Pricing DR Products for Retail: Know Your Audience

By Anthony Raissen

Having survived the fiscal cliff of 2012, we are all optimistically looking forward to a stronger economy in 2013. While the skeptics may say we are still a long way from a recovery, the entrepreneur in all of us would prefer to think otherwise. As entrepreneurs, we are programmed to be optimistic, while at the same time we should be aware of the pitfalls of blind optimism and always check our rearview mirrors for a dose of the reality that can sneak up on us.

The evolving dynamics of the new American household are creating a shopping environment where the average consumer is buying only what's absolutely necessary in order to stay ahead of the game in this difficult economy.

As marketers, we are constantly being challenged by how to reach and influence today's consumers — and convince them to purchase our products. During the past five years, household composition, economic status and disposable income have morphed due to the recession, unemployment and a housing market crash, among other factors. The combination of these forces has changed how Americans live, behave, communicate and spend money on every level.

With the changing patterns in consumer psychographics and shopping trends, it has become more and more important for products to be priced correctly, especially when they are sitting on a retailer's shelf. All of this has created a very competitive retail environment where retailers are not only competing for shoppers' attention, but also competing for consumers' dollars across multiple categories in their stores. No longer are they satisfied to get a consumer into their store; now they are focused on getting the most profitability out of each transaction.

In many cases, this has opened the shelves to an increasing selection of store brand/private label items that allow retailers to make better margins, but it has also resulted in retailers looking for items priced within certain threshold parameters. For example, if a 16-ounce bottle of lotion would be priced at $24.95, many retailers today would prefer an eight-ounce bottle at $14.95. While this may seem ridiculous to many of us as the cost-per-ounce of the larger bottle makes it a great value proposition, in today's consumer budgetary mindset, the battle is to be able to afford products within a set budget at the time of purchase.

This new forced economic paradigm is working against those who are the hardest hit by the downturn in the economy, and in the long run this will end up costing the consumer more money — as it brings the price of the shopping basket within the reach of the millions and millions of budget-restricted consumers.

Nowhere is this phenomenon being felt stronger than in the supermarket aisles. Most of the supermarket retailers that I work with have expressed a need for smaller-sized products that are under the $20 price point. While this scenario is different for each class of trade — from drug stores to mass retailers to big box stores and all the way down to dollar stores — it is nevertheless forcing manufacturers to carry multiple sizes and price points of products in order to cater to the growing needs and demands of consumers.

The challenge facing direct response marketers is further compounded by these new demands on variable sizing offers, as well as pricing models. No longer is the 5:1 minimum cost of goods ratio a benchmark for rolling out a product. Rather, it has evolved into a complex pricing and operational exercise to establish optimum offers for the different retail channels.

Now more than ever before, it is critically important for DR marketers to truly analyze and understand the competitive landscape that they are competing in before entering the retail market. The demands and pressures put on everyone in the supply, operations and logistics chain has necessitated a whole new thinking process that is still evolving and will no doubt continue to surprise even the most seasoned veterans among us. ■

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