Price, Price, Price

At the end of the last century, Timothy Eaton pioneered a radical concept called fixed pricing. What this meant, was that in the Eaton stores in Canada, every item would have a price on it that was non negotiable. One price for each item for every customer. Prior to this, not every store negotiated every item with every customer, but it was common that prices could be different if you asked or if you offered to barter.

The fixed price model served us well in retail all throughout the 20th century. It made it easier for stores to sell their products and did not place the burden of negotiation on staff. Customers knew what the price was and in most cases could be assured that they were getting the same price as everyone else. A sense of trust developed between the customer and the retailer. In the past twenty years there has been a distinct erosion of that trust started by the discount stores and eventually almost all stores. As we started to discount to match the prices of competitors, and as price is the easiest way to discriminate myself from other stores, the customer found that often a "fixed" price was nothing more than a temporary illusion. During the 80’s and 90’s we witnessed discounting and price wars in almost every category of retail product. In the late 90’s we saw the birth and growth of the Internet as a shopping channel and that growth has unlocked forever the concept of fixed price.

One only has to look at the type of technology that the web has enabled called "shopping bots" to see one of the possible futures for retailers. Have a look at DealTime.com, Shopzilla.com, PriceGtabber.com, etc. or almost any search engine and you can very quickly determine the price of almost any item in hundreds of stores, something that in the physical world would be all but impossible. Now imagine a few years from now and most of our customers are mobile web enabled. Even today but more so in the future you will be faced with a customer holding a phone that is displaying the same item as you are showing them in the store, and they are pointing out that these other five stores are $5 to $12 cheaper than you are on the same item! How are you going to respond? The web is going to enable each of our customers to have almost perfect information on competitive prices. It is a future that most retailers are not prepared for. Price has always been a relatively static concept, despite all the promoting and discounting that we have seen over the past twenty or so years. It was very difficult to ever ensure that you were really paying the absolute lowest price as in most cases if you were not looking at advertisements or visiting many stores, you would not be aware of a lower price.

In the early 80’s the airline industry embarked on a program called dynamic pricing. In retail, if we don’t sell an item today, we have a chance to sell it

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tomorrow (with the exception of some food items!). The airline and hotel industry does not have that ability. Once the plane leaves or the day changes, the opportunity to sell yesterday's flight or hotel room disappears! As they had an inventory that if not sold, would simply disappear, they spent years creating very sophisticated models that enabled them to change the price on seats depending on how far in advance a ticket was purchased, the historical demand for that time and route, business travel, conventions, promotional activity, etc. This dynamic pricing model allowed them to increase the yield (number of seats revenue) on their flights by lowering price when demand was low and raise it when demand was high.

A similar use of the web today is being seen in auction sites that price an item at what customers are willing to pay. An interesting variant on this model are sites which are using web auction technology to clear old merchandise. Although the verdict is not completely in on this technique, they are finding that in some cases, they are realizing a higher maintained margin on auction goods than on taking regular markdowns in the store! It appears that if you offer an unwanted item to a large enough audience, someone will find it attractive. I don't know what these companies will do if their customers demand the same pricing structure on all their products. One advantage that some of the companies that carry only their own brand name products have is that most of their products are their own and it is impossible for a customer to do a direct price comparison with a competitor.

What can a retailer to get ready for this brave new world of price transparency? Actually, quite a few things! If you think about it, it is impossible for a consumer to price compare on a private label item, it is only possible on a name brand or commodity item. And even on a commodity item, if you can demonstrate superior quality or availability it may negate or mitigate the price issue. One of my favorite sayings is "no one shops price on toilet paper at 2 a.m. when they have run out of it". Another strategy is to truly use customer relationship management and deliver highly personalized and relevant service and products to your customers. This is easier said than done, as most retailers simply do not have the technology to do this. And another possible strategy is to focus on exclusive products (total, geographic or time exclusivity) and get out of the products when they become mainstream. This requires extremely good buying ability as well as knowledge of your customer's tastes.

The message of the Internet is clear, if you can't be a convenience store open 24 hours a day, then get out of the name brand or commodity business, NOW. There is simply no future in selling name brand or commodity items at the lowest price, period. (Unless your name is Wal-Mart!)

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