Retail Pricing Heroes

OF TODAY

Winter 2022

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All managers in retail chains who now forget to prioritize pricing two levels up for 2023 put their P&L and their jobs under serious risk.

Pavel Tomanek
COO Tesco, Lenta, X5, O'key

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Be a silent pricer now, kill your organization and lose your job tomorrow.

Pavel Tomanek

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Retail Pricing Heroes: How did high inflation affect retail chains, what TOP1 thing has changed?

Pavel Tomanek: High inflation is something that I would call a silent killer. When prices are going up fast, there are some "positive" effects - sales are higher and the margin on old stock isn't bad. But customers are afraid about what's going on, and their confidence and willingness to spend money change. The old rules and principles of retail disappear as habits adjust. The Covid and post-Covid eras make it challenging to manage all the changes. Sales will drop, and you will lose momentum as volumes, customers, and margin will start to be under pressure. Look at online business. If you want to survive and not be killed by inflation - start thinking about pricing and how to convince customers you are fair while giving them what they want. So the biggest change that I can see is that the old rules and principles are not valid in pricing anymore, and you should be thinking in a more complex way. Pricing done by customer centricity.

RPH: How could retail chains earn money during that high inflation period?

PT: Stop thinking in old terms like key value lines basket, front basket, and back basket. The world is changing - the prices of bread, milk, and meat are not important to the young generation. They perceive prices by their shopping list - almond milk, avocado, hummus... It's become more and more apparent that customer segmentation is crucial. Each store has its own market made by geography, locations (high street, neighborhood), and social structure. The real challenge is giving them local specific pricing. This allows you not to lose margin by having the cheapest meat and matching the competition where it is not important.

RPH: 2023 will be a year of recession with consumers having low budgets compared to the early inflation period in 2022 when they disposed with savings from the covid-19 pandemic. What should managers in retail chains do differently in 2023 recession pricing compared to 2022 inflation pricing?

PT: Hopefully 2023 will not be an inflation pricing year. Recessions always impact customers differently depending on income, social status, and job stability. Understanding your customers and their behavior in detail will be critical. Seeing how the customer behaved store by store will allow you to set a proper price strategy by categories. Pricing will be more complex, fragmented by segmentation, and location specific. Trying to do in Excel for a few hundred stores considering all aspects is impossible. But a lot of retail is still using what I would call Excel pricing. This makes it very challenging to run effective pricing.

RPH: Can pricing managers in retail chains protect their margins with smart pricing approaches, or are their margins predetermined to drop in 2023?

PT: It will be interesting to see P&L retail companies in 2024 after how they manage 2023. We will see winners, and companies without good results. Margin is a critical component, and you need to invest in margin where it is important for customer perception. Smart pricing (customer centricity pricing) requires investing where you need to do it, and earning where the customer is able to pay it. Keeping the old method of working - investing huge sums to match competition in assortment where customers don't care - will damage company results.

RPH: What about private labels? Should pricing managers work differently with their prices in 2023?

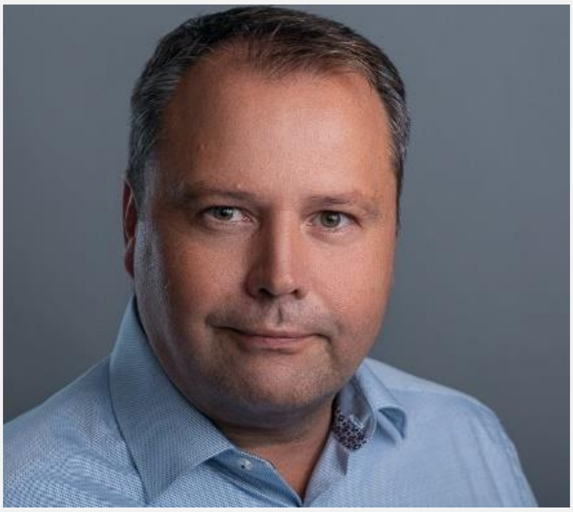
PT: Let customers make decisions. Understanding and predicting their behavior in front of the shelf will give you all your answers. Store by store, location by location, format by format.

RPH: What about online food retail chains, who have so far grown steadily on the principle of a service that was lacking on the market and usually had goods that were more expensive. Should they also focus on pricing in bigger detail and bigger scale?

PT: Yes, of course. Online food (and not only food) businesses got great sales momentum during the Covid period with huge customer demand and money from investors. Now they need to think about how to transfer the online business model to an effective ROI-based model. The cost of the last mile is still huge, and a lot of people in 2023 will be controlling the family budget more. The online model even with its logistical and operational differences still requires customer centricity. And we are back at how to properly manage prices based on customer needs and perception. Smart pricing.

RPH: On scale 1-10 (1 is MIN, 10 is MAX), what priority should have pricing on the CEO's agenda for 2023?

PT: Definitely managing P&L is 10. And without proper pricing policy, the results from customer-centric based pricing will be under pressure.



Pavel Tomanek

Chief Operations Officer

- **20 years of history of working in the retail operations**
- **8 years in COO roles**

Sorry, you cannot be the next retail pricing hero.

UNLESS you provoke pricing managers to take action.

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