

Pricing Tool Guide

Price Ladders For Guideline Development and Monitoring

Price ladders are a simple, visual tool to compare price ranges across your own or competitive codes and to monitor compliance with pricing guidelines. Ranges, visualized through price ladders as opposed to price tables, highlight better the uncertainty and volatility of market prices over time in the eyes of the consumer. For instance, a supplier may view its SKU as a premium variant, but if the SKUs' promoted price frequently puts it below the economy alternative's price point, the consumer may view it differently. It is also important to understand ranges because competing retailers often respond strongly to price points that they see at the bottom range. Finally, comparing the range of price points across SKUs also makes promotional strategies visible and brings to light the degree of compliance to brand guidelines.

The price ladders in the image below are comprised of what are called box plots. The maximum and minimum price points over a period of time are represented by the top and bottom bars. The box in the middle represents the range of the middle 50% of the price points (25% - 75% quartiles) around the median price, which is represented by a dot. In the image below, there is also another line that represents the guideline price, which can be a suggested retail price or a minimum advertised price.



Looking at this chart, one can see how the range of price points match up with their guidelines. In the case of the super-premium codes, the price points are all below the guideline, which may or may not be all right depending upon what the guideline is supposed to represent. For instance, if the guideline is meant to be a maximum, it might be fine. If it is meant to be a floor, more investigation is needed into the reasons for non-compliance. Either the guideline needs to be adjusted or efforts need to be made to move pricing in line with the guideline.

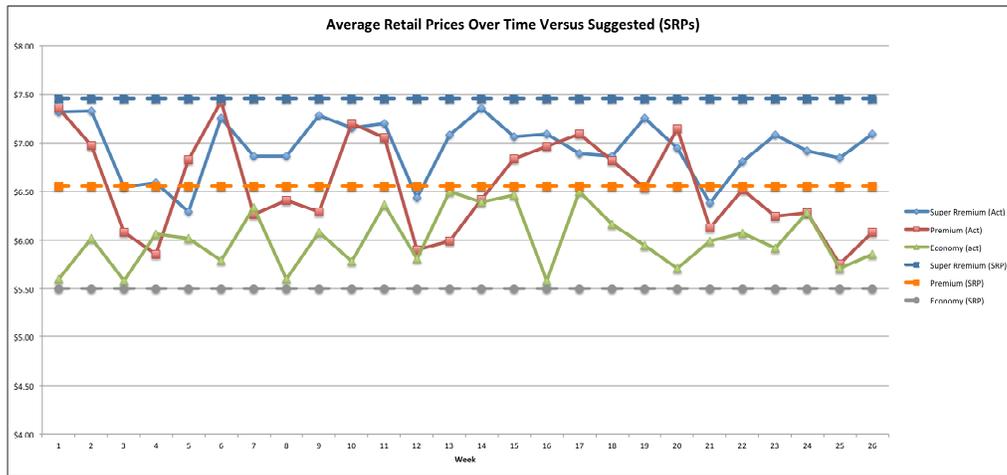
The chart also makes clear that there is a high degree of overlap between the premium and the economy variant. This may be intentional if the goal for premium promotions to encourage trial from predominantly economy users, but it also may indicate a lack of control in how promotional funds are being spent. Depending upon the strategy, increased surveillance or premium promotional price points or decreases



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in pricing for the economy variant might be required to create a sensible price architecture in the market.

The box plots in the above image are snapshots across time of price points. They provide a useful complement to the more familiar time series view of pricing like what we see below. The time series adds the information that, until recently, premium prices were generally compliant with guidelines. This might lend some urgency into investigating the causes for this change. This was not apparent in the price ladder view.



Both of the above images represent internal data only. Another useful perspective is to add the competitive price ladders for similar SKUs in side-by-side comparisons, like is portrayed below. This allows one to compare not only internal compliance with suggestions but also how the variability for similar SKUs compares with competitors. This can highlight important differences in promotional strategies. It also provides additional perspectives judge the guidelines' appropriateness.



Watch-outs

Price ladders are useful visual aids for a number of purposes. There are, however, two watch-outs to highlight upfront. One, the quality of the source of price points makes a big difference to their utility. The trend among retailers to price at the



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individual level through loyalty cards, makes syndicated data, such as one might acquire through Nielsen or IRI, less representative of competitor pricing than in times past. The real range may be even greater than the ladders portray with the information available. Another watch-out is that the level at which the price information is reported can also make a difference. For instance, if the individual price points in the graph are themselves an average across stores for a day or a week, then the true range is probably greater than represented.

In conclusion, the use of price ladders, with an understanding of their limitations, is a great tool to guide policy and test it against market reality. The charts above, with a few Excel tricks, are easy to create and should be easy to update over time or compliance or competitive monitoring.