Revenue Management:

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GRIP REPORT by Elias Amash

REVENUE MANAGEMENT FOR RETAILERS

Elias Amash, President - GRIP

The four "P"s of marketing – Product, Pricing, Promotion and Place - make up the typical "marketing mix." Price, however, is the only part of the mix that creates revenue. Price is also the one aspect that can be changed quickly and cheaply, compared to the other components. Moreover, considerable research has shown that price has the largest impact on profit for retailers.

Retailers are regularly confronted with aggressive price attacks from competitors – whether in store or online. Year after year, retailers need to improve their promotions. If their promotions and price strategies are not driving sufficient ROI, retailers need to rethink their retail revenue management.

The primary aim of a revenue management strategy is selling the right product to the right customer at the right time for the right price. The essence of this strategy is in understanding the way customers perceive your product's value and accurately aligning product prices, placement and availability.

Retailers are thus faced with a significant challenge — how can they make sure that all of their products are selling at a price that builds profits, maintains market share and enhances customer loyalty. Retail revenue management (RRM) is a method that allows retailers to examine and analyze their financial and competitive goals. Regular and effective promotional price changes are a profit game changer.

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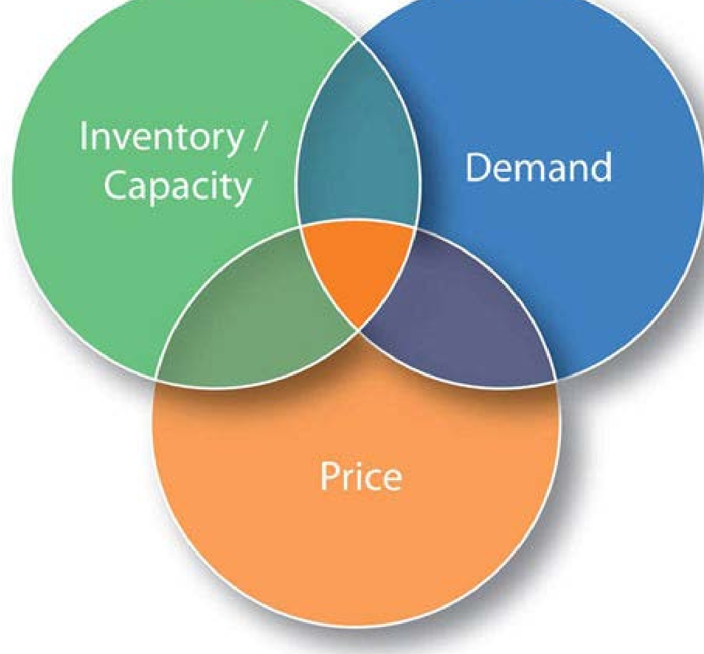
Due to stiff competition, in November 2011, J.C. Penney brought in a new CEO to make changes to the brand and its operations. He devised a 3-tier pricing strategy that cut the price of their most popular merchandise by at least 40%, offered certain discounts and promoted clearances during those days of the month when shoppers get paid. The concept was that they would keep prices low on items shoppers look for often, while introducing new merchandise on a routine schedule. Forbes called this strategy "a shocking move for any retailer, let alone a department store where hi-low pricing and promotions have long been the norm."

At the beginning of this new pricing strategy, the J.C. Penney stock was trading at $41.55 (1/31/12). Fifteen months later, the stock dropped to $14.55 (4/2/13). The new CEO lost his job when this new pricing strategy didn't work, and was, in fact, a complete failure.

J.C. Penney tried to take advantage of the fact that customers love a sale, by enacting a permanent sale called "Fair and Square" pricing.

Unfortunately, since this pricing was actually a permanent sale, it wasn't a real sale like customers are accustomed to and they had no "get a cheaper product" reason to come into the store to buy. The technique backfired and the department store finally reintroduced "normal" sales. No sale is a great sale if the same sale is available every day.



"Retailers should spend a considerable amount of time trying to thoroughly understand the buyer. For example, is the woman who comes into the store shopping for a dinner party? Does she need plates, or décor, or extra chairs? Or, is she having a party at her office, or a picnic for the family? Maybe she needs extension cords to get electricity to her outside location, or a portable table to seat more guests.

Once it is determined why she is buying, the retailer can price accordingly, decide whether to sell in store or online, and come up the appropriate promotions for each of these sales. Taken all together, these things inspire the customer to make a purchase."

Retail revenue management requires that the revenue manager forecast and analyze sales for the retailer's locations, in order to determine inventory levels and prices. In this way, they will have the best chance of optimizing revenue. Take a look at what we've learned from J.C. Penney and their retail revenue management mistakes and considerations:

1. Know your audience – One of the things revealed by a survey that J.C. Penney took some years ago, was that their potential customers didn't like J.C. Penney's clothes. No matter how you price your products, if the customers don't like them, it won't matter.

2. Make sure you understand your B2B partnerships – Some years ago, J.C. Penney signed what they thought was an exclusive deal with Martha Stewart. Unfortunately, Martha Stewart had already signed the same "exclusive" deal with Macy's! What a mistake! The lesson here is that your brand should be able to stand on its own and any collaboration should just be a benefit.

3. Stay ahead of societal norms – Attempt to get rid of old advertising methods and eliminate stereotypes. The world is changing and so are the ideas that consumers see as acceptable. For example, an advertisement that shows two men shopping with their son demonstrates that the store is not stuck on old prejudices. Customers generally appreciate "up to date" attitudes where they shop.

4. Forget old conventional sales promotions – today, consumers know what they want to buy; they don't need to be lured into the store with outdated sales promotions.

Although they might not use the title "revenue manager," every retailer has a planning organization that constantly forecasts and analyzes sales for their company's locations. This enables them to determine inventory levels and the prices they will charge. Their goal is to maximize revenue according to trends in consumer behavior.

Retailers should spend a considerable amount of time trying to thoroughly understand the buyer. For example, is the woman who comes into the store shopping for a dinner party? Does she need plates, or décor, or extra chairs? Or, is she having a party at her office, or a picnic for the family? Maybe she needs extension cords to get electricity to her outside location, or a portable table to seat more guests. Once it is determined why she is buying, the retailer can price accordingly, decide whether to sell in store or online, and come up the appropriate promotions for each of these sales. Taken all together, these things inspire the customer to make a purchase.

Another focus for revenue management is inventory that isn't selling and figuring out ways to move it. Constantly brainstorming, revenue managers can make a product more visible by moving it from one location in the store to another or adding colorful or unique product displays.

Conclusion:

1. Recognize the importance of revenue management.

2. Understand your current and potential customers - a deep understanding of the customer's reason for buying and buying behavior translates into a customized product offering.

3. The right pricing models could actually mean that fewer sales produce more and more profitable revenue.

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About the Author: Elias Amash, President of GRIP, is an industry veteran with more than 20 years of experience in global sourcing, manufacturing, distribution, retail merchandising, fulfillment, marketing, technology, and operations. He is a trusted partner to hundreds of retailers and has "leveled up" the industry with GRIP's undying commitment to offering only the highest levels of service to its customers. Amash has recently published his third business book, **The Future of Retail** which is available on Amazon. He is also the author of Importing from China: The Good, The Bad, & The Ugly, & Winning Tactics to In-crease Retail Sales. Preorder his next book: Retail Survival: Who Lives, Who Dies and Why. Visit www.whygrip.com