Price guarantees are an increasingly common feature of many retailers’ value strategies – but do they work? In competitive markets, where discounters and e-commerce players are a growing threat, it’s easy to see why established players want to communicate a clear ‘value’ message. But on the other hand, guaranteeing to match competitors’ prices can be expensive, and can conflict with the rest of the retailer’s brand positioning.

This short article describes three different ways that price guarantees can be used effectively:

1. To reinforce value leadership
2. To drive consideration and conversion of prospects into customers
3. To highlight the overall competitiveness of high-low value strategies
REINFORCING VALUE LEADERSHIP

An across-the-board, no-questions-asked price guarantee can hammer home the value message: “no-one beats us on price – ever.” It can also help maintain price leadership in an operationally efficient way. Since it’s almost impossible to keep track of all of the price changes, promotions, and special deals at all major competitors on a day-to-day basis, a price guarantee can help by getting customers to do some of the work.

Taking such an aggressive, proactive stance on price can reinforce the credibility of retailers who genuinely are the cheapest in the market, as well as being a clear statement of intent to competitors that discourages aggressive pricing tactics. For anyone else, both the cost and the danger of highlighting an underlying price disadvantage may be too high. The implication is that only companies with a very low-cost, value-focused business model can successfully run this type of price guarantee – and this tends to mean discounters, online and EDLP players.

DRIVING CONSIDERATION AND CONVERSION

In retail sectors where many customers research products and prices before purchasing, price guarantees can act as a consideration and conversion driver – here, the message is “if we’re not the cheapest, we’ll match whoever is”. This type of price guarantee is designed to reduce the importance of price in determining which retailer a customer considers for a purchase so that other advantages like convenience, assortment and ability to interact with the physical products have more weight. It is also designed to help convert ‘showrooming’ customers into sales.

This type of price guarantee is especially valuable to category killers. In many sectors the threat from e-commerce means that offering the lowest price in the market is what it takes to win the sale. But matching every price to competitors who are more concerned with building long-term category share than earning gross margin today is a recipe for a value-destroying price war. A strategy of slightly higher-than-market prices reinforced by a price guarantee is the best way of maintaining consideration and conversion rates while holding category margins at sustainable levels. At the same time, it can usefully extract additional consumer surplus from less price sensitive consumers.

Of course, this approach carries risks. Structurally higher-than-market prices can undermine your position as a destination of choice even with a guarantee in place, as the ‘researchers’ may stop considering you if you’re always more expensive – and setting up the price guarantee will encourage people to look more closely at your prices. By implication, then, your base prices need to start within touching distance of the market and you need to have clear advantages in other parts of the customer proposition.

COMMUNICATING OVERALL COMPETITIVENESS

Many large basket businesses such as grocers and mass merchants have high-low strategies that offer good value overall, but have poor shelf prices compared to EDLP competitors. The message is essentially: “we’re not the cheapest on every item, but overall, we offer as good value as anyone.” For such retailers, price guarantees at the basket rather than product level can be effective in
building perception and communicating overall value. In normal circumstances, our experience suggests that a dollar given away through everyday shelf price drives long-term value perception twice as strongly as one given through a promotion – but a price guarantee comparing the overall cost of the basket against the same basket at a competitor’s store helps communicate the real value of the promotions investment.

Interestingly this type of comparison also confers a bonus on high-low operators because their customers’ purchasing is shifted into the items that they are promoting rather than the ones that competitors are promoting. On these items the price comparison is more favourable, and across the basket this effect improves the apparent price comparison by a few percentage points, as Exhibit 1 shows. In such circumstances, a basket guarantee can make a lot of sense from the point of view of managing price perception: whether it justifies the operational complexity involved is likely to be heavily dependent on the flexibility of the retailer’s systems.

**CONCLUDING REMARKS**

Price guarantees can be valuable in many retail sectors, particularly given the greater price transparency that e-commerce has brought. But they don’t make sense in all cases, and can end up generating significant costs without producing significant increases in sales. They can be a good way of extracting value in a complex, multi-channel world – but they’re most affordable and sustainable when their credibility derives from a value strategy that’s competitive to begin with. The danger in other cases is that they end up being expensive enough to undermine other aspects of the proposition, or that they actually hurt price perception by drawing attention to a weakness.
ABOUT OLIVER WYMAN

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