



The Fresh Perspective

July 2009

Determining fact-based price and promotional strategies for maximum revenue

We are in a unique economic period, characterized by slightly falling prices and increasing challenges for suppliers and retailers to maintain profits. It is often difficult to judge exactly which price points will draw the most consumers and still generate revenue. Traditionally, it has simply taken trial and error to find out how high a retail price can go before it starts to drive consumers away to less expensive alternatives. Yet in this changing economic climate, it is imperative to quickly assess optimal pricing and then react in the marketplace.

The Perishables Group has partnered with top researchers in econometrics to develop our proprietary Price and Promotional Effectiveness model, which measures price elasticity (consumer sensitivity to price points), cross elasticity (effect of competitive item pricing), optimal promotional frequency and discount level.

PG's modeling partners, Dr. Tim Richards, Morrison Chair of Agribusiness at Arizona State University, and Dr. Geoffrey Pofahl, Assistant Professor at Arizona State University, tailored the price and promotional effectiveness model specifically for perishable food applications factoring in crop/category seasonality, promotional activity, and variability in stores and retailers.

To illustrate PG's Price and Promotional Effectiveness model, the Perishables Group applied it to the potato category, specifically the 5-pound bag of red potatoes item, with the objective of identifying optimal everyday and promotional pricing for the item, the optimal promotional frequency, and the effect of other potato items' pricing on the 5-pound red potato item. The analysis looked at potato purchases throughout the total U.S. for a 52-week timeframe.

By feeding the model with retailer point-of-sale data for fresh potatoes, PG created the following price and promotional recommendations based on fact and data that can be adapted to specific retail strategies.

The precise price and promotional recommendations for 5-pound potatoes are as follows:

- **Price elasticity: Price 5-pound bags of red potatoes near \$0.98 per pound**
- **Price elasticity: Red 5-pound potatoes are somewhat price inelastic (a 10% increase in the price of red 5-pound packages will only cause demand volume to decline 8%)**
- **Cross price elasticity: Other potato varieties are weak substitutes for red 5-pound potatoes (a 10% increase in the price of other potato varieties will only increase red 5-pound potato demand by less than 1%)**
- **Promotion: Discount red 5-pound potatoes on promotion by 30%, with a frequency of 20 times per year**

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Which technology tool/ advancement do you think will most heavily impact the fresh food industry in the coming year?

Social Media/
Marketing
48%

Traceability
35%

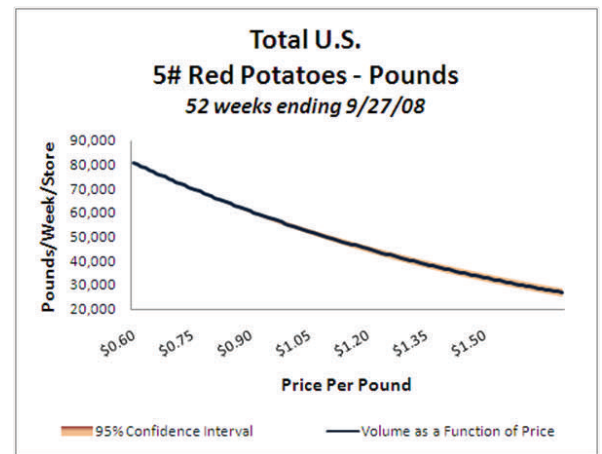
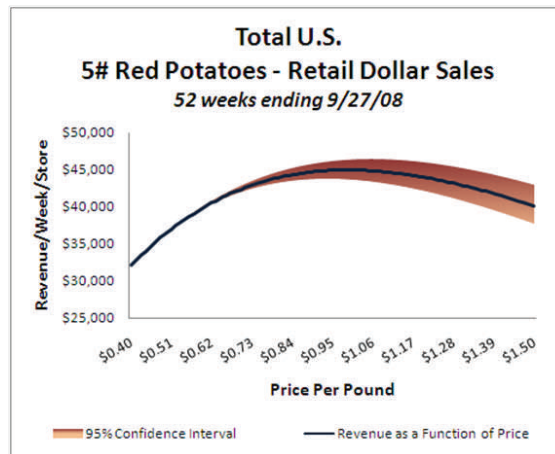
Online Coupons
13%

Food Irradiation
4%



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The Price and Promotional Effectiveness model can be applied to any fresh category. Since it is predictive, it is best used to forecast the effect of proposed pricing changes and scenarios.



The increasing complexity of the fresh departments and the ever changing economic and consumer dynamics require a more sophisticated approach to pricing and promotional planning. Fortunately, the data and tools specifically designed for the fresh departments are now available.