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THE RISE OF DYNAMIC PRICING

Constantly reducing costs of technology and widespread connectivity are driving the growing adoption of electronic shelf-edge labels (ESLs) and the opportunity for introducing dynamic pricing into stores now looks a distinct possibility. However, this is not the first time it has been on the sector's agenda.

When the UK was on the verge of replacing the pound with the Euro in the 1980s there was talk of the major retailers including Marks & Spencer introducing ESLs to show dual pricing during the gradual switch-over between the currencies.

Although this was a plausible solution to the need to show two prices at once, the problem for the retailers was the widespread belief that when only the Euro became the only currency in use then the ESLs would enable merchants to sneakily change prices during the day.

The croissants that cost £1 at breakfast time could reduce to 50p from mid-morning and then increase again in the afternoon to hit the snacking crowd in the pocket. This caused an outrage and the idea of changing pricing in this way has since been strictly off the agenda.

However, much has happened in the interim – notably the internet has appeared. Airlines, hotel groups and taxi firms are among the many groups that now use dynamic pricing to the point that it is largely accepted by consumers in a way that was previously unthinkable.

This is still not fully the case - yet - in traditional store retailing, so for now retailers are focusing attention firmly on the operational efficiencies they can achieve from ESLs.

This has been test-driven by Tesco at its Letchworth store and more recently its Enfield superstore. CIO Mike McNamara has highlighted the simplicity of being able to change five to 10 million labels every week from a central system electronically rather than manually using stickers. It saves in-store employees time – only one hour is required versus one week manually – and it ensures the price on the label is the same as at the till, creating greater confidence among shoppers that the pricing is correct. They are also often easier to read.

The chief driver of this adoption is the price of the technology, which has reduced so dramatically in recent years that it is now a viable option for retailers to implement. For instance, in France, Casino Groupe has rolled out ESLs to over 400 stores albeit involving over seven million labels being installed.

Kingfisher has also been using them at its France-based chain Castorama, with the plan to introduce them within the next generation of B&Q stores in the UK. Dixons has also been experimenting at its store in Aylesbury across a number of categories.

Within these non-food categories the value in being able to quickly change prices in response to competitors' discounting is obvious. The ability to declare they are the cheapest operator becomes an undisputable possibility.

Matching competitor prices would undoubtedly push retailers closer to the sensitive area of dynamic pricing. However there are still many sceptics who believe shoppers will potentially change their shopping habits and choice of retailer if they are unsure about a company's consistency of pricing.

On the other hand, it is clear that dynamic pricing has huge potential for helping clear goods that are languishing in warehouses and end-of-line fashion ranges. Likewise, with food there is the opportunity to more effectively reduce waste through end-of-day discounting to clear out stocks of perishable goods.

For such pricing strategies to work to the advantage of retailers, they need to link their ESLs to data analytics solutions, which can utilise demand forecasting software. When combined, these could deliver optimum prices for maximum sales and, more importantly, profitability.

There is also scope to link dynamic pricing to individual customers (potentially through retailers' loyalty programmes) and this is where mobile devices have a major role to play. They enable shoppers to interact with the ESLs through the use of QR codes and NFC technology, offering a more personal customer experience.

For instance, Casino utilised ESLs with NFC tags attached at one of its Paris stores, offering a scan-and-go type solution whereby consumers tapping the label/tag could add the item to the basket on their mobile device via an app.

Such an arrangement also has the potential for pricing to be personalised to each shopper when they tap their phone onto the tag. Promotions and cross-selling recommendations can also be targeted at the specific shopper by appearing on their phone.

Whether it is through ESLs or directly through mobile devices there is great change taking place around prices to the point that static pricing in stores looks set to increasingly be a thing of the past – an analogue dinosaur in a digital age.

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