

# The Case for Strategic Pricing Optimization

*A recent win illustrates the impact of cutting-edge pricing analytics.*

**Situation:** A \$2B category-dominant multichannel retailer had recognized that price is an important strategic lever on the business and had recently built an internal pricing team. The team was growing and succeeding, but as the holiday season comprising 40% of annual sales loomed, they did not have the capacity to cover the largest categories in time for the season. They engaged Penfield to deliver over \$2.8MM in bottom line improvement in time for Q4, as well as help them set the framework for ongoing team success.

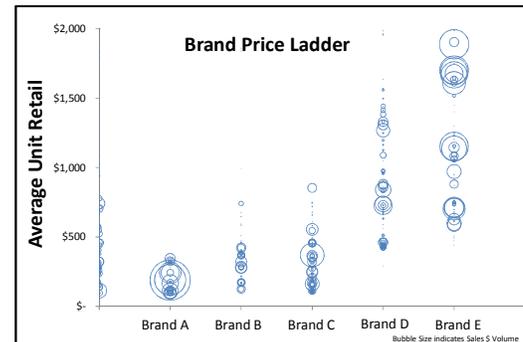
**Landscape:** The category owners were experts on their products and often enthusiastic consumers, though they did not have tools enabling understanding and management of retail price. When setting price, they often relied upon anecdotal reports from the field and internet retailer prices, which led them to continually reduce prices across their assortments. Another complication was Minimum Advertised Price (MAP) policies covering much of the product set. Prices were often set at MAP and then ignored.

*“We trusted the team completely to deliver where other broader consulting firms would have completely foundered.”*

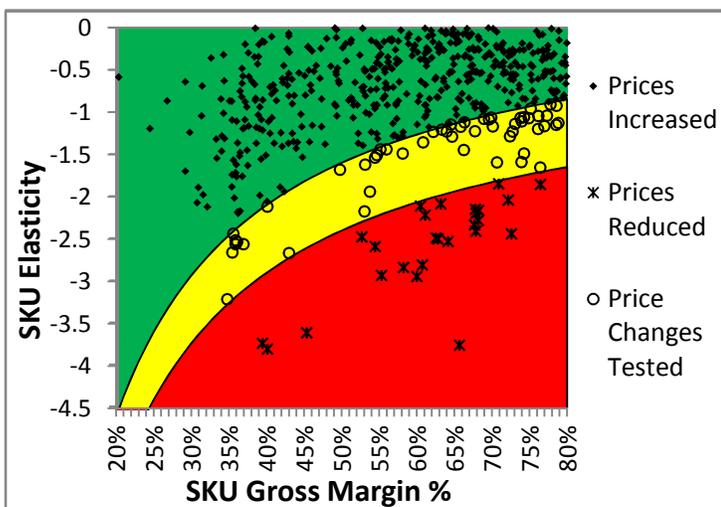
*-Director, Strategic Pricing*

**Action:** The Penfield team built category-specific analyses that covered over 18,000 SKUs to identify those which offered the most upside. But the elasticity analytics only show part of the picture, and we added multiple lenses to the analyses:

- Brand Price Ladders
- Competitive Price
- Custom panel surveys for buying behaviors
- Category owner interviews to determine
- Key Vendor relationships
- MAP policies
- Financial Analysis & Scenario Planning
- Category Risk Profile



**Outcome:** We identified and executed price changes on 950 highly-targeted SKUs that had the largest upside and the lowest associated risk. We delivered 108% of the gross margin target, and a 0.6% gain in companywide gross margin rate.



## Keys to delivery:

1. Understand the category architecture first and foremost using multiple inputs
2. Optimize the category on price, but ensure that the assortment and brand structure remain intact
3. Exclusive or Proprietary brands often hold the greatest potential for pricing power, as they are not cross-shopped
4. Using product switching as a strategic lever, rather than a side-effect of the price changes