

AI beats gut instinct

To avoid margin leakage, retailers should take advantage of data science to assist with their pricing and promotional strategies – that’s the firm belief of Cheryl Sullivan of Revionics

Like retailers everywhere, DIY outlets grapple with online-savvy shoppers who are firmly in control, with complete transparency across all channels at every phase of the purchasing cycle. More uniquely, DIY caters to two very discrete shopper segments: the business/contractor professional, who purchases for client projects, and the homeowner or renter undertaking personal projects. Two

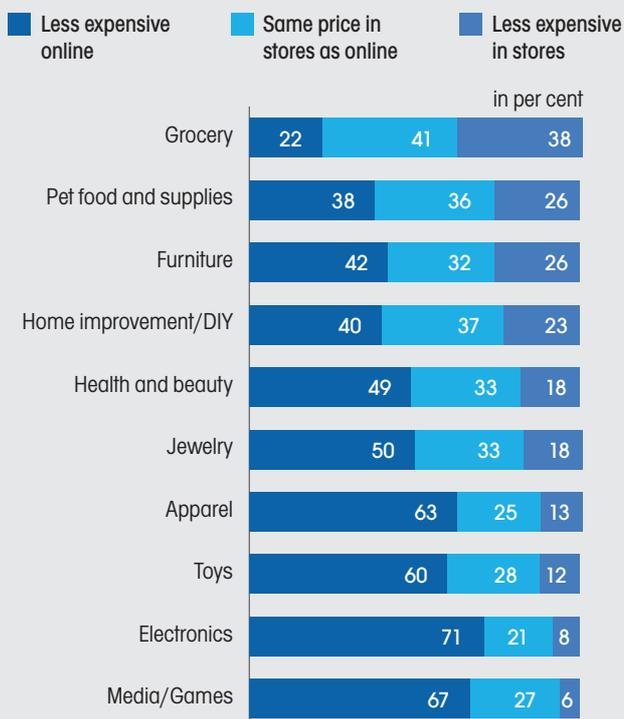
recent Revionics-commissioned global shopper studies conducted by Forrester Consulting in May and November 2017 yield surprising insights into the perceptions and behaviours of the latter segment. The titles of these studies succinctly summarise the findings: “Understanding Retail Customers’ Pricing Expectations and Tolerances” and “Demystifying Price and Promotion”.

At a time when the growth of online shopping far outpaces overall retail growth, much attention has been paid to the importance of convenience (buy online/pick up in-store, same-day delivery, etc.) and variety to shoppers. But what really drives shoppers to select you over your competitors? The Forrester research found that consistently across sectors including DIY, discounters, fashion and grocery, survey respondents said price was the single most important factor in determining where they shop, followed in every case by quality – with variety and convenience trailing significantly behind. In DIY, 51 per cent of the respondents, who included shoppers in Germany, France, the UK, Brazil and the USA, ranked price as the most important factor, followed by quality (39 per cent), conven-

ience (30 per cent) and variety (21 per cent). Interestingly, in other retail sectors variety was ranked as more important than convenience.

And while today’s retail is messy, and today’s data is even messier with the proliferation of customer data, it’s impossible for DIY retailers to keep up with today’s shoppers and contractors using simple spreadsheets and gut instinct. It’s even worse for DIY retailers, who sell to segments requiring multi-tiered pricing. The good news is that with the data explosion, so too has come the rise of using data science to craft relevant prices where they matter most to shoppers. Unfortunately many retail industry pundits have cautioned that shoppers are suspicious of using pricing that has been created through the use of machine learning science, whereas in reality that could not be further from the truth, as shoppers themselves said. The Forrester studies overwhelmingly flew in the face of that assumption, with 78 per cent of respondents stating they think it’s fair for retailers to use data-science-based pricing as long as the resulting prices are reasonable (i.e. in line with shoppers’ expectations and not arbitrary).

What do you expect the pricing to be when shopping for the following types of product categories?



Source: Forrester Consulting/Revionics

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What is the data science that retailers around the world have been adopting at a rapid rate and that shoppers trust? It's machine learning. Machine learning is a subset of artificial intelligence, which is the broader concept that machines should be able to carry out tasks in a way that we consider intelligent. Machine learning is based on the idea that machines can absorb massive amounts of data and learn from it themselves without being explicitly directed. They can see, read, listen and interact. Both have been around since 1959, but have only recently gained broad popularity due to the massive data explosion and enhanced computing power, which again

makes optimal everyday retail decisions virtually impossible to do manually.

In the midst of a very dynamic retail environment, machine-learning price optimisation balances prices and promotional offers across the range to maintain optimal, fair pricing for shoppers while also protecting and improving the retailer's top and bottom lines.

In some cases, these models have been learning consumer and market data for over a decade. Today the pace of adoption for price and promotion optimisation is accelerating rapidly. Retail winners actively apply today's ever-improving proprietary price optimisation deep learning algorithms to model

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billions of possible options, to key in on competitive elasticities, key value items (KVIs), shopper segmentation and shopper price sensitivities to deliver the perfect win-win: attractive prices where they matter most to shoppers, while recovering margins elsewhere to sustain a healthy ongoing business.

Speaking of margins, the Forrester studies uncovered a massive area of preventable margin



BATH ACCESSORIES WITHOUT DRILLING

Easy assembly with a system



Permanent strong holding power



Without holes or damages



Without noise



Without dirt



leakage: misguided promotional offers. A shocking 52 per cent of the weekly or monthly promotions offered by retailers go to customers who say they would happily have paid full price. 47 per cent of the respondents said they receive promotional offers that they never use – with significant geographical variances, with UK and US shoppers exhibiting more responsiveness to promotions (only 29 per cent and 40 per cent respectively saying they receive offers they don't use) while French, German and Brazilian shoppers are much more likely to ignore promotions (50 per cent, 54 per cent and 64 per cent respectively don't use offers they receive). When retailers send offers to shoppers who would have paid full price and who then redeem those offers, they needlessly give away margins. When retailers send

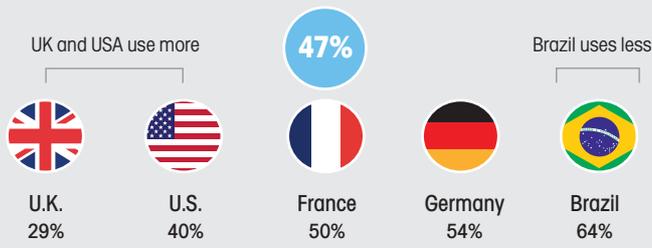
offers to shoppers who aren't interested and don't respond, they waste resources on ineffective, poorly targeted promotions. Either way, the retailers miss their strategic objectives. It's more imperative than ever that retailers take advantage of today's powerful analytics to understand how effective their historical promotions actually have been, and tap into promotion optimisation to craft future promotions for optimal strategic impact, down to the vehicle mix and item selection for each promotion.

DIY retailers also have the opportunity to price items differently in different channels – again, as long as prices are perceived as "fair" by their shoppers. The research found that, across every retail sector, most shoppers anticipated different prices online than in stores. For DIY in particular, 40

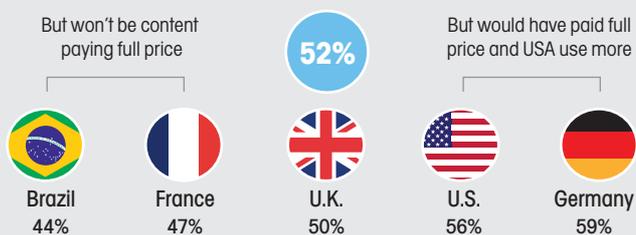
per cent of shoppers expected lower prices online, 37 per cent expected identical prices, and 23 per cent expected lower prices in the store. Given that, DIY retailers generally have the opportunity to pass along savings related to reduced stocking and shipping costs for the online channel.

As shopper behaviours continue to evolve more and more rapidly, it's critical that retailers in all sectors stay in touch with shoppers' actual perceptions and behaviours rather than rely on the "conventional wisdom." As the studies clearly revealed, there is often a surprising level of disconnect between assumptions and reality – and insights into the reality yield substantial opportunities for retailers to sharpen business practices, earn more customer loyalty and enhance the bottom line. ■

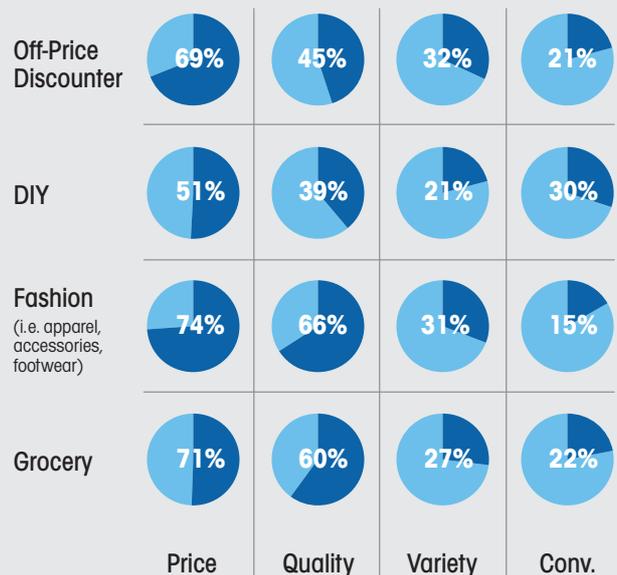
Shoppers who receive promotions at least weekly that they don't use



Shoppers who receive promotions but would be happy to pay full price



Top factors shoppers use to choose where to shop



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