



# Lifecycle Pricing

Market Snapshot 2024

IN PARTNERSHIP WITH

**demandtec**  
by **acoustic**





# Table of Contents

**1**

Industry Overview

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**2**

Challenges

---

**3**

Opportunities

---

**4**

DemandTec Pricing Solution

---

**5**

Solution Benefits

A woman with blonde hair in a bun, wearing glasses and a white jacket, is smiling and talking to a man in a blue sweater. They are in a store, with shelves of products visible in the background. The woman is holding a small object in her hands. The man is looking at her. The scene is overlaid with a blue and teal gradient.

# *Industry Overview*

# Trends shaping the Food and Grocery sector and their impact on retailers

## Inflationary Environment

With food-at-home prices increasing by 1%-1.5%, and with inflation at 2.9% as of July 2024, grocery retailers face increasing costs and margin pressure across the board, from procurement to transportation, which significantly impacts their pricing strategies.

## Digital Growth Expansion

Online grocery sales in the US surged by 63% in 2020 and continued to grow, reaching \$132 billion in 2022. By 2027, share of online grocery sales is expected to be 16% of total projected grocery sales of \$1.3T.

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# 4,600+

Grocery store closures in 2023, about 7% of the total grocery stores in US.

## Sustainable and Ethical Sourcing

64% of US consumers are willing to pay more for sustainable products, and 75% of millennials consider sustainability when purchasing food.

## Health & Wellness Focus

The health and wellness food market in the US is projected to reach \$319 billion by 2025, growing at a CAGR of 5.5%. 77% of consumers have reported making dietary adjustments and are increasingly opting for healthier products.

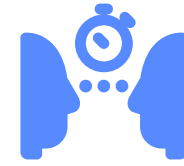


# Implications for Food and Grocery retailers



## Margin Tightening

Retailers face intensified competitive pressure, leading to more aggressive pricing strategies and discounting to retain market share.



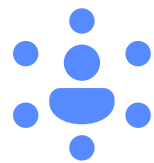
## Heightened Competition

Fueled by the consumer shift towards value retailers, grocery stores must balance pricing strategies carefully to protect their slim margins while meeting consumer demand for affordability.



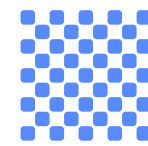
## Increased Investment in Digital Infrastructure

Retailers must enhance their digital platforms and invest in technology to support online experiences including price matching and competitive pricing.



## Expansion of Omnichannel Strategies

Integrating online and offline channels is critical, requiring investment in technology that enables real-time inventory visibility and a consistent customer price across all touchpoints.



## Transparency in Sourcing

Clear communication regarding the ethical sourcing of products can enhance brand loyalty.



## Marketing of Sustainability

Retailers should capitalize on the growing consumer interest in sustainability by prominently marketing their eco-friendly initiatives.

# Optimizing price strategies amid economic pressures and competitive dynamics

## Role of Price Optimization

Grocery retailers are increasingly turning to pricing optimization to manage the economic pressure using dynamic pricing models for real-time price adjustments based on market conditions.

By optimizing pricing strategies, retailers can better manage the impact of inflation and supply chain disruptions while addressing the competitive pressures and margin erosion highlighted by recent industry trends.

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**52%**

of grocery retailers believe that price optimization solutions will help them increase overall margins.

Source: RSR Survey 2024

## Current Landscape

The current landscape of pricing solutions is characterized by a growing adoption of AI and machine learning to enhance pricing accuracy through sophisticated data analysis.

Modern platforms are increasingly integrating supply chain data to synchronize inventory management with pricing strategies. Additionally, there is a strong emphasis on omnichannel pricing to ensure consistency and competitiveness across both online and offline channels, meeting evolving consumer expectations in a dynamic market.

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**20%**

of grocery retailers consider themselves experts in lifecycle price optimization, while **46%** say they are competent enough.



# *Challenges*

A photograph of a woman with blonde hair in a bun, wearing glasses and a white jacket, smiling and talking to a man in a blue sweater. They are in a store, possibly a clothing boutique, with racks of clothes in the background. The image is overlaid with a blue-to-teal gradient.

# Key obstacles in price optimization and navigating market uncertainties

## Limited Capability

34% of grocery retailers report having no or limited capability in lifecycle price optimization, hindering their ability to effectively manage prices across different product stages.

## Competitive Pressure

50% of grocery retailers identify increased pricing and promotional aggressiveness from competitors as a significant challenge. This competitive environment necessitates sophisticated pricing strategies to stay ahead.

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# 46%

of grocery retailers consider rising inflation and other macro-economic factors as a significant factor impacting top-line growth.

Source: RSR Survey 2024

## Complexity in Price Determination

Finding the optimal price points remains a challenging task, with 44% of grocery retailers struggling to determine appropriate price changes. Grocery retailers should focus on a comprehensive price optimization process that takes into account trends, seasonality, holidays, and other factors, to determine the right price changes.

## Economic Uncertainty

Inflation and economic fluctuations create uncertainty, making it difficult for grocery retailers to predict consumer behavior and set appropriate prices.

## Customer Willingness to Pay

Price elasticity of demand plays a crucial role in dynamic pricing. While grocery retailers aim to raise prices, they must first understand the price range that customers are willing to accept.



# 36%

of grocery retailers say that increasing consumer price sensitivity is a challenge.



# Pricing challenges for scalable and integrated solutions

## Integrating Cost Changes into Pricing Decisions (Cost Volatility)

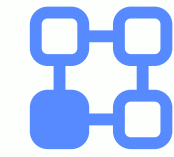
Cost volatility can complicate pricing strategies, as many grocery retailers overlook supplier-side price fluctuations when setting their prices. However, 46% of grocery retailers recognize that visibility into cost changes via effective deal management, in collaboration with the vendor community, is crucial for effectively navigating these fluctuations.

## Data Integration

Integrating diverse data sources for comprehensive pricing insights can be challenging, requiring robust IT infrastructure and analytics capabilities. 37% of grocery retailers feel that they lack IT resources to implement these strategies

## Scalability

Effective modern pricing strategies require the integration of data from various channels, including online storefronts, mobile apps, and delivery platforms. As new channels and devices emerge, many pricing intelligence solutions face challenges in managing the growing complexity and scale of the data.



# 49%

of grocery retailers consider channel-specific pricing as a very important factor in strategic pricing initiatives.



A woman with blonde hair in a bun, wearing glasses and a white jacket, is smiling and talking to a man in a blue sweater. They are in a store, possibly a clothing boutique, with various items on display in the background. The woman is holding a small object in her hands. The man is looking at her. The scene is overlaid with a blue and teal gradient.

# *Opportunities*

# Leveraging advanced pricing strategies to stay competitive and maximize revenue

## Dynamic Pricing

Dynamic pricing adjusts prices in real time based on market conditions and demand fluctuations. This strategy enables businesses to stay competitive and maximize revenue by swiftly responding to market changes. 44% of grocery retailers view dynamic pricing as a crucial element in implementing effective strategic pricing.

## Automated Pricing

Automated pricing systems update prices automatically using predefined rules and data inputs. This process improves efficiency and accuracy, allowing businesses to react swiftly to market shifts without manual intervention.

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**64%**

of grocery retailers have either planned to invest in rules-based pricing engines or are dissatisfied with their current systems.

## Price Optimization leverages Advanced Algorithms

Price optimization is powered by advanced algorithms to fine-tune pricing based on a retailer's specific category strategy. By analyzing historical data, these algorithms forecast how price adjustments will affect consumer demand. The resulting insights help predict sales volume and profitability, allowing for informed pricing decisions that align with the market dynamics.

## Predictive Analytics

Predictive analytics harnesses historical data to forecast consumer spending patterns based on various pricing scenarios. This approach models expected consumer behavior in response to different price points. Currently, 47% of grocery retailers are seeking to enhance their predictive analytics techniques to gain a competitive edge.

Smaller grocery retailers need to enhance their competitiveness by implementing effective pricing solutions, as larger retailers are already ahead of the curve

**58%**

of grocery retailers with revenues exceeding \$5 billion agree that they can swiftly respond to competitors' price changes.

**16%**

of retailers with revenues between \$250-\$499 million share this confidence.



# *Pricing Solution DemandTec*

*demandtec  
pricing*

# Price Optimization

## Dynamic Pricing

Enables real-time price adjustments across all or individual channels, based on SKU-level elasticity, store location, and consumer behavior. This ensures that pricing is continuously aligned with current market conditions, allowing retailers to maintain competitiveness and respond to shifts in demand instantly.

## AI-Driven Recommendations

AI-Driven solutions use machine learning to analyze data such as sales, market trends, and consumer behavior, recommending optimal prices at various levels. By detecting correlations between factors like seasonal demand, promotions, and competitor pricing, it enhances pricing performance, driving revenue and profit while enhancing the retailer's price image.

## Rules-based Pricing

Comprehensive rule-based pricing capabilities allow users to set pricing boundaries aligned with their business goals. It offers a range of configurable rules that can be prioritized, provides alerts for rule violations, and visualizes the impact of each rule on final prices, ensuring strategic alignment.

## Real-time Adjustments

Enables real-time price adjustments on digital channels based on factors like product views, sales trends, and customer engagement. By dynamically optimizing prices in response to these real-time metrics, retailers can better capture consumer demand and enhance online sales performance.



## Success Story

**Client:** A leading convenience store chain with over 10,000 store locations across North America.

### Objective

- Drive competitive pricing while boosting margins
- Develop precise and transparent pricing strategies
- Improve price perception and process efficiency
- Analyze and apply price elasticity for each SKU at individual stores

### Result

-  **1.5%** increase in gross margin
-  **15x return** on investment
-  **Payback achieved** in under 6 months during the initial deployment

# Price Management

## Centralized Pricing Platform

A unified platform that centralizes all pricing decisions, enabling consistent and strategic pricing across products, channels, and customer segments. This ensures that pricing strategies are both consumer-centric and aligned with the organization's financial goals.

## Automated Decision-Making

Machine learning-driven autonomous decision-making helps boost productivity across categories, channels, and geographies. This feature improves efficiency and speed, enabling users to focus on achieving their business goals and objectives.

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# 41%

of grocery retailers say that the lack of clean price, competitor and purchase data is a deterrent to adopting pricing optimization strategies.

Source: RSR Survey 2024

## Scenario Planning

The solution empowers users to model various pricing scenarios using AI-Driven insights to predict potential outcomes. It enables retailers to simulate omnichannel pricing scenarios, predicting results across all sales channels-whether in-store, online, or through mobile apps.



# Price Execution

## Automated Price Implementation

Automating the execution of pricing strategies, ensuring that optimized prices are consistently applied across all channels without manual intervention. This automation not only increases operational efficiency but also ensures that pricing strategies are executed precisely as intended.

## Performance Tracking

The solution offers comprehensive tools for tracking and analyzing the impact of pricing decisions on sales, profitability, and customer satisfaction. Machine learning-based insights on key-value items (KVIs) and key-value categories (KVCs), help retailers continuously refine their pricing strategies. This ongoing optimization ensures that pricing remains competitive and aligned with evolving market dynamics.



*“With DemandTec, our pricing team became strategic price advisors, giving the commercial team confidence that they are offering the best prices”*

**Pricing & Commercial Intelligence Director**

Leading Food and Grocery Retailer

## Success Story

**Client:** Leading food and grocery retailer operating over 850 stores in Latin America .

### Objective

- Enhance price perception while boosting profitability
- Use AI-Driven analytics to accurately identify and meet customers' pricing needs
- Focus on automation to improve efficiency

### Result



The retailer evolved to become a price leader from a price follower

A woman with blonde hair in a bun, wearing glasses and a white jacket, is smiling and talking to a man in a blue sweater. They are in a store, with shelves of products visible in the background. The woman is holding a small object in her hands. The man is holding a shopping basket. The scene is overlaid with a blue and teal gradient.

# ***Solution Benefits***

# Strategic advantages of price optimization in grocery retail: Enhancing profitability, collaboration, customer satisfaction, and competitiveness

## Profitability of Omni-Channel Experiences

Omnichannel price optimization can help businesses align their pricing strategies with the complex behaviors of today's consumers, ensuring they capture the full potential of this influential segment while enhancing overall competitiveness.

## Collaboration

Price optimization solutions improve promotional pricing by enhancing and automating deal negotiation with the vendor community. While they do not share market insights with vendors, these solutions provide instant visibility into predicted promotional performance, allowing retailers to recognize and eliminate ineffective promotions.

## Enhancing Customer Satisfaction

Price optimization can greatly boost customer satisfaction and loyalty by ensuring prices are perceived as fair and reflective of the product's value. When customers feel they are getting good value, they are more likely to return and become advocates for the brand.

## Enhanced Competitiveness

78% of shoppers actively seek the best deals, making AI-Driven dynamic pricing crucial for staying competitive. Real-time competitive analysis ensures grocery retailers can quickly respond to market changes, maintaining their competitive edge.



# 13.3%

of all grocery sales were digital in H1 2024, representing a 2.4% year-over-year growth



# Streamlining grocery retail operations and elevating customer satisfaction through price optimization

## Operational Efficiency

Automated price management reduces manual effort, allowing pricing staff to shift their focus towards evaluating the expected outcomes of changes in pricing strategy. This leads to greater price performance for the organization. Streamlining pricing processes enhances overall operational efficiency and supports informed decision-making.

## Revenue Growth

Effective price optimization drives revenue growth by aligning prices with consumer demand and market conditions. Dynamic price adjustments help maximize sales potential and profitability.



**25%**

of grocery retailers feel that optimization solutions will help them grow their revenues

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**41%**

of grocery retailers believe that effective pricing solutions will help them become more efficient in pricing processes by reducing manual tasks





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## ABOUT INCISIV

Incisiv is a peer-to-peer executive network and industry insights firm for consumer industry executives navigating digital disruption.

Incisiv offers curated executive learning, digital maturity benchmarks and prescriptive transformation insights to clients across the consumer and technology industry spectrum.

[www.incisiv.com](http://www.incisiv.com)

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## ABOUT DEMANDTEC

A pioneering leader for decades, DemandTec continues to usher in the new era of retail pricing technology. With its ML-powered pricing, promotions, markdowns, and collaboration solutions, CPG and retail partners can balance real-time shopper demand with business objectives to drive sustainable, profitable revenue growth.

To learn more, visit [www.demandtec.com](http://www.demandtec.com).

RSR Survey :

**FMCG Retail Readiness Report 2024 | Optimizing Pricing Strategies**