

Price Optimization 3.0

Big Y's new price optimization strategy involves the collaboration of category managers.

By Joseph Tarnowski

Big Y World Class Markets, a Springfield, Mass.-based regional independent with more than 60 grocery stores in Massachusetts and Connecticut, is known for its cutting-edge technology investments.

It was an early adopter of Groupon, digital coupons, loyalty programs and mobile apps, and it's not afraid to take risks if the end result is an implementation from which its customers will benefit.

As such a cutting-edge company, Big Y is no stranger to price optimization solutions. A big believer in the value of science-backed decision-making, Big Y teamed up with Austin, Texas-based price and promotion optimization solutions provider Revionics four years ago because the grocer was experiencing competitive positioning and price image challenges not addressed by its existing system.

Since that time, Big Y has successfully used Revionics to combine shopper insights and competitive data to strengthen its price image and drive loyalty while exceeding profit objectives. "For Big Y, customer-driven pricing is now a way of life and is embedded in our business philosophy," says Lee McKay, the grocer's retail pricing manager. "I would equate pricing without optimization to how someone would respond if you took away their cell phone: It would be like wandering around lost in the dark. I don't know how anyone can compete in today's complex environment without optimization science and analytics."

Big Y's base price strategy is driven primarily by competitive indexing, with all products in the assortment categorized into three item groups based on how products are perceived by shoppers: key value items (KVI), items that are most important to shoppers and have the highest price awareness; key competitive items (KCI), which are also important to shoppers, but not as price sensitive or purchased with the frequency of KVIs; and background items, which include all other items, and are evaluated for price elasticity. The items that show low price sensitivity are used to generate margin and offset the investment made in the highly competitive items.

Increasing Granularity

Having achieved this level of maturity with price optimization, the Big Y pricing team decided to re-evaluate its pricing strategies and find opportunities to drive additional benefit by analyzing shopper



response at a more granular level. With a focus on increasing unit sales and profits while maintaining price image, Big Y worked with Revionics on the goal of examining the core price optimization configurations, private label and price per unit logic, ending number strategies, and price family relationships, as well as reviewing competitive indices, zone pricing strategies and KVIs to determine where opportunities for improvement existed.

One goal was to create pricing transparency that could easily be distributed throughout the organization to both category managers and upper management. As part of its cloud-based subscription, the team established a schedule of weekly calls in which it was able not only to review and make alterations to configurations and strategies, but also enabled Big Y to gain significant expertise in using the system in new ways.

One of the unexpected outcomes of the review was that it uncovered an opportunity to create a new, collaborative business process with the category managers. While reviewing what-if scenario simulations of alternative strategies, the pricing team brought in a category manager to assist in the final strategy selection decision. The result was the ability of the solution to help achieve objectives in categories and subcategories that had been elusive in previous efforts.

The new process has created a cross-functional approach to symbiotically achieve both category manager and pricing team objectives, ensuring that goals are strategically and scientifically executed, challenges and opportunities are identified, and the pricing strategy review process is fully coordinated with category review schedules. **PG**

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