

Innovations in Retail Pricing and Promotions

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Abstract

Retailers confront a seemingly impossible dual competitive challenge: grow the top line while also preserving their bottom line. Innovations in pricing and promotion provide considerable opportunities to target customers effectively both offline and online. Retailers also have gained enhanced abilities to measure and improve the effectiveness of their promotions. This article synthesizes recent advances in pricing and promotions findings as they pertain to enhanced targeting, new price and promotion models, and improved effectiveness. It also highlights the role of new enabling technologies and suggests important avenues for further research.

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In 2008, total U.S. retail sales climbed over \$3.9 trillion (U.S. Census Bureau 2008), of which approximately \$1.4 trillion came from food, beverage, drug, and department stores and approximately \$227 billion from online and mail-order stores. Price promotions are a key marketing instrument that on- and offline retailers use to generate sales and increase their market share. Given their importance and long history, it is not surprising that the marketing literature has accumulated a vast body of knowledge about how promotions work. Quantitative research has often focused on the consumer packaged goods industry, where rich datasets covering long periods and purchases across several product categories are available. Most behavioral research instead uses experimental settings to manipulate various elements of promotional designs and isolate their effects.

Recent reviews, such as those by Ailawadi et al. (2009), Bolton, Shankar, and Montoya (2007), Grewal and Levy (2007,

2009), Grewal, Levy, and Kumar (2009), Grewal et al. (2010), Kopalle et al. (2009a), Levy et al. (2004), Neslin (2002), Puccinelli et al. (2009), and van Heerde and Neslin (2008), summarize the findings of both types of research. Rather than review past research again, we focus our attention on retail price and promotion innovations, many of which have received significant attention in the press, though they have just started to provoke academic interest. As shown in the organizing framework of Fig. 1, we group these innovations based on their relevance to three questions:

- **whom** to target?
- **what** promotions and pricing models to use?
- **how** design elements can increase the effectiveness of these promotions?

This organization around three questions or areas of inquiry guides our review. We wish to note that it is not intended as a framework for analyzing innovations. Within each area, we identify major innovations and their technological enablers, highlight recent research that provides insights on these innovations, and pose questions that should be addressed in future research area.

The first research area involves innovations that are aimed at determining **whom** to target? Two key areas of improved

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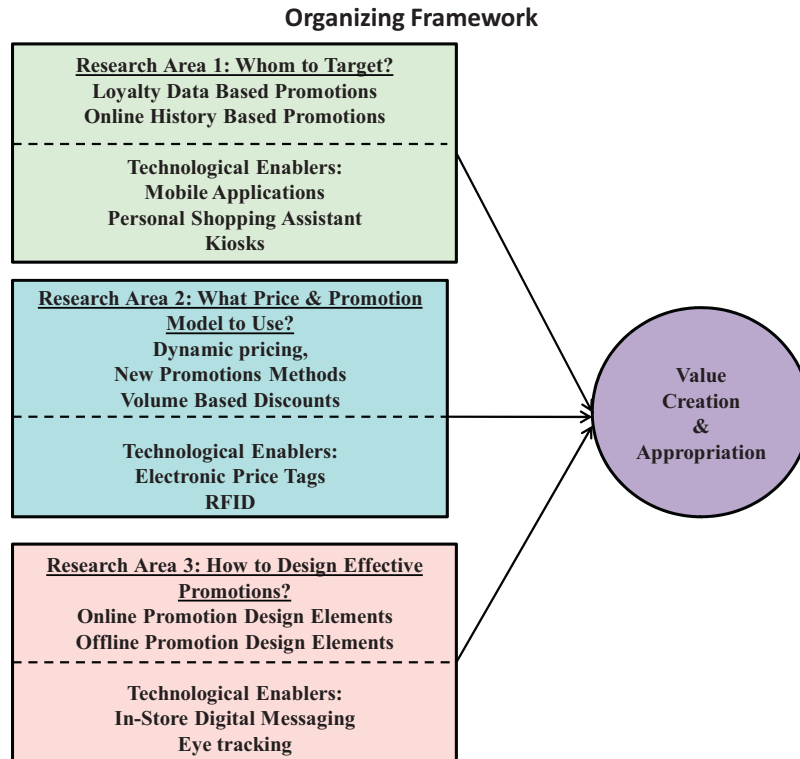


Fig. 1. Organizing framework.

targeting activities involve the use of loyalty program data for developing loyalty-based promotions and the use of online history for developing and offering online promotions targeted at individual customers. Technology enablers that are likely to aid these targeting activities include mobile applications, online personal shopping assistants and kiosks. Online personal shopping assistants have access to shoppers' purchase history and, as a consequence, can generate personal shopping lists and display specific prices and promotions.

The second research area that we address involves **what** the emerging models of price and promotions are. These include dynamic pricing models, promotions based on exclusivity, i.e., limited time and limited merchandise (e.g., Gilt), and promotions based on volume discounts (e.g., GroupOn). Technology enablers include electronic price tags and radio frequency identification (RFID).

The third research area pertains to **how** retailers are increasing the effectiveness of online and offline promotions through design elements. Technology enablers include in-store digital messaging and eye-tracking equipment that retailers can use to measure consumer response in greater detail than ever before.

Research area 1: more focused and targeted promotions

Retailers are steadily innovating to address the most central question: who to target with their promotions? They are bringing focused analytics together with the wealth of loyalty program data they have at their disposal to develop targeted promotions. In similar fashion, they are using online analytic tools to increase the usage of targeted online promotions.

Targeted retail promotions using loyalty data

Retailers increasingly target specific promotions to individual customers or customer segments, driven by the availability of loyalty program data and retailers' ability to mine such data. For instance, the drugstore chain CVS offers not only traditional, untargeted promotions through its weekly flyer but also targeted promotions based on its Extra Care loyalty program data. The retailer categorizes its customers into several segments, designs targeted promotions for each segment, and disseminates information about those promotions through personalized e-mail and other communications. It continually evaluates the effectiveness of its promotions by gathering data from matched control groups for each promotional offer and comparing the purchase behavior of the treatment and control groups. Research could generate, on the basis of these controlled field experiments, some empirical generalizations about the types of targeting strategies that work and those that do not. These insights would complement existing work. For example, [Feinberg, Krishna, and Zhang \(2002\)](#) examine conditions in which it is better to target loyal customers versus those likely to switch. [Grewal, Hardesty, and Iyer \(2004\)](#) show, in a scenario-based study that respondents indicate more trust and fairness if customers who buy more frequently receive lower prices, rather than new customers.

The availability of loyalty program data also enables retailers to partner with their manufacturer vendors to offer promotions that encourage store loyalty. Instead of receiving a discount on the brand itself, consumers earn extra loyalty program points to redeem for purchases in the retailer's stores. CVS funds some of its targeted promotions through its vendors and offers "Extra

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