Access Pricing - The Fourth Way

Pricing strategy has long depended on three key techniques: HI-LO, EDLP, or PUF (profit up front). But now a new Fourth Way, 'Access Pricing', is making an appearance. Brian Woolf explains what it's all about, and why it works so well...

by Brian Woolf (April 9, 2005)

Introduction
Pricing strategy has traditionally been either HI-LO (ie, high shelf prices and low-margin promotional items) or EDLP (ie, Everyday Low Prices with no promotional pricing). These two paths were supplemented, beginning about 30 years ago, with PUF (Profit Up Front) pricing. PUF pricing is seen in the warehouse club industry (Costco, SAM's, and BJ's) where qualified customers pay for the privilege of buying items at bedrock prices with extremely low margins. The profits earned from these up-front fees account for about half of their pre-tax profits!

Today a powerful fourth way, *Access Pricing*, is making its appearance. Its unique feature is to significantly differentiate prices on basic items between regular customers and occasional shoppers in an open, transparent way. We are all used to paying full price (and sometimes more!) for convenience at convenience stores, sports stadiums, etc. In retailing, it has been very difficult to offer convenience pricing alongside lower prices for regular customers within the same store. But technology and a points-based loyalty card program now make it possible. An excellent example of how it works in practice can be seen at Spokane, WA-based*Tidyman's*. (See the article ***'Crazy Prices'***)

Here's a recap of the Tidyman's *Crazy Prices* program. Each customer receives 10 points for every dollar spent, plus bonus points on selected offers around the store. These points are the currency for customers to gain access to year-long crazy prices on a range of key items, eg, Huggies at $3.99 (along with 900 points) vs $9.99, the regular supermarket price, and $6.99 in a Big Box Discount store. This pricing strategy is called Access Pricing because it provides customers access to the undisputed lowest prices in the marketplace on selected items - all year long.

In the PUF (Warehouse Club) model, a customer gains entry to the warehouse's offering by paying an up-front, annual fee. In Access Pricing, a customer gains access to low, crazy prices according to her total spending at the retailer and on the number of items with bonus points that she buys. In other words, she determines, with her shopping behavior, how many ultra-low priced items she wants throughout the year.

Why is Access Pricing a powerful new path for pricing strategists?

1. It gives companies who compete against Big Box discounters an opportunity to successfully neutralize or minimize its price gap perception. It's all very well to offer better quality and service than the Big Boxes but, if the price gap (real and perceived) keeps getting wider, your “better benefits” mantra rings hollow. Access Pricing, in its various forms, gives your regular customers distinct, real, tangible, and memorable value which, in turn, changes the price gap perception between you and the Big Box.

2. It puts golden handcuffs on your best customers and provides an attractive incentive to your lower spending customers to aggregate their spending with you. Currently, most retail and service companies do not provide an in-your-face incentive for customers to stop cherry-picking for specials or fragmenting their shopping in other ways. Access Pricing does.

3. It provides rewards based upon your customer spending, with a skewed bias in favor of regular customers as opposed to the convenience shoppers. This is done by giving disproportionate value to the heavier spenders, those who provide the bulk of your profits. How so? Consider a typical HI-LO food retailer, whose weekly markdowns from full retail pricing is 10-12%. Those lower prices are offered to all who walk into the store, be they regular customers or convenience shoppers. With Access Pricing the lower prices available will depend upon the customers' spending history. As a popular slogan goes, Loyalty has its rewards - and rightly so! The question then becomes what share of that markdown percentage should be based upon a customer's spending history? The answer depends on much you value repeat business (ie, loyalty).

4. It is a differentiator. Companies who cannot be the price leader know they must differentiate if they wish to survive. Therefore, most finish up trying to be the best in quality, service and cleanliness. Unfortunately, most of the non-Big Box retailers finish up in the same camp, all singing the same song. The result? They are all different from the Big Box but not too much different from their fellow non-Big Box peers! So it's not just a matter of being different, but doubly different - from both the Big Box and your peers. One way this can be accomplished is by owning the Access Prices space in your marketplace.

The Future of Access Pricing

Results to date indicate that Access Pricing does indelibly differentiate the retailer in the marketplace. Given this, retailers can strengthen this differentiation further by cutting back or eliminating their weekly advertising and applying the savings (both from the ads and from the hours permanently saved at headquarters) towards greater rewards for regular customers. This can be done, for example, by introducing more Access (Crazy Price) items and/or by introducing three market days a month that act as a value reminder to customers to shop with you.

A-Coop, a Japanese food retailer, does this best. A-Coop completely eliminated its three-ads per week and applied the savings to three quintuple-point days (on total spending) on the 5th, 15th, and 25th of each month. Customers find it very easy to remember that they receive 5x the number of points on those days of the month that end in "5". This simple form of differentiation has been highly successful for A-Coop, with solid same-store sales ever since this program was introduced in 1996. Incidentally, it's no surprise that customers have very large orders on these three reward-rich days.

The three market days need not, of course, offer extra points. Extra value could be offered instead. For example, on market days your stores could be full of while supplies last specials at crazy prices (accessed only with points, of course). To take maximum advantage of these special offers, customers would have had to build up their point balances in between the market days.

Companies who are not the low cost leader (by definition the vast majority) in their industry sector have no choice but to differentiate if they wish to survive and thrive. Such companies must answer two questions: (1) how can I minimize or fuzzy the price gap perception with the low-cost leader and (2) how can I stand out from all the other differentiators (ie, all competitors apart from the low-cost leader)? Being the first in the marketplace with Access Pricing is a viable option.

Who Can Benefit From Access Pricing?

Obviously, food retailers can, as we have seen. Most other sectors of business can, too. For example, consider two disparate sectors: airlines and office supply stores.

Currently, many airline frequent flyer programs are losing their luster. Why? They offer more regional jets, meaning no first-class seats (ie, upgrades); the ability to redeem miles for the free trip you want is getting more and more difficult; and the cost of access to their lounges keeps escalating.

Now, consider just one aspect. Many airlines offer a free domestic trip (on some distant date in the future!) for 25,000 miles. What if the airlines also offered a ticket on any domestic trip for (say) $100 plus 10,000 miles? That would inject much-needed cash into an airline's purse while providing a meaningful reason for travelers to fly that airline, even if individual flights are always the lowest priced. For maximum results, an airline would break its points (miles) into two categories: points earned from flying the airline, and other points. Only points earned from flying the airline would be the basis for the lower-priced tickets - it does want to fill its planes, right? Such a move would also allow an airline to cut most of its advertising costs because of its new clearly-differentiated position.

There are three major office supply chains in the US. Prices don't vary much among them. Two have loyalty cards which are, in effect, very low percentage (1-3%) rebate cards. Despite this, warehouse clubs, in my experience, offer lower prices on the office items they carry, causing office supply customers to split their shopping. Office supply chains could neutralize, indeed trump, their warehouse club competitors with Access Pricing. For example, instead of offering a thin discount on everything bought, an office supply chain could offer crazy prices on key items that the warehouse club competitor carried. Such would neutralize the need for its customers to split their purchases between its stores and the warehouse clubs.

Closing comments

The above cuts to the essence of rewards. Ideal rewards are those that change people's behavior. We know, from programs such as Discover's credit card with its 1% annual refund, that a low-percentage rebate doesn't light the marketplace on fire. The key is in offering noticeable, meaningful rewards, even if there are fewer of them. One incendiary device that does, and which we'll see a great deal of in the coming years, is this fourth way of pricing: Access Pricing.

About the author...

Brian Woolf is a global leader in loyalty marketing and has written three definitive works on the subject, Measured Marketing: A Tool to Shape Food Store Strategy, Customer Specific Marketing, and Loyalty Marketing: The Second Act. He devotes his time to helping retailers develop, critique and strengthen their loyalty programs.

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www.brianwoolf.com

E: brian@brianwoolf.com
T: +1 864 458-8277

Retail Strategy Center Inc.
6 Parkins Lake Court,
Greenville, SC,
29607-3628
USA

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