



Do more than promote price to drive traffic and loyalty

By LAURA DURHAM

Known Value Items (KVIs) are the backbone of the supermarket business. So much so that they dominate the promotional pages of every newspaper each week – revealing little more than a few cents difference to their competitors. With the rise and rise of private label, it is now high time that retailers and suppliers create some more excitement around their centre store – putting value for the customer back in the spotlight.

Why are KVIs important?

“Known Value Items (KVIs) are the products which disproportionately drive customer’s price-value perception of a retailer and are the first products that drive store switching when pricing is not aligned,” comments Flora Delaney, retail consultant (www.floradelaney.com). It is for this reason that the centre store is so heavily promoted.

Too heavily promoted, believes Janet Kirkbride, owner of Red Jersey Consulting and specialist in integrated marketing in the fast moving consumer goods (FMCG) industry.

KVIs traditionally have high market penetration (most shoppers buy these products e.g. washing powder) and high frequency (purchased often – daily, weekly or monthly). But generally, shoppers have a low emotional connection to these purchases. Stocking up the cleaning supplies cupboard tends to be more of a chore than an enjoyable experience. KVIs are a high volume, low margin ‘category’. “But it is vital that retailers succeed in

getting bigger baskets from shoppers to make it a truly worthwhile strategy,” Kirkbride argues.

She says that KVIs are a mechanic of three things:

- Competitive positioning with shoppers (price perception)
- Tactical traffic stimulation (bring feet to your store)
- Incremental purchases (sell a bigger basket)

Price perception

“Products that index high in KVI require special attention from retailers for both everyday pricing and promotional pricing. These items are the critical ‘price halo’ products that sets the price image of the store,” explains Delaney. “In a successful price halo model, the ‘halo’ of the low prices on the KVIs shines on your entire store,” she adds.

As reported in the Shoprite Group’s interim results in February, the average value per customer transaction across the three chains (Shoprite, Checkers, Usave) increased by 7.6% with 65.1% of South African adults choosing to shop with the Group (up from 47.9% in 2005).

Shoprite CEO, Whitey Basson attributes growth in basket size to the Group’s clearly defined brand strategy per channel. Checkers, for example, has grown its ▶



Fruit & Veg City’s Food Lover’s Market anchors its promotions on the core offering – fresh produce – and uses its Essentials department of basic dry groceries to add incremental purchases to their shoppers’ baskets.

KVIs ▶

LSM 8-10 customer base by marketing the brand's everyday value, its highly aspirational category leadership and promoting innovation, particularly through its speciality departments (wine, cheese and butchery) and bringing in new ideas.

"Price perception is one of the areas where we're very good at and we watch it like a hawk," he says.

Merchandising and promoting KVIs

In terms of merchandising, Kirkbride asks: "Do you even want to over face KVIs?" Because shoppers will be buying the product regardless, she suggests giving more attention and shelf space to high value items. This would certainly draw attention and shoppers eyes would move from the KVI to the high value KVI next door. For example, a set of glasses or cooler box placed alongside the Coke display to offer an occasion solution.

To 'win' the shopper with your KVIs, you need a basket of products – rather than just one or two on promotion – to be cheaper than your competitor. "Retailers seem to be trapped in it (promotions). Does it even deliver value anymore?" she asks.

Delaney agrees: "The smart retailer recognises that despite pressures from vendors to aggressively reduce prices, not all items need to be at the lowest price in the market to drive sales. The key is creating a profitable market basket that includes the low priced volume drivers and the more moderately priced profit drivers to create a desirable profit margin."

To investigate this average basket theory, we visited six different stores (all within a 10km radius) to buy a standard pantry filler

basket. It is interesting to observe from the results on page 38, that there is a R12 difference between the cheapest and the most expensive store and that there are stores at each price level.



Yoghurt is a category always on promotion. This creates promiscuous shoppers because a different brand is discounted every week.

Price versus value

Dr Magda Nenyecz-Thiel, senior research associate at the Ehrenberg-Bass Institute at the University of South Australia gives an important recommendation to both retailers and manufacturers. "Avoid price promotions on your important SKUs (or KVIs)." "This drives price sensitivity, impacts on reference price in the category and makes consumers look for cheapest brand anytime they shop," she says. ▶

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Nescafe Classic	R49.95	R53.99	R54.99	R59.99	R58.99	R54.95
Crosse & Blackwell Mayonnaise	R17.99	R19.49	R21.99	R19.99	R16.99	R19.95
TOTAL BASKET	R200.49	R200.73	R209.93	R212.63	R212.89	R212.49

KVIs ▶

"For me, 'promotion' conjures up a lot more than price. If it's just price then just call it a discount!" says Kirkbride. Promotions should therefore be used to sell more.

For example, there was a time when diapers were on promotion at five stores. This price war meant that shoppers just had to wait for a deal to come up before stocking up. It succeeded in making them promiscuous shoppers – exactly what a retailer doesn't want. "Cherry picking is lethal in terms of brand loyalty – for both the retailer and the supplier," says Kirkbride.

"A very important point is that price promotions do not bring new customers to the brand, hence, do not help to grow brand's customer base, but make those who will buy the brand anyway (its past and heavy buyers) to stock up," adds Nencyz-Thiel.

Even for lower end consumers, value is much more important than price. This can be illustrated by market leaders dominating in the township market rather than cheaper alternatives that are unknown and untrusted. "Value often extends further than how much did I pay and what did I get – it has a lifestyle impact too," comments Kirkbride.

Natalie Berg, global research director at retail analyst firm, Planet Retail, says there is a huge amount of price competition taking place – particularly in the UK where three out of the big four retailers are claiming to be the cheapest in some shape or form. She was speaking in a webinar entitled 'Private Label 2012 – The year of the Consumer' in January.

"But I think that shoppers have become a little blasé in recent times – there's so many of these price guarantees on the market that I think shoppers have become a little bit dubious in recent times and in some ways I think that pricing has become a prerequisite for a lot of shoppers," she says.

Added value is now what shoppers are after – a compelling store environment, customer service and exclusive brands. "Because we've heard, just in the past couple of weeks, e-commerce is a real tangible threat to bricks-and-mortar retailers!"

Private label is one way of having an exclusive range in your store. Woolworths,

for example, entered the basic grocery market with the launch of its Essentials range. Customers can now get everyday basics – from breakfast cereal to butter to washing powder at any Woolworths Food store. Julian Novak, head of foods, explains: "South Africans have always relied on Woolworths for excellent quality. With tighter budgets, we know that customers are looking for even better value – and with Essentials, they'll be able to enjoy the superior quality they expect from Woolworths at prices that are comparable – and even lower than – competitive products in the marketplace."

In meeting their customers' demands for convenience, the Essentials range is also



Generally, shoppers have a low emotional connection to the purchase of known value items (KVIs) and as a result, will choose a store offering them added value rather than simply basing the decision on price.



Gondola ends are often reserved for KVIs on promotion – but could this prime space be better used to promote higher value items, which could be bought in addition to the guaranteed KVI purchase?



Woolworths entered the basic grocery market with the launch of its Essentials range. Customers can now get everyday basics – from breakfast cereal to butter to washing powder at any Woolworths Food or Foodstop (at Engen) store.



Pick n Pay has taken a tiered approach to private label: good (No Name), better (PnP) and now best (Finest).

available at Woolworths Foodstop at Engen forecourts. Some customers even do their monthly shop in this location!

Drive traffic with your promotions

“You make much more money out of emotional triggers so create excitement in your store to drive traffic,” says Kirkbride. That’s what makes Checkers Hey Days a refreshing promotion with its interesting mix of General Merchandise items to draw feet in.

Fruit & Veg City’s Food Lover’s Market anchors its promotions on the core offering – fresh produce – and uses its Essentials department of basic dry groceries to add incremental purchases to their shoppers’ baskets.

In-store promotions and competitions work well in appealing to customers’ emotional drivers. Glen Acres Superspar in Kempton Park, for example, offers free ice cream to customers’ children every Friday. You can imagine which store those children make their parents visit each week!

Private label starts to compete

An interesting twist to the KVI debate is the role of private label in stores. Particularly, as the original purpose of house brands was to undercut the KVI. Many retailers are now giving significant space in their stores and on their broadsheet promotions to their house brands.

Cindy Jenks, GM of corporate brands at Pick n Pay says the Pick n Pay range aims to be lower in price than the national brand equivalent. “There may be times when specials and promotions mean that other branded products may be cheaper, but the Pick n Pay private label pricing should be seen as an ongoing strategy on offering our customers a great range at the lowest possible prices,” she explains.

As consumers were forced to down trade and get rid of luxuries on their shopping lists during the recession so private label has grown. According to Nenycz-Thiel, the market share of private label is around 40% in the UK and about 15% in South Africa.

She attributes the rise of private label in South Africa to the consolidation of retail that happened in the last decade, as well as increased competition from overseas retailers.

Planet Retail’s Natalie Berg agrees with specific reference to Pick n Pay: “It’s

interesting that Pick n Pay has launched the Finest range – partly in response, I think, to Walmart’s entry because retailers are having to use private label to differentiate from the likes of Walmart and other retailers that are fighting just on price.”

In October last year, Pick n Pay announced the launch of a brand new private label brand, ‘Finest’, positioned as the ultimate offering in the Pick n Pay-branded range of products. Jenks says there are around 300 products in the Finest range currently, which alters according to season.

Like many of its international counterparts, Pick n Pay has taken a tiered approach to private label: good (No Name), better (PnP) and now best (Finest). Three factors that the company takes into account when adding lines to the private label stable are:

- Category choice (which ones are more ‘open’ to private label options)
- Price point (how do they compare to competing national brands)
- Quality (16 dedicated food technologists ensure products meet all food safety and quality standards)

Interesting to note in Planet Retail’s findings on private label is that once consumers try one retailer’s private labels and realise that it’s of good quality, they will continue buying it and this trust will tend to extend across to other retailers as well.

Planet Retail’s Natalie Berg said during the webinar: “Based on what we’re seeing so far, consumer is very savvy, is active and empowered ... but at the same time, there is a lot of incentive from the retailer for private label in terms of they need to be seen as a value provider to consumers. There’s a lot of pressure on margins, as we all know, and private label can help to alleviate that. And increasingly, they need to differentiate from the competition, and that’s where private label really comes in.”

Nenycz-Thiel concludes by saying the future looks promising for private labels, with predictions that their global market share will reach 50% by 2020. “South Africa is one of the most sophisticated private label markets I saw when it comes to their management and importance of their strategy to retailers. So when it comes to their growth in SA, the sky is the limit,” she says.