Retail Pricing Heroes

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Tomas Jerabek
Former CEO of Košík.cz

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Retail Pricing Heroes: Hi, Tomas. We live in an era where consumers are still living and interacting in the physical world, but also largely interacting online via the digital universe. Online supermarkets combine the purchasing prowess of retail brick-and-mortar (supermarkets) with the convenience of the online store. In what aspects is big e-comm falling behind retail, and vice versa?

Tomas Jerabek: E-commerce has been on the Czech market for almost ten years now, and of course this industry has evolved at an extremely rapid rate within that time frame.

In the beginning, there was a lack of any retail competence and knowledge in almost everything, namely assortment, pricing, purchasing, warehousing, logistics, and so forth—and most importantly, there was a lack of any previous experience or understanding of it, precisely because it was a completely new segment with little inspiration to build on within the market.

Today, the world of e-commerce is completely different. E-comm, in general, has the ability to learn and shift quickly as a consumer market, and at the same time, it continues to be a very attractive business for people who have worked in traditional retail, and who have experience, but are looking for an environment where they can be more fulfilled. These new-era e-commerce professionals who came from traditional retail also continue to enjoy an e-comm environment where things are moving at the speed of light, where they can still very much influence the future of retail, and where they are not fighting the corporation at every turn.

However, I think e-commerce still struggles with assortment strategy and category management, and from my point of view, has a very poor grasp of promotions and promos as well as in its ability to communicate a pricing strategy and price perception. It also is often unable to get the "shelf" positions right, and there is still a lot of room for improvement within private label products in terms of breadth and quality, as well as too small of an assortment primarily in the durable food, frozen goods, and drugstore product ranges. And, of course, there is still the handicap of many customers wanting to choose the items they purchase on their own, and the very reasonable desire of wanting to see the goods before they purchase them.

On the other hand, e-commerce is clearly winning in terms of convenience and fast delivery service straight to the customer's door. There is also a clear difference in terms of breadth and variety of specialty goods as well as farm products, in which today's e-comm has a significantly more attractive offering and can innovate extremely quickly. And, even if the disparity between e-commerce and physical shopping is not as staggering anymore, thanks to the digitalization of many traditional retailers, e-comm still has the upper hand in terms of working with the customer and understanding their buying behavior.

RPH: How has the emphasis on additional efficiency to an already highly operational retail business model evolved?

TJ: Efficiency is absolutely critical in e-commerce. If you can't manage and control costs, that's really going to hurt your business. The push to cut costs in every process and every part of the company has become slightly obsessive over the past few years, and I mean that in a positive way. They say that every penny counts, and in e-comm this is twofold. It's crucial that every single Czech Crown (I am speaking of Czech currency here, as it is in my case) of costs saved on a single customer order builds savings in the units of tens of millions of Czech Crowns annually. And the complexity is huge in e-commerce—you focus on every part of the process to see where it can be optimized, automated, and streamlined. For example, how many new customers you acquire and how you acquired them; how effective your marketing efforts are; total amount of retention costs; how you use technology and processes to speed up the receipt of goods; how many times you have to pick up and deliver each item in terms of logistics before it reaches the customer; how you use AI and technology to control the full purchase process instead of human man hours and workforce; how many packaging materials and bags you need per purchase; how quickly you are able to load purchases into the delivery truck; how much downtime you have on your internet network; how efficiently you plan routes, and how many minutes and miles are between customers; automating customer complaints, and so forth... As you can see, there are loads of factors to correlate when you are evaluating time spent and total costs per time frame in each activity. And, you have other big topics in finance to evaluate, not to mention digitizing "paper" and the processes behind it, HR and how much it costs you to hire a new employee and collect feedback, how efficient you are in software development, and so on... I cannot emphasize enough how big of a consideration this all is.

RPH: In recent years, the world has experienced covid, war, global supply chain destabilization, and sky-high prices for goods. With this premise in mind, what notable changes have you witnessed in retail and big e-commerce from the end of 2019 till now?

TJ: I will approach this question from a broad perspective: To be honest, I've been in business for exactly 30 years. Within this span of time, I've come to find that even though there are routine festivities on the calendar every year—such as Easter or Christmas, for example—it is still evident that every year is a little bit different in its own way, and therefore it's a bad idea to just approach business in a copy paste way.

We have experienced many events within the Czech Republic, but also across the globe that have had a major impact, such as the 2002 floods or the 2008 financial crisis. But, what has been happening over the last four years is/was absolutely unprecedented. We have had Covid, and after its decline, despite global expectations that everything would return back to normal, we were then hit by the war in Ukraine, then further escalation of other conflicts in the world, all of which led to a sharp increase in energy and commodity prices. And before we knew it, the whole world was suddenly upside down again, more or less.

The skill everyone has been forced to learn during this period of time is how to react extremely quickly to change. In the Covid era, many decisions had to be made in a matter of hours, many of which were fundamental to business and rather large considerations at that. Also, the need to execute these decisions quickly escalated to further rapid changes we had to make as each unprecedented event unfolded.

The whole world increased its need to go digital at an even faster rate than before because suddenly everybody understood that anybody who is not digital or online is in big trouble if they can't diversify their distribution strategy and have alternative distribution options for customers. But, at the same time, it has helped companies improve these aforementioned competences faster, and has created new collaborative efforts across teams within organizations to improve upon the ways in which we reach out to customers.

In general, what it has also brought is an even greater understanding of one critical fact in retail business: Without comprehensive data, you can't do retail well—period. When you need to make any decisions, you need to base them on data for absolutely everything and anything that happens in the company—and not just core business in itself, but also in logistics, customer service, marketing, finance... simply put, everything is related to everything, therefore every facet brings relevant data.

Beyond that, the market has had to learn how to handle pricing correctly, not simply in the sense of how to be affordable and actionable, but also how to handle promotions correctly and profitably, how to understand price perception, how pricing strategy aligns with the target customer group and corporate strategy, and what economic impact this all has on profitability and operating costs.

And what the past (almost) two years have shown us is how important it is to look for efficiency in every process, where savings can be found, how to behave economically efficiently in the company, how to deal with the cost of human labor, how important automation and robotization is in operations (particularly for example, in warehouses), but also across the entire company from HR, finance, marketing, and so on and so forth... virtually everything can be digitized!

RPH: What is the situation like today for e-comm grocery store players in Europe?

TJ: All of the players in the food e-commerce industry were helped significantly by Covid. But, not everyone was able to sustain growth or gain customers after it ended. In general, we see that economically speaking, virtually nobody is doing well–be it Ocado, Picnic, Getir, or others, and they are sustaining losses for a long time. Some are even leaving and closing markets as is the case in Spain, Italy, and Portugal. There is a lot of pressure on turnover, but even with significant growth this does not translate to any significant reduction in losses, and still individual companies require significant financial supplements. So far, I don't see the classic retailers rushing into e-comm in any major way, rather they are waiting. Yes, most of them are doing some experiments and testing, but it is clear that they are not really paying much attention to this channel... yet.

RPH: In relation to the previous question, how would you rate Kosik.cz amongst its top competitors? Do you perceive yourselves as being amongst the leaders in your industry, or not?

TJ: The Czech Republic is generally considered a leader in e-comm in almost all categories, except fashion. And that goes for food as well. Where I see the biggest difference is in the quality of service, customer experience, and speed of delivery. These are the fortes of Košík.CZ and Rohlík, since they are absolutely excellent and unique from the European perspective. Both are also trying to establish themselves outside the Czech Republic, and thus far it seems to be apparent that it's not easy to achieve this everywhere, especially in Western Europe.

RPH: In the last 5 years, we've witnessed retailers approving some new promotions and adjusting some of their old prices to see their business impact. Nowadays, we are seeing even the most traditional retail organizations push themselves in order to truly evaluate whether or not the same promotions repeated from last year are still performing well, and if the new prices they've set are still competitive and profitable enough. What is your view on this matter?

TJ: That's absolutely correct. As a matter of fact, the graduation rate in the Czech Republic is much higher than it is in the rest of Europe, and in recent years it has been 60%, which is absolutely phenomenal, generally speaking. Promotions were very often done for traffic or turnover, but nobody properly evaluated whether it was profitable, whether the promotions were worthwhile, whether it produced any overall result, nor whether anybody had set a target at all. Oftentimes, it's just fulfilling some kind of principle, for example: "Last year we had a flyer, so this year we must have one too. And if last year's result was XY turnover, then this year it's our benchmark". Many products can't even be sold anymore without a promotion, and their promo share is over 80-90%. This at least is changing gradually to some degree, it is far more common how to start measuring the actual benefits this has, and whether or not it is even effective to do so many promotions, and if so, on which products it makes sense to run these promotions on. According to calculations, up to 60% of promotions are useless, and in the end, they do not bring more profit, quite the contrary. In particular, when it comes to online business, not only are the results of turnover and margins being evaluated, but also customer behavior, cannibalization on other products, increase in category penetration, number of shoppers, and sustainability.

What I also need to mention is that more and more customers are being deceived, or at least confused by the fact that product weights are being reduced, in some cases by as much as 20 percent! And, manufacturers are using tricks like trying to pretend that they are not increasing prices, or by artificially creating promotions (where there are no actual savings occurring for their customers).

RPH: Speaking of which, where would you position pricing within the CEO's list of priority items that are crucial to running their business smoothly, in your opinion?

TJ: The main task of the CEO in this regard is to set and define a detailed pricing strategy, as well as defining company goals, rules, overall expectations, individual KPIs, and how to measure, evaluate and report and roll this all out to the entire organization. This is a complex discipline and is absolutely critical to the success of the company.

Then they just must monitor the performance on a regular daily / weekly / monthly / quarterly basis as per the individual goals and be ready to react quickly if needed.

RPH: Some CEOs can object to the above and claim that their organization is not yet ready to adopt advanced pricing techniques. What do you think of this?

TJ: Of course, they can argue that, and it will probably be true and the reality for some organizations. But, in this case, instead of objecting, they should probably initiate changes quickly to move them along, because anyone who is not prepared to work systematically and sophisticatedly with price is going to have a very, very difficult time in the marketplace. And, just to be clear, it's not just about getting the selling prices right, it's also about promoting, presenting, displaying, building perception, and so on. Price is only one part of the pricing strategy.

RPH: And, from your honest point of view, on a scale of 1-10 (10 being the maximum), what level of visibility and control over pricing do buying teams typically have and how reliable is the information they provide to CEOs, in the case that they have no centralized pricing solution and therefore a fragmented decision-making process?

TJ: I'm going to approach this question in a binary fashion, so to speak: If you don't have pricing centralized and consolidated under one roof, then you have a serious problem—it's just hard to manage and hard to get a good result. So, it only makes sense if it's a temporary solution, or some particular phase of a project in pricing management.

RPH: Now, here comes the important part, which really can and oftentimes does worry CEOs: Once they think of implementing an advanced pricing tool that combines ML and flexible pricing rules, many CEOs get scared of losing control of their pricing due to their teams spending time with a new technology. How does this intersect with the previous points you made above?

TJ: It's a fallacy to think that I can get a pricing tool and simply turn it on by hitting some kind of button or switch and get it to start generating accurate figures without any work, and that every feature is performing optimally. The pricing tool only does what we tell it to do, depending on how we set the rules and strategy. It needs to be worked with daily, evaluating what it does and how it executes the strategy, later adjusting the settings and tweaking, if necessary. We need to digitize human insight and thinking and continuously add to the setup. But, that doesn't yield the desired result(s) if you don't have it all under one roof, because everything is related to everything. You can have a properly set up and executed strategy for the milk assortment, but if you don't have control of, let's say, the fruits and vegetables assortment, you still won't achieve the overall result you're looking for, whether the goal is turnover, margin, perception, or whatever.
There is simply no reason to fear a competent pricing tool if the organization knows how to use it and sets the right expectations.

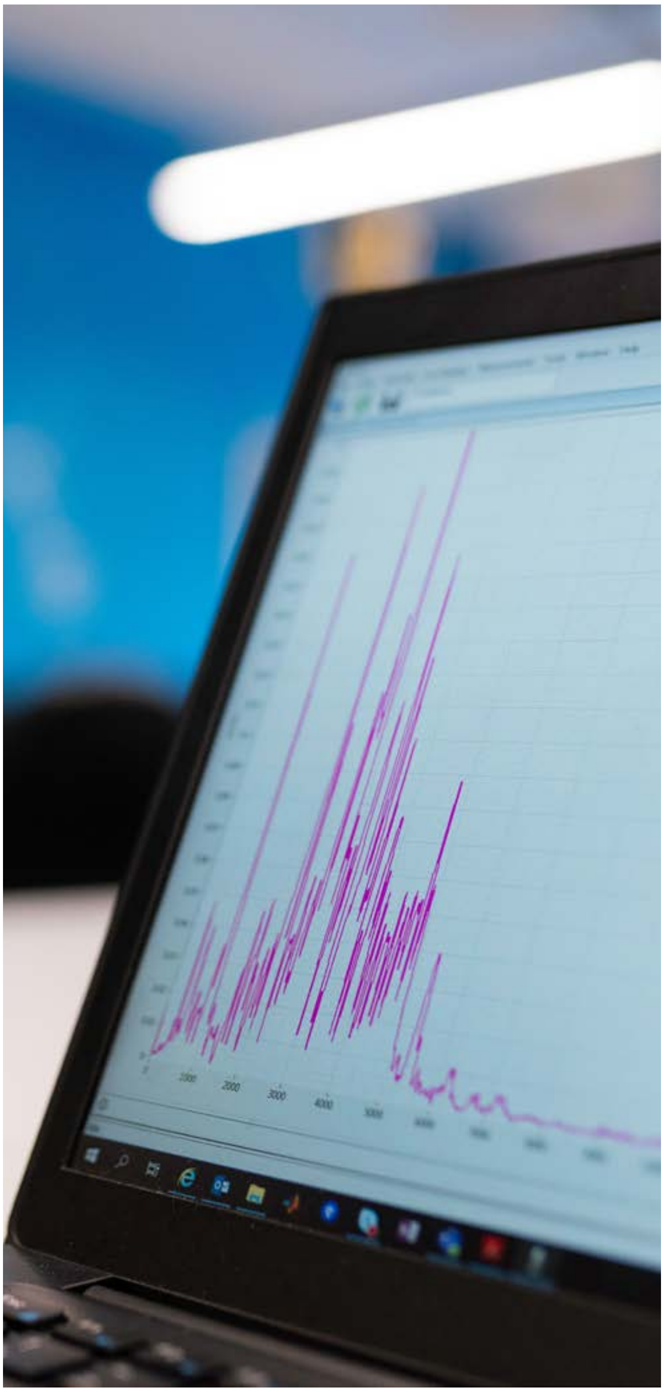
RPH: In terms of the reality pricing teams must face when they are left without a dedicated pricing tool: When the CEO makes this decision and the team is asked for precise execution, on a scale of 1 to 10, how big is the difference in terms of the quality of execution when having a dedicated pricing tool and team vs. not having them?
TJ: When you don't have any tools to work with price and you want to make a change, you have 3 major issues: 1. The speed with which you are able to implement the change. 2. The accuracy and quality you obtain. 3. The measurement, evaluation, and analytics of meeting the expectations of a given project. If you leave it up to people and Excel, it takes a long time, it's not done correctly nor with optimal quality by all the people inputting numbers into the spreadsheet, and you get the benefits and outcome wrong. So numerically speaking, a human error-driven spreadsheet is a 3/10 when compared to the quality they could get with a dedicated pricing tool.

RPH: Picture this scenario: The CEO of a company needs to get various pricing-related analytics for the next board meeting, which will take place in only 2 days. How long will it take the buying or BI team to provide the CEO with the complex analytics they will need?
TJ: That's a bit of a scary thought, to be honest. Of course, a good team is capable of delivering "something" within 2 days, but the quality and accuracy won't be great. And that's certainly not to say that you have the wrong people, not at all. It's just not within the scope of a human being's ability and capability to prepare and calculate accurately and correctly in Excel in that short span of time. You can still work relatively well with history that can be evaluated relatively accurately within BI, but if you want to predict future impacts and you want to render multiple variations, that's virtually impossible without a sophisticated tool, or only with very low data accuracy and reliability.

RPH: Consider this scenario: A Buyer (or even a Purchasing Manager) might decide to price all items at 45 % sales margin, which negatively affects the overall sales profit margin; some Buyers will set it at 85 %, others at 5 % (and so forth), which can negatively impact price perception on the market. If the CEO decides on a particular product category sales margin–say Detergents–to be 45 %, what control over the Buyer's decision do they have without a pricing tool and dedicated pricing team?
TJ: In that case, if you as a CEO don't want to deep-drill into microdetails, then you simply must trust that somebody will do it right for

you, using their brain, common sense, and most importantly, all the data. Otherwise, what you're describing can happen exactly as you just put it. The tool can consider all the important attributes at one point in time, and most importantly, it can iterate quickly and adjust parameter settings, and thus the result, if necessary. Sure, if you have a super team that understands pricing and data, they are also able to deliver a good result, but it is costly in that it takes a lot of human energy and manpower, forces you to build some complex model(s) in Excel, is prone to errors in the data, requires updates, and so on. My advice is that you do everything in your power to get a competent pricing tool.

RPH: I suppose you see where we're going with all of this: It's a shame, but there are CEOs who are afraid that if they incorporate an advanced pricing tool and Pricing-ML they will lose control and transparency of their prices, which is definitely an irrational fear. From our own experience, we've found that in 80 % of these cases the CEOs say this during a period in which they do not have real control or visibility into prices to begin with! What do you think it is that they are actually scared of?
TJ: In general, people by default are suspicious of things that are new, and that they have no experience with. In this case, of course, there are the voices of the buyers who very often see such a tool as competition to their human skill sets, and therefore are afraid of having their competence challenged, or even are afraid of losing their jobs. They see it as an "evil" tool, not as a necessary helper, and that's the feedback they give to the CEO as well. It's simply a force of habit on the CEOs behalf, where his team tells him something and he tends to believe it, even without the ability to fully verify it. He's afraid that people will stop paying attention to pricing altogether, which lends itself to responding to everything with a common excuse like, "It's not me, it's the tool." Obviously, the responsibilities for individual KPIs need to be adjusted so that buyers actually have some influence on them, and henceforth can have a real impact on the outcome.
But, as I said before, no tool works by itself and there is always a need for people's input, either to adjust strategy and parameters or to interpret the result. That's a big change in mentality, approach, and way of thinking for everyone involved, and you need to prepare for this and just go for it.



RPH: Typically, when pricing competence is not yet established in a retail company, but the time has inevitably come for one to be in place, the conversation initially opens between the Buyers and the CEO—we are witnessing a tension created here. From your point of view, how much of this is due to a natural development within the company? How much of it is connected to projects that bring significant change (pricing, replenishment, assortment optimization, etc.)? Or, how much of this is possibly just pricing-specific?

TJ: First, it must be said that the pricing strategy is not determined or initiated by the buyers. The pricing strategy is part of the overall strategy of the company. It's not just about simply setting your selling prices, it's a major part of the proposition, reaching the target customer group, marketing communications, and of course economics.

The moment you establish your pricing strategy, it becomes one of the main company projects that requires some capacity, tools, software solutions, changes in the setup of competencies and responsibilities, BI setup, KPIs, and so on, and of course a considerable financial investment.

RPH: On a scale of 1-10, to what extent are Buyers trained to negotiate good deals with suppliers?

TJ: In general, every organization tries to negotiate the best possible terms with suppliers. In e-commerce, it's harder because you don't have as much turnover behind you. You also may be a very small company in terms of your overall market share. Or maybe you don't have the ability to leverage the international strength of the headquarters. There can be many reasons behind this—your negotiation strategy is structured a little differently than simply by pushing a deal by force, and the buyer training and strategy development is tailored to that. You always have room to be more successful and better, so I'd say 7/10.

RPH: Lastly, again on a scale of 1 to 10, to what extent are Buyers trained to build pricing models, pricing strategy simulations, and daily calculation of price elasticities, cannibalizations, promo effectiveness, or related decision-making?

TJ: With regard to this, it should be said that the pricing tool ideally has been used for 3-4 years. The buyer does not create pricing models or simulations or calculate anything daily. They only assist in evaluating promotions and suggesting changes and adjustments when necessary. However, this does not mean that pricing does not concern them. Their role is in collaborating with setting up the system to a given strategy, evaluating the figures, and suggesting changes where needed. In general, the Pricing team and the Head of Pricing are responsible for implementing the pricing strategy.

Tomas Jerabek

Former CEO Košík.cz

- 30 years of industry experience
- Independent Retail Marketing & Sales Supply Chain and Pricing Consultant

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