Price vs. Convenience

Jun 3, 2015 – Bill Scott - Author of Two Retail Books | Convenience Store Retailing Consultant | Speaker | President at Store Report LLC

With no disrespect to suppliers, one of the worst mistakes most retailers are making is allowing their suppliers to price their inventory

I have retailers that receive product from suppliers serving a 100-200 miles radius, and retailers mark their inventory according to a list of 'suggested retail prices' provided by their suppliers. And these prices are based upon the overall demographics of the supplier's analysis of the total overall market served.

Within that 100-200 mile radius, there are an almost infinite number of unique market areas; some retailers service neighborhoods, most service consumers in transient, while others are located near large shopping areas, and still others are serving vacation areas.

The term "*Market segmentation*" identifies markets subdivided along some commonality, similarity, or kinship. "Price segmentation" involves the variation of household incomes, needs, desires, opinions and disposable income. Gender, age, income, housing type, and education level are common demographic variables that have an effect pricing.

Let me ask you this question? How can one supplier recommend pricing in such as vast array of disparate markets?

Correct pricing should be based upon a single store's market and price segmentation, and proven with a calculation involving profit of an item, and the number of turns during a specific time period. Although there are some products that are subject to time periods (seasons, holidays, special events, etc.), **if a product not in one of those periods remains in the store for *longer than two weeks*, you need to get rid of it**.

This is a travesty!

Some retailers have non-seasonal products that will last for longer than 1,000 days. The vast majority of products are there for two or more months.

In the best of times, losses in profits created by the presence of overstock, and of the wrong stock were manageable; but in the worst of times, the losses can quickly become terminal before the retailer has a chance to recover. During bad economic conditions, when disposable income grows thin and begins to have an effect on sales, pricing is never more critical. If market conditions change, retailers must take action quickly to adjust products and prices accordingly.

A retailer with 100 stores has 100 unique market segments to manage. This cannot be done manually, yet that's the approach taken by the majority of retailers who have scores of locations. Fifteen years ago, 60 percent of convenience stores were owned by companies having 500 stores or more. Today, 60 percent of stores are run my companies having 50 stores of less. Why? Because large operators have failed in controlling their markets profitably.

Most consumers shop in areas. They can sense a store that’s overpriced for their market, and start shopping elsewhere. In our area, a 2 Oz Snickers sells at Target for $0.89. In a convenience store in the same area, the price is $1.19. That’s a difference of 30 cents. “Convenience” will get you part of the way there, but a customer who regularly shops at Target is not going to be happy paying 30 cents more for the same product they can find at Target for 30 cents less. The distance a customer has to drive to get to a Target, affects the number of Snickers the convenience store will sell, and vice versa. There is no 'right' or 'wrong' about this. Its a matter or correctly managing value.

A half-gallon of 2% Great Value Milk sells for $2.34 at Walmart in our area. A convenience store in the same market sells a half-gallon of 2% milk for $3.59... a difference of $1.25. “The customer doesn’t mind paying 53 percent more for a half-gallon of milk for convenience.” I get that. I know that's the accepted opinion. But, what is the customer’s opinion of the sales transaction? That depends on the market. Does she regard the store as being a convenience, or does she blame herself for not buying that extra half-gallon of milk last Saturday when she was in Walmart? Either way, we are teaching our customers to limit their convenience store purchases to absolute necessities. These things matter more as budgets begin to tighten. You cannot improve customer relations with 'convenience' alone.

Price is a key component of value, but “value for money spent” is probably a more important consideration. Generally, most research on consumer attitudes on the convenience business has shown that consumers expect to spend a little more when they purchase products in a convenience store, and for the most part they don’t mind. They can justify a small convenience premium because it is close, convenient, they are saving precious time, and if the store is clean, friendly and has the products they want. **If however they feel that they are being “gouged” by high prices then they are turned off and value disappears**. – Hugh Large and Associates Inc.

As Hugh Large suggests (above), a retailer must be careful not to earn the reputation of being a “price gouger”. There is a fine line that varies according to the market.

A convenience store must adjust its prices to accommodate market conditions, and a store located in a large city experiences different market conditions than one located 20 miles from a Walmart. A store located in an affluent neighborhood has different market conditions than one located in a poor urban area. Not only do their product needs differ, so does their ability to pay, and so do their opinions.