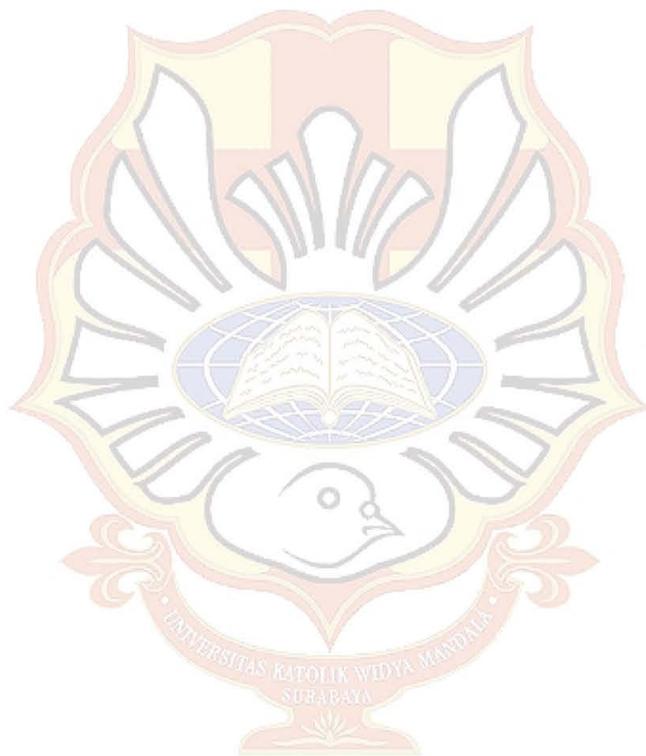


JADWAL KEGIATAN

Jenis Kegiatan	Bulan					
	Juli	Agustus	September	Oktober	Nopember	Desember
Persiapan						
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Why Responsiveness to Retail Promotions Varies Across Retailers

New Research Looks Beyond Price Cuts

Research by Sanjay K. Dhar and Peter E. Rossi

For years, retailers have relied on three types of retail promotional tools to sell their products: temporary price cuts, feature advertisements, and in-store displays. Under what retail conditions are these tools most effective for increasing sales?

Manufacturers often observe enormous differences across retail accounts in response to promotional activities. However, most studies focus only on consumer response to price cuts, usually due to insufficient data, and little is known about the determinants of in-store display and feature advertising response. A recent study, "The Role of Retail Competition and Account Retail Strategy as Drivers of Promotional Sensitivity," by Sanjay K. Dhar and Peter E. Rossi, professors at the University of Chicago Graduate School of Business, and Peter Boatwright of Carnegie Mellon University's Graduate School of Industrial Administration is the first to simultaneously examine what factors drive consumer responses to price cuts, feature advertisements, and in-store displays.

Using a comprehensive data set with all U.S. markets and all major retail grocery chains represented, Dhar, Rossi, and Boatwright investigated the role of retail competition, retail strategies, and demographics in determining consumer response to these three types of promotions.

Feature ads are leaflets or circulars from a grocery store inserted in a newspaper midweek to announce a store's special deals or sales during that specific week. Displays are usually "shelf-talkers" that draw attention to the price cut offered on a product.

The findings indicate that retail strategies and consumer characteristics greatly influence how responsive consumers will be to price cuts, features, and displays. Retail competition, while still important, turns out to have relatively less impact on consumer response.

"Retailers make long-term decisions when setting up their store, such as determining the size of the store, location, retail price positioning strategy, etc.," says Dhar. "These actions are supposed to help retailers sell more and differentiate themselves in the marketplace. At the same time, these actions will affect the extent to which consumers respond to price cuts, feature ads, and displays at their stores."

Conditions for Effective Promotions

To study the relationship between consumer responsiveness to price cuts, features, and displays and retailer and consumer characteristics, the authors used a data set that included data on the sales of ground coffee in 97 major U.S. retail accounts across 35 Nielsen Scantrak markets. A retail account is defined as a specific retailer/market combination, such as Safeway-Denver. Weekly sales data for the Folgers and Maxwell House brands was combined with demographic data and market and account characteristics using a one-step statistical method developed at Chicago GSB. The authors simultaneously measured the consumer responsiveness to price cuts, features, and displays at different retail accounts and related it to explanatory variables grouped under three categories: retail strategy, demographic variables, and retail competition.

Collectively, retail strategy, demographic variables, and retail competition explain about 30 percent of the variation in consumer response.

Two major retail strategies affect consumer response: price format and store format. Retailers typically use the Everyday Low Pricing (EDLP) or Hi-Lo pricing strategy. Since prices at EDLP stores are always reduced, these retailers do not offer as many promotions. Furthermore, discounts at EDLP stores are typically lower than at other stores, due to the already heavily discounted normal prices. Hi-Lo stores normally have high regular prices, and then reduce those prices by substantial amounts, discounting more frequently than EDLP stores.

The results show that consumers who shop at stores with an EDLP pricing strategy are less sensitive to short-term price cuts than consumers at Hi-Lo stores.

Store location and breadth of product assortment also impact consumer response to promotions. Retail chains with more stores in a geographic market do not get as much benefit in sales from using feature ads as chains with fewer stores. In addition, consumers who shop at retail chains with a large number of stores in a given market are less likely to be influenced by displays, since they are already familiar with store layout.

In markets with greater retail competition, there is greater price sensitivity, making consumers more responsive to price cuts. More competition makes it easier to compare prices across national brands.

Important consumer characteristics in determining promotional response are household income, home value, and age. Higher income consumers are less likely to respond to price cuts, but more likely to use feature ads and in-store displays to save time and effort in searching for better prices. For older consumers, physical and mental constraints mean that they are more likely to use feature ads and displays to make searching for better prices easier. The study shows that older consumers are more sensitive to displays and features than price.

The authors also gauged consumer sensitivity to retail promotions by looking at private label share. Private label share refers to brands that are sold under the retailer's name and are typically priced much lower than national brands. Dhar, Rossi, and Boatwright used private label share as an indicator of price sensitivity in the study since a high private label share suggests a price sensitive customer base. According to the results, private label buyers are indeed more price sensitive than other buyers.

Getting the Right Mix

The data set's comprehensiveness over many markets allowed the authors to make broad observations about retail strategy, demographic variables, and competition. The study calls attention to the importance of account retail strategy variables in affecting consumer response to price cuts, features, and displays.

"Since consumer packaged goods manufacturers favor trade promotions over advertising and spend vast amounts to get retailers to pass the trade promotion money in the form of retail promotions, it is very important to understand how consumers will respond to retail promotions at different retail accounts," says Dhar.

From long-term strategies such as store size to short-term strategies about how much to emphasize private labels, the study demonstrates that retailers must start thinking about the consequences of these strategies in order to ensure the effectiveness of their promotional tools.

How Store Location and Pricing Structure Affect Shopping Behavior

Anyone who has ever shopped understands the challenge. Summer is here and you suddenly need to pick up a few items for the house and yard: an air conditioner, bug spray, lawnmower bags, a garden hoe, a new hose and of course a hammock. The neighborhood hardware store is conveniently located a block away.

Its aisles are easily navigated due to its small size and the customer service can't be beat. The local Home Depot requires a 20-minute drive, not to mention that its size and layout are overwhelming even to the most avid handyman. But, unquestionably, Home Depot offers better prices, and you wouldn't mind picking up a few garbage cans while you are there. As the smart shopper, which store would you choose?

This is exactly the type of question that Wharton marketing professors David Bell and Teck-Hua Ho, and Christopher Tang, professor at the Anderson School at the University of California at Los Angeles, tackle in their new study, "Store Choice and Shopping Behavior: How Price Format Works."

As part of their research, the authors take a close look at the shopping behavior of consumers to determine what makes shoppers choose one place over another and how retail managers can drive traffic to their stores. While the authors offer a complex explanation of consumer behavior, their message is simple: In order to improve store performance, retailers must begin to think like shoppers.

Research on retailing typically attributes the success of a store to its location. At the same time, marketing experts have focused a great deal of attention on the role of pricing in store performance, but without considering location. In this recent study, Bell, Ho and Tang provide managers with a new shopping framework that takes both criteria into account. By weighing such factors as distance to the store, customer service, familiarity with layout, product assortment and pricing strategies, a store manager can begin to predict how and where people will shop.

EDLPs and HILOs

Given the importance of pricing to decision-making in the retail environment, the authors start with a look at the various retail price formats. A wide range of possibilities is available in terms of pricing strategy, with the "Every Day Low Price" (EDLP) store on one end and the store which offers promotional pricing, known as the HILO store, on the other. Retailers like Wal-Mart employ the EDLP strategy and typically offer low prices all the time. As a result, there is minimal variability between the regular price and discount price. In contrast, a HILO store, such as Ann Taylor, has a greater disparity between the highest and lowest price, relying on sales and promotion strategies to entice the buyer.

Certain characteristics are associated with each pricing format. For example, the EDLP store often has a large number of items but a smaller selection of brands, less convenient format and very small fluctuations in prices. Using their shopping framework, the researchers characterize EDLP stores as mostly having a low fixed utility (less assortment, less convenient) but a high variable utility (lower prices). "Fixed Utility" captures costs and benefits that are essentially independent of the specific items purchased on a given trip, while "variable utility" captures factors that change according to the items purchased.

The "Every Day Low Price" format generally appeals to the cost-conscious buyer. People who shop at the EDLP stores often buy a large number of items each trip and shop less often than their counterparts at the HILO stores, the study found. Because EDLP shoppers normally buy many things in one trip, they benefit from the small average cost savings on individual items.

On the other hand, the promotional pricing or HILO format has been associated with a high fixed utility—that is, convenient format, high quality service, good assortment of products—but, in general, a low variable utility because these stores tend to have higher prices. In contrast to the EDLP stores, the HILO store competes on service and assortment, not price. The consumers who like to make small and frequent shopping trips are more likely to go to the HILO store for two reasons. First, they can benefit from the large disparity in prices. If the price of an item is high on one day, the person can just defer his or her purchase until the price drops and then stock up on the item. Second, these are the consumers for whom shopping convenience, good service and large assortments are appealing, according to Bell, Ho and Tang.

Most retail areas lack a dominant price format. If there is an adequate mix of both types of people in a community, both formats will survive. It is only when a population of shoppers moves to either of the extremes and becomes polarized that one format will be more effective.

Hassle-free Online Shopping

The Internet is one such example. Because the large majority of online consumers are time-conscious and convenience-driven, many online retailers have focused most of their attention on providing a high level of fixed utility or hassle-free shopping. Because the benefits to online shopping are high for this segment of shoppers—no lines, no travel, no carts—the online retailers are less concerned with offering the cheapest prices. Netgrocer could charge more for tuna because it gives consumers the fixed benefit of not having to go to the store. In addition, when it comes to trying to improve performance, many Net retailers stay focused on fixed benefits and improved product assortment, rather than cost.

Bell predicts that online retailers will begin to differentiate themselves in terms of the merchandise that they carry. A net grocer may start carrying products that typically cannot be found in a conventional market. Or you may get niche retailers who carry everything that Kraft has. The strategy is focused on providing a fixed benefit through product differentiation.

While a focused strategy, in which a store only appeals to one segment of shoppers, can be successful, it is also more vulnerable to changes in market preferences. The store that can be different things to different people will ultimately be the big winner, says Bell. It is possible to do that through the right assortment of products and positioning. For example, the person who normally shops at the EDLP store, Wal-mart, could view a supermarket with moderate fixed and variable utility as a HILO option. On the other hand, the person who frequently shops at a Whole Foods store, generally viewed as an upscale HILO option, may view the standard supermarket as an EDLP option when he or she wants to buy more items.

Once retail managers understand how consumers view the shopping process, they can find ways to drive more traffic to their store and improve its performance. For EDLP stores, typically the ones that are not convenient but cheap, the key is to improve access to the store by improving product assortment, overall shopping experience and in-store product information. Take, for example, Home Depot. By expanding its service, creating a garden department and improving the assortment of products it offered, the store was

able to bring in a new range of customers. Home Depot became a one-stop shop—a store for both garden and hardware needs. By becoming more accessible, or increasing its fixed utility, Home Depot was able to expand its customer base at the expense of its competitors.

Likewise, Comp USA launched a new concept store that features an open and spacious design divided into several departments, each with its own image and ambience. Why? To make it easier and more enjoyable for the consumer to shop. Walgreen's also became more accessible by opening more than 900 stores and remodeling 500 existing locations, each time focusing on larger stores and improved assortments.

Promotions, Coupons and Private Labels

On the other hand, in order to reach more customers, HILO stores can do product-specific things like lowering prices through promotions and coupons and offering private labels. Safeway aggressively moved to expand its customer base through a carefully targeted Safeway Savings Program, which rewarded loyal customers through selective discounts. By doing this, Safeway not only brought in more customers, but it also increased their basket size by encouraging them to spend a larger fraction of their shopping budget at Safeway. As a result, the store increased its sales dramatically.

Although already known as an "Every Day Low Price" store, Costco further improved store performance by focusing only on a limited assortment of products with vastly reduced prices. The result: a 47% increase in net revenue in 1998. Continuing with the strategy, Costco has also begun offering private labels.

Ideally, a store could improve both fixed and variable factors simultaneously, but even increasing one of the components could directly improve the performance of the store.

As a result of studying the behavior of consumers, the researchers also discovered that a tremendous amount of inertia exists among shoppers—that is, people don't switch stores easily or often. Although Bell attributes this inertia mainly to psychological factors, the finding is especially significant for EDLP stores. Once consumers have settled into satisfying the major share of their needs at one store, it is very difficult to get them to switch. Because EDLP shoppers tend to buy most of their things at one main store, the EDLP managers can take steps to retain their customers and develop a loyal customer base. A HILO store, however, is more vulnerable because people shopping at those stores generally buy smaller amounts and end up filling their needs in multiple locations.

People also develop store loyalties for particular products, according to the study. Although a consumer may do half of his or her shopping at store A and half at store B, the purchase proportion of certain products is not necessarily 50/50. For example, a person may buy 90% of his soda from one store, even though he buys half of his shopping list at another store. Stores can use advertising, promotions and private labels to create a draw on a particular category of products that causes people to perceive the benefit of buying a product at one store to be higher than it is. And, if you are able to do this over enough categories, you will eventually tip the scale so those shoppers do all their shopping at your store.

"The lesson for everyone," says Bell, "is that it is always cheaper to keep customers than to try to attract new ones. Therefore, all stores should be creative about enhancing store-specific benefits in ways that keep customers coming back."

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