Pricing smackdown

Promotional pricing beats everyday low pricing in every way
Lesley Young  |  December 11, 2012

Here’s validation for all of you who stayed true to promotional pricing in the face of brutal competition from everyday low pricing (EDLP) stores such as Walmart and Costco. A study by the Stanford Graduate School of Business in California shows that not only does a promo strategy earn more revenue—US$6.2 million per year for a typical grocery store—than EDLP, but puts to rest the question of whether switching to EDLP is a good idea for most grocery stores. (It’s not.)

“Overwhelmingly, we found promo always makes more revenue,” says Harikesh Nair, associate professor of marketing at Stanford and co-author of the study that provides quantifiable data for supermarkets considering a switch in price strategy. Nair concluded that promotional pricing’s inherent advantage is its “ability to sell to people with different deal sensitivities.”

The study also found other advantages for grocers who over promotional pricing. First, they fared better when a Walmart came to town. The entry of Walmart resulted in a $1.7 million loss in annual revenue for the average EDLP supermarket. The average promo supermarket lost only $690,000.

Analysis of data drawn from revenue and price-format decisions for supermarkets and Walmart in the United States from 1994 to 2000 also showed that repositioning a pricing strategy is no trivial matter. Switching from EDLP to promo required only $2.6 million in costs over four years, whereas switching the other way required cost outliers six times as large, says Nair. So will we see EDLP chains reposition to promo? One would be wise to examine Walmart’s attempt in the U.S. to become a hybrid operation in 2000, says Nair.

“It back red in a big way, and now it faces a tough time convincing consumers it is a pure EDLP.” Nair adds that using EDLP and promo pricing between categories (putting Coke on sale but water is EDLP, for example) requires further study.

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