Daymon

PERSPECTIVE ON…

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International Development Center

PRICE POSITIONING

Are you aiming at the right target?

THE STRATEGIC ROLE OF PRICE

When introducing something new to the market, price is critical, but how do we determine the appropriate price positioning?
It is based on a thorough understanding of the 3 Cs: the company, its strategy, objectives, and capabilities; the customer and his relationship to the product; and the competitors, which we can refer to as the market. Understanding the market is important for defining a product concept, but it is also important for determining the appropriate price positioning in relation to the product's assets, such as quality level and unique characteristics, as well as the company's strategy and objectives.

CONSUMERS – A COMPASS FOR STRATEGIC PRICE DECISIONS

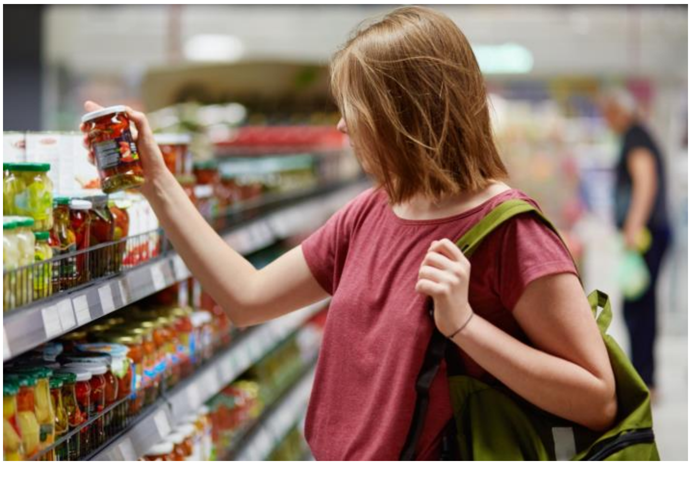
The customer is at the centre of price decision-making.

Customers across geographies place great importance on price when choosing what to buy. The economic context is around emphasizing price, with 70% admitting to having seen food and beverage prices rise since mid-2021[1].

In fact, recent studies have revealed a common denominator among customers from various markets - they all perceive inflation to be much higher than it is. This attitude toward price fluctuation may lead customers to purchase less expensive versions of their favorite products. For example, in response to inflation, 39% of US customers admitted to purchasing more Private Brand products[2]. In the Beauty and Personal Care category, 46% of German customers admit that they will switch to lower-priced brands to save money[3].

With this in mind, defining the price positioning for new products before they hit the shelves becomes even more important as customers pay attention to pricing from the start.

Obtaining the right price positioning, on the other hand, entails more than simply offering the cheapest option. Customers frequently seek out specific product attributes and are willing to pay more for these desired extra benefits, so value and differentiation must be reflected in the price of a given product.



For example, during the 2008-2009 recession it was noticeable how UK customers reduced their spending on organic products - something they could give up in response to tighter budgets. However, French customers kept such products on their shopping lists because they valued the product attributes. Local also appears to be valuable for French customers, with 57% of French grocery shoppers admitting to being willing to pay more for groceries produced in their country[4].

To understand what the product should be about and defining the right concept - retailers and brands must first understand what customers value. However, a product concept requires a price, and this price must be meaningful on shelf, for customers to consider it.

Source: [1]Daymon Private Brand Intelligence Report; [2]Mintel, *Consumers and the Economic Outlook – US – Winter 2022*; [3]Mintel, *The impact of inflation on EMEA consumers: 2022-23*, June 2022; [4]Mintel, *How to make your brand invaluable in an inflation era*, April 2022

PRIVATE BRAND SHARE AND PRICE GAP

SO, HOW DO WE DETERMINE THE OPTIMAL PRICE POSITIONING?
By understanding customers, what they value, and how much they are willing to spend; our own company strategy and goals, and what the competition offers.

Above all, understanding not only what customers seek, but critically, how the market and its key players position themselves. To define the right price positioning for any new product, it is crucial to balance customer expectations and the competitive landscape.

THE CORRELATION BETWEEN PRIVATE BRAND SHARE AND PRICE GAP

One factor that can assist brands in determining price positioning for a range or a product is to consider the importance of the Private Brand for the category, which can be measured using the Private Brand share of sales. In mature markets, we can observe that the higher the Private Brand share, the smaller the price difference between Private Brands and National Brands. As a result, it is an important indicator to consider when determining the price positioning of a brand, a range, or a product within a given category, both for Private Brands and National Brands.

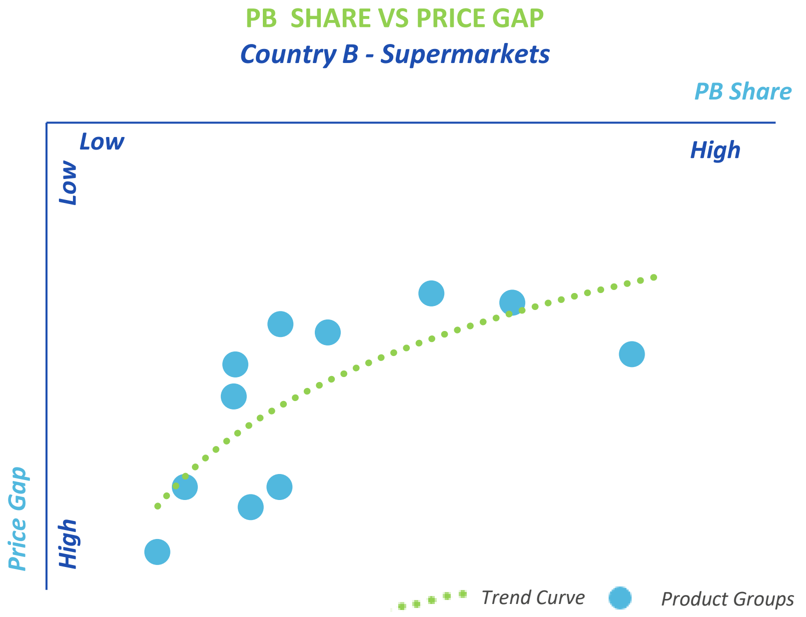
CASE STUDY: PRIVATE BRAND PRICE POSITIONING IN MATURE EUROPEAN MARKETS

Looking at several European markets with high Private Brand share on FMCGs, we can see a link between Private Brand share and the price gap between National Brands and Private Brands.

For example, product groups with a lower Private Brand share, such as health and beauty and health care, demonstrate larger price gaps between National Brands and Private Brands. The opposite is true for frozen food and perishable food - two groups that are more Private Brand-driven in the markets we observed. Both have extremely narrow price gaps between National Brands and Private Brands.

The supermarkets in one of the studied markets are depicted in the illustration. Although the values may differ depending on the country or the retail format used, the correlation between the two variables (Private Brand share and price gap) remains. The identification of this correlation between the two variables provides valuable information for brands in determining price positioning for new solutions they wish to bring to market.

While the analyses at the product group level provide us with a general idea of how to position Private Brands vs National Brands in terms of price, we cannot ignore the fact that categories within a group can exhibit different behavior and should therefore be examined.



The alcoholic beverages category maintains a relatively low-price gap in the markets we considered. Nonetheless, the average price difference obscures extreme values across categories. Among the countries studied, the beer category has one of the largest price disparities, whereas Private Brand brandy is more expensive than National Brands.

According to our findings, the price difference between National Brands and Private Brands is heavily influenced by how Private Brand-driven the category is. As a result, in product categories where Private Brands account for a large percentage of sales, the price gap between National Brand and its Private Brand equivalent should be narrow. Whereas in categories where Private Brands account for a smaller percentage of sales, differentiation through a large price gap should be critical.

DEFINING THE RIGHT BENCHMARK

THE KEY IS THE BENCHMARK

If understanding the importance of Private Brands in the category allows us to define guidelines in terms of price gaps versus National Brands, the question of which product to use as a benchmark must be addressed.

When discussing Private Brands, it is commonly assumed that the National Brand leader should serve as a model, which is correct for its product equivalent.

PORTUGUESE RETAILER A

Category: Laundry Detergent
Price Gap: -73% than NB
Market PB Share: Low

Category: Ground Coffee
Price Gap: -60% than NB
Market PB Share: Medium

Category: Pasta
Price Gap: -37% than NB
Market PB Share: High

UK RETAILER B

Category: Water
Price Gap: -61% than NB
Market PB Share: *Low*

Category: White Bread
Price Gap: -41% than NB
Market PB Share: *Medium*

Category: Toilet Paper
Price Gap: -15% than NB
Market PB Share: High

RETAILERS' PRICE GAPS ACROSS CATEGORIES

Take six core products from two mature European retailers and compare the price difference between the national brand leader and its Private Brand equivalent. We can see that the categories with the highest Private Brand share, such as Pasta in Portugal or Toilet Paper in the United Kingdom, also have the smallest price differences between the National Brand product and its Private Brand equivalent. Furthermore, less Private Brand-driven categories, such as liquid detergents in Portugal or bottled water in the United Kingdom, have extremely wide price disparities.

While the analysis emphasizes the importance of examining Private Brand penetration as part of the price setting process, it also demonstrates that there are no hard and fast rules or mathematical formulas for determining what the price gap should be across different levels of Private Brand share.

Other factors, such as customer perceptions and their impact on decision-making, costs, as well as retailer strategy, must be considered when defining the price positioning of a new product solution.

CUSTOMER DECISION TREE IS KEY TO DEFINE THE RIGHT BENCHMARK

Customers compare comparable items, and if we want to encourage them to trade up, we cannot devalue differentiated products by making them slightly more expensive than the mainstream offer. The price must be meaningful on shelf, considering the brands the new product solution will compete with.

DEFINING THE RIGHT BENCHMARK

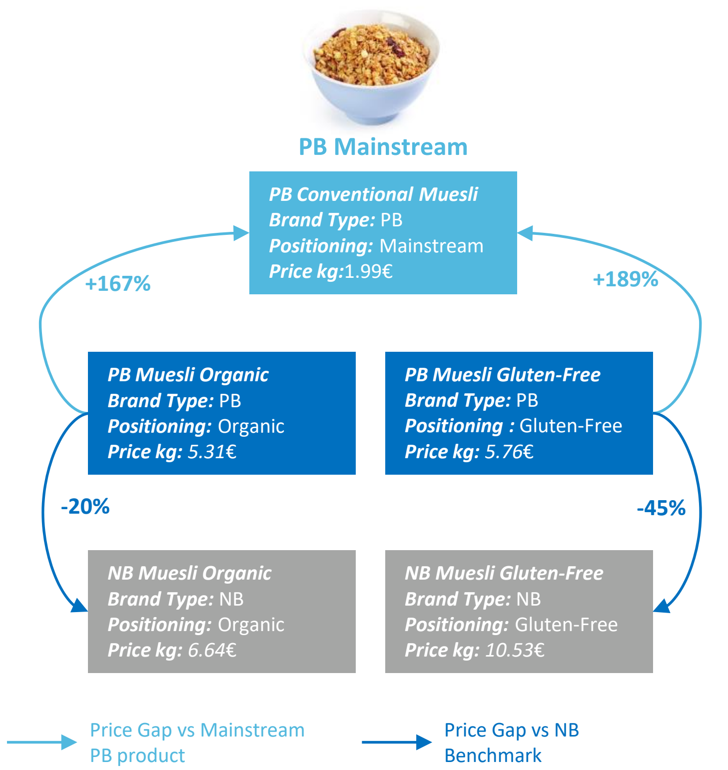
EXAMPLE ONE: THE MUESLI DILEMMA

Let's look at muesli as an example. A customer looking for breakfast muesli in the Netherlands will find National Brand options as well as three Private Brand ranges: conventional muesli cereal (mainstream tier), organic muesli cereal (organic tier), and gluten-free muesli cereal (health tier).

If a customer prefers biological products, he will not compare the retailer's organic Private Brand offering to a mainstream simple Private Brand product. The same is true for a gluten-intolerant customer who must consume gluten-free products.

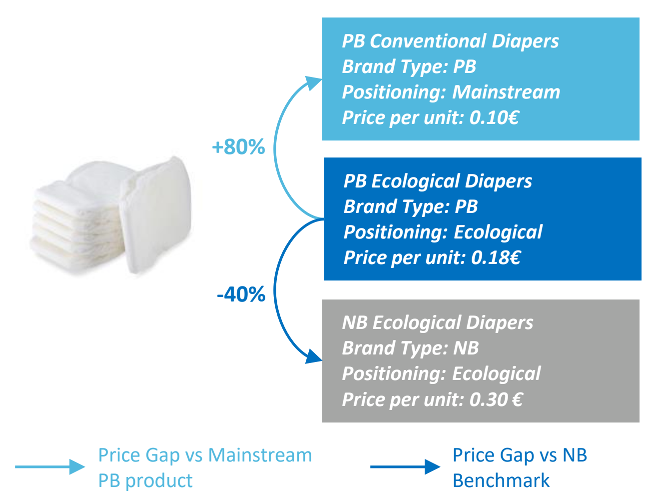
The consumer looking for organic muesli will examine the National Brand option and compare it with the Private Brand equivalent which is 20% cheaper. So too, the consumer looking for gluten-free muesli will consider the National Brand product and compare it with the Private Brand equivalent which is 45% cheaper.

DUTCH RETAILER C



EXAMPLE TWO: CHANGING THE WORLD, ONE DIAPER AT A TIME

PORTUGUESE RETAILER D



Let's look at another example - diapers. Customers looking to buy diapers for their newborn will find several options at Portuguese Retailer D, including well-known National Brands, and two Private Brand ranges - conventional diapers (mainstream tier) and ecological diapers (ecological tier).

If the customer is concerned about the environmental footprint, sustainability will become an important consideration when purchasing products at the supermarket, including diapers. In this scenario, the customer is less concerned with the price of mainstream alternatives (product two) and more concerned with the available ecological ranges, comparing Private Brand ecological diapers to similar National Brand alternatives.

The two examples presented here emphasize the importance for retailers to consider the decision-making process of customers and what alternatives are actually compared. Customers tend to compare products with similar assets, so the price of value-added Private Brand alternatives must be compared to products that make similar claims. The question of trading up should not be ignored but it should not be the primary determinant of price positioning.

To define the right price positioning for new Private Brand solutions, retailers must conduct a competitive analysis to determine what the benchmark should be. As Private Brands become more consumer brands, tools that allow for the analysis and comparison of product solutions across retailers and countries, such as Daymon's Competitive Intelligence tool, become increasingly important. It is no longer about going for the category's leading product and defining price positioning from value to premium, but rather about defining what the benchmark of the new solution is and defining price positioning accordingly.

Although we are discussing Private Brands here, the mechanism is also applicable to National Brands. A product is a component of an ecosystem, and brands must determine which products will compete with their new offering. If a brand wishes to differentiate itself, the price must be set accordingly. The same is true if a brand wishes to be a more affordable option. Knowing the competitive landscape in which a brand will operate is critical to determining the appropriate price positioning.

DEFINING THE RIGHT BENCHMARK

When it comes to exemplifying how to define the price positioning for a new product, olive oil can be an interesting example. Its significance varies depending on the market and cuisine, ranging from being a necessary product in many cultures where National Brands predominate to being a complementary product in others. How can we then position a new branded olive oil in the market amongst other brands, National Brands, and Private Brands?

Many factors influence the price of olive oil. One of them is the country of origin. Olive oils from countries such as Spain, Italy, and Portugal, which are known for producing high-quality products, can command a higher price point. The method of production can also distinguish a more expensive version from a cheaper one, as seen with organic items, which are priced higher. Other factors that can influence how a National Brand olive oil is positioned, includes the blend and maturity of the olives used in production, the level of acidity, and even the type of bottle (plastic or glass). All of these are important considerations when developing a product and determining its price positioning. Brands can define the right price positioning that will appeal to customers by analyzing and comparing the offer available in the market, as well as learning from other categories with similar profiles. Daymon's Competitive Intelligence tool can compile information for brands to run this in-depth analysis.

EXAMPLE THREE: DEFINING THE RIGHT PRICE POSITIONING FOR THE LIQUID GOLD

For example, a new brand entering a market can define its olive oil prices by looking at other brands in the market and observing how they position their glass bottle products vs. their plastic bottle products. Alternatively, they can choose the price gap between extra virgin, virgin, and refined olive oil by comparing the gaps other brands apply to their various types of olive oil.

Consider the following scenario - Brand A wishes to add a glass bottle of Portuguese Extra Virgin 500ml Olive Oil D.O.P. (Protected Designation of Origin) to its portfolio. To determine the ideal price, they will need to examine the prices charged for similar products. Taking into consideration other key elements, Brand A will define if the product customers compare the new product with, will be more product 1 or product 8.

To summarize - when determining the proper price positioning, among the key elements one should consider:

- Private Brand's role in the category: to define pricing gap guidelines, either National Brands or Private Brands should consider the Private Brand share. The greater the Private Brand share, the smaller the price gap, and vice versa.
- The definition of the appropriate benchmark: the notion that prices should be set based on the leading product must be revised. The customer decision tree should be the entry point in the era of consumer brands, a step that will help brands define the right benchmark to consider when defining price positioning.

When developing a new solution, it is critical to define the price positioning. The redefinition of the benchmark should be considered when repositioning a product.

Daymon Competitive Intelligence

This paper was created using our proprietary tool Daymon Competitive Intelligence. Users of Daymon Competitive Intelligence tool can track competitors' unique selling propositions down to the SKU level, and are able to investigate competitors' brand offerings, tiering, seasonal articles, new product launches and key attributes. It can also benchmark against competitors, find new supply sources and solutions, and analyze price evolutions. It provides a set of analyses that can be used to support strategic decisions, monitor competitors, and feed daily actions. Our monthly monitoring system ensures that users can analyze market evolution in real-time, allowing them to plan commercial and promotion strategies more effectively.

The Daymon Competitive Intelligence suite is delivered in a dynamic environment that enables data analysis from multiple angles. All of this is provided in a user-friendly, yet powerful, robust, and secure environment that is accessible from a variety of devices.