



## SUCCESSFUL PRICING STRATEGIES: A STRATEGIC LOOK THROUGH THE AFFORDABILITY LENS

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### Today's difficulties present new opportunities for manufacturers and retailers that gain the best information.

Americans are struggling to make ends meet in the current economy. They will continue to do so throughout 2009. We are in—and will continue to be in—a very challenging economic period. Foreclosures, bailouts, and the skyrocketing costs for food and energy are leaving consumers with empty wallets and heavy hearts. Despite the fact that consumers are resolute to open up their wallets during the holidays (see IRI's new report *Rethinking Retailing: 2008 Holiday Season Insights and Recommendations*, October 2008), once the holidays end, shoppers will face continued price pressures, credit instability, and job uncertainty that has the potential result of a weakened long-term CPG manufacturer and retail sector. Unlike some market challenges, today's difficulties present new opportunities for manufacturers and retailers that gain the best information, develop new and innovative strategies and act quickly.

Manufacturers and retailers are grappling with challenges this year as well, hoping that a wave of consumer holiday cheer spurred by emotion will save the most important shopping period of the year. Earlier in the year, manufacturers were able to pass on many commodity increases, but as the financial crisis spread starting in the second quarter 2008, it became apparent that shoppers were rapidly implementing strategies to avoid price increases. In fact, today we are seeing manufacturers begin to consider price rollbacks as a way to further

stimulate demand. Pricing in the eyes of the shopper is now becoming a statement of understanding about affordability – the new shopper buying lens.

Against this backdrop, manufacturers and retailers must determine when, where and how they can raise prices. It is an exceedingly fine line between maximizing manufacturer and retailer profits and driving away shoppers, which is a real condition we are beginning to see as we examine the changing behaviors of shoppers in the past few months. We expect to see more of this lens of affordability in the go forward shopper decision processes throughout the rest of both 2008 as well as 2009. While price increases are a normal part of business, manufacturers and retailers alike must understand the thresholds of avoidance or opting out prior to instituting an increase.

Today's weakened economy is a new cultural determinant, driving how shoppers look at every product purchase. They are looking at all shopping today through a new lens of affordability. Manufacturers and retailers must understand this to implement successful pricing strategies.



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Manufacturers and retailers must collaborate like never before. Both groups share today's difficult economic environment and both stand to gain through the implementation of well executed pricing strategies. Working together, these companies should follow five vital strategies to maximize the potential of price increases:

## **STRATEGY #1**

### **COLLECT IMMEDIATE, CONTINUOUS SHOPPER FEEDBACK**

The most critical strategy when determining a price increase is knowing the shopper and how they are interpreting the price increases they have experienced throughout the past year. Some have accepted, and many have simply opted out of a category, channel, and/or brand as the price increase did not pass their lens of affordability. Manufacturers and retailers must know where shoppers live, how they consume, which product attributes attract them, as well as how they learn about, buy and use products.

They must know what prices shoppers are willing to pay for each feature, and at what price point they will look for alternatives. And, manufacturers and retailers must continuously re-ask and re-probe for even the most subtle changes in shopper attitudes and behaviors.

## **STRATEGY #2**

### **REAFFIRM THE BRAND THROUGH MARKETING**

Effective and aggressive marketing timed with a price increase should reinforce the product's brand value to the shopper. Reminding shoppers of this brand value is critical to avoid movement to alternate brands or private label. Marketing is about storytelling. It is important to retell the story when instituting a price increase to remind shoppers why they purchased the product in the first place. For example, as winter approaches, consumers will remember how their favorite at-home cold remedies have instilled

comfort by taking away aches and pains. If the pharmaceutical manufacturer or retail decides to increase the price just prior to the winter cold season, reinforcing consumer trust will ensure continued interest.

## **STRATEGY #3**

### **BUILD IN NEW INNOVATION**

When increasing the price on a product, manufacturers and retailers should time the increase to inclusion of new innovation. This reinforces the brand value to the shopper and removes the thought process of, "they just increased the price of my favorite cereal." Instead of offering a price increase and nothing else, manufacturers should offer consumers a new chapter to the product story; highlight product improvements, create new product interest, and make the consumer believe that their hard-earned money is going to a product that deserves their money.

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## **STRATEGY #4**

### **REWIRE THE SALES STRATEGY**

Among all income groups, manufacturers and retailers must focus their sales strategy through a lens of affordability. Today's current economy creates several openings for price increases that shoppers will tolerate. For example, IRI's recent Times & Trends Report: "Competing in a



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Transforming Economy: Shoppers in Crisis,” reports that women at all income levels are opting for home beauty care products and staying away from the salon. Manufacturers and retailers can selectively raise prices on home beauty products knowing these will still be less expensive than beauty salon treatments. The new price comparison may come from a change in the fundamental shopper “ritual.” Be aware of where the shopper is coming from when you think pricing strategy – not just where they have been. For example, in premium ice cream, the shopper comparison may be “visiting the ice cream parlor” for a premium indulgence versus creating that indulgence in the home with smaller portions of a similar premium ice cream. Similarly, retailers can afford to increase the price on cranberries in November due to the product’s high demand. Timing is a strategic aspect of sales rewiring, showing that manufacturers understand the essential and non-essential times for products.

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aspect of sales rewiring.**

Instead of targeting a mass audience, having an intimate understanding of the shopper groups that favor a given product and building sales strategies around them is critical. Pricing increases don’t come with a “one size fits all” solution. Instead, tailoring pricing can create a “this size fits you” solution, targeted at your most important shoppers.

### **STRATEGY #5**

#### **UNDERSTAND THE NEW COMPETITION**

Manufacturers and retailers cannot afford to institute price increases with blinders on. A single product’s price increase creates ripple effects throughout the entire

category. When considering a price increase, manufacturers and retailers must study the entire category to anticipate and address shopper, competitor and category reaction. A price increase, for example, might move a mid-tier product up to the premium category. Will consumers accept that this brand is now priced at a premium vs. mid-tiered level?

The current economic environment will not improve for some time. While gas prices are dropping at the moment, the deleterious effects of \$500 billion deficits and a \$700 billion bailout of the financial sector will serve as a reality-check for the U.S. and world economy for some time. In addition, the impending national budget deficit projected to be between \$750 billion and \$1 trillion for 2008 will surely have a significant effect on the shoppers’ “go forward economic mood.”

Armed with these strategies, CPG manufacturers and retailers will at worst successfully weather today’s difficult economic environment. At best, these companies will both reinforce their relationships with shoppers as well as implement price increase strategies that stick.

#### **About IRI**

IRI is the world’s leading provider of consumer, shopper, and retail market intelligence and insights supporting 95 percent of the FORTUNE Global 500 consumer packaged goods (CPG), retail and healthcare companies. Only IRI offers the unique combination of integrated market information, automated and predictive analytics, innovative enabling technologies, and domain expertise. With IRI, leading retailers and manufacturers are able to quickly discover breakthrough insights driving smarter decisions and actions across the enterprise for breakthrough results. Companies around the world depend on IRI for improved productivity, stronger brands, and dramatic revenue growth. For more information, visit <http://us.infores.com>.

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