



## The 7 drivers of Price Perception – how you can influence them

Increase sales and profits without cutting prices

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By Howard Langer

When choosing where to spend their grocery dollars, Price Perception plays a crucial role for shoppers. Price Perception is defined as 'store price image': the general image of prices the customer has in their mind when they think about that retailer.<sup>1</sup> Shoppers' perceptions of price are easily revealed by asking the 'price gap' question; "How much will this basket cost me at Walmart, Tesco, or Carrefour?". Research shows that retailers lose a lot of credit with customers as shoppers generally believe most retailers are 10% more expensive than they really are. This costs footfall, loyalty and profit.

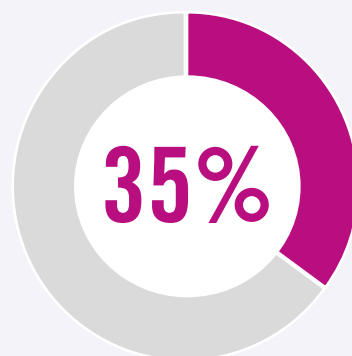
Combining academic research and 29 years of industry experience understanding customer behaviour, dunnhumby has identified 7 drivers of Price Perception. This report shows how retailers can influence these 7 areas to drive growth.

## Let's start by busting a common pricing myth...

Price Perception is **NOT** your Competitor Price Index. Don't fall into the trap of thinking this represents what your customers care about. Your price index acts as a valuable 'restraint' on your prices (and merchants), but a bit like a seatbelt in a car, it will restrain you (from wild overpricing), but will strangle you in internal debate if you let it.

**Shelf prices are only 35% of the answer.**<sup>2</sup> They are important but not the full story.

## Price Perception How important are prices?



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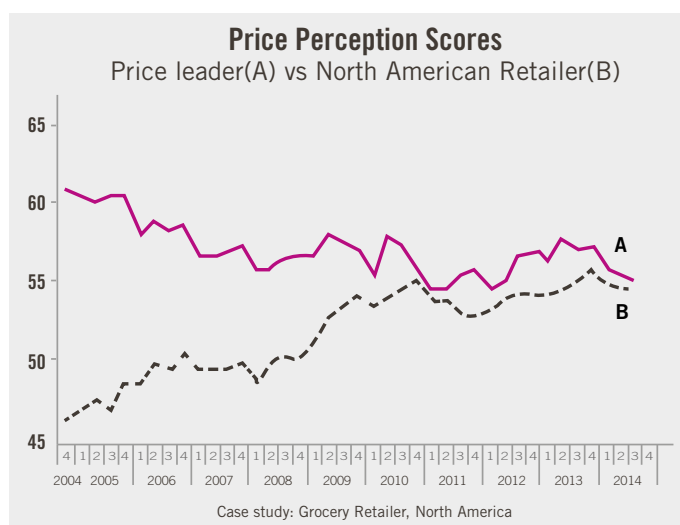
## Is it worth winning on Price Perception? Why should I bother?

Research shows that **50% of your sales are driven by the store price image** shoppers carry around in their head<sup>3</sup>. On average, you may be cheaper than your nearest competitor, but that matters little if your customers **perceive** you to be more expensive.

The starting point for success is in defining which customer segment you want to impact the most. Trying to improve Price Perception for all customers is an impossible feat, but as 1 loyal customer is worth 12 uncommitted customers, limited funds are best spent focussing on a well-defined target customer segment.

## Case study from North America

A retail partner in the US had a price basket 15% higher than the Price Leader's. By addressing the Price Perception gap, they achieved 100% growth in sales, with 95% of growth from existing customers. By identifying and addressing the drivers of Price Perception for their customers, they managed to influence behaviours without significantly lowering prices across the board. In fact, when they reached their Price Perception goal, their price basket was still 15% higher than the Price Leader's.



1. Low prices are just the beginning: Price image in retail management, Hamilton & Chernev (2013)

2. Retailer Price Image An Introduction and Literature Review, Jonas Gunnarsson (2015)

3. Consumer models of store price perceptions and store choices, Lourenco, C. J. (2010)

So if the prices you charge in-store are only one third of the picture, what are the other drivers of price perception you need to address?

## Price Perception: the 7 key drivers and related psychological needs

### 1. BASE PRICES

#### Psychological need: Trust

The average consumer doesn't know the exact price of every product in your store, but will generally know a handful of product prices on key lines, particularly those categories which are shopped frequently.

On average consumers are **15% out when they are asked what they pay for a product**, and 20% out on infrequent items.

Incorrect at-shelf pricing erodes customer trust, so ensuring your pricing architecture is correct should be a basic hygiene factor. Mistakes in labelling at the shelf edge make customers think you're cheating them and it's impossible to improve price image under those circumstances.

#### Solution

Identify the key lines where price is important to your target customers (KVIs – known value items). Ensure these are priced fairly and competitively. Eradicate insult pricing. Set decent competitor targets and maintain clear, logical prices every day.

### 2. PROMOTIONS

#### Psychological need: Excitement

Customers are busy and have limited mental capacity when it comes to working out whether a promotion is a good deal or not. Promotions with clear benefits, such as '\$\$ money off' are more readily understood than '% off'. **Research shows that 60% of customers can't work out the \$ saving<sup>4</sup>.**

To get attention, promotions also need standout. They should interrupt the shopping journey in a positive way. Research shows that customers often credit the manufacturer for the promotional deal, not the retailer, so you need to ensure your promotions incorporate the 4 attributes which are most likely to lead to success – Temporary, Targeted, Special, Unexpected<sup>5</sup>.

Too many promotions in-store lead customers to believe that the offers are not real. It's another myth that traps retailers into a destructive cycle of over-promoting – thinking more deals improve Price Perception, when in fact a complex array of promotions simply confuses the shopping experience for customers and further erodes trust in your brand.

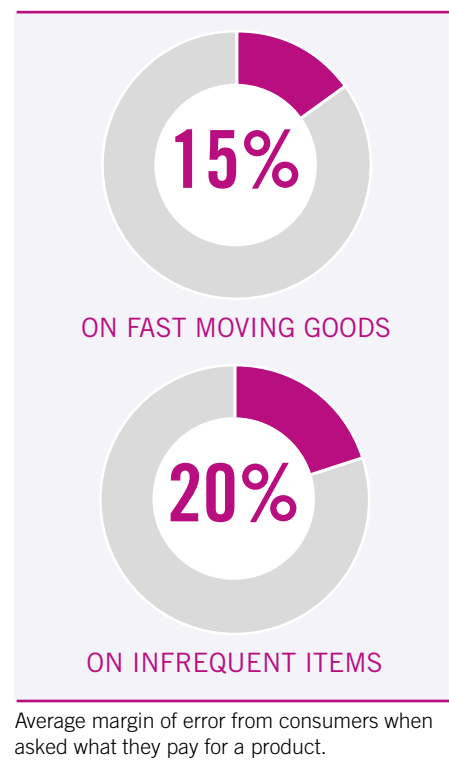
Scaling back deals on products that matter most to your target customers will enable a more relevant approach to promotions, helping reduce signage clutter in the store environment and improving Price Perception.

#### Solution

Get granular and simplify your promotional programme. Know which price mechanics work best with each SKU for your target customer segment. Reduce in-store clutter and over-communicate on hero deals.

4. The price knowledge and search of supermarket shoppers, Dickson & Sawyer (1990)

5. Pricing Strategy: Setting price levels managing price discounts and establishing price structures, Smith (2011)



#### 4 Attributes of Effective Promotions

- Temporary
- Targeted
- Special
- Unexpected

### 3. PERSONALISED OFFERS

#### Psychological need: Relevance to Me

Customers want deals that are relevant to them – pure and simple. There is increasing expectation from shoppers that retailers and brands should use the data collected about them to speak directly to them about the things they want, need and prefer. Personalised offers delivered through direct mail, email, or apps provide retailers with an opportunity to have direct dialogue with individual customers.

Personalised promotions provide superior uplift, help improve customer sentiment and are not obvious to competitors who may try and mimic deals.

#### Solution

Re-balance the level of mass promotions with personalised promotions.

On Mass Promotions...

They trick me into spending more than I want to...

If only I could get deals on what is important to me

### 4. ASSORTMENT

#### Psychological need: A store for MY needs

Assortment has a huge role to play in Price Perception. What you offer needs to be relevant to the shoppers who shop in those individual stores, e.g. you need price sensitive bands for your price sensitive customer segment. Customers use highest and lowest prices in a range to 'grasp' how expensive you are so by removing high price point lines with low volume, customers will naturally see smaller price points around the store.

Everyone wants to know they're getting good value. Clearly merchandising entry price points will help customers identify lowest prices and improve their perception of all your prices. Studies have shown that in Western cultures customers look from left to right, then bottom to top when scanning shelves. Use this knowledge as an opportunity to showcase lower price point lines.

#### Case study from North America

Products in the household goods category at this retailer in North America were organised by brand, making it difficult for customers to identify low prices. By re-merchandising the shelves to position the **lowest priced items on the left-hand side**, they grew sales in the category by 16% without having to change the assortment or drop prices.

#### Solution

Review price spreads in price sensitive stores. Merchandise to highlight entry price points to make low price points stand out.

### 5. PRIVATE BRANDS

#### Psychological need: Shopping somewhere with the same values as me

Shoppers visit stores which have the same values as them – it's called 'coherence'. Own label is an opportunity for retailers to demonstrate their brand values. To positively tackle store price image, retailers need to have entry level price points in own label in all the categories that price sensitive customers shop. This shows that the retailer cares about low prices. Of course, the higher the participation in own label in any basket, the lower the overall basket price will be when checking out, helping reinforce a positive store price image.

#### Solution

Ensure your private label ranges reflect your desired store price image. Have entry level price points for own label products in key categories.



## 6. COMMUNICATIONS

### Psychological need: Reinforcement

If you don't tell customers what you're doing to add more value to their shopping experience, they won't know. Accentuate the positives and ensure you are maximising every opportunity along the shopping journey to reinforce the value message to your customers.

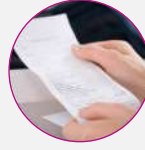
#### Solution

Communicate with customers the value you are providing at every stage of the shopping journey. Be clear, be concise and make sure you have an integrated marketing plan to talk to your target customer group.

### The 4 stages of the Shopping Journey



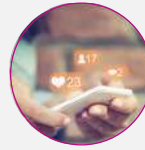
**Discover** – Before customers even set foot in-store, use your weekly flyer, or your mobile app to communicate key offers, special price points and reinforce value.



**Shop** - While customers are shopping, use in-store media selectively to promote specials. Create real time messages on self-scanners notifying shoppers about how many promotions they have bought today.



**Buy** – At the point of purchase, use receipts and coupons at till to tell customers how much they have saved on their shopping trip today.



**Reflect** - After they have shopped, use social media to converse with customers to reinforce how well they have done through shopping at your store.

## 7. THE STORE ENVIRONMENT

### Psychological need: Coherence

The store environment needs to reflect the price image you want to give. Premium fixtures mean premium prices in the customer's mind. The more services you offer imply higher prices. If you're remodelling stores, it's worth testing different versions in different catchments. The same treatment may not work well in price sensitive catchments. An upmarket refit can lead to perception that prices have risen.

#### Solution

Ensure the store environment and services are coherent with your ideal store price image. Check with your target customer segment that their store environment is in line with the prices in store.

## SUMMARY

Maintaining a positive Price Perception with your customers will help ensure they continue to shop with you. Understanding and addressing the drivers and psychological needs, beyond price alone, is key to improving your store price image.

The first step is to run a Price Perception Healthcheck with dunnhumby. Find out how you stack up against your competitors and where you lose out. You'll get a targeted profile showing where you should start to invest to see the greatest impact. You cannot improve Price Perception for all customers, so choose your target segment and over-invest in them to see greatest success.

### How to win on Price Perception

- Find your Score
- Use Science to address key needs
- Measure impact and ROI
- Track Store Price Image



## ABOUT THE AUTHOR

Howard Langer is dunnhumby's Global Managing Director for Price & Promotions, overseeing strategic and product direction, leveraging experiences working with some of the largest retailers in Europe, Asia and the Americas.

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Applying insights from 800 million shoppers globally, with specialisms in customer knowledge, customer engagement, pricing & promotions, category management and supplier collaboration – dunnhumby optimises retailer data investment, develops internal expertise and creates tailored solutions that build margin, sales & profit in all competitive environments.



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