

# Take back control of your pricing strategy!

**P**et retail chains are increasingly dominating the pet supplies market. Consultant Bob Hanson, who has many years of experience in the pet sector, believes that industry must act to take back control of its pricing strategy.

In recent months, there has been a lot of coverage in the press about the impact of online retailers on the pet business. Bricks and mortar retailers are suffering as consumers switch to online

viability of many retailers. This is not just a phenomenon in the pet world, but is affecting almost all industries. We all know the impact Amazon and Kindle have had on the book industry and the inroads iTunes and other online retailers have made into the music industry.

## Increasing retail concentration

Another major trend that continues to change the face of our industry is the growing dominance of large retail groups. In many countries, we have witnessed a rapid concentration of the trade, with a few big retailers growing rapidly and dominating the business. In Europe, retailers like Fressnapf, which has over 1 200 stores in 13 countries and, incidentally, has put a lot of effort in recently to launch its own online store as well, Pets at Home with over 240 stores in the UK, not to mention Pet's Place, Tom & Co, Musti ja Mirri, Isola dei Tesori, Futterhaus or Arken Zoo, have more and more power over the market. As they have continued to grow, independent shops have been forced to either up their game or

join up with these or other groups in order to get the pricing and marketing benefits of scale that the big players have. Many have gone out of business, though, and thus the big players become ever more dominant.

This is not to take anything away from Fressnapf and the others: they have been extremely effective, built strong brands (often stronger than the products they sell!) and met consumer needs better than their competitors either in the pet speciality arena or the grocery world. Their market power extends to effectively determining which brands and products are successful, particularly for new brands and for new and smaller companies. They control so much of the retail space that they can determine which products consumers can find and buy.

Not only do they have distribution power, but they increasingly have pricing power. So often, it is the big retailers who determine a product's price rather than the manufacturer or distributor. They too are not immune to the impact of online retailers. Fressnapf's recently implemented combined online, mobile and offline strategy



**"Offerta Speciale" (Special Offer):** Pet retail chains increasingly have pricing power, in the picture: a store of Maxi Zoo Italy.

rivals. Often this is because the prices online are lower than in store. Whilst this is certainly an element, it is pretty clear that price is far from being the only reason for consumers to change their buying habits. Convenience, speed and high service levels are also major factors.

Whatever the case, it is also clear that online retailers such as Amazon, Zooplus, Wanimo, Pet Supermarket and the many others have taken a share of the market, which has had an impact on the

has included a major pricing initiative to bring down the prices of some 500 items in its range so that it is highly competitive with online retailers such as Zooplus. This, by the way, has led to much discussion on the falling prices of premium products and foods in particular.

Another key influence has been the euro, as markets have opened up, and cross-border trading has become easier. This is epitomised by Amazon, which operates stores in almost all countries, and other retailers like Zooplus, which has established country- or language-specific websites to expand its distribution across borders. This means that pricing by manufacturers and brand owners is no longer a local matter, but is very much a strategic European issue. This is not new, but I am surprised that so many manufacturers take so little account of this and leave pricing decisions to local distributors and let them determine their pricing strategy. This can, and usually does, lead to significant pricing differences between markets and countries. If manufacturers believe they can ignore this, then they are soon made to wake up to the impossibility of doing this by cross-border traders who leverage these differentials.

There have been a number of examples of online retailers actively expanding into new markets and using the lower prices in their home market to take business from local distributors. This has led to brand owners losing all their sales and hard-won distribution in the export market and really

having no time or opportunity to adjust. On occasions too, it has led to the distributor going bankrupt.

### Strategic dilemma

Manufacturers, brand owners and distributors are faced by the dilemma of having to take back control of pricing, while their power to do this is being impacted by the power of retailers to determine pricing. This raises a series of key questions that need to be addressed.

Brands need to find the right price level and, needless to say, there is no one simple answer, as it all depends on a wide range of factors which include:

- What is the right price for my brand?
- How does this support or help establish my brand positioning?
- How do I manage the apparent conflict where pet chains demand ever higher margins and rebates while other retailers, perhaps online ones, seem determined to destroy my price points?

The question of pricing is of paramount importance to the brand owner, as it is critical to delivering profitability as well as being a core element of the brand positioning and thus its value to consumers.

And finding the solution to pricing of a product or brand is a lot more complex than the old cost plus basis and far more related to delivering value to the consumer.

It is important to take care and to set the price correctly to deliver your profit goals and also to meet the margin expectations of the traditional offline trade as well as

online retailers. The right multi-channel pricing strategy for a brand needs to adequately reflect and support the positioning of the brand and to support the value proposition to the consumer while at the same time balancing this with delivering the right profitability and also meeting the demands and expectations of the



Cross-border trading has become easier. Zooplus for example has established country- or language-specific websites to expand its distribution across borders.

online and offline trade on margins and turnover. Getting the price points right will make the difference between ongoing success and a declining brand and business. ■

## About the author

**Bob Hanson** co-founded Pet Horizons Ltd, a pet consultancy business specialising in delivering profitable growth for clients.

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