Responding to a Price Transparent World: A Paradigm Shift for Retailers

Evolving technology and changing consumer behavior is creating pricing transparency that winning retailers must come to grips with to survive if not thrive in the near and long term.

Executive Summary

With the rapid adoption of smart phones and tablets and the growing use of mobile applications, consumers are more aware than ever of price differences, not only among retailers, but across their various channels. They know where the best deals are to be had and are armed with enough pricing particulars to force rivals to match them. Retailers can no longer set prices and price match policies for their brick-and-mortar and online channels in silos or with minimal regard for competitors. They must face this new era of price transparency head-on.

In today’s boundaryless environment, retailers should anticipate that consumers have easy access to information and any discrepancies will be noticed and exploited. Retailers worldwide face the same challenge – staying competitive in a world of price transparency. In response, many are taking action, such as defining cross-channel pricing strategies, refining price matching and price adjustment policies and more explicitly articulating their customer value proposition to proactively respond to consumers’ increased awareness of price differences.

Retailers are also focusing on creating differentiated and exclusive offerings to their customers, enhancing their private label development activities and collaborating with well-known designers to offer exclusive merchandise. This can add to the uniqueness of the retailer’s value proposition, and make it harder for shoppers to make direct price comparisons. Yet at the same time, retailers must continue to offer the quality, features and value that their customers have come to expect.

Given the languishing global economy, retailers need to understand that many of today’s shoppers are aggressively seeking the best price; therefore, price matching is becoming a consumer expectation – and a core customer service capability that retailers must embrace. They need to create a seamless and consistent experience for providing information on product, prices and services, and respond just in time to customers’ price challenges. They must develop new ways to offer unique/customized offers by leveraging ever-increasing amounts of customer data, so the shopping focus can shift from price to a value exchange equally important to both consumer and retailer.

In today’s dynamic retail environment, one of the biggest challenges is to build and retain trust among customers. As a result, retailers must
derive new ways to maintain the balance between maximizing profits and creating and retaining customer loyalty by rethinking traditional pricing strategies and enhancing their promotion capabilities.

**Price Transparency: Moment of Truth**

A typical shopping scenario sheds light on the growing challenges of price transparency. Jennifer scanned a product for a price in a leading retail store; it was $180 on the shelf. Checking the price of the same product on the retailer’s Web site using her smartphone, it was to her surprise only $115. So, she ordered it via smartphone for in-store pickup, saving $65 in the process!

While this is a fabricated story, situations like this occur more often than you think. Thanks to the rapid adoption of smartphones and tablets, and the growth of mobile apps, shoppers today have access to price information anytime and anywhere in the world. With a million smartphones sold every month in the U.S. alone,¹ shoppers are increasingly turning towards a growing number of mobile apps and price comparison services to find the best prices while they are shopping in-store and online. A recent study conducted by the marketing and public relations firm Walker Sands Communications confirms the growing usage of mobile technology: traffic stemming from mobile devices to various Web sites across industries, including retail, more than doubled, to 13% of total Web traffic in Q4 2011 from 6% in Q4 2010.²

**Customer Shopping Behavior**

Shoppers are on a constant lookout for relevant information such as prices, product specifications, and user reviews to assist them in making informed decisions. According to the RIS/Cognizant 2012 Shopper Experience Study, competitive prices and promotions is the most important influencer in both in-store and online purchase decisions (see Figures 1 and 2).³

### Understanding Buying Influences

**How much do each of the following factors influence your in-store purchase decisions?**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Specialty Products</th>
<th>Consumable Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive price and promotions</td>
<td>4.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Right product selection</td>
<td>4.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Fast, easy check-out</td>
<td>3.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Quality of customer service</td>
<td>3.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Visibility and accessibility of products</td>
<td>3.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Ease of returning products</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Compelling loyalty program</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Other customers’ online ratings and reviews</td>
<td>3.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Comments about the product on social media</td>
<td>3.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Not an Influence</td>
<td>2.7</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: RIS/Cognizant 2012 Shopper Experience Study

Figure 1

**How much do each of the following factors influence your online purchase decisions?**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Specialty Products</th>
<th>Consumable Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive price and promotions</td>
<td>4.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Right product selection</td>
<td>4.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Ease of returning products</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Fast, easy check-out</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Ease of accessing customer service</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Other customers’ online ratings and reviews</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Consistent experiences and information online and on mobile devices</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Compelling loyalty program</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>Personalized experiences</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not an Influence</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: RIS/Cognizant 2012 Shopper Experience Study

Figure 2
In the current boundaryless shopping world, consumers are becoming increasingly price-sensitive and less loyal, continuously trolling for the best deals and more aggressive in seeking/asking for a lower price. The shopping journey is becoming more omni-channel and nonlinear in nature. Shoppers may begin their journey at a store, use a smartphone/tablet to check online prices and deals, read reviews and social “likes” on the product, go online again to make a purchase and then go back to the store to pick up the product. This growing trend is exposing the customer to different prices by geography and channel within a retailer’s chain and it colors their impressions and experiences with the retailer.

**The Norm, Not the Exception**

Numerous studies highlight the fact that shoppers are becoming increasingly active in comparing prices. Among them:

- A study conducted by consultancy IDC Retail Insights reveals that roughly 45% of shoppers with smartphones used them to perform due diligence on a store’s prices.  
- “The 2011 Social Shopping Study” published by the e-tailing group notes that mobile phones are one of the most popular influencers in shoppers’ purchase decisions. Approximately 36% of respondents mentioned that when researching a product while in a physical store they look for competitive prices on Amazon. An equal number replied that they look for competitive pricing at online retailers other than Amazon.  
- A study by AlixPartners found that 37% of smartphone owners used a mobile price search app while in a store, and 25% of those that used an app then went on to purchase the item from a nearby store at a lower price.  
- The use of price comparison tools/apps is also on the rise. A survey conducted by L.E.K found that a substantial number of consumers used a price comparison tool while standing in store aisles. Popular price comparison apps such as eBay Inc.’s RedLaser and TheFind had 16 million and 1.4 million downloads, respectively, in 2011. TheFind reports that its mobile app averaged 18 to 20 million price checks each month in 2011, up from 13 to 15 million checks per month in 2010.

**Retailers’ Challenges**

According to research conducted by RSR in 2011, retailers believe that “increased price transparency” is among the top business challenges driving pricing strategies. Moreover, its importance jumped markedly from 2010 to 2011 (see Figure 3).

Retailers’ abilities to use price as a key differentiator and to price differently across channels is being seriously compromised. The Internet and mobile apps have conspired to break down the four walls of the retail store. Shoppers know what and where
the lowest price is and are willing to ask for it with the expectation of receiving it. The ability for store associates to match prices is the second most desired area of store associate improvement, after “better customer service skills,” and far ahead of the third place choice (see Figure 4).

Also, according to research conducted by the online review site Digital Trends in 2011, the search for better pricing is a major reason for online cart abandonment. The findings indicate that 27% of shoppers abandon their cart to compare prices on other sites and 25% abandon due to the price being too high. Today’s connected consumers know how to find the price they want to pay!

Responding to Increasing Price Transparency

Technology has proven to be both a curse and a blessing for retailers. For example, while social media assists retailers in reaching out to and connecting with their target customers in real-time and innovative ways, conventional Web and mobile apps are exposing price discrepancies within their own channels. In today’s multichannel retail world there are few places where traditional localized/zonal pricing can be camouflaged, reducing the effectiveness of these strategies.

To keep their customer base intact and retain the pricing and services high ground, retailers are responding in the following ways:

- **Cross-channel pricing strategies:** Retailers have begun to explicitly recognize the interdependence of prices and policies in different channels and locales. Rather than just setting a chain price for all channels, or having each channel set its prices independently, retailers are taking a holistic view of pricing and policies across the enterprise, and are understanding what their competitors do in different channels, even though they may not directly compete in all channels. Pricing, price-match and return policies must be complementary across all channels, recognizing that from the customer’s standpoint it’s all one company.

- **Innovative pricing strategies:** During the 2011 holiday season, several retailers offered innovative price-matching and price-adjustment tactics. For example, Walmart launched a special time-based price adjustment program in advance of the 2011 holiday shopping season and Amazon generated interest for its “Price Check” application by offering shoppers a 5% discount (up to $5) on up to three items purchased. Most of these solutions are only temporary however, as price-matching and price-adjustment tactics are in most cases easily copied.

- **Targeted marketing:** With the advent of social media, retailers have additional opportunities to conduct targeted marketing initiatives on their core customers. In a recent RSR study surveying 65 retailers, 75% of the respondents

**Consumer Pricing Expectations**

Which of the following would you MOST like to see improved among store associates?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved customer service skills</td>
<td>35%</td>
</tr>
<tr>
<td>Ability of store associates to match competitive prices (e.g. online)</td>
<td>29%</td>
</tr>
<tr>
<td>More store associate engagement in the aisles</td>
<td>14%</td>
</tr>
<tr>
<td>Better electronic access to product information, inventory location and ordering</td>
<td>10%</td>
</tr>
<tr>
<td>Better product knowledge enabled by technology</td>
<td>7%</td>
</tr>
<tr>
<td>Equipped with mobile check-out tools</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: RIS/Cognizant 2012 Shopper Experience Study

Figure 4
agreed that targeted promotions offer an opportunity to overcome the challenge of price transparency.11

- **Offering exclusive products:** Retailers are investing heavily in offering exclusive products to consumers, as these can be less vulnerable to price comparison. Branded items that have been slightly modified in features or packaging make it more difficult for customers to conduct an exact feature-to-feature assessment when comparing prices. Many department stores and specialty retailers have been private labeling exclusive products for years. Price transparency increases the potential value of these types of items and programs.

- **Advanced price optimization solutions:** With the explosion of channels, competitors and information, and the speed of change, retailers need better tools to make timely decisions. The value of advanced price optimization solutions, for initial pricing as well as markdowns, is increasing. These tools provide fact-based analyses of customers and competitors, sifting through vast amounts of data quickly, helping retailers balance customer loyalty and satisfaction with maximized profits. It is becoming increasingly important that retailers anticipate, not just react to pricing trends and market changes.

However, only retailers with strong fundamentals will be able to survive today’s cutthroat marketplace. Apart from competitive pricing, the growing number of well-informed, tech-savvy and bargain-hungry customers are perpetually seeking the right product, right price, knowledgeable sales associates, comfortable store ambience and an overall pleasant shopping experience.

JCPenney’s recent launch of its three-tier “Fair and Square”12 pricing strategy is no doubt in part a reaction to growing price transparency. In a heavily promotional environment, having the lowest – or at least a “competitive” – price that can be viewed by the shopper or comparison apps at any point in time is hit or miss. This is especially true for occasional shoppers. The new strategy may give the company a higher position on price rankings, but it remains to be seen if its traditional customer base can be retrained to respond to the new strategy.

Sears Holdings has vastly increased its online offerings in recent years and presents competitive prices, yet has under-invested in its brick-and-mortar stores and has reported year-over-year declining sales.13 The company recently announced plans to close 100-plus stores in a bid to revitalize its business and reduce expenses. The Sears experience suggests that to play in multiple channels retailers can’t lag in any single channel. Not having a compelling shopping experience in one channel – whether it is product-, price-, service- or ambiance-oriented – extends to all channels.

In a nutshell, retailers must develop proactive solutions that can help them to create and maintain the balance between maximizing profits and creating and retaining customer loyalty.

**Our Point of View**

We believe there are a few key concepts that retailers must embrace if they wish to continue to succeed in a price-transparent world.

- **Increase your price intelligence:** Price intelligence can give retailers a strategic competitive advantage through insight-driven pricing decisions and an optimized product mix across channels, which ultimately helps increase conversions, sales and customer acquisition and retention. A robust price intelligence solution should integrate market, channel and competitive data with internal data in a near real-time environment. It allows retail management to gain a deeper understanding of what each competitor price change means for margin and market share, and how to formulate meaningful responses.

- **Rethink traditional pricing strategies:** In a price-transparent world, retailers cannot afford to follow their competition blindly or let pricing strategies be solely driven by margin goals. Rather, they must create pricing policies which are in alignment with their brand image and business goals and allow them to respond to competition. Traditional pricing strategies such as HiLo, EDLP, Loss Leader, etc. will continue to attract a certain segment of customers and cannot be ignored – retraining customers typically takes time. Retailers should meld their existing strategies with new cross-channel strategies to ensure they do not negatively impact existing customers’ expectations and perceptions.
• **Train and equip store associates:** When customers go to a store, they still expect to find informed and accessible store associates. At the same time, they find it hard to understand why associates do not have the same technology and access to the same information they have. As noted in our white paper “Building the Intelligent Store,” retailers need to rethink the concepts of selling and customer service. Retail associates need to be equipped with technology that is on par with the customer’s. Associates need to be trained to articulate the store’s value proposition and the pricing it drives, and policies/procedures need to be streamlined to allow easy price matching while at the same time having proper controls and monitoring.

• **Target promotions by customer rather than channel:** Retailers must avoid creating noticeable price conflicts. Loyalty-based pricing allows a retailer to differentiate prices between regular customers and occasional shoppers in an open, yet personal “my price” way. By using this technique, a retailer can differentiate between loyal and non-loyal customers and pass additional benefits to loyal ones. It also allows the retailer to deliver on the brand promise in the way that best resonates and recognizes the price elasticity of each customer.

• **Increase private label or “customized” products/packaging:** Price comparisons for private label or customized items have been difficult due to the lack of explicitly identical products. However, comparisons to similar products may become easier with the advent of image-based search launched by Google and Amazon. With this new technology, shoppers can submit a hosted or uploaded photo and the search will return images and text.

**Conclusion**

Price transparency is a hard reality for retailers to master. Today more than ever, “the customer is king.” New technologies and intermediaries have given them more control over the shopping journey; the ease of comparing prices plays a big part in that.

But in the midst of this changing paradigm, retailers should not lose site of the fact that there is almost always something consumers value alongside price. The challenge is to find the right value exchange and imbed it in the company’s business objectives so that it flows within the organization and becomes a part of anything and everything which the retailer does.

**Footnotes**


About the Authors

Greg Kameika is a Senior Manager with Cognizant Business Consulting’s Retail Practice. He has over 20 years of experience consulting to retail clients in the areas of pricing, merchandising and inventory management. Greg received his BA from Northwestern University and his MBA from the Kellogg School of Management at Northwestern. He can be reached at Gregory.Kameika@cognizant.com.

Pooja K Khudania is a Senior Consultant with Cognizant Business Consulting’s Retail Practice. She has over eight years of experience consulting to retail industry clients. Pooja received her diploma in retail marketing and merchandising management from National Institute of Fashion Technology, Bangalore, India, and is a commerce graduate from Delhi University. She can be reached at Poojakumari.K@cognizant.com.

About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world’s leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 145,200 employees as of June 30, 2012, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at www.cognizant.com or follow us on Twitter: Cognizant.