Achieving Mutual Growth through Data Centered Collaboration

POI
PROMOTION OPTIMIZATION INSTITUTE

Effective Pricing Strategy & Methodology for Collaborative Marketers
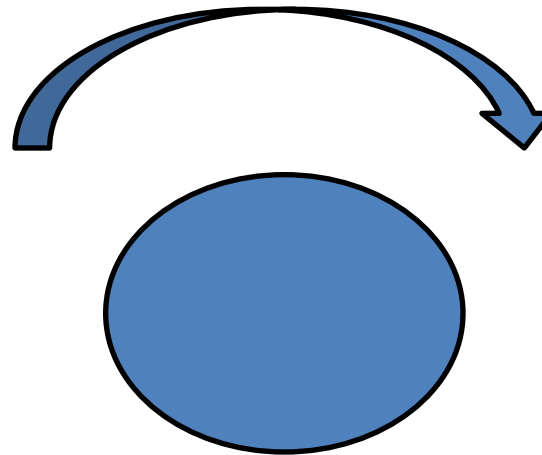
Breakout: Effective Pricing Strategy and Methodology

Sequoya: Who we are

Consumer Demand Management : Statistical analysis of consumer demand (POS) to better understand, predict, and shape future consumer behavior.

Stat Key Engine: Non-linear regression based models.

Hindsight

Due To Drivers

Promotion Evaluation

Volume Decomposition

Insight

Price Analytics

Promotion Response

Cannibalization & Net Lift

Foresight

Predictive Price & Trade Promotion Planning

Line of Sight to the P&L Before Execution

Portfolio & Category Impacts

Where do Advanced Pricing Analytics take place?

Strategic Pricing Analytics

- Pricing Landscape
- Getting Started
- Advanced Pricing Considerations
- Building Price Strategies
- Generating Price Recommendations

Pricing Landscape

- **Why is it important?**

- **Who is doing it?**

- **What are the benefits?**

Getting Started

Build Cross Functional Support
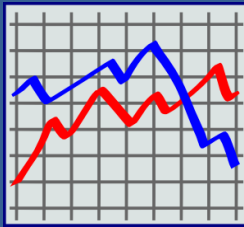
Joint Value Creation:

- **Finance**

- **Sales Strategy**

- **Brand Teams**

- **Joint Customer Business Planning**

- **Consumer and Marketplace needs**

Getting Started

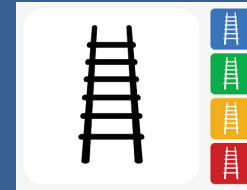# Key elements of successful price optimization

Market Analysis	Volume Discount	Price ladder
How are we performing relative to the category?	Are we optimizing pricing to motivate consumer purchase behavior?	How are our offerings priced relative to one another and competition on shelf? Retail price
Price Sensitivity	**Promotional Analysis**	**Assortment**
How sensitive are consumers to price? Variation	Are we optimizing our trade investment? Think Brands with 30% volume sold on Promo	Does each SKU play a valuable role in our product portfolio?

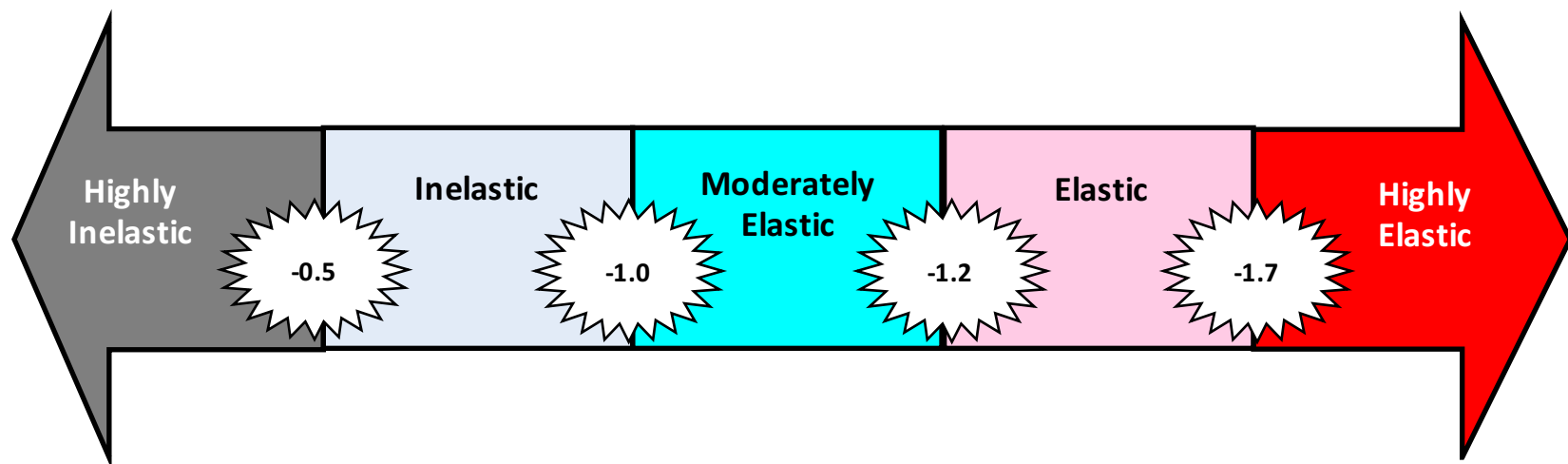## Getting Started

Price Sensitivity: A Closer Look

Getting Started

Price Elasticity Defined

Price elasticity of demand is used to evaluate and understand the relationship between the change in quantity demanded as it relates to a change in price.
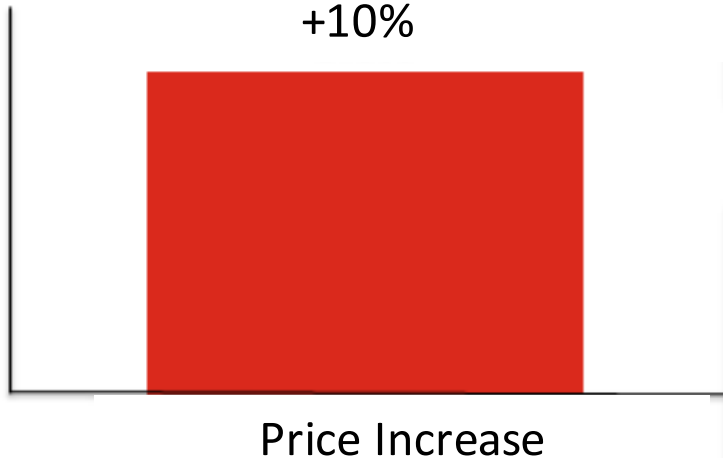
Highly Inelastic	Inelastic	Moderately Elastic	Elastic	Highly Elastic
-0.5	-1.0	-1.2	-1.7	

$$Price\ Elasticity = \frac{\%\Delta\ Qty}{\%\Delta\ Price}$$

Getting Started

Price Elasticity: How to interpret
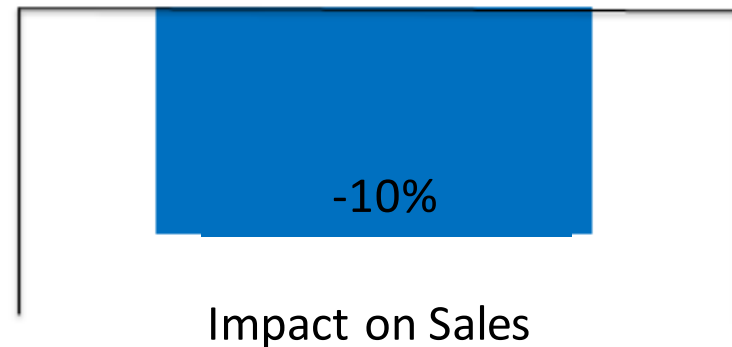
Suppose we take a 10% price increase……

+10%

Price Increase

Elasticity of -1.0
The price increase of 10% results in a 10% loss in sales (-1.0 elasticity means a 1% increase in price resulted in a 1% decrease in sales)
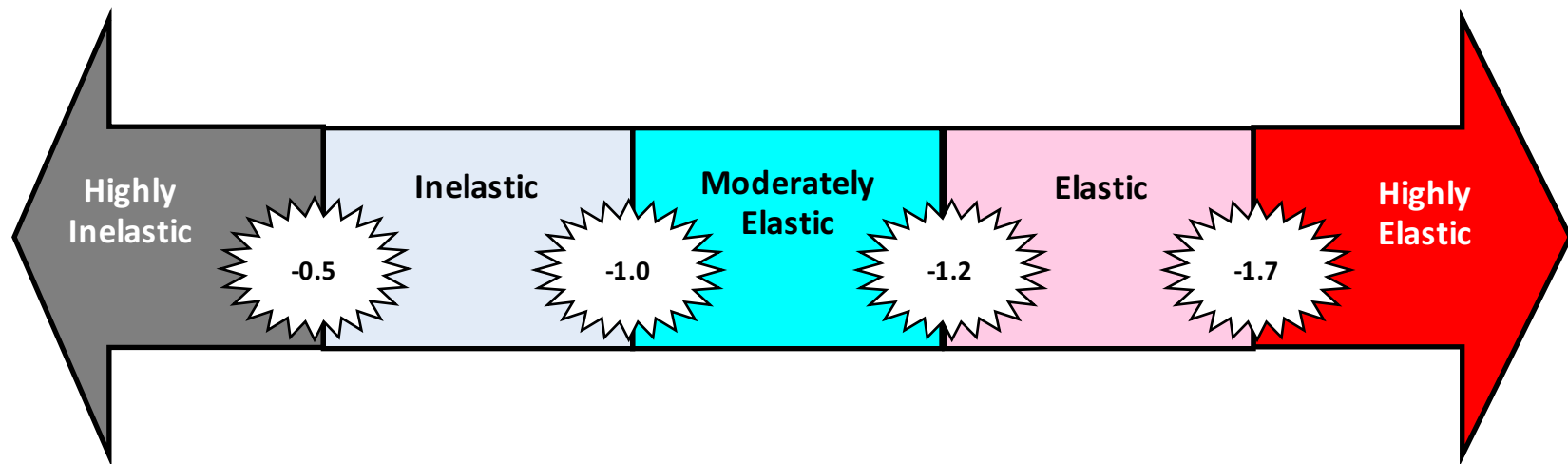
-10%

Impact on Sales

$$Price\ Elasticity = \frac{\%\Delta\ Qty}{\%\Delta\ Price}$$

Getting Started

Price Elasticity – Decisions?

Highly Inelastic | Inelastic | Moderately Elastic | Elastic | Highly Elastic

-0.5   -1.0   -1.2   -1.7

Price Increase + Low Elasticity =
Negative Units and Positive Dollars

Price Increase + High Elasticity =
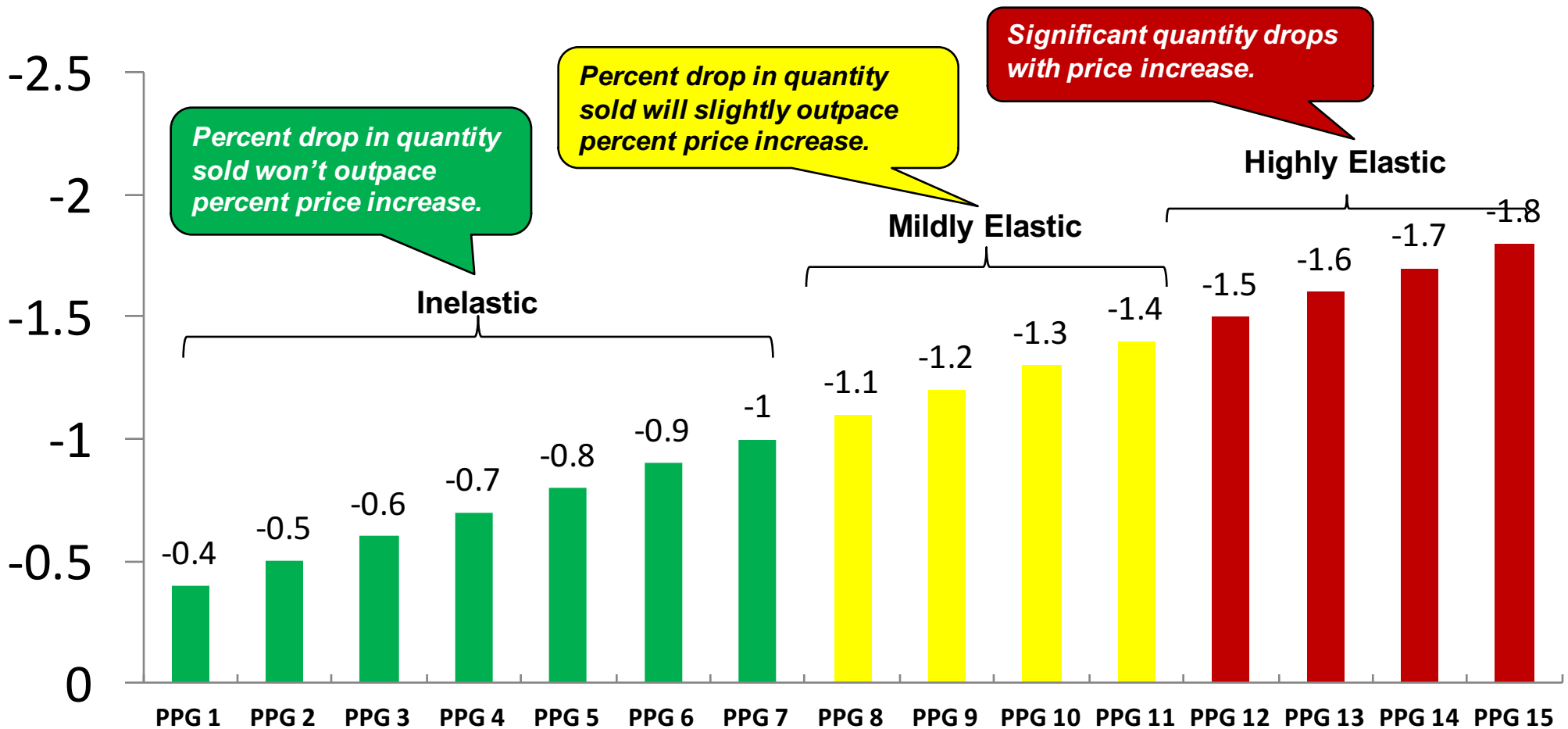Negative Units and Negative Dollars

Price Decrease + Low Elasticity =
Positive Units and Negative Dollars

Price Decrease + High Elasticity =
Positive Units and Positive Dollars

$$Price\ Elasticity = \frac{\%\Delta\ Qty}{\%\Delta\ Price}$$

Getting Started

What other variables should I consider?

- **How effective were my past Price Changes?**

- **Forecasting**

- **Retailer execution**

- **Price Change items**

- **Non Price Change items**

- **Additional variables?**

  - (Data Driven, Strategic, Competition)

Advanced Pricing Considerations

Data Driven Variables

Decisions based solely on an items price elasticity in isolation can lead to mistakes in managing price.

This is particularly true when the consumer has options (substitutes) within the category.

These advanced considerations are known as **Cross Elasticity** and **Price Thresholds**.

Strategic Variables

• Drive Volume?

• Increase revenue by x%?

• Improve Margins by x%?

• Pass through profitability to Customer?

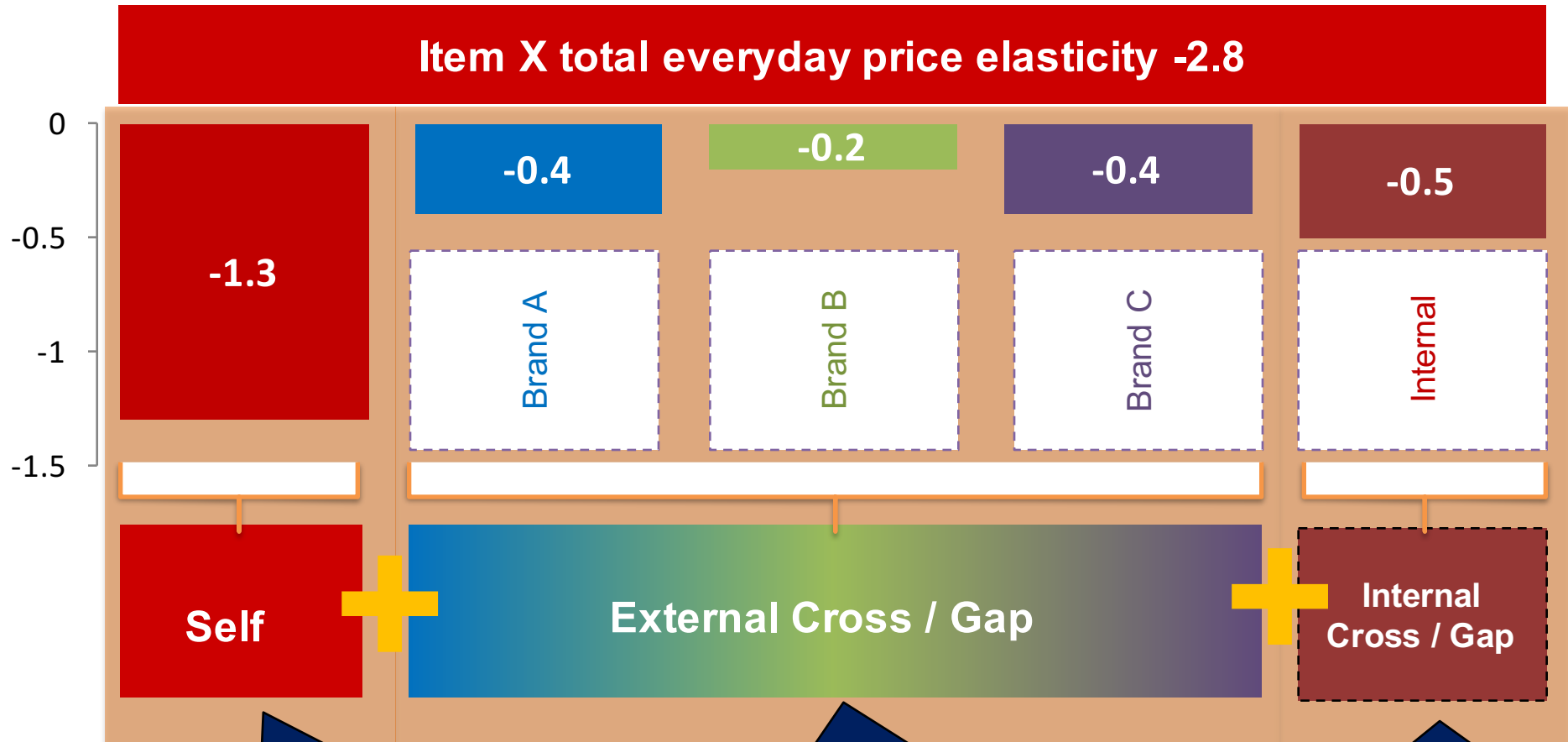• Share of Market objective?

Advanced Pricing Considerations

Data Driven Concepts to Evaluate

Cross Elasticity: What are the three components

that make up Regular Price Elasticity?

Advanced Pricing Considerations

Different levels of Cross Elasticity can help drive and shape strategy

Item X total everyday price elasticity -2.8

-1.3	-0.4	-0.2	-0.4	-0.5
	Brand A	Brand B	Brand C	Internal

0
-0.5
-1
-1.5

Self ➕ **External Cross / Gap** ➕ **Internal Cross / Gap**

"Self" elasticity is the measure of what happens to Item X's volume when Item X's price changes.

"External Cross" elasticity indicates the amount of volume going to external or out-of-portfolio competitors due to a price increase on Item X.

"Internal Cross" elasticity indicates the amount of volume going to *internal*, in-portfolio competitors due to a price increase on Item X.

Advanced Pricing Considerations

Data Driven Concepts to Evaluate

Price Thresholds: What Price points should I avoid crossing & which ones should I consider crossing?

Advanced Pricing Considerations

Price Thresholds

Once you have crossed a price threshold, it can be difficult to regain sales.

Threshold Price: The specific price point beyond which sales decline

- In addition to everyday price elasticities, price thresholds can be used to understand *additional* unit sales loss

Scenario: Is there a way to **increase manufacturer revenue** by optimizing price?

Building Price Strategies

Background

We are supporting Sparkler, a MFR that competes in the Sparking Water category. We are going to evaluate their product: **Le Suds 12 fl. Oz** at one of their customers.
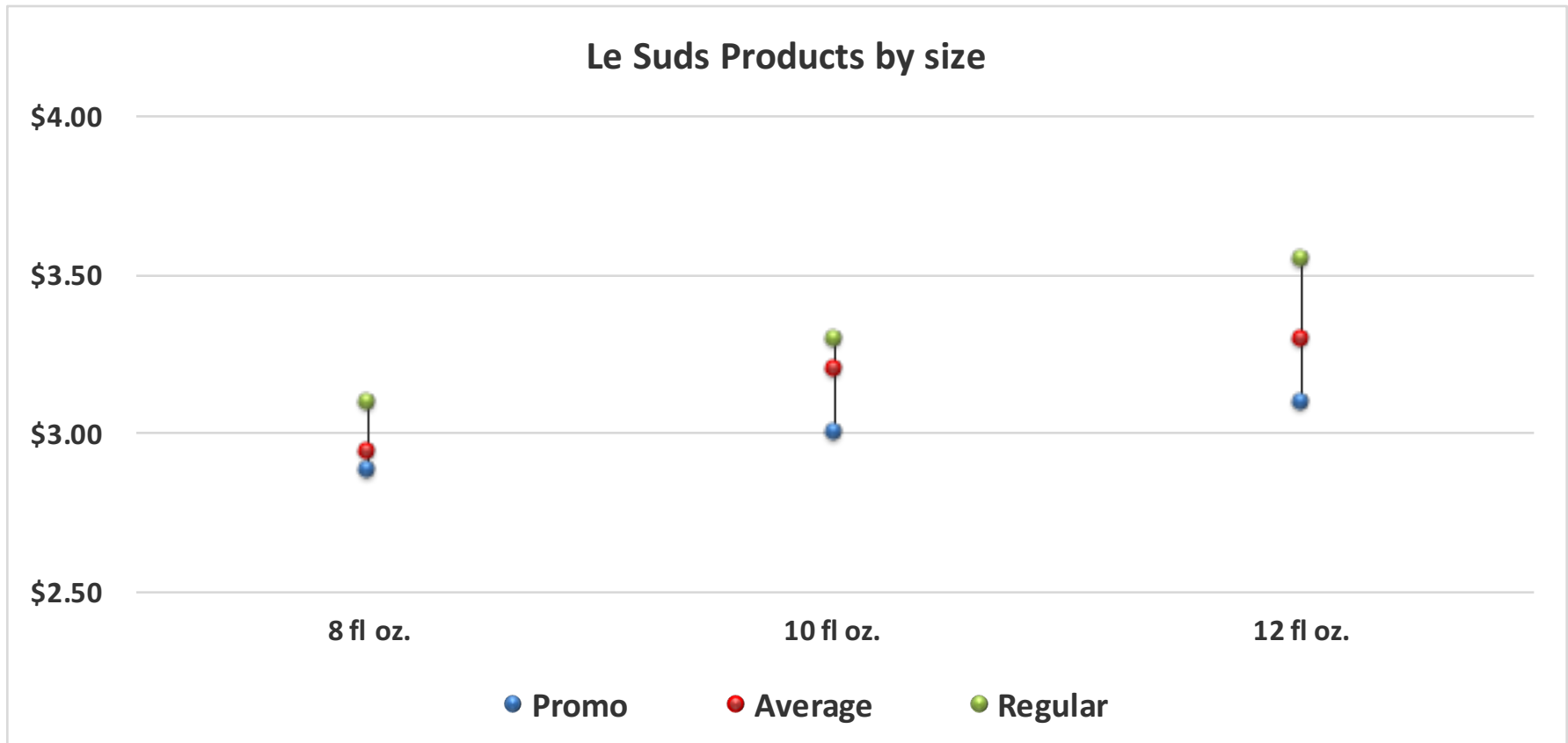
Building Price Strategies

Key Business Questions

1. What can we interpret from Price Ladders?
2. How Elastic are we on Reg Price?
3. Who do we interact with?
4. How Elastic are our competitors on Reg Price?
5. What Price Strategies do our Elasticities suggest?
6. How do we identify the role Price Thresholds play?
7. How do we use this information to forecast financial scenarios and choose an optimal scenario?
8. How do we evaluate success?

Building Price Strategies

Key Business Question

1. What can we interpret from Price Ladders?
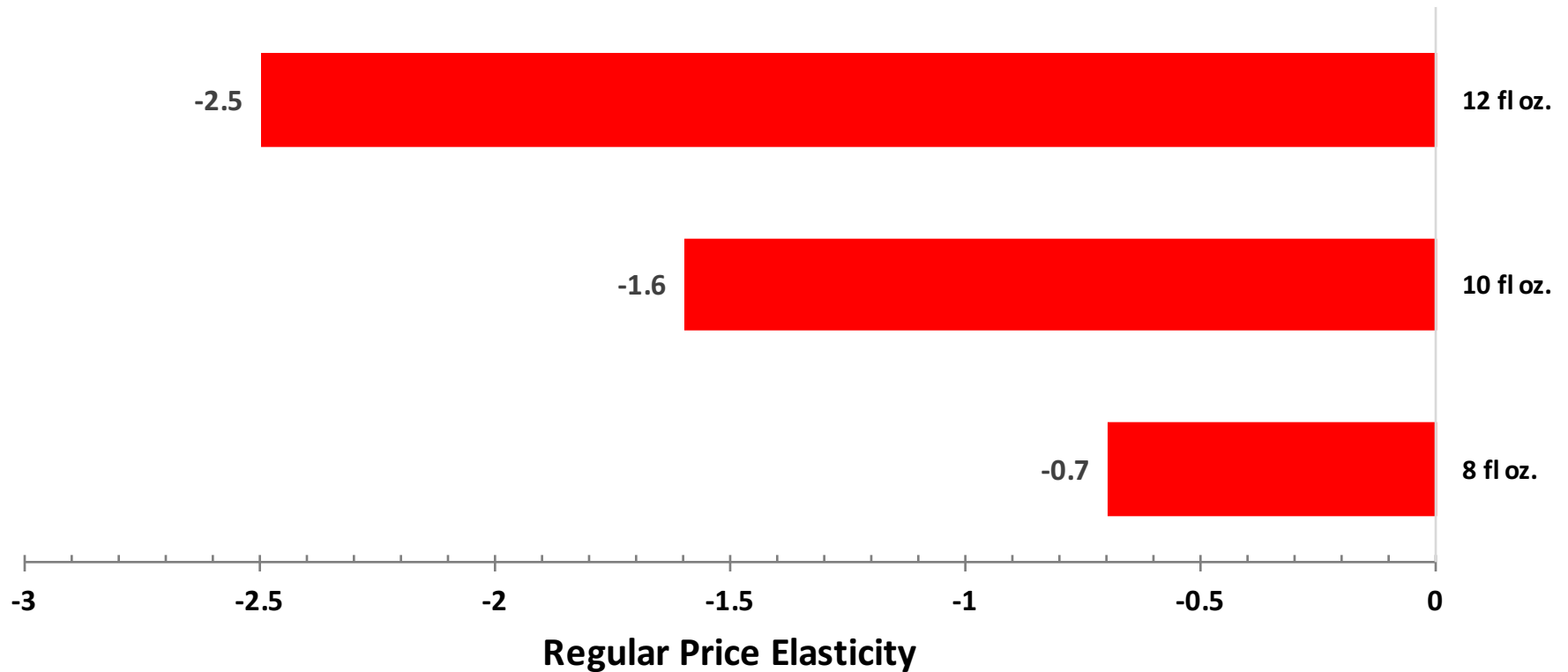
Building Price Strategies

Key Business Question

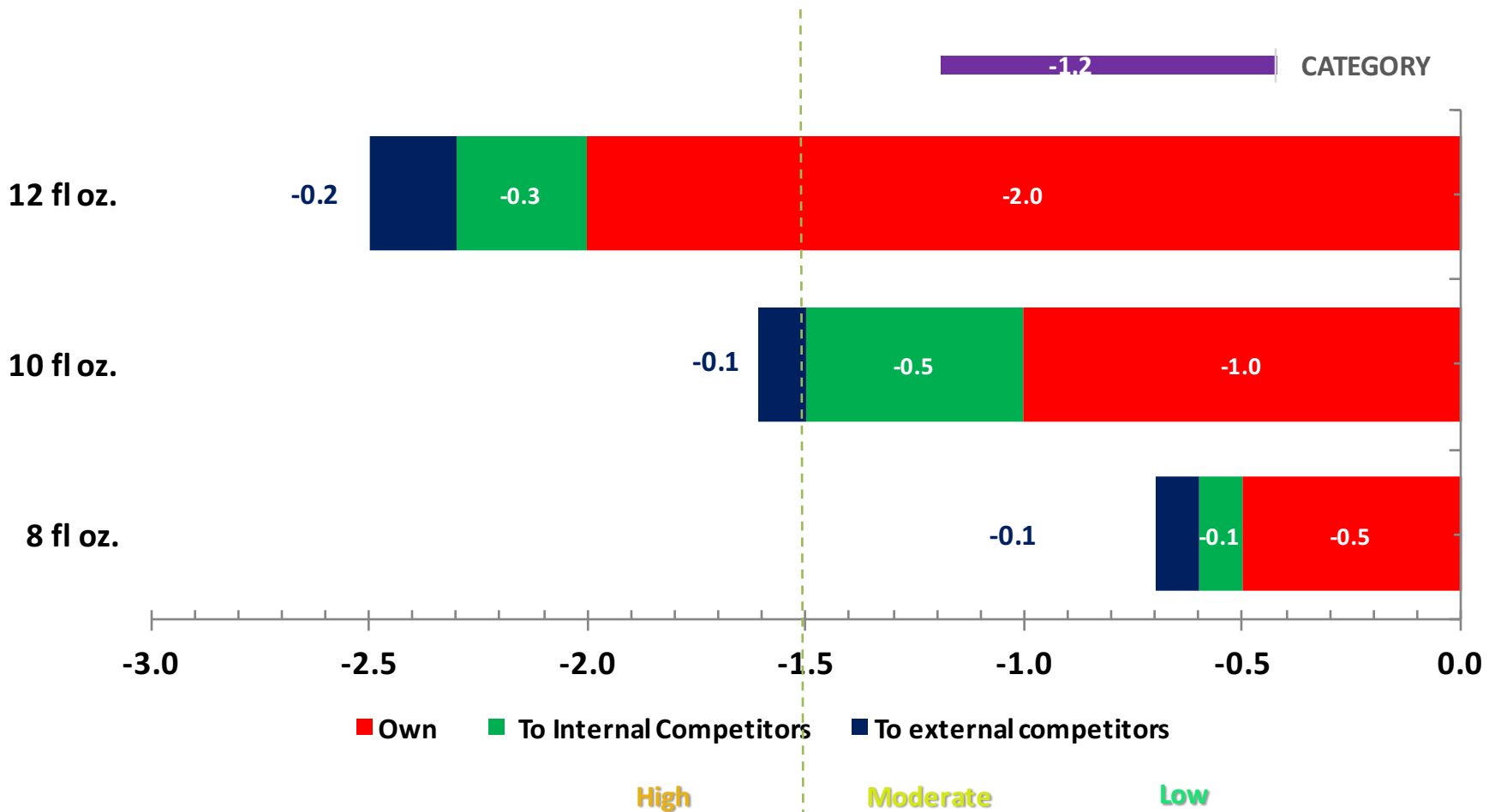## 2. How Elastic are we on Regular Price?

Building Price Strategies

Key Business Question

3. Who do we interact with?

Building Price Strategies

What products do I interact with?

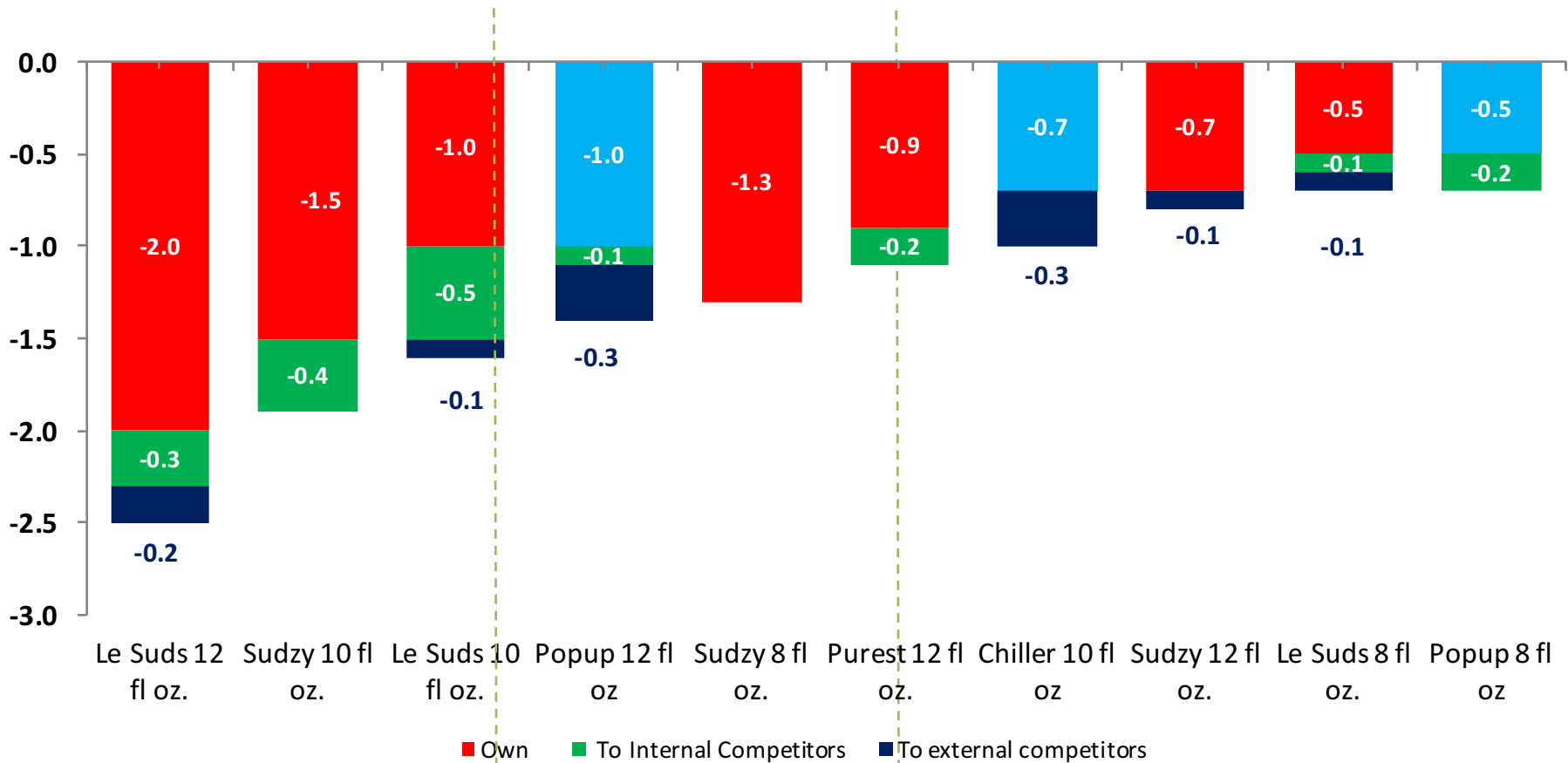| Size	External Competitors	Elast.	Internal Competitors	Elast.
8 fl oz.	Popup 8 fl oz.	-0.1	Sudzy 8 fl oz.	-0.1
10 fl oz.	Chiller 10 fl oz.	-0.1	Sudzy 10 fl oz.	-0.5
12 fl oz.	Popup 12 fl oz.	-0.2	Sudzy 12 fl oz.	-0.1
			Purest 12 fl oz.	-0.2

Building Price Strategies

Key Business Question

4. How Elastic are our competitors on Regular Price?

Building Price Strategies

Competitive Landscape

Legend: ■ Own ■ To Internal Competitors ■ To external competitors

High — **Moderate** — **Low**

Sparkler Brands ■
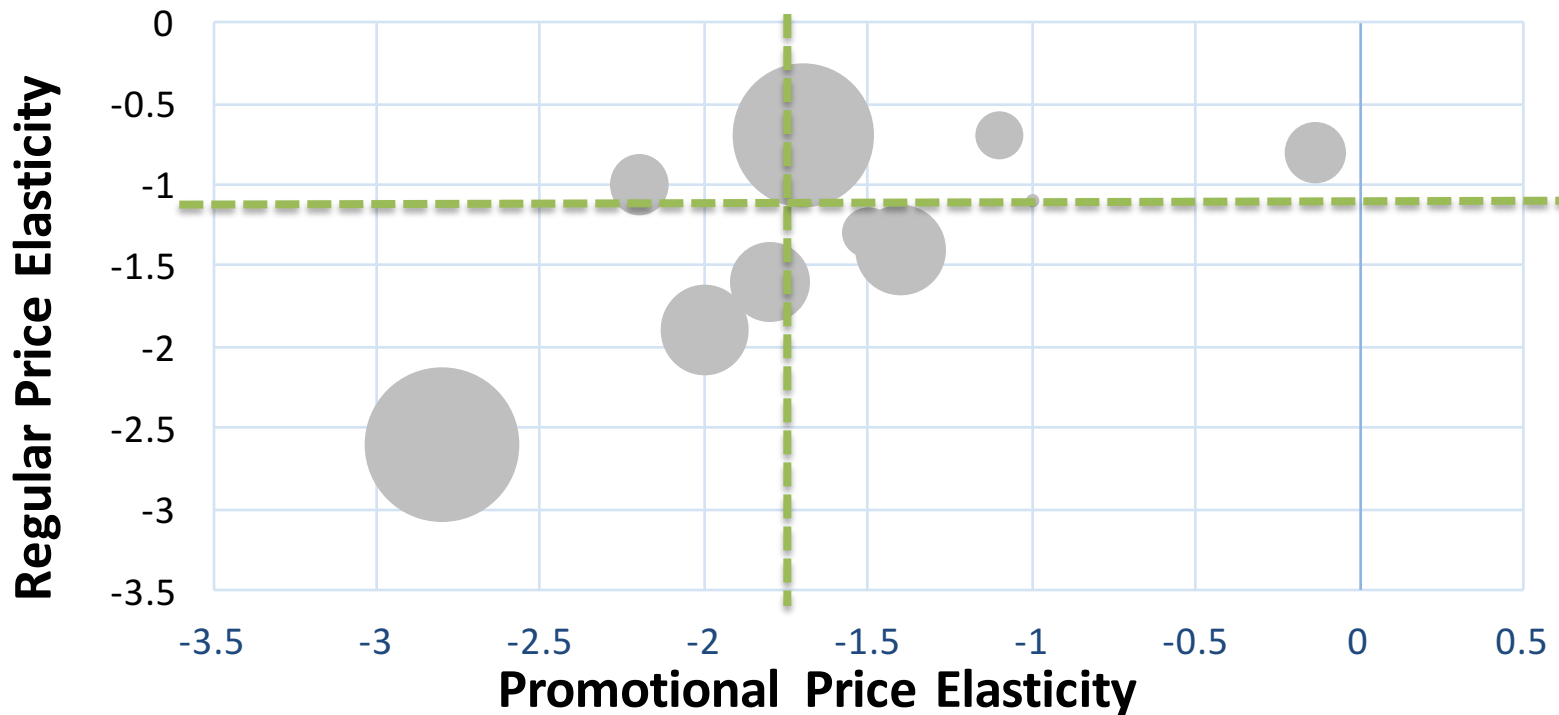Other Brands ■

Building Price Strategies

Key Business Question

5. What pricing strategies do my elasticities suggest?

Building Price Strategies

Pricing Strategy

High Everyday Price Elasticity: Consumers are sensitive to regular price changes

Low Everyday Price Elasticity: Consumers are not as sensitive to regular price changes

High Promo Price Elasticity: Consumers are sensitive to promotion prices/discounts
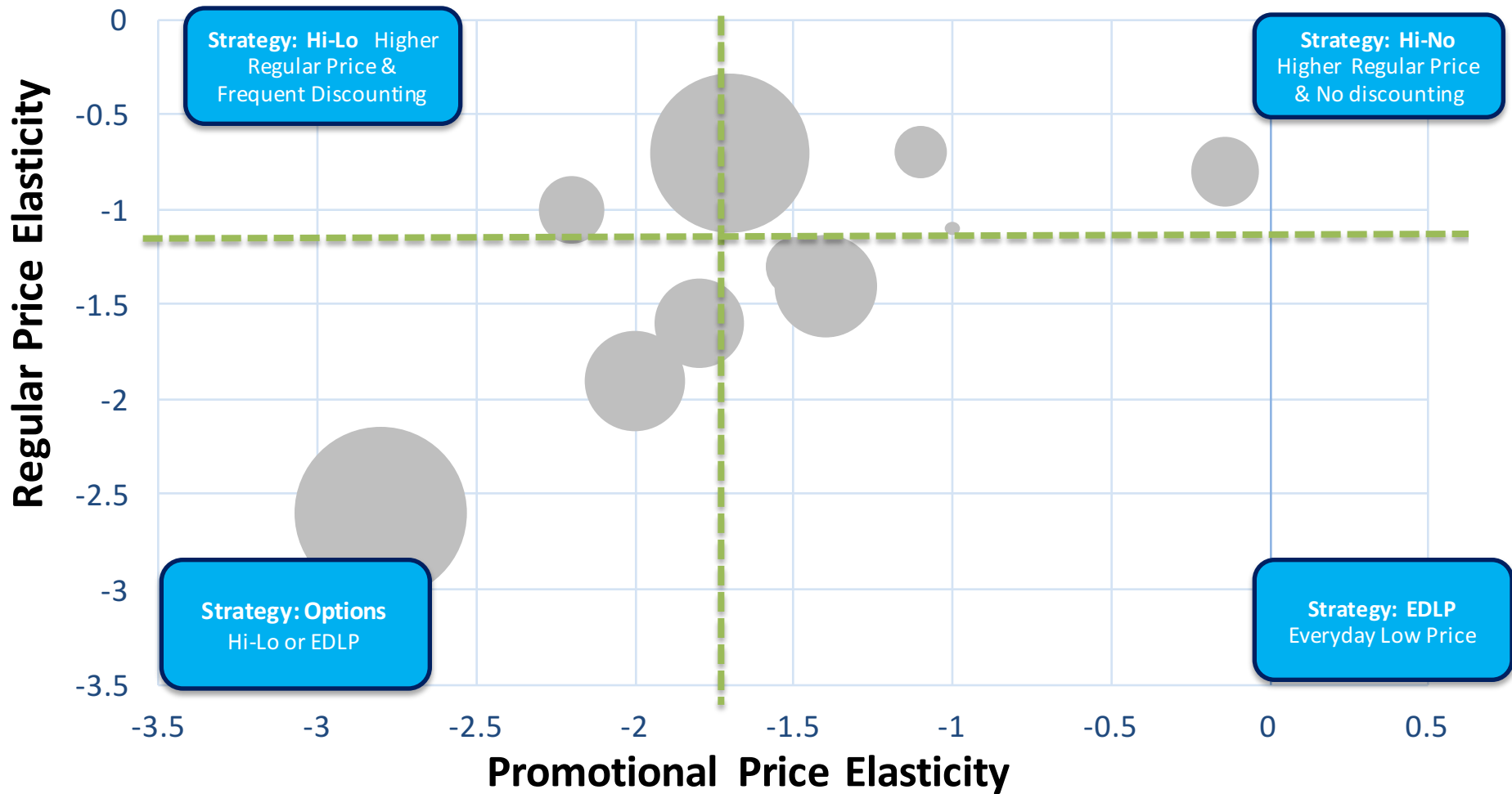
Low Promo Price Elasticity: Consumers are not as sensitive to promotion prices/discounts

Promo Price Elasticity: Shows relative response by item

Building Price Strategies

Pricing Strategy

Strategy: **Hi-Lo** Higher Regular Price & Frequent Discounting

Strategy: **Hi-No** Higher Regular Price & No discounting

Strategy: **Options** Hi-Lo or EDLP

Strategy: **EDLP** Everyday Low Price

Regular Price Elasticity

Promotional Price Elasticity

Sparkler Brands

Other Brands

Bubble size denotes volume

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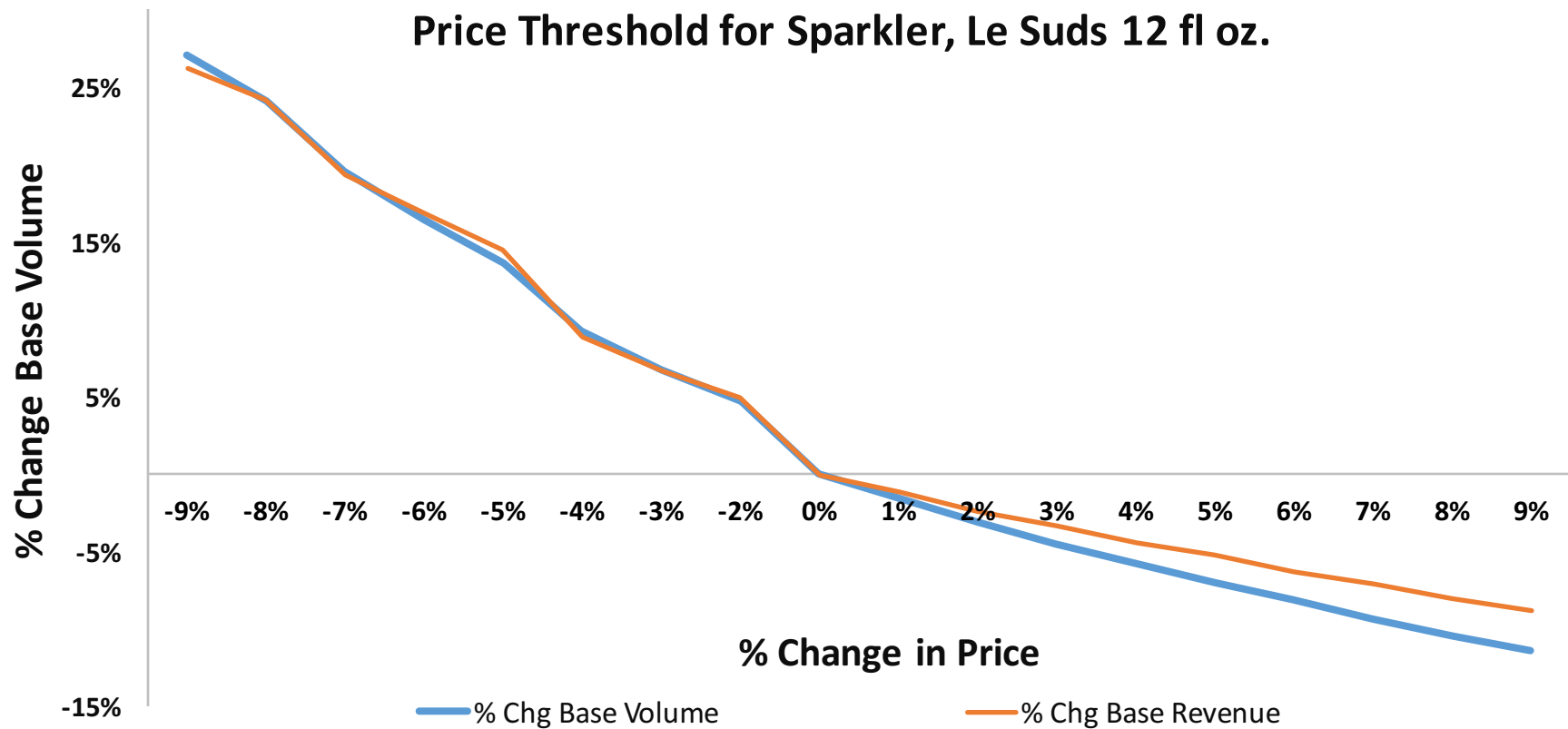
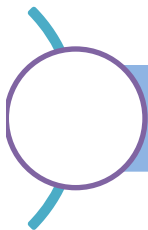POI

Building Price Strategies

Key Business Question

6. How do we identify the role Price Thresholds play?

Building Price Strategies

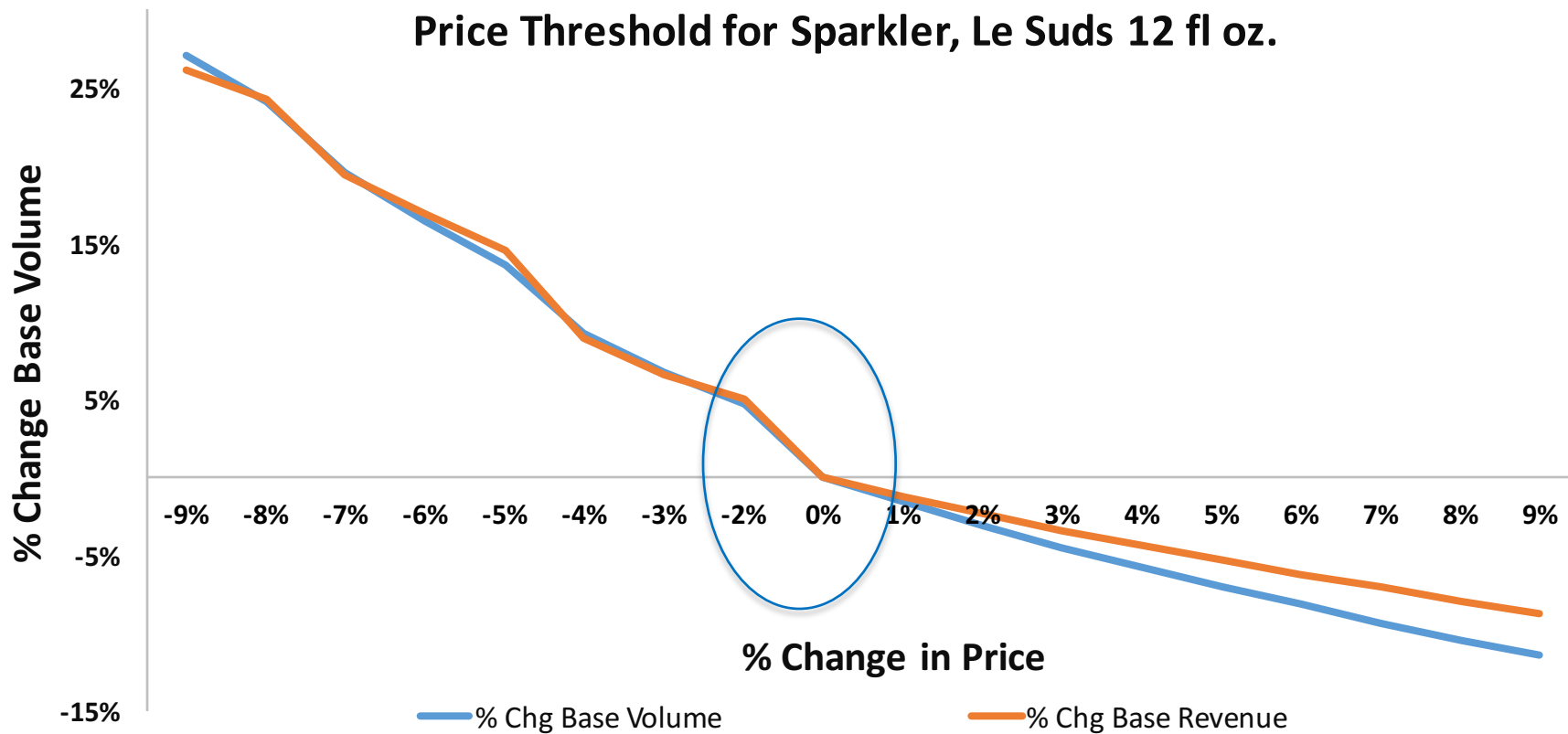# Evaluating the Impact and Identifying Price Thresholds

Price Threshold for Sparkler, Le Suds 12 fl oz.

% Change Base Volume

% Change in Price

— % Chg Base Volume   — % Chg Base Revenue

Promotion Optimization Institute • Fall Summit 2016 • Dallas, TX

Building Price Strategies

Evaluating the Impact and Identifying Price Thresholds

Price Threshold for Sparkler, Le Suds 12 fl oz.

% Change Base Volume (y-axis)
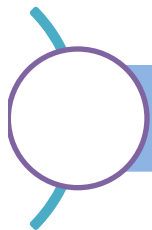% Change in Price (x-axis)

Legend: % Chg Base Volume — % Chg Base Revenue
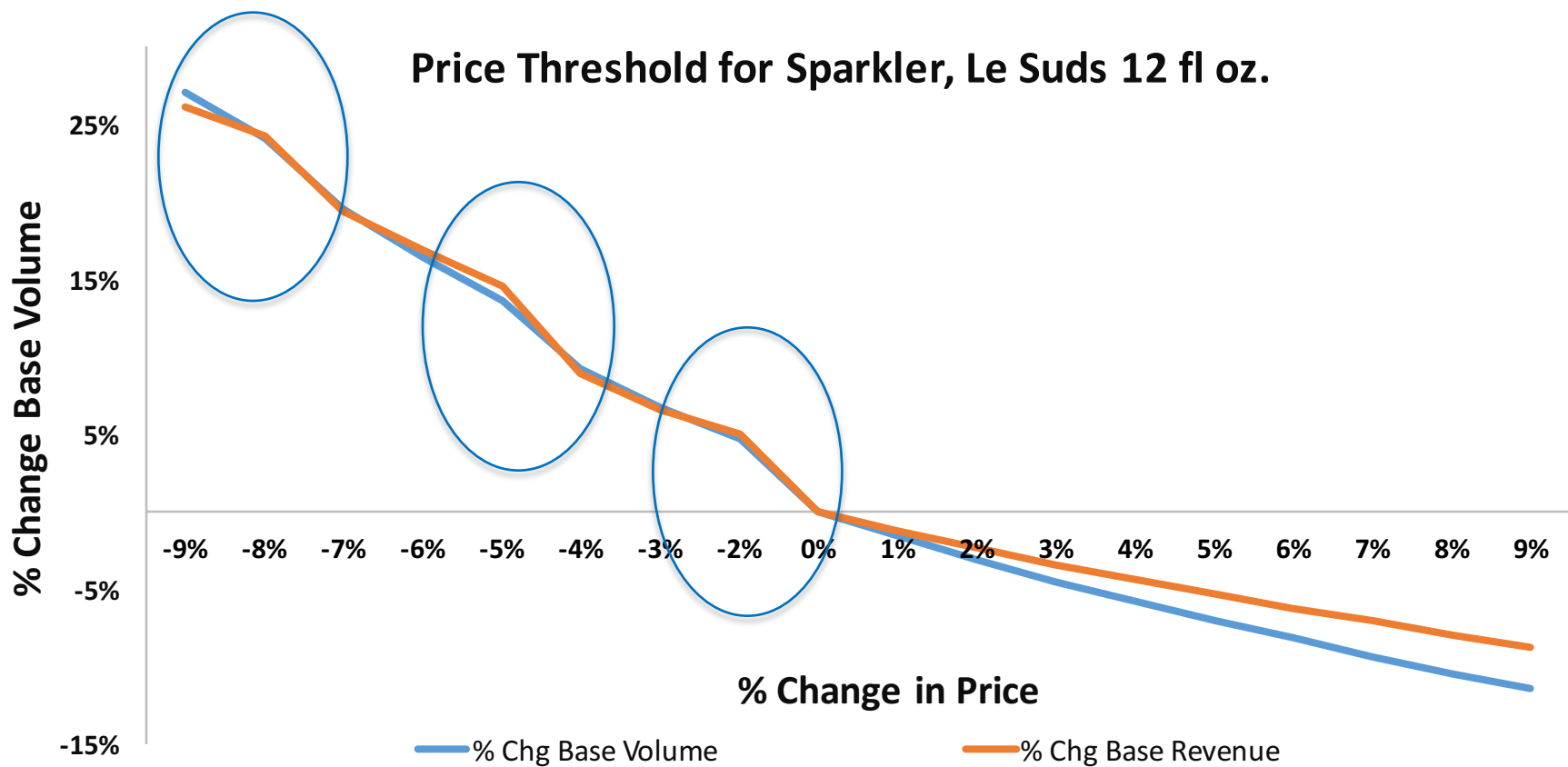
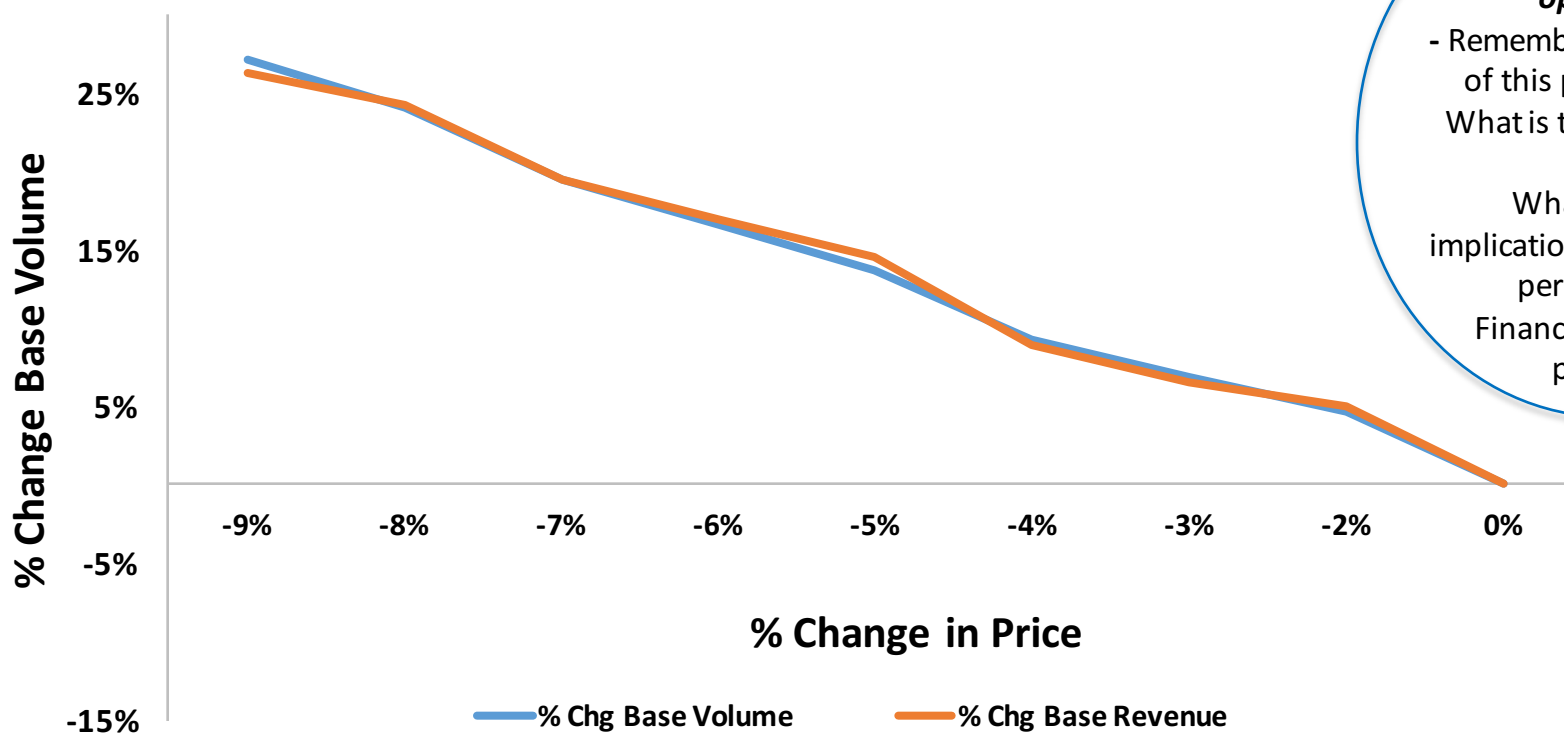## Building Price Strategies

Evaluating the Impact and Identifying Price Thresholds

Price Threshold for Sparkler, Le Suds 12 fl oz.

How do I know what is optimal?

- Remember the purpose of this price change. What is the strategy or goal? What are the implications (partnership perspective) Finance drop dead points?

% Change in Price

—— % Chg Base Volume   —— % Chg Base Revenue

Building Price Strategies

Key Business Question

7. How do we use this information to forecast financial scenarios and choose an optimal action?

Building Price Strategies

Price and Promo Strategy

	Current Scenario	Scenario 1 -2% Price Change	Scenario 2 -2% Price Change	Scenario 3 -5% Price Change	Scenario 4 -5% Price Change	Scenario 5 -8% Price Change	Scenario 6 -8% Price Change
Regular Price	$3.55	$3.48	$3.48	$3.37	$3.37	$3.27	$3.27
Promo Price	$3.10	$3.10	$3.10	$3.10	$3.10	$3.10	$3.10
Competitive Response	N/A	Does not follow	Follows	Does not follow	Follows	Does not follow	Follows

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Building Price Strategies

Price and Promo Results

	Current Scenario	Scenario 1 -2% Price Change	Scenario 2 -2% Price Change	Scenario 3 -5% Price Change	Scenario 4 -5% Price Change	Scenario 5 -8% Price Change	Scenario 6 -8% Price Change
MFR Volume	345,510	362,785	369,333	383,881	387,763	394,454	396,854
MFR Revenue	$1.23M	$1.3M	$1.31M	$1.41M	$1.41M	$1.42M	$1.42M
Competitive Response	N/A	Does not follow	Follows	Does not follow	Follows	Does not follow	Follows
Margin	14%	13%	13%	9%	9%	7%	7%

Generating Price Recommendations

Recommendation

	Current Scenario	Scenario 1 -2% Price Change	Scenario 2 -2% Price Change	Scenario 3 -5% Price Change	Scenario 4 -5% Price Change	Scenario 5 -8% Price Change	Scenario 6 -8% Price Change
MFR Volume	345,510	362,785	369,333	383,881	387,763	394,454	396,854
MFR Revenue	$1.23M	$1.3M	$1.31M	$1.41M	$1.41M	$1.42M	$1.42M
Competitive Response	N/A	Does not follow	Follows	Does not follow	Follows	Does not follow	Follows
Margin	14%	13%	13%	9%	9%	7%	7%

Key Business Question

8. How do we evaluate our success?

Generating Price Recommendations

Post Price Change Assessment

How do I measure success?

Was my price change effective?

When should I complete this analysis?
ex) Yogurt vs. Shampoo

Conclusion

Thank You!

Conclusion

Questions?