

Dynamic Pricing in Stationary Retail – Business Opportunity or Entrepreneurial Risk?

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Agenda

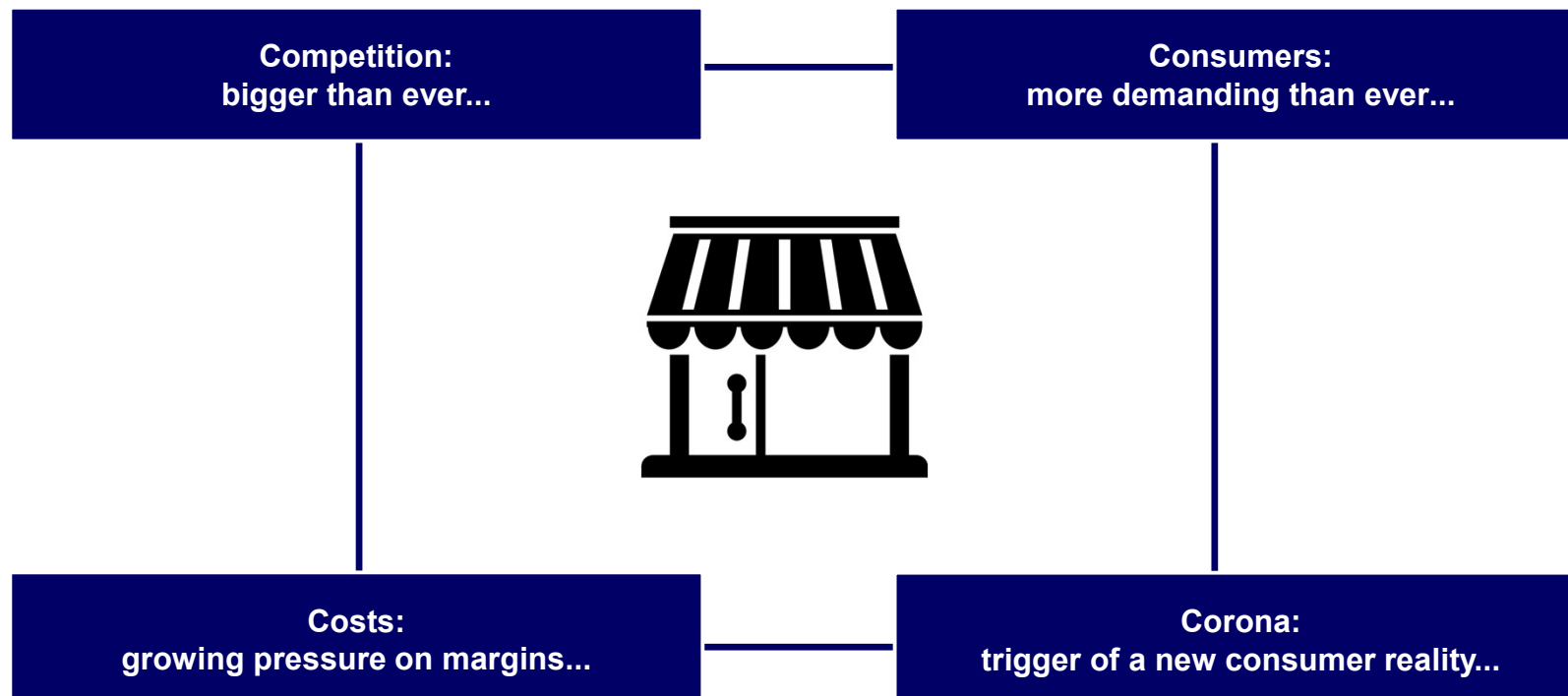
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 2. Framework to evaluate Dynamic Pricing (DP)
 3. The consumer's view of the DP
 4. Challenges for DP seen by industry experts
 5. DP – the right answer in a VUCA world?
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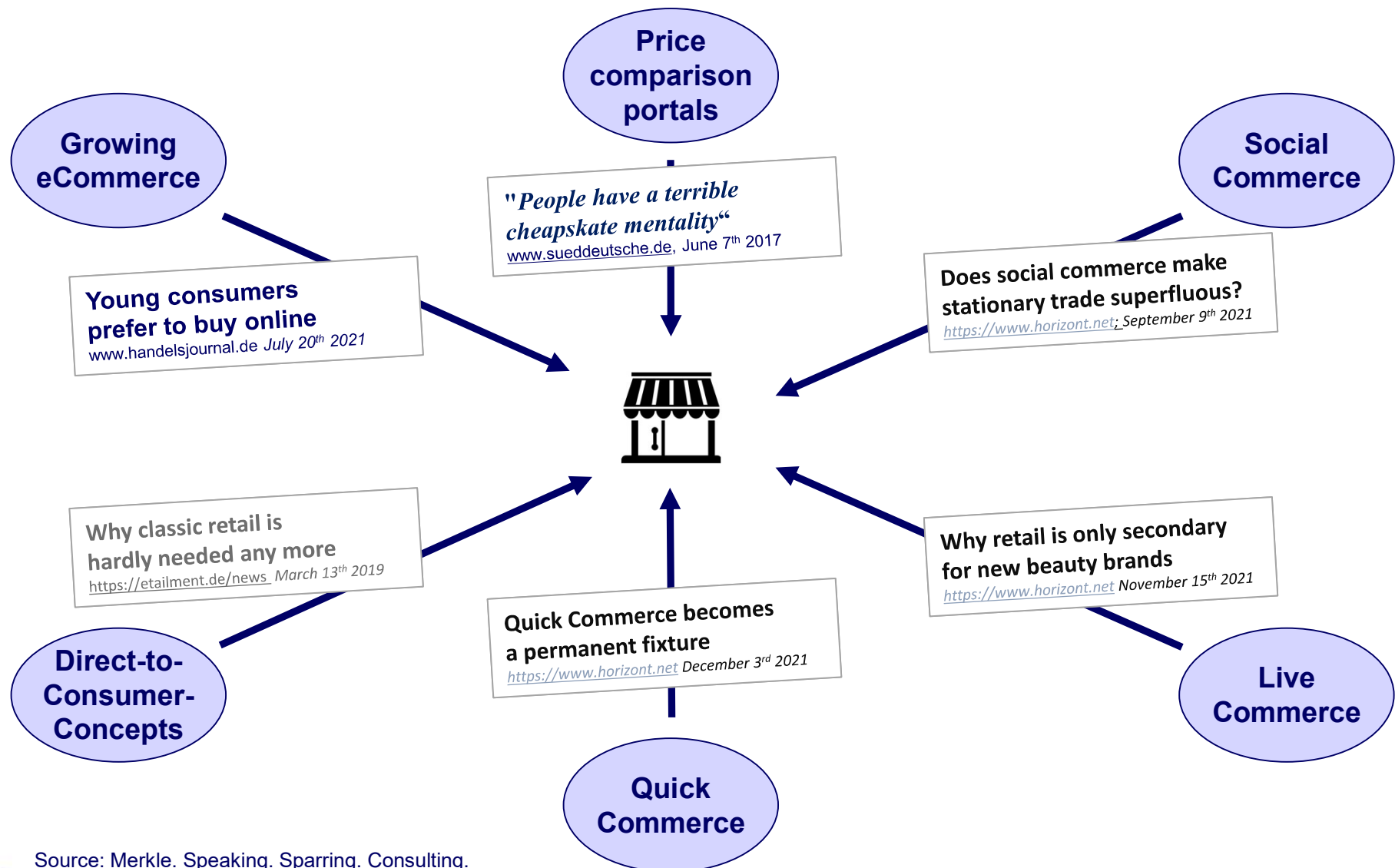
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Current situation of stationary retail: even higher challenges...

Important factors influencing the situation in stationary retail



Competition – bigger than ever ...



Fast-acting instrument with direct influence in an increasingly competitive environment

"Pricing policy directly affects sales and profits - all other elements of marketing produce ... costs."

Kaul, 2014

"Many companies have not yet realised that pricing is the most important profit driver in the company..."

Riekhof, 2015



"What you have to achieve is that the customer gains the belief that he can't buy cheaper anywhere."

Albrecht, 2014

"Digital Pricing - this is the key to better margins"

Huelson/Magnette/Moss/Prabhu, 2021

"Digital pricing - it's a growth engine; a real 'pricing revolution'"

Beutin/Kirchner/Demmelmaier, 2020

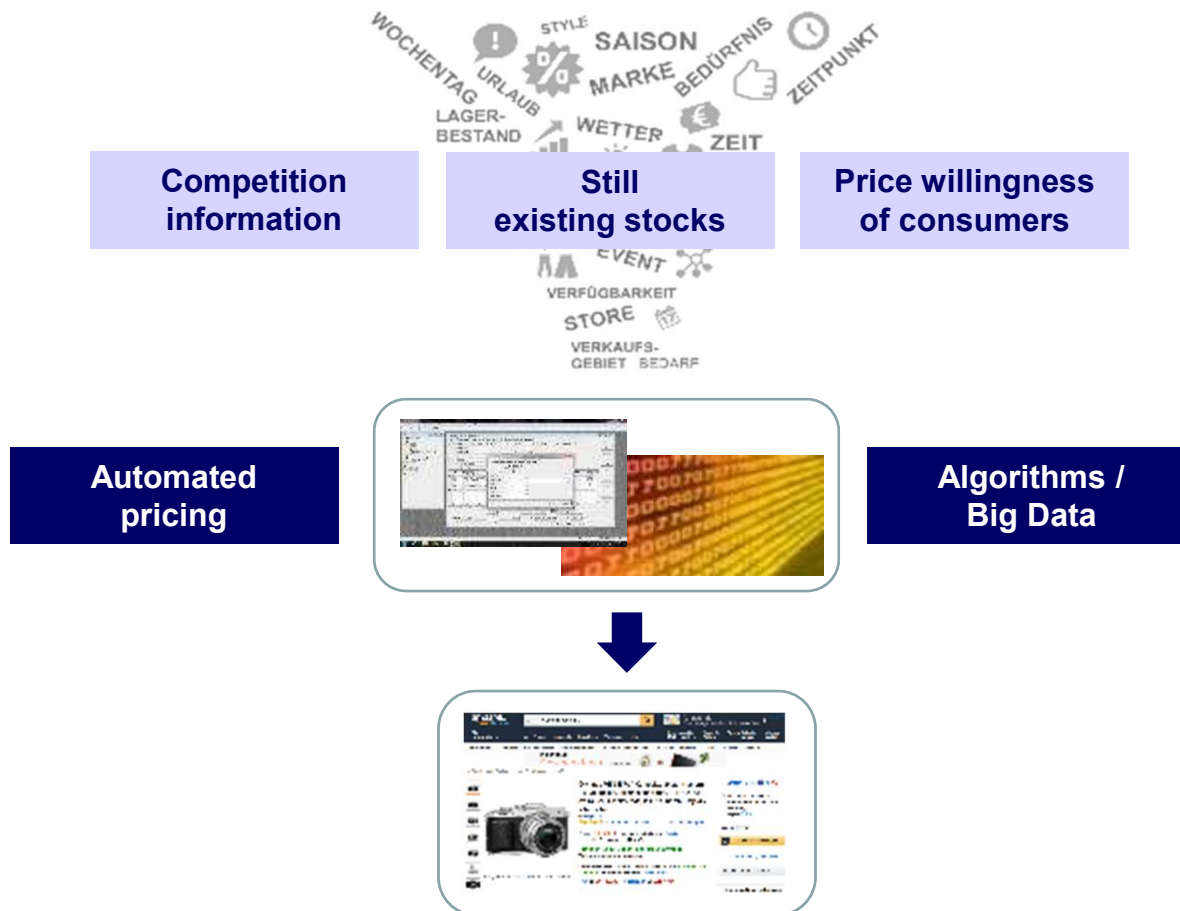
"With targeted deployment, sales can be increased by five to seven percent ... profits by up to two percentage points"

Beutin/Kirchner/Demmelmaier, 2020

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Digital pricing – a competitive advantage for eCommere



Digital pricing transformations:

The key to better margins

McKinsey January 2021



Introduction of electronic price tags – opportunity for stationary retail?

Electronic price tags on the shelf – Possibility to dynamize prices...



Douglas looking good with price optimisation

www.retailtechnology.co.uk; August 2018

Schwarz-Gruppe

Lidl relies

on electronic price tags

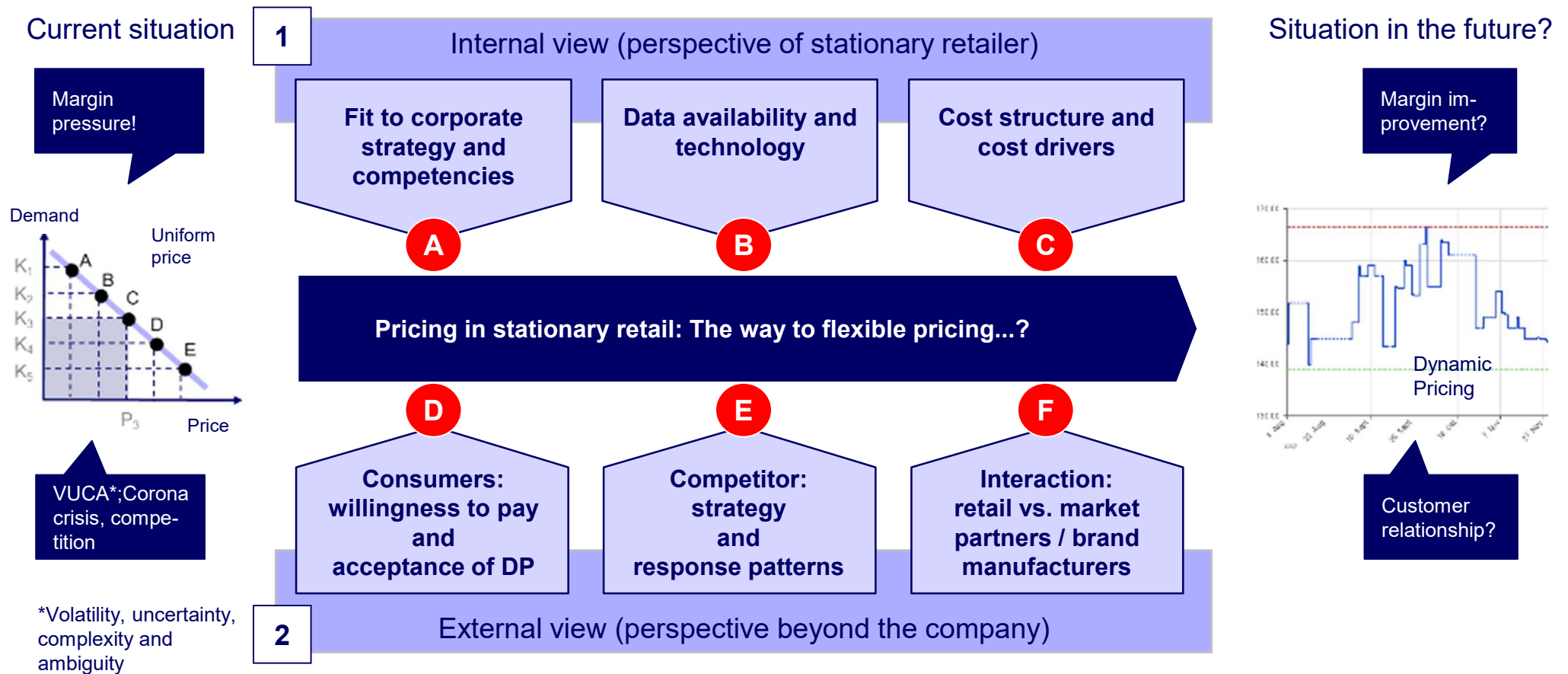
LebensmittelZeitung, October 2020

Retail invests in high-tech tags

www.stores-shops.de; 2020

Different influencing factors for the implementation of a Dynamic Pricing (DP) approach

Influencing factors for the implementation of a Dynamic Pricing approach



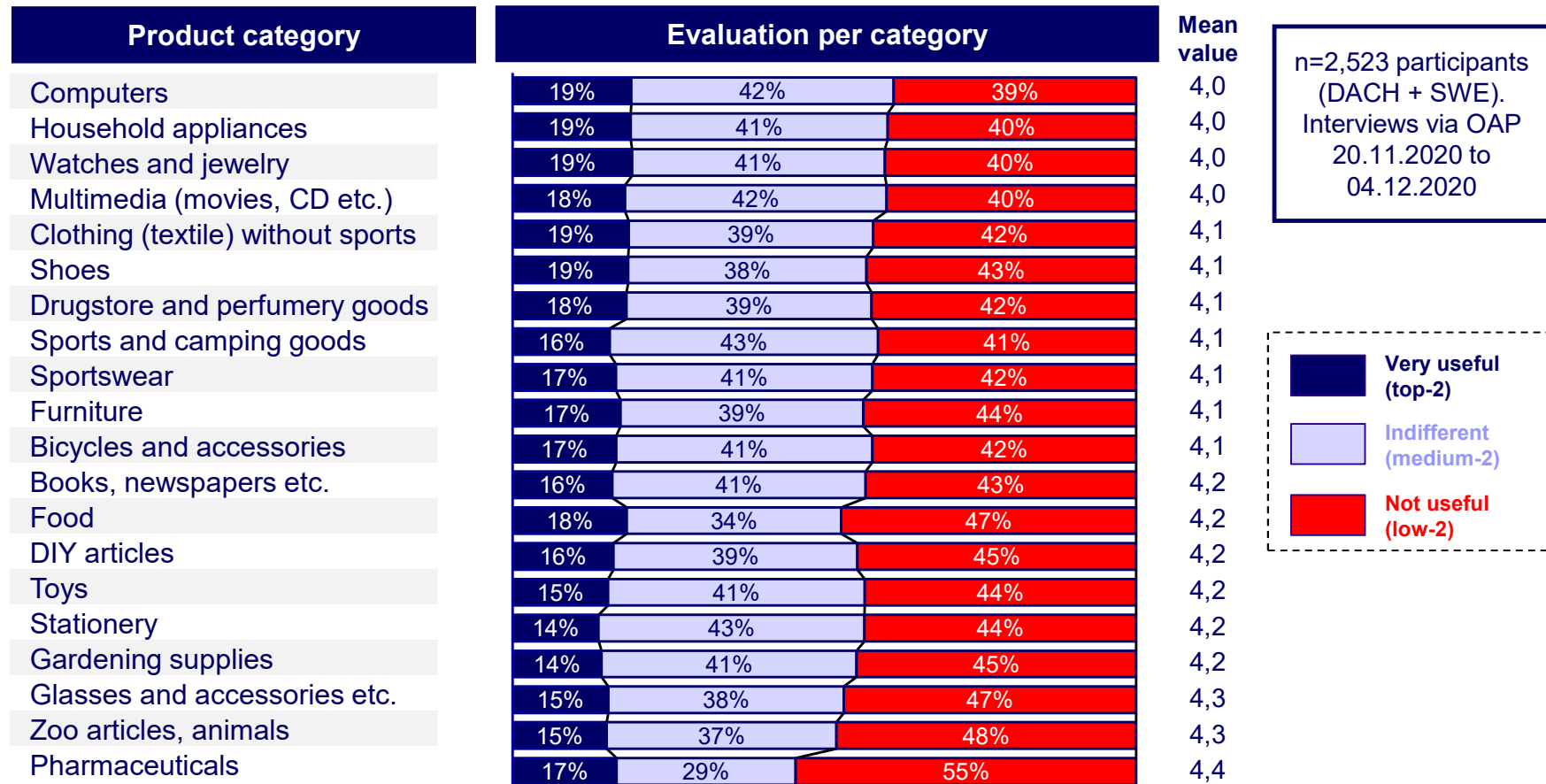
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Consumer enthusiasm for dynamic pricing in retailing is rather limited – strongest rejection for pharmaceuticals

Study 1

Perceived Usefulness of dynamic pricing by product category (% of all respondents)¹⁾



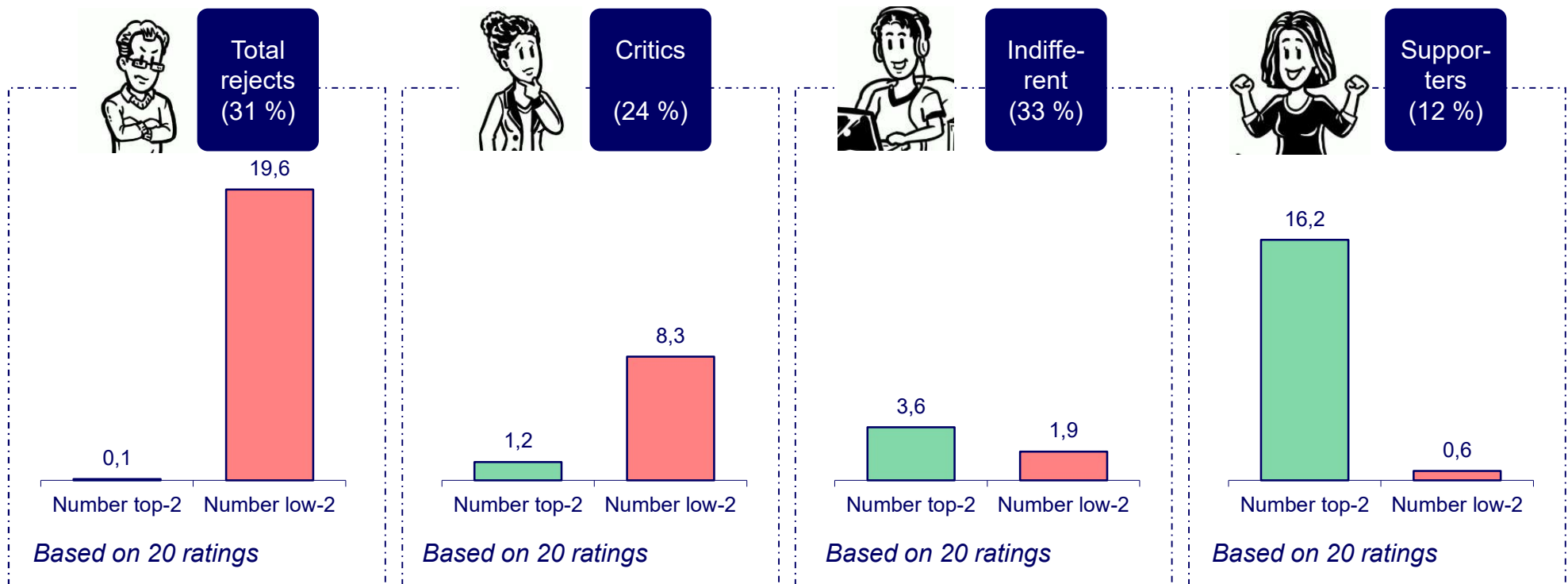
- 1) In the retail industry, the topic of dynamic pricing is being discussed, in which product prices are adjusted more frequently. I.e. when demand increases, the price increases, when demand falls, the price falls. For which products would you find this useful? Please use a scale from 1 = "I think it makes a lot of sense" to 6 = "I don't think it makes sense".

Source: **exeo** Strategic Consulting AG / Rogator AG

The consumer segment "total rejects" has a share of 31 % and oppose dynamic pricing in almost all 20 product categories

Study 1

Evaluation of dynamic pricing by product category (number of products with approval/disapproval)¹⁾



- 1) In the retail industry, the topic of dynamic pricing is being discussed, in which product prices are adjusted more frequently. I.e. when demand increases, the price increases, when demand falls, the price falls. For which products would you find this useful? Please use a scale from 1 = "I think it makes a lot of sense" to 6 = "I don't think it makes sense". Segmentation based on a K-Means clustering including the 20 individual ratings on the usefulness of dynamic pricing.

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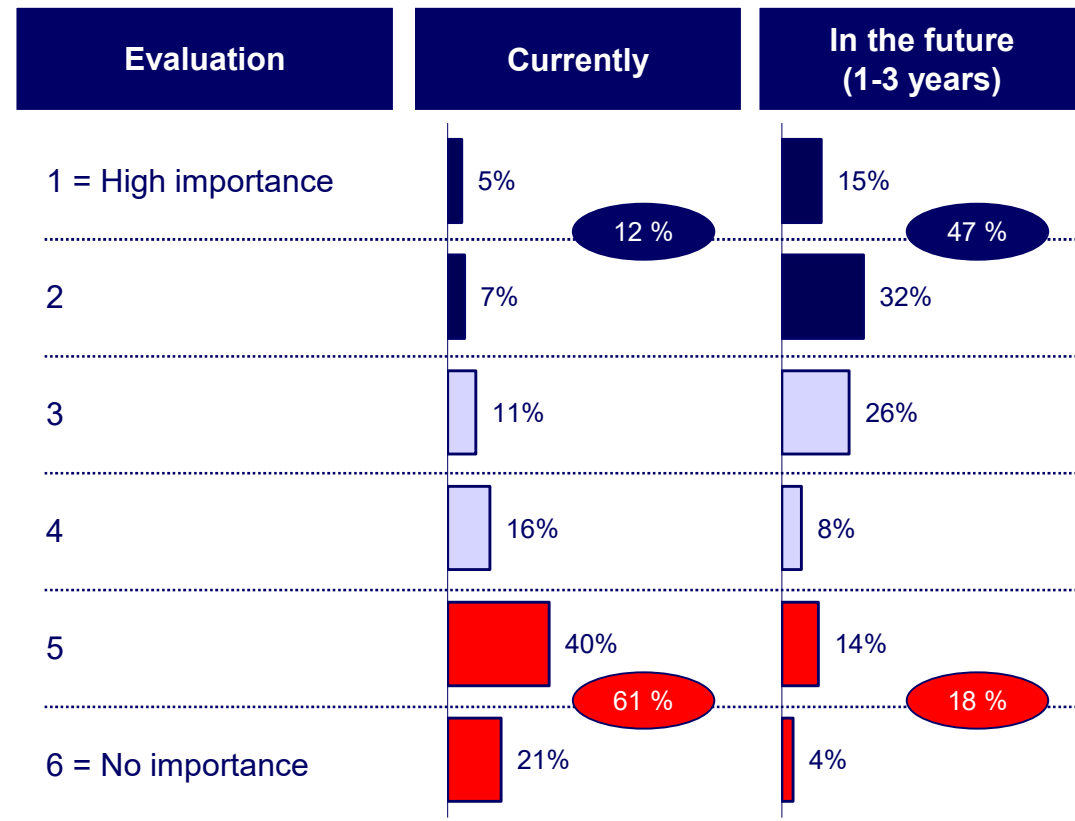
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Overall, retail experts see an increasing importance of dynamic pricing in stationary retailing (expert interviews, Apr. 2021)

Study 2

Current and future importance of dynamic pricing in stationary retail (% of all respondents)¹⁾

| Number of employees | n=91 experts |
|------------------------------|--------------|
| Up to 10 employees | 20 % |
| 11 bis 50 employees | 17 % |
| 51 bis <1.000 employees | 35 % |
| 1.000+ employees | 28 % |
| Business Unit | n=91 experts |
| Marketing / Brand Management | 37 % |
| Management | 29 % |
| Others | 34 % |



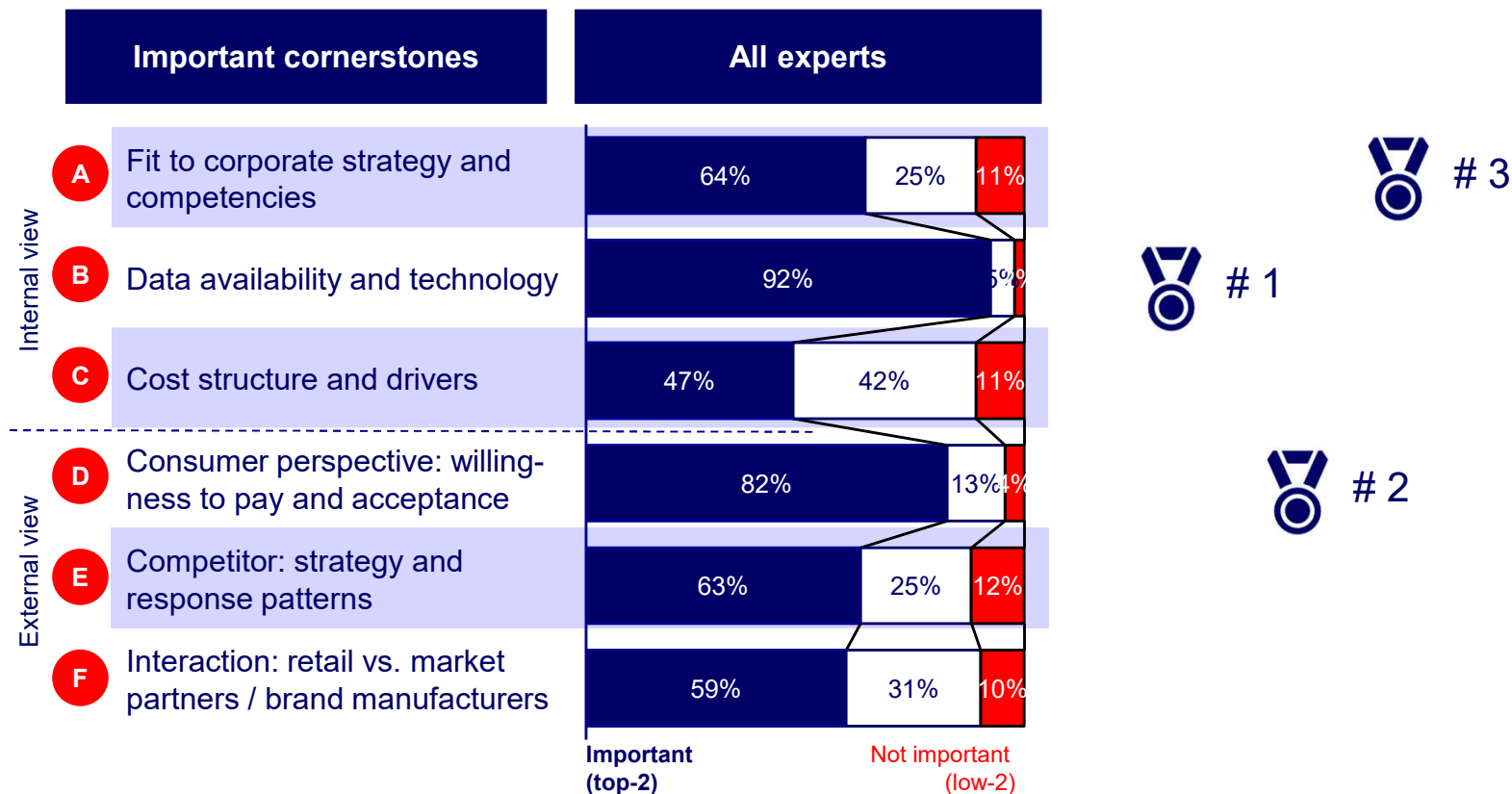
- 1) In dynamic pricing, the product price is determined flexibly on the basis of market information (demand, competition, inventory, etc.). In your opinion, how important has dynamic pricing been (a) in stationary retailing to date and (b) how do you assess its importance in the next 1-3 years? Please use a scale from 1 = High importance to 6 = No importance for your answer; Interviews in Apr. 2021.

Source: Merkle and Krämer (2021)

When introducing dynamic pricing, the most important aspects are data availability/technology and the consumer's point of view

Study 2

Retail experts – importance of key points in the introduction of dynamic pricing in stationary retailing¹⁾



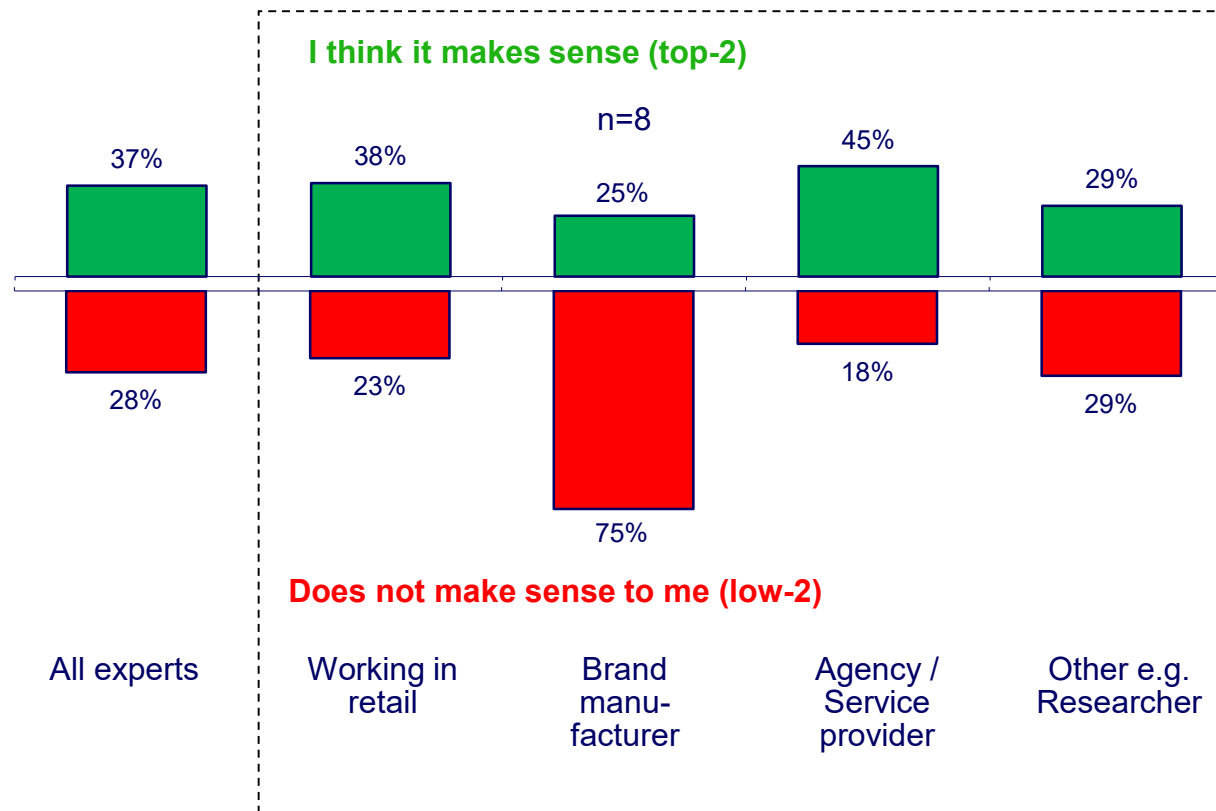
1) Within the topic of dynamic pricing in stationary retailing, which of the following key points do you consider to be important or less important when introducing dynamic pricing? Scale from 1 = "High importance" to 6 = "No importance".

Source: Merkle and Krämer (2021)

Manufacturers of branded goods tend to view the use of dynamic pricing critically

Study 2

Usefulness of Dynamic Pricing in stationary retail from the perspective of your own company¹⁾



1) In the retail industry, the topic of dynamic pricing is being discussed, in which product prices are adjusted more frequently. I.e. when demand rises, the price rises, when demand falls, the price falls. How useful do you think this is from your company's point of view?

Source: Merkle and Krämer (2021)

The experts see improved technical conditions for DP, but also considerable risks

Study 2

Statements on Dynamic Pricing in stationary retailing (experts, top-2 agreement %)¹⁾

With the use of **digital price tags**, the use of dynamic pricing will increase

80%

Most retailers **currently do not have a strategy** for dealing with the issue of dynamic pricing

74%

Dynamic pricing leads to increased **price competition** in the retail sector

58%

Dynamic pricing will lead to a **decrease** in **customer loyalty**

43%

Dynamic pricing will **become** the **standard** in stationary retail in the next 3-5 years

32%

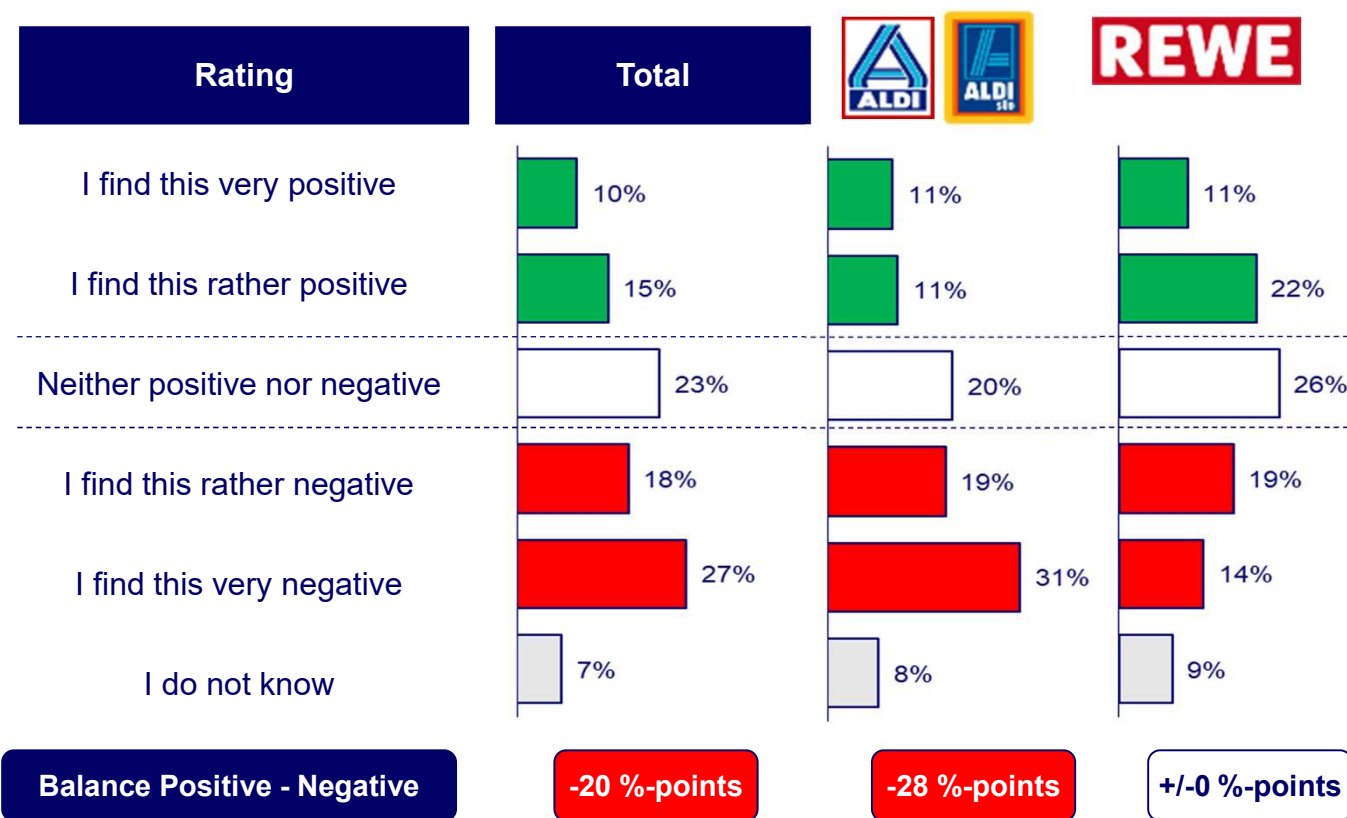
1) Please rate the following statements on dynamic pricing in stationary retail from 1 = "Strongly agree" to 6 = "Strongly disagree".

Source: Merkle and Krämer (2021)

The evaluation of dynamic pricing in food retailing depends on the company – in the case of Aldi, the evaluation is particularly critical

Study 3

Evaluation of dynamic pricing for vegetables and meat in food retailing (% of customers)¹⁾



n=1.000 participants
(D), Pricing Lab;
interviews via OAP,
July 2019.

1) Recently, it has been discussed that in the grocery business, prices are changed dynamically. Imagine that the company __ (insert Best in Class company), would flexibly adjust the prices for vegetables and meat according to demand: What do you think of this approach?

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Dynamic Pricing in stationary retail: business opportunity or entrepreneurial risk?

Some findings and aspects to be discussed

1

There are things that can hardly be simplified. The use of DP in stationary retail is **more complex** than expected.

2

The fields of application for Dynamic Pricing must be **clearly structured** – always start with **small steps** and continue based on learnings (testing is crucial).

3

The suggested and discussed **model**, consisting of an internal and an external perspective, can be used as a **checklist** for structuring.

4

The application of DP should be examined on a **range- and situation-specific basis** – in the context of sustainability, costs and customer benefits.

5

Important for the implementation: Definition of **bandwidths for the variation of prices** - in line with the positioning. ... and: manual check of the price automation...

Thank you for your attention!



Prof. Dr. Andreas Krämer
exeo Strategic Consulting AG



Prof. Dr. Wolfgang Merkle
Merkle. Speaking. Sparring.

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