

# Omnichannel Pricing Approaches: Implementing the Right Channel Strategy



## “Omnichannel” is a recent buzzword in retailing. But is it right for you?

The purpose of omnichannel retailing is to provide a seamless customer experience across all possible touch points, including stores, catalog, mobile, online and social media. As far as most customers are concerned, channel is irrelevant. It does not matter how or where they buy something, they expect their experience to remain the same.

However, many retailers have lost touch of this seemingly simple goal, and are only recently reevaluating the need to create a true omnichannel experience.

## A key component of omnichannel retailing is an omnichannel price, or the same price across all channels.

Yet, is it far from clear that an omnichannel price is the answer for every retailer. The various types of approaches used to price product may be summarized into the following:

Figure 1: Omnichannel Pricing Approaches

Pricing Approach	Definition	Rationale
Channel-Specific Price	<i>“Pricing based on the channel, not the customer.”</i>	– Optimize price and margin in each channel
Omnichannel Price	<i>“The same price in every channel.”</i>	– Consistent price information in all channels – Ease the customer experience – Remove barriers to purchase
Combination	<i>“Omni-channel price, with exceptions.”</i>	– Provide a unified buying experience

## Channel-Specific Price

*“Pricing based on the channel, not the customer.”*

With channel-specific pricing, items are priced differently in different channels. Retailers may employ zone pricing or online only promotions to vary prices. Thus, the price customers encounter in the store is different than what they find online, the price online is different than what they see in the catalog and the price in the catalog is different than what they read in social media.

Channel-specific pricing worked well when shopping was a linear experience. In the past, customers took a straight path from research to purchase,

conducting little exploration before buying an item in the store. Today customers visit multiple touch points as part of the shopping process. They may see an item online, visit the store and check their mobile device for the best price and customer reviews.

While the goal of channel-specific pricing may be to optimize price, and thus margin, customers grow frustrated when they realize prices are inconsistent. This confusion may ultimately lead to a negative impression of the retailer and lost sales.

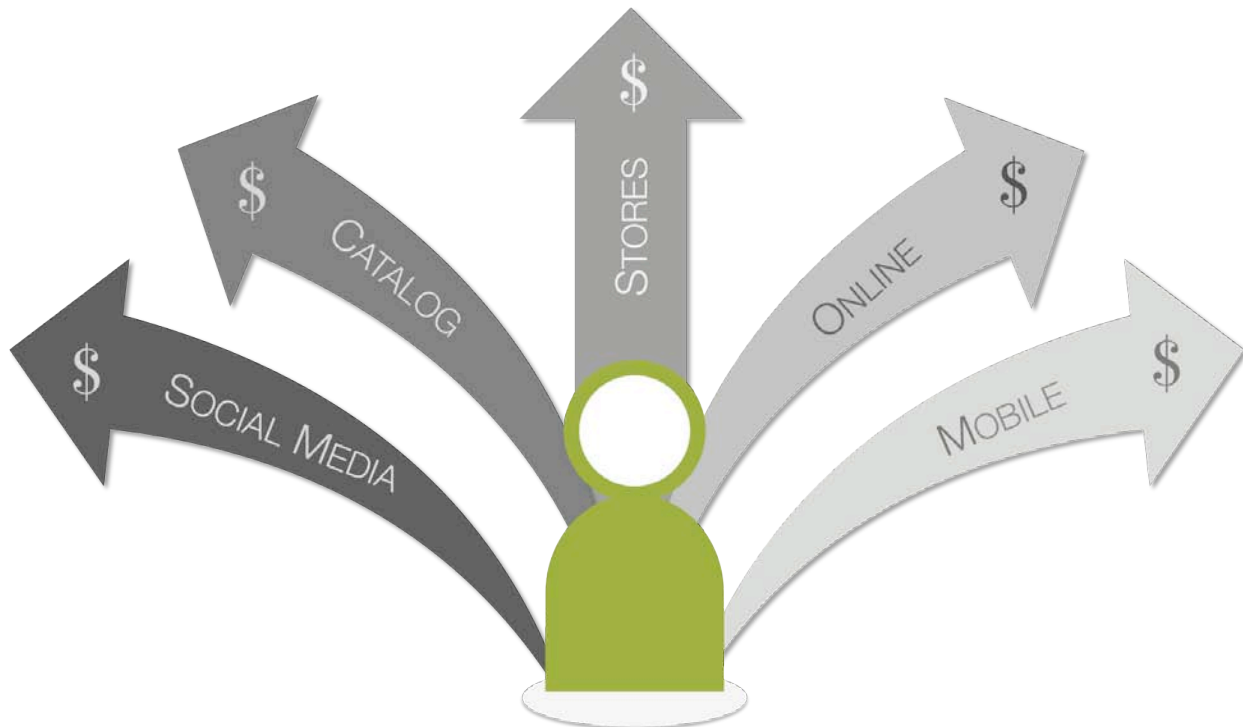


Figure 2: Channel-Specific Price Approach

## Omnichannel Price

*“The same price in every channel.”*

With omnichannel pricing, retailers provide customers with consistent price information across all channels, in real time. This strategy eases the customer experience - it is simple for customers to interact with the retailer, regardless of where or when the interaction takes place. As a result, omnichannel pricing removes many of the barriers to purchase.

Omnichannel pricing recognizes that customers are very sensitive to price differences; they become frustrated when prices vary across channels. It focuses on building customer loyalty, improving competitive price image and increasing market share.



Figure 3: Omnichannel Price Approach

## Combination

*“Omnichannel price, with exceptions.”*

A variant of omnichannel pricing is a combined approach, where the overall strategy is to provide one price across channels, but exceptions are allowed. Perhaps the best example of this “exception” strategy is a single regular price, with channel or customer specific markdowns and promotions. The key is to ensure customers receive a unified buying experience, otherwise you put customer loyalty at risk.

For instance, if a customer walks into your store, sees an item and checks the website for product information, he or she will be sorely disappointed if the price online is lower than the price in the store. However, if the price in the store is lower than the price online, the customer will feel lucky to have found the lower price, and walk out of the store happy.



Figure 4: Combination Price Approach



## There are many challenges to consider when determining whether to implement omnichannel prices, including:

- **Coordination:** How expensive and time consuming is to integrate multiple channels?
- **Regional differences:** How to handle different selling seasons in different geographic areas?
- **Bargain customers:** How to meet increased customer expectations due to the high availability of product information?
- **Competitive prices:** How to reduce the role of price in purchasing decisions by generating customer loyalty?
- **Channel-specific competitors:** How to price across channels when dealing with channel-specific competitors?

## Providing an omnichannel price or some derivative thereof has the potential to provide multiple opportunities for growth, including:

- **Customer satisfaction:** A strong focus on the customer may lead to higher future sales
- **Stronger brand:** Enhance the company's brand with a single brand identify across all channels
- **Marketing intelligence:** Easily track customer habits as they move across channels, measure effect of price decisions and target customers by promotion
- **Product education:** Offer customers a wide variety of ways to learn about products and services
- **Eases the path to purchase:** Provide multiple opportunities to buy and drive traffic to stores
- **Increase market share:** Shift away from margin focus to gain a larger share of the overall market

## Final Word

Price is becoming increasingly transparent, calling for a reevaluation of traditional pricing strategies. In the past, retailers focused on channel-specific prices using zone pricing, online only promotions or some other tactic. Today, some retailers are rethinking this strategy and adopting an omnichannel price that promises the same price to customers in every channel. Others are utilizing an omnichannel price, but allowing exceptions, particularly for markdown and promotion.

With this in mind, there is some room for retailers to continue channel-specific prices. The ability to price items differently depends a great deal on the price elasticity or sensitivity of a given item. There is more pricing flexibility depending on the type of item, fashions or trends, strength of competition, perception of value or brand loyalty. Customers almost always value something along with price. The trick is to find it and communicate it well.

Yet one thing is certain, customers are becoming increasingly channel agnostic. Successful retailers need to ensure price seamlessly follows a customer across channels in order to serve everywhere he or she touches the brand, build brand loyalty and increase market share. A thoughtful approach to price will guarantee the right information and incentives reaches customers, maximizing the purchase decision at every touch point.

## The Parker Avery Group

The Parker Avery Group is a boutique strategy and management consulting firm that is a trusted advisor to leading retail brands. We combine practical industry experience with proven consulting methodology to deliver measurable results. We specialize in merchandising, supply chain and the omnichannel business model, integrating customer insights and the digital retail experience with strategy and operational improvements. Parker Avery helps clients develop enhanced business strategies, design improved processes and execute global business models.

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