

# CATEGORY MANAGEMENT LEARNING FORUM

## TOPIC: PRICING STRATEGY AND ANALYTICS

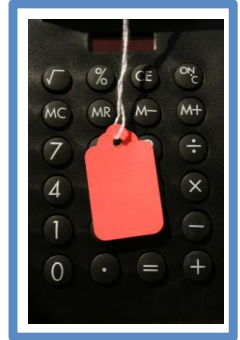
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**Price** is the amount of money or its equivalent for which anything is bought, sold, or offered for sale. This tactic plays a huge role in how much volume is sold in a category. It is a critical source of influence over shopper purchase behavior. Prices vary based on different promotions, and on differing retailer strategies. A difference of 5 or 10% in price can influence sales and profit significantly. Pricing decisions directly affect category sales, inventory positions and category profitability for retailers.

Before you can even begin to analyze pricing, you need to understand the overall strategies and guidelines associated with pricing for a specific retailer. These strategies and guidelines ensure that a retailer has pricing integrity that sends a consistent message to the consumer and shopper. These strategies and guidelines also need to tie in with how retailers set their prices, including new products, as well as how promoted prices are established.

Retail pricing strategies strongly influence who shops within a store. There are many different retailer strategies associated with price. The most common pricing strategies are high-low and everyday low price, or EDLP. Other retailers may price match on the "top 200" items in the store (or whatever number of items they want to match), guaranteeing the lowest price in town on these items. And lastly, some retailers offer a combination of high low, EDLP and price matching. All these pricing strategies can be effective, depending on the target shopper, and the other strategies, that the retailer has in place.



**Examples of pricing practices that can help retailers develop the best pricing model for their business**

are not. Both gross margin % and markup % calculations generate the same gross margin \$. It's the percentages that differ, and that difference is critical to understand in terms of a pricing strategy. Some retailers use gross margin percentages, because they can easily calculate profits from a sales total. If the margin is 38%, then 38% of the sales total is profit. Some retailers use markups because it is easier to calculate a sales price from a cost using markups. If the markup is 63%, then the sales price will be 63% above the item cost. If the margin is 38%, the sales price will not be equal to 38% over cost.

Retailers need to consider how their main competition is pricing their products when setting their pricing strategies, and set their prices accordingly. This competitive pricing strategy needs to include pricing zones, pricing rules, and key value items KVIs. Many retailers track KVIs and non KVIs on a weekly basis across a specific pricing zone, to ensure they stay within their guardrails. These price audits are commonly completed through a third party company, who are responsible for collecting the pricing information and compiling it into reports.

I've only touched on a few points about pricing strategy – there are many other considerations that relate to price strategy, as well as important calculations and definitions that you should understand. If you are a retailer, how well defined are your pricing strategies, and how consistent at the communications that you send to your shoppers / consumers? If you are a supplier, how well do you understand your retailer's strategies, as well as the different calculations that relate to pricing?

Retailers need to define their overall pricing strategies beyond whether they are EDLP, high-low or price matching. They need to define how prices are set, based on things like gross margin percentages, markup, manufacturer suggested prices, competitive pricing and psychological pricing strategies. They also need to define the pricing rules based on other considerations, like how to price large sizes vs small sizes, national brand vs private label pricing, pricing on bonus packs or special packs, or the pricing of refill packs vs parent packs. By reflecting the overall pricing strategies throughout all categories in the store, retailers ensure that they are sending consistent communications to their shoppers, regardless of which category they are shopping in. Let's review a few examples.

Many retailers set gross margin % or markup % objectives as part of their overall pricing strategies. The inputs to calculate gross margin and markup are the same, but the actual calculations

If you like this tip, you may be interested in CMKG's \$99 related accredited eLearning courses: "[Category Tactics & Analytics](#)", "[Pricing Strategies and Analysis Techniques](#)", and "[Promotional Analysis Techniques](#)". Each course walks you through advanced analytics that relate to pricing (and the other tactics), and include eLearning in CMKG's eLearning center, workshops, downloadable study notes. These courses will benefit Category Managers, Category Management Analysts, Account Managers, Trade Marketing and anyone else who should understand pricing and tactics-related topics.