

## 2008 Annual Pricing Study

### How Investments in Pricing Boost Shareholder Returns

In 2007, Deloitte commissioned a research study to analyze the impact investments in pricing can have on a retailer's shareholder value. This study gathered and analyzed stock trends for two types of publicly traded Fortune 500 companies:

- Retailers that launched a technology-supported strategic pricing initiative
- Direct competitors of those retailers that did not invest in these initiatives

Deloitte asked Cleveland Research Company, an independent investment research firm, to analyze the stock prices of these two types of companies before and after announcement or implementation of a technology-supported strategic pricing initiative.

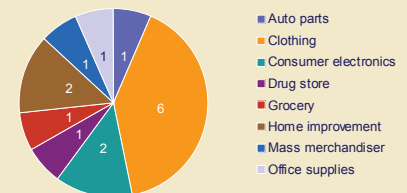
The research revealed dramatic evidence linking stock price increases to retailers that made an investment in pricing, while also driving an impressive return on investment (ROI).

In 2008, Deloitte has returned with an updated edition of this breakthrough study. Deloitte has again teamed with Cleveland Research Company to analyze the performance of an expanded set of 15 select retailers that had embarked on technology-supported strategic pricing initiatives. The study chose retailers that went beyond simply buying pricing software. Specifically, the retailers selected had substantially transformed their pricing organizations, developed new processes and infrastructures to support those organizations, and established direct lines of communication and reporting relationships to the most senior levels of their enterprises. The study then compared the performance of these retailers to those of direct competitors who had not invested in similar pricing initiatives. The results again reveal compelling evidence **that pricing directly contributes to improved shareholder value**. In a slowing economy and intensifying marketplace, this report provides retailers the confirmation they need to support the pricing solutions their business demands.

#### Summary of retailers in 2008 research findings

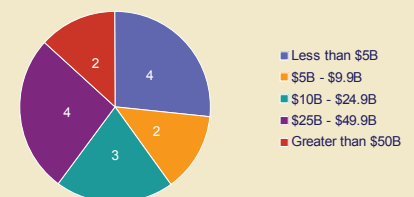
15 publicly traded retailers who had purchased price optimization software were selected for this study (Figure 1).

Figure 1. Companies studied by retail segment



The median revenue of participant organizations was \$16.4 billion, with the five categories of size by annual revenue almost evenly divided (Figure 2).

Figure 2. Companies studied by annual revenue



## Top Findings

For retailers, two key components of earnings growth are sales and gross margin. In our study, we focused on the impact technology-supported strategic pricing initiatives have on these metrics and how improvements in them can drive shareholder value.

Specifically, this 2008 update to Deloitte's inaugural study followed 15 retailers for the 13 quarters following their implementation of a strategic pricing solution. Results were compared to a group of 10 direct competitors who had not yet undergone such strategic pricing initiatives. The year-over-year performance comparison of the two groups is astounding, with the group who enacted technology-supported strategic pricing initiatives achieving far greater improvement in gross margin, comparative sales, earnings, and share price.

## Gross Margin Improvement

Gross margin performance is a primary driver of earnings growth and one element directly impacted by implementation of technology-supported strategic pricing initiatives. In our study, we found that those retailers who implemented such initiatives achieved consistently better gross margin performance than their peer group.

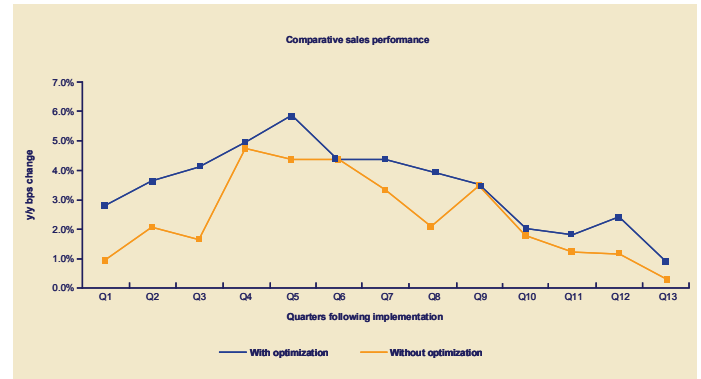
For the first 13 quarters following implementation, these retailers outperformed their competitors by an average of 51 basis points per quarter. Strong gross margin performance in Q2-Q6 post implementation directly speaks to the realized benefit impact of price optimization once the new prices have been executed.

The gross margin decline in the later portion of this study's time period corresponds directly with the current downturn in the economy. However, despite the negative trend, the group who executed technology-supported strategic pricing initiatives clearly outperformed their competitors. This performance is indicative of the impact a strategic price solution can have during tough economic times.



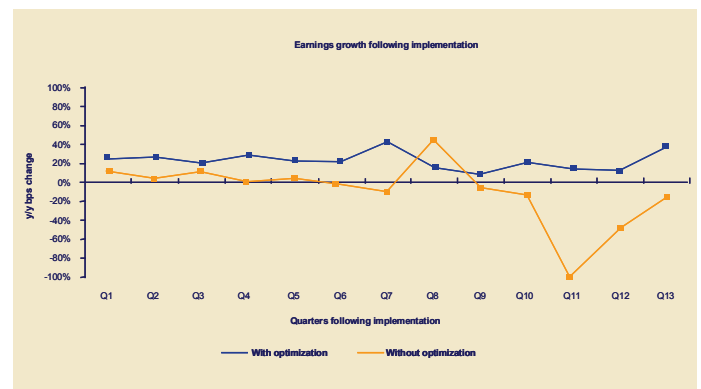
## Comparative Sales Performance

Comparative sales is a new performance metric added to this year's study. It is a component of earnings growth highly valued by retailers and directly influenced by technology-supported strategic pricing initiatives. On average, the group that adopted such initiatives realized a 102-basis-point higher quarterly comparative sales performance versus its peer group.



## Earnings

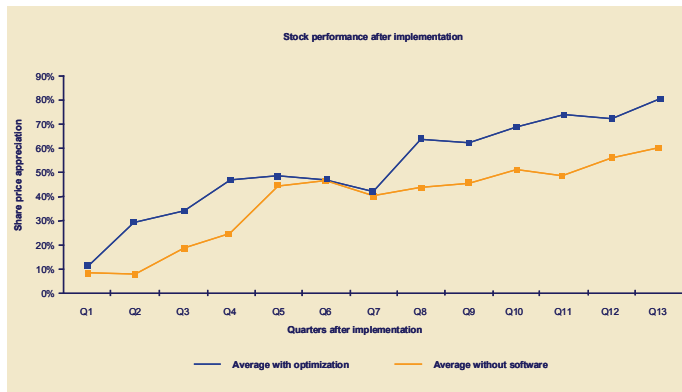
Similarly, it is not surprising that earnings growth for the retailers in the study outpaced the earnings growth of its peer group by an average year-over-year quarterly rate of roughly 33%.



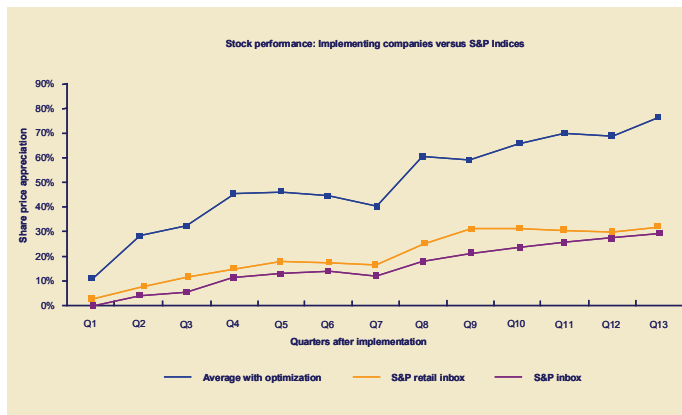
## Share Price

The strong earnings performance of those retailers implementing technology-supported strategic pricing initiatives is a clear underlying factor of share price, as investors look to earnings growth to drive better stock price performance. Retailers that have focused on developing these pricing capabilities have seen share prices outperform both their competitors and the S&P 500 Retail Index.

Share prices of these retailers achieved an 81% average improvement in stock price for the 13 quarters following implementation. Such strong performance outpaced competition by an average of 20% in comparable quarters.



Additionally, these retailers had outperformed the S&P 500 Retail Index by an average of 31% in comparable quarters.



## Conclusion

In 2007, Deloitte published a groundbreaking thought leadership article, "Clear & Present Value," which explored the positive effects that implementing a technology-supported strategic pricing initiative has upon shareholder value. In this first annual follow-up to that study, investigation into an expanded population of retailers has not only corroborated the study's initial findings but also provided further insight into the impact these pricing initiatives have on driving gross margin, earnings, comparative sales, and shareholder value benefits. The analysis shows that a growing number of retailers are implementing advanced analytical pricing technology and achieving gains that outpace their peers, industry averages, and market indices.

While these results clearly point to the benefits of implementing technology-supported strategic pricing initiatives, it also underscores the need for retailers to take a holistic approach to developing a strategic, sustainable pricing capability across the pricing lifecycle. Selecting the right technology is a vital piece of the foundation, but the study also reveals that the right business processes and a skilled team are needed to leverage the advanced analytical techniques.

With a faltering economy, increased global competition, and volatile consumers, retailers confront unprecedented challenges to maintain and grow their profitability. These conditions have placed increased pressure on executives to justify every dollar they spend on strategic initiatives. The case for implementing a technology-supported strategic pricing initiative has never been clearer. The time to act is now.

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**Stay tuned as Deloitte continues to evolve this exciting research, expanding the depth and breadth of the analysis to draw additional insights relevant to today's dynamic retail pricing environment.**

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