



Retail Pricing and Margin Optimization

SIZE PRICING

The idea behind vendors offering larger size products is to offer higher dollar sales, a value to the customer, and more gross profit for the store. It is important that all three of these items are addressed when looking at your pricing strategy.

MORE VALUE TO THE CUSTOMER

Review you sizes, if you buy a larger size product, do you save money per ounce, per pound, per sheet, etc? There are a few quick obvious categories you can check to test the validity of you pricing. These categories have multiple sizes of the same product and multiple brands. They also happen to have good volume movement and can destroy your pricing image in the eyes of the consumer.

Peanut Butter, Vegetable/Cooking Oils, Catsup, Syrup

Take a quick look at your store and see if you are in line in these major categories. No? You need to review your value pricing across the store. You may find that you are low in stock on those smaller sizes and have a full shelf on larger sizes. Consumers value shop. If you have created an environment where the pricing does not create a value and needs to be corrected, you may consider signing the large items. "Buy Big, Save Big." These signs should only be used after the problem has been corrected.

THIRD TIER PRODUCTS—ARE THEY STEALING YOUR PROFITS?

Shelf space is valuable for two reasons. The first is that it represents a place a new item could go that will generate additional sales. Secondly, the shelf space could be used to carry additional fast moving items to prevent out of stocks.

A third tier product is a product that is not a national brand in the consumer's eyes and is probably viewed as an equivalent to a private label product. If you are carrying a private label line and a third tier product, chances are one is giving you a lower return on your inventory dollars.

Example:

Private Label Oil – Cost 1.00 Retail 2.00 GP\$ 1.00	Tier 3 Oil – Cost 1.50 Retail 2.10 GP\$.60
---	---

If the consumer is faced with not having the tier 3 products, they will move to the private label or to the national brand. Try this process in 1 or 2 product lines if you are skeptical and watch the item movement.

PRIVATE LABEL PRICING

There are two schools of thought when pricing private label and a third which is a hybrid of the two.

Thought 1:

Price your private label products at approximately 80% of the national brand. Private label priced too inexpensively against the national brand will create an image of a poor product. If it costs 50% less it must be horrible. Whereas, if you price it closer, the consumer will perceive a higher quality and still achieve a significant savings on their grocery bill. In addition, by creating more gross profit dollars with everyday pricing, you can then create profitable in store end cap sales by marking private label down and achieving a normal category margin. For example, Spaghetti sauce pricing moves up to a \$1.39 to be at 80% of the national brand. An end cap can be created with \$.99 sauce with a sign you save \$.40 on our everyday price. On the national brand, hang a compare and save tag.

Thought 2:

Another school of thought is to price private label well below national brand pricing and only slightly higher than the category gross profit percentage. The thought behind this is to create a low price image, especially when competing against organizations such as Wal Mart. However, some believe that this approach does not work because consumers tend to remember very few items in terms of price and these items typically are national brands.

Hybrid

A cross breed of the two methods to deal with private label pricing is to price key items at category margins to present a value and to price up to 80% on non key items. This helps to capture both the price image while optimizing profits on other category lines.

Presentation

Regardless of the choice in pricing, private label still represents a value to your consumer and should be displayed as such. Setting the private label brand beside the national brand with compare and save signs can help show shoppers these values. A more impressive tactic is to create the water fall effect. From the top shelf down, run the leading national brand. Side by side with the private label brand. The “vertical stripes” of the colors of each respective brand draw attention. This can be very effective in categories with many sizes running top to bottom of the same product.