

NIQ for Retail

WIN AT RETAIL

Creating effective pricing
and promotion strategies

NielsenIQ



Contents

3 OVERVIEW OF THE IMPORTANCE OF PRICE AND PROMOTION IN RETAIL

4 CURRENT TRENDS IN RETAIL PRICING

6 THE ROLE OF PROMOTIONS IN RETAIL

9 DATA-DRIVEN PRICING AND PROMOTION STRATEGIES

10 BEST PRACTICES FOR ALIGNING PRICING AND PROMOTION STRATEGIES WITH OVERALL BUSINESS GOALS

11 FUTURE OUTLOOK AND RECOMMENDATIONS

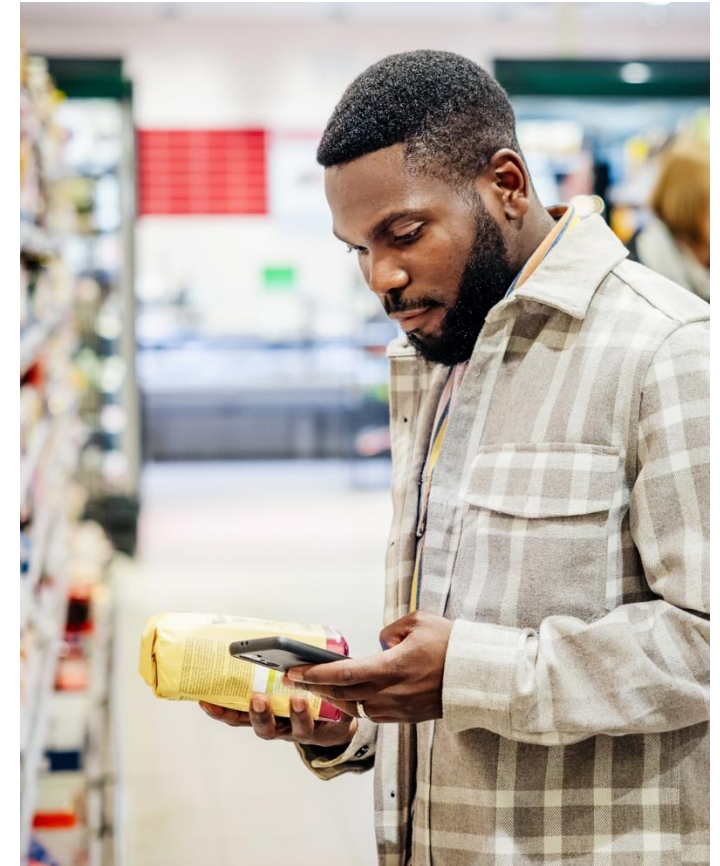
Introduction

The importance of price and promotion in retail

The retail sector has experienced seismic changes in the last few years. The global pandemic and ensuing high inflation continue to pose significant challenges. Consumer behavior is unpredictable and shifts at lightspeed. Competition for share of wallet is intense. During such times of volatility, retailers must balance the need for profit with the desire to compete. This shines a spotlight on pricing and promotion. Mastering both is essential to winning in this landscape.

Against a backdrop of profound—and continual—change, historical performance benchmarks, and even last year’s consumer research, become irrelevant. The era of simple rule-based pricing, where retailers benchmarked a few key competitors and relied on a price distance index to guide pricing decisions, is over. Setting prices and designing promotions using the old rules isn’t an option. Accurate, up-to-date data is the bedrock of effective, agile, and flexible pricing and promotion strategies. However, with so much data available to retailers, it can be overwhelming and time-consuming to identify the pertinent intelligence. NIQ has the tools, techniques, and expertise to help.

Smart retailers have already taken the lead in crafting strategies that better reflect customer behavior and internal dynamics. While competitor pricing remains important for high-value items, it should now be just one of many reference points in a more comprehensive dynamic pricing strategy that truly reflects customers’ willingness to pay. This guide shows you how to elevate your pricing and promotion strategy, using a data-driven approach and the latest technologies.

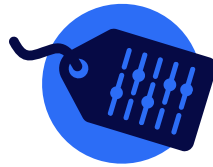


Current trends in retail pricing

We know the retail environment is tough. With inflation, global conflict, and the continued recovery from the pandemic, prices are changing more frequently. Consumer behavior, once predictable, is now anything but. To win at retail, players must squeeze every last drop of value from their first-party datasets on customer buying behavior and preferences. Combining it with accurate third-party data and intelligence elevates data to a new level. By applying advanced analytics, [Artificial Intelligence \(AI\)](#), and machine learning to the mix, retailers can anticipate and predict customer preferences and behavior with greater accuracy. This is crucial to crafting pricing strategies and tactics that balance revenue, sales volume, price positioning, and profitability.

A key facet of revenue optimization is to segment customers and tailor pricing to different audiences and regional zones to ensure they receive the most relevant and appealing prices. This data-driven approach has been adopted by leading retailers like Amazon, Walmart, and Home Depot.

These three strategies are key to driving returns:



1. Dynamic pricing

A stalwart of revenue optimization is dynamic pricing, which allows companies to adjust prices based on current market conditions, demand levels, and competitive pressures. Retailers are increasingly using the approach to drive traffic during quieter periods, creating greater predictability in uncertain times. The latest estimates suggest that almost three-quarters of U.S.-based retailers use dynamic pricing, compared with 25% to 30% in the U.K. and Europe.

Shoppers are well-versed in this model, but it does have some pitfalls. In categories such as Consumer Electronics and Toys, consumers are comparing prices and will swap between retailers to save money—typically 5 to 10% of the price. Shoppers will remain loyal to their favorite retailers if the price differential is low (say 2% to 3%) but start to switch above this level. Dynamic pricing also means frequent changes—sometimes several a week.

In an omnichannel world, this has challenged traditional retailers who haven't been able to adapt rates as quickly as online players. No brick-and-mortar retailer wants their customer to see a price change between the shelf and till and then suffer a social media or customer experience backlash. At present, the electronic shelf tag technology and time lag in delivering ROI are preventing physical retailers from enjoying the benefits dynamic pricing offers e-commerce players.

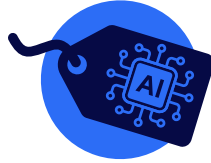
However, some brick-and-mortar retailers of commodities are changing prices several times a week. Petrol forecourt retailers, for example, are adapting prices based on the reason for travel patterns, with different rates for work and holiday times. Other categories such as Lumber at DIY stores or Fresh Produce in grocery also offer the ability for more frequent in-store price changes. Finally, we've seen consumers trust AI to assist with shopping decisions—especially in locating the best deals—and we expect to see more of this behavior as the technology is more widely adopted.



2. Personalized pricing

Personalized product recommendations have become a familiar sight on many e-commerce pages. The gold standard of this approach is Amazon, where 35%* of the retailer's revenue is generated by its recommendation engine. In addition to increasing sales, this tailored approach improves customer satisfaction and drives loyalty.

Recently, the approach has become even more sophisticated, with prices being adapted to individual customers depending on their past buying and paying behavior, as well as other factors such as their location and occupation. Segmenting by willingness to pay is key to success. Charging higher prices to those willing to pay drives revenue from that cohort. Retailers are also able to grow business from customers known to be less likely to pay by offering them lower prices. On the downside, some consumers have expressed a sense of unfairness in the approach to retailers who have adopted the technology.



3. Automated pricing

Today, the majority of retailers use pricing software to control their margins, improve revenue, and gain greater control over the entire process. Retailers need pricing tools that deliver promotion shielding, manage product relationships, establish guardrail rules and scale to every item. Of course, these must also deliver store- and company-level goals.

To earn KPI lifts at a total basket level, players must leave behind category-by-category pricing and connect to promotional strategy to strengthen strategy and tactics. This requires a fluid approach to achieve total store objectives and support departmental, category, and financial goals. Incorporating broader datasets is key for competitive intelligence. Our end-to-end [price management platform](#) offers automated routines that adapt to a retailer's rules to achieve core KPIs. It employs advanced modeling techniques, goal-seeking optimization, and ML/AI to iteratively prescribe and execute pricing at scale. It is easy to configure and deploy.

Shoppers are spending
36% more
today than in 2019



“Put consumer understanding at the center of your pricing strategies. Invest in consumer research and data analysis to gain insights into their needs, preferences, and pain points. Use these insights to tailor your pricing to meet consumer demands.”

— [MICHAEL MCLAUGHLIN](#)
President of International Retail, NIQ

*SOURCE: [HTTPS://WWW.FORBES.COM/SITES/BLAKEMORGAN/2018/07/16/HOW-AMAZON-HAS-RE-ORGANIZED-AROUND-ARTIFICIAL-INTELLIGENCE-AND-MACHINE-LEARNING/#28965A477361](https://www.forbes.com/sites/blakemorgan/2018/07/16/how-amazon-has-re-organized-around-artificial-intelligence-and-machine-learning/#28965A477361)

The role of promotions in retail

During the pandemic, promotions as a percentage of total retail sales dropped significantly. But we're seeing promotional activity ramp up from this all-time low. As that happens, it's important to offer not only attractive pricing, but also problem-solving solutions, channel-specific pack sizes, and trial-driving strategies. This will protect your business, as well as your sales figures. Consumers understand the price-value equation—and will reward players who offer good value with low costs.



Effective promotions can offer many benefits. They:

- **Increase revenue** by generating higher revenue through short-term offers that create a sense of urgency and reason to buy.
- **Attract new customers** to try your brand with the chance to grab a deal. In 2023, 92%* of shoppers in the US were using coupons.
- **Retain existing customers**, keeping them engaged and satisfied. This can drive repeat purchases.
- **Build loyalty** as shoppers connect with your business. There's also the chance to build a channel for future communication.
- **Respond to challenging market conditions** by using promotions to manage sales.
- **Differentiate** your brand by highlighting your product's unique features, benefits and values.
- **Provide a platform for cross-selling and upselling**, for instance, using customer data to personalize offers, by offering free samples, and add-ons to a purchase.
- **Create buzz** and drive word-of-mouth recommendations.

*SOURCE: [HTTPS://WWW.STATISTA.COM/STATISTICS/1410061/COUPON-USAGE-PHYSICAL-ONLINE-UNITED-STATES/](https://www.statista.com/statistics/1410061/coupon-usage-physical-online-united-states/)

Promotion and pricing strategies are category-specific: Their diversity is at the heart of their effectiveness. They must be carefully created and executed to stay true to an organization’s direction. There’s no one-size-fits-all approach, but there are five key approaches to consider. They include:

 Cost-based pricing	 Competitive pricing	 Penetration pricing	 Value-based pricing	 Price skimming
<p>Cost-based pricing is the most common pricing strategy used today. It takes into account the whole pricing package, calculating production costs for a product and then adding a predetermined markup for the sales prices.</p> <p>This can be an effective pricing strategy because it allows CPG companies to recoup costs and ensure a profit for each product sold.</p> <p>However, there are down-sides to consider. This pricing strategy doesn’t take into account market shifts or changes on behalf of the competition, such as a spike in demand or a competitor launching a similar product at a lower price point. This strategy also relies on stable production costs—any increased costs in ingredients cuts into sales or forces one to increase prices erratically, potentially upsetting customers or triggering them to switch brands if they aren’t loyal to the product.</p>	<p>Competitive pricing is another popular pricing strategy that informs the price point by matching or undercutting competitor products.</p> <p>This can be a strong pricing strategy within industries with less variation between product cost and quality, like grocery staples.</p> <p>However, if overhead costs are higher than the competition, or if the competition decides to compete on price, attempts to keep up with them can eat into profits and cause serious problems.</p>	<p>Penetration pricing is a dynamic pricing strategy that involves launching products at a low price to spark interest and then raising prices once demand is built.</p> <p>This is a very promising model for highly competitive markets, and one that large companies like Walmart have used to quickly take over a market and limit competition. However, this model requires a company to have the capital to sustain smaller margins while building up interest, as well as the ability to build enough interest that consumers will stay loyal after prices rise.</p>	<p>Value-based pricing, also known as demand-based pricing, involves researching demand to set pricing that matches consumer needs.</p> <p>In this model, the value comes from knowing what consumers are willing to pay and meeting them there.</p> <p>While this model can be highly lucrative for products with a high perceived value, it requires a strong retail data analytics tool to surface demand trends, consumer behaviors, and shifts in the market.</p>	<p>The opposite of penetration pricing, price skimming involves launching at a high price and then lowering it once competition enters the market.</p> <p>This is generally reserved for products that establish a new market or where the current competition is too weak in quality or demand to be a threat.</p> <p>However, it can be a risky model if consumers see your products as overpriced or if competitors can undercut you and gain market share.</p>

“Optimizing pricing and promotion is complex and business-critical. Whether it’s inflation, the competition, overpromoting, failure to ‘get’ your customers, or using outdated data and planning tools—or several of these challenges—you’re worrying about, it’s never too late to course correct. By taking control of pricing and promotion now, you can start maximizing opportunities to grow.”

— **MICHAEL MCLAUGHLIN**
President of International Retail, NIQ

Other promotion strategies that drive footfall and build basket value include:

Everyday low pricing (EDLP)

EDLP retailers like DM Drogerie Markt maintain a lower price for products over a sustained period. These retailers are focused primarily on getting the most competitive shelf prices. This approach is best-suited to products in mature categories, where the ROI is greater than discounting and/or where the brand has the power to influence category dynamics.

High-low pricing

High-low pricing retailers such as Target occasionally discount an everyday price on promotion. Products more relevant to a high-low pricing model are those where shoppers stock up on a lower price, consuming more, and those that experience seasonal spikes, where price drops drive urgency. This model relies on promotions to drive foot traffic and build market basket value for the trip occasion.

Price fighter pricing

This approach is usually employed to price essential basket items, focusing on the lowest regular price point and best promotion prices to avoid losing customers on these price-sensitive items. As these essential basket items drive customer frequency and store choice, the technique is used for regular and promotional items that have a major impact on total basket value.

It takes **~1.7**  **seconds**

**for shoppers to select
an item for purchase**

Data-driven pricing and promotion strategies

The data-led difference

A well-executed data-driven pricing and promotions strategy is the Holy Grail for retailers. We know from experience that many retailers struggle to determine the incremental sales and margin generated from both day-to-day and promotional pricing, compared with the absolute sales generated. Without knowing the definitive return on investment, future planning and strategy are seriously hampered. This gives your competition an advantage.

Data and insights into the marketplace, consumers, the competition, channels, and your performance are vital. When you see your pricing and promotion strategies in context, you will make better decisions. In particular, you can:

- **Analyze** a promotion's ability to drive sales and adjust as needed
- **Calculate** its sustainability in your business
- **Evaluate** the timing—critical in our volatile economy
- **Simulate** the results and tweak the approach
- **Assess** if consumers are relying on promotions and refine your tactics
- **Review** your pricing regularly to understand what works best for customers
- **Measure** your promotions to ensure they remain relevant and return investment

Setting accurate prices is the difference between making margins, breaking even, or losing money on a promoted price. On average, our clients implementing the [NIQ Revenue Optimizer](#) solution have experienced a 5%-7% improvement in trade spend efficiency.

NIQ is uniquely positioned to provide retailers with the data they need to make faster, more effective decisions on pricing and promotions to ensure short- and long-term success:

Revenue Optimizer

Optimize brand portfolio pricing, pack/price architecture, and promotions

Performance Pricing

Analysis of price point dispersion and the potential impact on sales and profitability

Enriched Events

Analytical models that offer in-depth understanding of a promotion's event performance

Custom Price and Promotion

High-end trade and price analytics based on disaggregated datasets at the store-week level

Everyday Analytics

Accessible in-flight pricing and promotion analyses to support pricing and promotion decisions

Opportunities

Automated, pre-simulated pricing and promotion recommendations

Best practices for aligning pricing and promotion strategies with overall business goals

Retailers of all sizes are abandoning their inflexible rules-based systems and adopting AI-based technologies for a highly intuitive approach to their pricing. These sophisticated tools rely on accurate first- and third-party data on a retailer's performance, market trends, competitors, consumer behavior, supply chain costs, demography and geography, holidays and festivals—even the weather forecast.

NIQ Retail [Price Optimization](#) empowers retailers to manage and execute powerful pricing strategies through a highly intuitive rules engine that automates the pricing process. It helps retailers:

- Implement strategic objectives—from optimization goals to competitive guardrails via business rules
- Drive continuous price optimization using advanced analytics and proven machine learning models
- Plan and execute winning promotions with what-if simulations and impact quantification

Combined with retailers' data, the platform enables strategy, optimization, and automation of pricing routines to achieve maximum results. The platform features rules-based pricing and AI to enable what-if simulations, price ranges, and elasticity-based calculations for goal-seeking optimization.

50% of promotional sales wouldn't have happened without the offer. Use data to plan your activities to avoid lost revenue while increasing sales and market penetration.

“The ability to run a variety of pricing scenarios enabled our client to model the impact of a range of pricing levels. Not only did the tool identify a projected life of 159%, but by freeing the team from manual processes, it released valuable resources.”

— [PETER CONTI](#)
SVP, US Analytics Commercial Lead, NIQ

Future outlook and recommendations

Data is at the heart of the future of pricing and promotion

As inflationary pressure softens, some big-brand retailers have begun offering price reductions—or announcing they will soon. The challenge is that prices in the supply chain remain high, so retailers need to cut costs on the right key value items to maintain and grow market share. Consumer demand is shifting in response to their changing perception of value—and retailers must respond. This means players must execute a diverse strategy of pricing and promotional techniques to keep up with macroeconomic marketplace dynamics.

Maximizing data assets for ROI

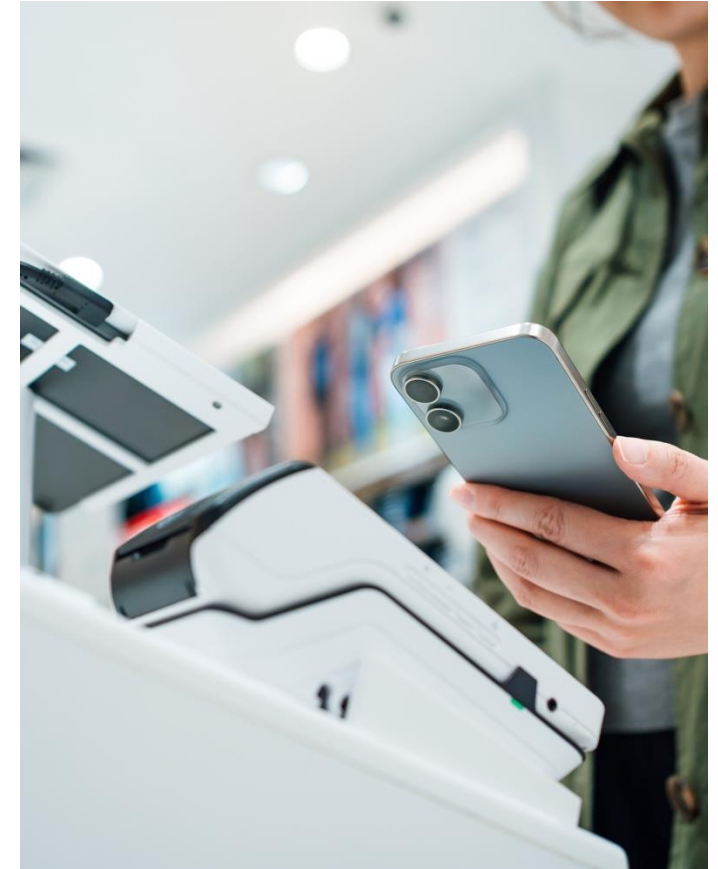
We expect a convergence of merchandising analytics assets into one cohesive ecosystem to help retailers operate at maximum cost efficiency. For example, demand planning solutions will incorporate promotional and base price planning and execution data to inform the purchasing and supply chain. Another example is using supply chain data to provide alerts and triggers to mark down inventory surplus according to seasonality or shrink reduction.

The importance of the individual shopper

The march toward personalization on all pricing and promotion activity is unstoppable. The individual shopper is becoming more important, and as data and metadata become more ubiquitous, the opportunities for end-to-end personalization expand in retail. Creating a personalized promotion and base pricing strategy for every shopper and every trip is on the horizon. Data analytics will drive this strategy as retailers move away from mass approaches.

“Retailers need to maximize their data assets by supplementing them with accurate, reliable third-party sources and expertise that can be integrated together to plot a course through the next phase of retail going beyond the retailer's own business impact to winning at a total market level.”

— [PARM SINGH](#)
Head of Retail Analytics, NIQ



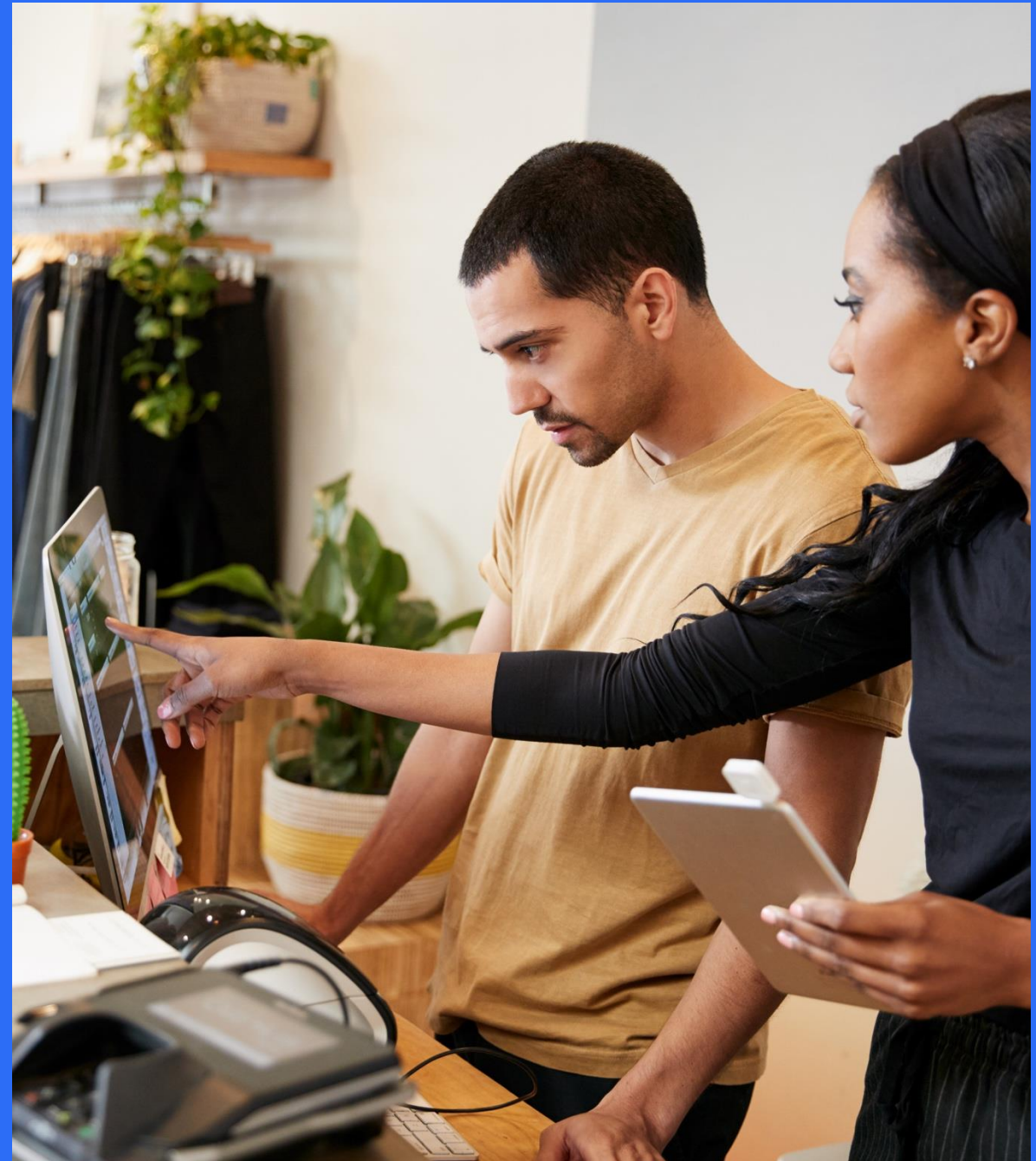
Summary

Effective pricing and promotion strategies help combat unpredictable markets, smooth market volatility, and drive revenue. They can improve customer loyalty and satisfaction, and lift brand performance.

Leverage accurate data and insights to drive your business by:

1. **Embracing current trends in retail:** Dynamic, personalized, and automated pricing are being used by your competitors, so don't get left behind.
2. **Elevating your promotions:** Design, simulate, review, and adapt your promotions to create business certainty in today's unpredictable markets.
3. **Letting data drive your decisions:** Data and insights into the marketplace, consumers, the competition, channels, and your performance are vital. When you see your pricing and promotion strategies in context, you will make better decisions.

**Contact our experts to discuss
your retail Pricing and Promotion
Strategy.**



NIQ

As a retailer in today's market, adapting to the needs of empowered, informed customers requires constant reinvention. You can navigate this complexity and become the preferred choice of your customers by embracing a new era of intelligence, driven by data, advanced analytics, and AI.

NIQ delivers the Full View™ for Retail, powered by the most complete data and advanced technology. With a suite of tools designed for a new era of intelligence, you can translate insights into powerful, profitable action and stay ahead of the competition. Keep up with rapidly changing market dynamics and consumer behavior while collaborating with suppliers to make smart, fast decisions.

NielsenIQ (NIQ) is the world's leading consumer intelligence company, delivering the most complete understanding of consumer buying behavior and revealing new pathways to growth. NIQ combined with GfK in 2023, bringing together the two industry leaders with unparalleled global reach. Today NIQ has operations in more than 95 countries covering 97% of GDP. With a holistic retail read and the most comprehensive consumer insights—delivered with advanced analytics through state-of-the-art platforms—NIQ delivers the Full View™.

For more information, please visit www.niq.com