ACTIVEVIAM

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4 ways location-based pricing can improve retail volumes and margins

One element that is often neglected by brick & mortar retailers, for lack of sufficient analytical capabilities to take it into account, is that the competitive environment varies greatly from one store location to another.

While any pricing strategy typically integrates the positioning of competitors at the national level to set prices, for a store the truly relevant level to define and implement the most efficient pricing strategy is the catchment area where neighbouring stores actually compete for the same customers. It is only by drilling down to this level of granularity that you can truly optimize your pricing to maintain your positioning and maximize your margins at the same time.

Few companies are able to achieve this level of finesse today. Those that do have the opportunity to optimize their sales volumes and margins along 4 main ways, matching localized consumer profiles and habits, local competitive pressure and global company strategy and goals in terms of image, market shares and margins It gives them a definitive edge against their competitors, and especially against e-commerce pure players as we'll see below.

1. Leveraging your comparative advantages in the local competitive landscape

You may count 5 direct competitors at the national level, but if only 2 or 3 of them are present in one catchment area, it is possible to increase your margins across most products while still retaining the same positioning and level of competitiveness. Furthermore, you may be the only retailer in the area for a particular section or brand, even though you face fierce competition at the national level. It's crucial to make the most of these advantages to overcome competitors.

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2. Evolving your strategy in border regions

The competitive landscape changes completely when your store is located close to the border. You have to take into account a host of foreign competitors that do not play by the same rules (different VAT level, labour cost, store implantation laws...). Managing pricing for those stores requires a different and often more elaborate set of parameters in order to remain competitive. When your prices are structurally higher than those of your competitors, you need to differentiate yourself in other ways, such as a higher level of service, and to actively drive customers to your store through special offers and promotions. Powerful analytics tools are key here to apply custom sets of business rules and identify the marketing actions that have the most positive impact.

3. Selling to tourists and travellers

Tourists are a choice population for retailers of some consumer goods – while they are not likely to buy large appliances, they frequently purchase smaller electronic gadgets or accessories like plug adapters and chargers for instance. They often have a higher-than-average purchasing power and they are less likely to seek and compare all available retail options in an area they are not familiar with. This opens opportunities for retailers to better hedge their margins across their whole product line. Demographic data about tourism is plentiful, and with the adequate flexibility, you can integrate it in your analysis in order to create business rules that will take into account the population profile of the tourists who visit a region as well as the seasonality dynamics of each area.

> Tourists are a choice population for retailers.

4. Adapting to supply chain costs

Geo-pricing can also take into account the special advantages (or obstacles) that some stores may have with regards to supply chain costs. A store located close to a major shipping port or railroad hub, or that forms a relatively tight cluster with other stores of the same brand has lower procurement costs and can use that advantage to offer lower prices on some goods while retaining the same level of margin overall. This sort of adjustment of course requires an equally precise vision of your supply chain to identify and make use of these differences in procurement costs.

Leveraging every bit of optimization that location-based pricing brings becomes absolutely essential when competing with e-commerce retailers. By nature, those competitors have to present the same prices nationally and therefore are denied the benefits of the geo-pricing strategies outlined above. For instance, when setting their prices, they must calculate an average shipping cost and cannot offer a better deal in regions more easily accessible or penalize the more remote areas, not if they want to maintain a consistent brand image. They also have no way to efficiently sell to tourists or to compensate for the structural advantages that foreign brands may enjoy in border towns.

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By deploying a dynamic pricing strategy that takes into account the specifics of each store's location, brick & mortar retailers gain a significant edge against both local competitors and online pure-players.

About ActiveViam

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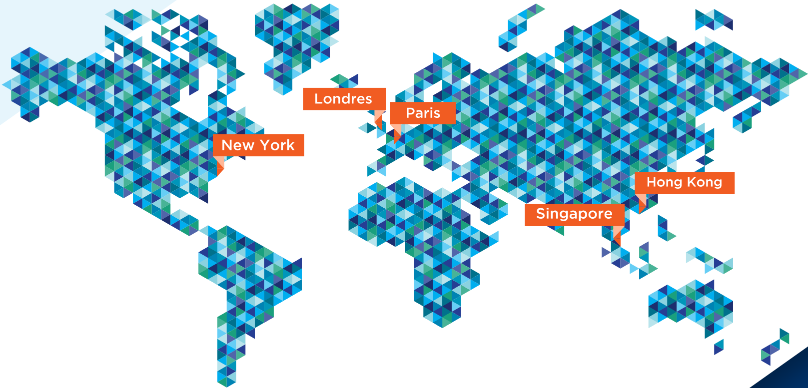

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