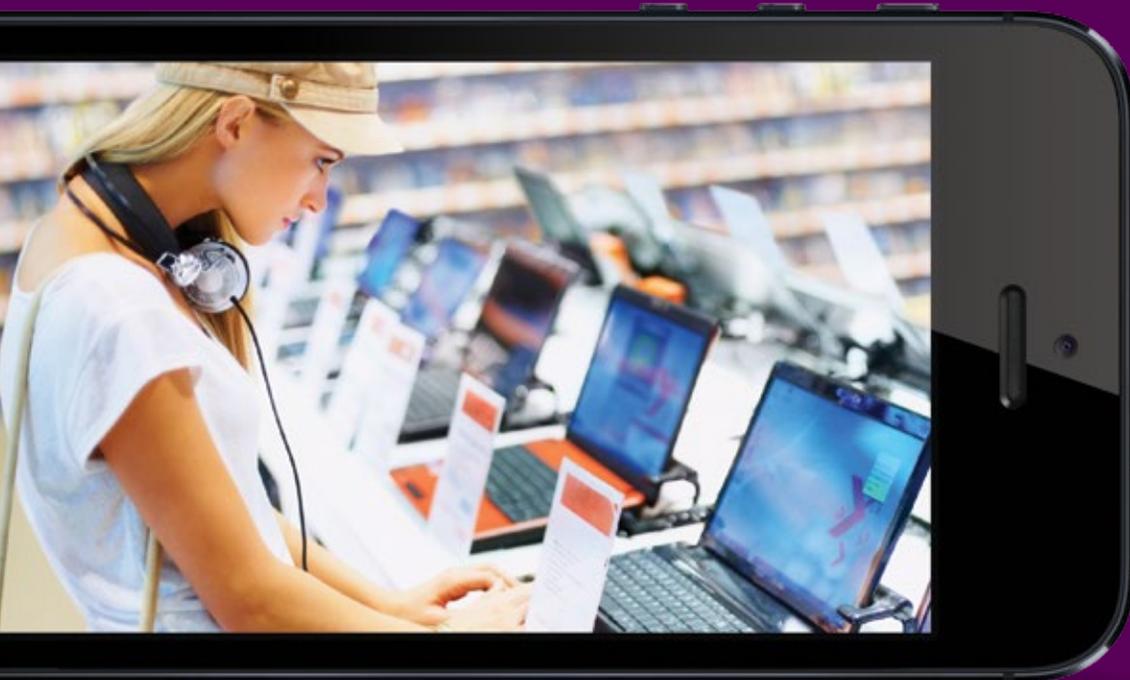
# Is the price right?

Today, tech-savvy customers are actively comparing prices in-store, online and on the go. Armed with multiple devices and looking for the best deal, consumers are increasingly price aware, price sensitive and even price influencers. Companies that want to succeed in this highly competitive marketplace should mirror this ability to actively compare their prices across all channels, in real time.

Developing and optimizing the appropriate pricing and promotions strategy is a complex proposition—hard to get right, but rewarding for those that do. Using advanced analytics technologies to understand buyer behavior, companies can provide more compelling offers and product pricing to the customer. The result? Increased sales and profit margins. Knowing which pricing strategy to adopt, when, and why, helps companies to develop relevant promotions, boosting consumer engagement and customer loyalty.



Omni-channel retail is fast becoming the norm: **71%** of consumers expect to view in-store inventory online, while **50%** expect to buy online and pick up in store.<sup>1</sup>



<sup>1</sup> A Forrester Consulting Thought Leadership Paper Commissioned By Accenture and hybris, an SAP company, "Customer Desires Vs. Retailer Capabilities: Minding The Omni-Channel Commerce Gap," January 2014.

# A customer-led market

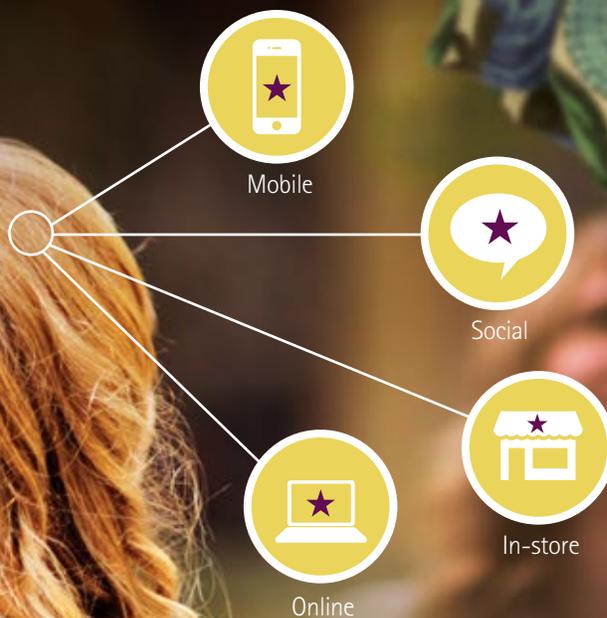
With omni-channel shoppers able to research product offers, compare competitor deals and even influence the price, traditional sales strategies need to give way to new customer-centric pricing models.<sup>2</sup> This requires unlocking customer data often trapped in siloed enterprise systems. Investments in big data infrastructure and advanced analytics are needed to replace manual, labor intensive and time consuming spreadsheets with automated personalized pricing in real time.

## Dynamic customer journey

Competitive price and convenience continues to drive omni-channel customers who move between channels with relative ease.

Take Jo, who wants to buy a dress for an upcoming celebration. She is looking for quality at an affordable price. As she begins her search online, comparing prices and reading reviews on social media sites, one retailer provides Jo with a personalized promotion: 25 percent discount on a dress she likes and another 25 percent if she registers as a member. 50 percent discount? Jo likes that deal. But, before taking action, she decides to visit the retailer's store in her neighborhood to try the dress on.

Jo is pleased to see that the online and in-store prices and discounts are the same. She registers in store and purchases the dress she saw online. In the face of such varied options, how do businesses decide on their pricing strategy? Should prices and promotions be the same across all channels or differentiated by customer or product?



# Pricing strategy options

Companies can adopt a number of possible pricing strategies, depending on their customer base, offering and the market dynamics. Broadly speaking pricing strategies can fall under one of the following three options:

## 1. Channel specific:

Prices are channel and product-centric; not shopper-centric. This strategy assumes that certain segments of customers tend to shop specifically through one channel. Customers who go online would not visit a store and vice versa. To serve both segments, businesses can have one price for online and another one for in-store.

## 2. Omni-channel:

Prices are shopper-centric and the same across all channels. This strategy aims to build trust and loyalty among price sensitive customers, who have a tendency to compare prices across a number of channels before making a purchase. This strategy becomes an even more important part of the customer journey for companies where a high proportion of their sales are made online.

## 3. Hybrid:

While prices are the same across all channels, there are exceptions depending on the situation. This strategy combines the benefits of a single price across channels, with time-sensitive promotions aimed at a particular audience through a specific channel, for example an online 'back-to-school' promotion or in-store overstock sale. For those customers that compare prices, the company offers to match the promotional price across all channels, and allows coupons offered in one channel to be redeemed in any other channel.

Whatever pricing strategy is adopted, there is significant competitive advantage in leveraging advanced analytics to answer tough questions about customer behavior. This, in turn, helps businesses to adapt each model to the market dynamics and the price customers are willing to pay.



# Gaining insight into buying behavior across channels

When developing pricing strategies and designing promotions, it is important to have insight into the buying behavior of customers and anticipate their response to the pricing models by asking a number of strategic questions. How prevalent is a business's digital channel in the customer journey? Will price variation across channels lead to greater profitability? If prices are allowed to vary across channels, will that slow down the customer's decision-making process?

Advanced analytics tools and capabilities are critical to helping companies gain insights into price sensitivity and buying behavior. The potential benefits are clear—satisfied customers and increased transactions.

When designing, building and optimizing the appropriate pricing and promotions strategy, the following five factors should be taken into account:

**1** Channel profitability: to understand if a pricing and promotions strategy will be worth the investment, optimizing spend and improving return on investment.

**3** Consumer response: to know if the demand for a product will increase or decrease when a specific pricing option is implemented, and how this differs across channels. A deeper understanding of shopper behavior prior to making a pricing decision will help ensure the most appropriate strategy is selected to increase sales and reduce costs.

**5** Delivery options: to understand the cost of free delivery or the consequences of charging for delivery and help make informed decisions to maximize return on investment.

When comparing identical products (at the same price) between online retailers, 75% of consumers said that the availability of free, expedited shipping will sway their purchase decision.<sup>3</sup>



**2** Scope and scale: to determine which locations (national or local) and channels (online or offline) should be given preference over others. Offering the appropriate price to the right shoppers at the right time and in the right place, will better position companies to win lifetime loyalty and share of wallet.

**4** Competitor pricing: to determine if and when it makes business sense to match competitor prices, and how to respond to their price changes. This avoids unnecessary price matches, diluting product margin and dragging the whole market to a price war.

# Managing complexity

Restructuring the existing pricing strategy could impact many aspects of an enterprise and increase complexity throughout the business. The following are important success factors for getting the appropriate omni-channel pricing and promotions strategy, reducing risk and managing the transformation journey:

## Data management:

A solid technology foundation is required for executing a specific pricing and promotions strategy. Investing in a big data infrastructure and an advanced analytics platform will help capture, filter, mine and access customer transactions and loyalty data, together with performance metrics and cost accounting data.

## Advanced analytical methods:

A quantitative and qualitative analysis of customers is crucial for understanding how they are responding to a particular pricing model. Such analysis helps gain insight into why, for instance, certain products are doing better than others, or specific customer segments are not interested even when discounts are offered. A comparative analysis across channels (in terms of price and the value generated by promotions) helps companies understand where they stand versus their competitors, and how to respond to them.

## Technology:

Using advanced optimization software, businesses need to implement a new pricing and promotions strategy across multiple systems, including legacy. This requires capability in numerous areas including developing and implementing price consistency and transparency, real-time reporting and analysis on price and promotions, enhanced competitive intelligence across channels, and dynamic pricing options.

## Strategic insight:

Innovation in hardware and software technologies has significantly increased the ability to gather and store data. But, unless that data is analyzed and converted into crisp and actionable insights, it cannot support business decisions or motivate decision makers to act. Attracting, developing and retaining people with advanced analytics skills can be challenging.

## Continuous test and learn:

This is crucial for understanding customer preferences and serving omni-channel customers. As they move from one channel to another, companies can test new prices, measure customer responses in real time and optimize their pricing and promotions accordingly. In online and mobile channels, there are opportunities to deploy real-time multi-variate testing tools to further test, refine and optimize pricing and promotional decisions.

The business value of these critical success factors is vast. Without actionable insights, a company can spend millions on tools and analytics that are irrelevant or answer the wrong business questions. When pricing insights are incorporated into daily business processes, strategy decisions can be taken with confidence. To get the true value from analytical insight, companies need to have robust governance and execution plans in place. The resulting 'test and learn' environment helps deliver significant benefits to both the business and shoppers.

## Achieving customer centricity with pricing analytics

Based on internal research, a leading European food retailer adopted multi-channel pricing with a key lines strategy for online and offline products. However in the face of stiff competition in the food industry, where each company is vying to serve the omni-channel customer, the retailer was looking for stronger business results. A pricing strategy based on advanced analytics was recommended as a possible solution.

Using a sophisticated modelling approach to understand consumer purchase behavior by channel, the company gained insight into the base price sensitivity for a number of products at a granular level. The company created and implemented a pricing model based on product category, position in the basket, brand and level of elasticity across channels. This helped stimulate the volume and sales by

channel. The analytics revealed that customers were more price-sensitive to products online than in-store. It also highlighted the fact that the products considered important in-store did not have the same impact in the online world.

The new pricing model helped the retailer move from one set of key lines to a multiple, more customer-centric and automated set of key lines. This approach allowed products to move in and out of the key lines based on market dynamics. Using an analytics-based pricing strategy, the retailer was able to increase the frequency of price updates in real time and gain a better understanding of the competition. The impact was a significant increase in sales and profit, and improved price perception among customers.



## Customer-centric pricing

Omni-channel customers are looking for relevant and compelling deals. Companies that can offer personalized and dynamic pricing, at scale, have a competitive advantage in the marketplace. In harnessing the potential of big data and advanced analytics, companies are able to determine the price that meets customer expectations and deliver tailored promotions wherever, whenever. As the distinction between the digital and physical world blurs, pricing analytics will no longer be optional. It is an essential capability for driving the marketing and business agenda, and achieving exceptional growth.

Increasingly, consumers desire personalized experiences through every engagement channel – tailored to their needs and preferences: **55%** would like to receive unique pricing, automatic discounts, free returns, or pre-sales based on loyalty / purchase history and **53%** would like to earn and use their loyalty rewards in-store, online or on a mobile device.<sup>4</sup>



<sup>4</sup> Accenture 2013 How Seamless Are You?

## To learn more about optimizing omni-channel pricing and promotions, contact:

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