Is your product visible enough for pricing to work?

By Chris du Preez
The Last 50 Yards

For decades, pricing has been one of the most powerful commercial tools available to FMCG suppliers. The relationship between price and sales has been extensively studied, is well understood by management teams, and frequently forms the basis of important commercial decisions.

The purpose of comparing pricing with product visibility is not to determine which is more important. It is to determine whether a product is sufficiently visible for the supplier to achieve the full commercial return on any further investment in pricing.

Execution is best understood as the combined effect of data integrity, logistics, in-store execution, and time on its end – result – visibility as experienced by the shopper.

It should be stated at the outset that the relationship between retailers and FMCG suppliers is asymmetrical, and visibility is one of the areas in which this asymmetry is most clearly reflected.

From the retailer's perspective, a supplier's product is not only a competitive offering to the consumer but also a form of insurance. If Product A is unavailable for any reason, there is a 40–70% probability that consumers will substitute it with an acceptable alternative. As a result, category sales remain resilient, while the supplier absorbs the loss.

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The cumulative effect of retail execution, from the supplier's manufacturing plant to product placement on the shelf, can be assessed by measuring product visibility. Visibility is the indispensable precondition for consumer demand to be converted into reported sales. It is the gateway to reported sales.

At this point, an obvious question arises: do retailers not already measure product visibility? Do they not already have a range of metrics that measure product visibility? The answer is yes – but not in the way suppliers require.

Retail metrics were designed to optimise retail operations. Suppliers face a different commercial decision and therefore require a metric that reflects the commercial outcome of those operations.

The closest the retail industry comes to measuring product visibility is through On-Shelf Availability (OSA). Two technologies are commonly used to manage this KPI: periodic observation and continuous electronic observation.

The limitation of periodic observation is that it relies on human consistency and does not tell suppliers, with any certainty, what happened between observations.

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The limitation of continuous observation is that it depends on management intervention to correct problems. More importantly, it does not provide a metric that describes how much selling opportunity was lost because the product was not visible when shoppers wanted to buy it.

The question that suppliers should ask of any retailer metric that they rely on to measure product visibility is as follows:

Does this metric tell me in real time, when my product has gone absent from the shelf, how long that absence has continued, and what the cost of that absence is? If those questions cannot be answered then the metric may very well be doing an excellent job for retailers, whilst still leaving suppliers in the dark regarding product visibility.

Retail execution is a process. Product visibility is its outcome.

Suppliers now can measure the commercial outcome of execution (visibility) independently of sales volume, making it possible to compare the return on investment in visibility with the return on investment in pricing on a product-by-product basis. That has been achieved by looking at sales data through the lens of consumer intent, before it is filtered through the obstacles of retail execution.

That question formed the basis of a recent analysis conducted on behalf of an FMCG supplier operating within a major South African grocery retailer. The findings were varied.

The question that suppliers should ask of any retailer is ...

"Does this metric tell me in real time, when my product has gone absent from the shelf, how long that absence has continued, and what the cost of that absence is?"

Choosing the variables

It can be argued, quite justifiably, that a wide range of factors influence sales and that focusing solely on price and execution narrows the discussion unacceptably. These factors range from personal relationships to store location.

The problem with this argument is that it overlooks the difficulty of quantifying many of the factors that undoubtedly influence sales, particularly at SKU level. Consider shopper income, for example. While statistics describing the income profile of a store's customer base may be available, attributing those values to the sales performance of a specific SKU is largely an exercise in speculation.

The more direct response to this objection is that the combined effect of the intangible factors influencing sales is ultimately reflected in sales volumes. If they do not influence sales volumes, they are not relevant to this discussion.

Measuring execution independently

The greatest challenge in measuring visibility quality is separating it from sales volume. Doing so allows product visibility to be evaluated independently, without the analysis being distorted by factors such as personal relationships, store location, competitive forces, or consumer income.

The technology required to achieve this has already been developed.

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The analysis

The analysis examined 43,137 SKU-store observations covering a three-month period.

A total of 237 individual products were included.

Seventy products were excluded because they contained insufficient observations or insufficient variation in either price or visibility to produce reliable statistical estimates.

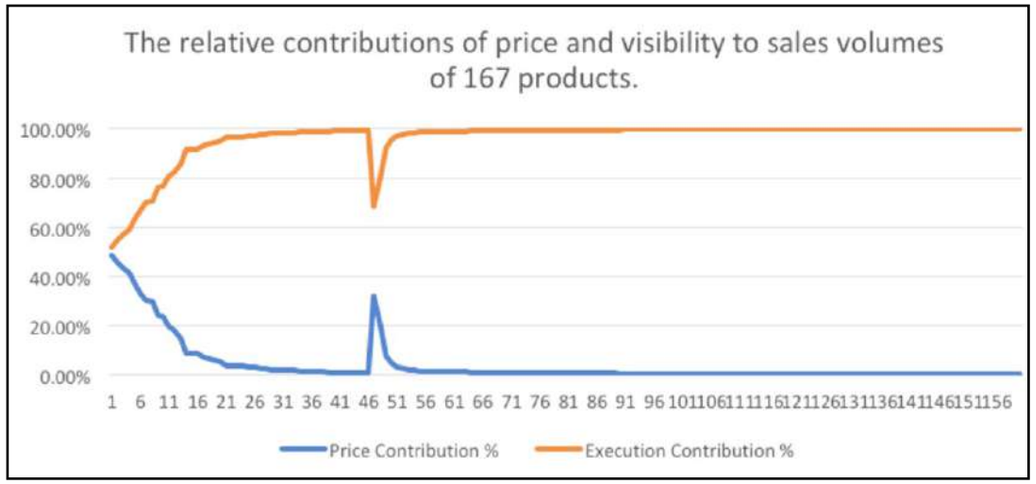
The remaining 167 products were analysed individually using multiple regression, with unit sales as the dependent variable and price and visibility as the explanatory variables.

Importantly, the dataset contained meaningful price variation. Across the 167 products analysed, the median store-to-store price variation was approximately 58%, confirming that the analysis did not compare visibility against static pricing.

Each product therefore produced its own result.

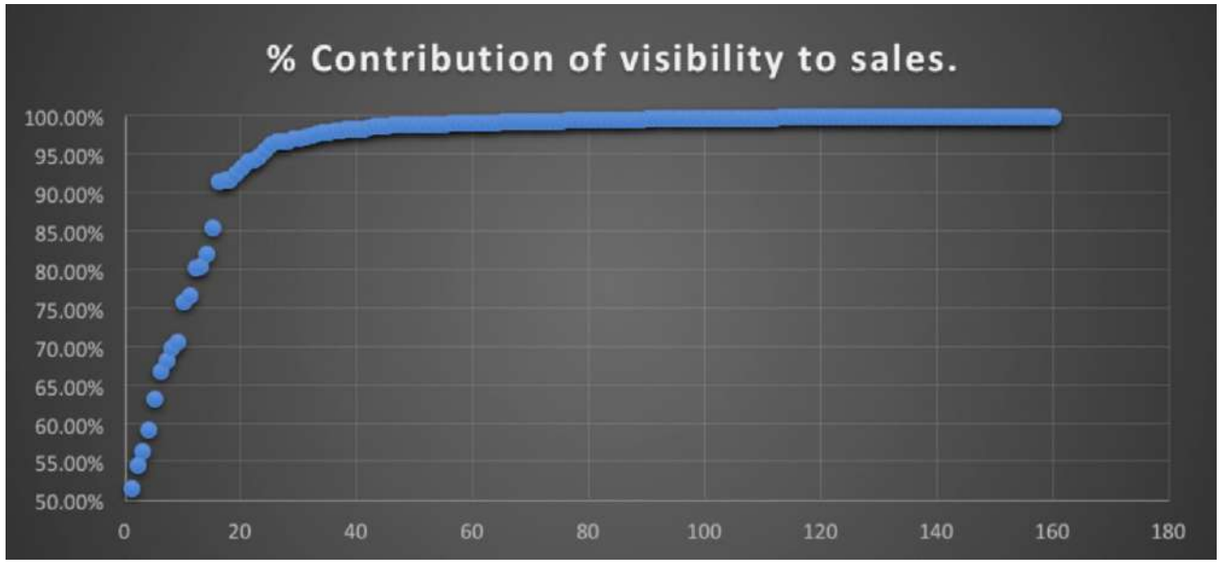
What the results showed

The results were striking.



When comparing the relative contributions of price and visibility to sales performance of the 167 products, where visibility does dominate as the greater driver of sales, the dominance of visibility is striking.

By comparison, only seven products (4.19%) showed price accounting for between 80% and 100% of the model's explained variation in sales.



Of the 167 products analysed, 160 (95.81%) showed that visibility accounted for between 51% and 100% of the model's explained variation in sales. This chart illustrates how quickly visibility's contribution to explained sales variation rises above 60%.

A similar analysis was subsequently conducted using 564 store-level observations from two fresh milk products.

Fresh milk represents one of the most competitive FMCG categories, where pricing would ordinarily be expected to exert a strong influence on sales performance. Despite this, the analysis again found that product visibility contributed more to the explained variation in sales than the observed differences in price.

Together, product identity, price and visibility explained approximately 48% of the observed variation in sales. Of that explained variation, visibility accounted for approximately 25.5 percentage points, compared with 8.8 percentage points for price, making visibility almost three times the contributor. While this additional analysis does not establish a universal rule, it demonstrates that the finding is not confined to a single supplier or product category and supports the view that product visibility should be evaluated alongside pricing when making commercial investment decisions.

A different way of thinking

Pricing is a critical part of retailer strategy. Like all strategies, however, it does not operate in isolation. Its effectiveness depends on a range of factors, including product quality, brand strength, competitive activity and, most fundamentally, product visibility.

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Products whose sales are more strongly associated with visibility may offer greater returns from improving product visibility than from further price intervention.

Traditionally, suppliers have relied on retailer-supplied metrics to infer visibility quality. The limitation of this approach is that these metrics measure individual components of retail visibility rather than the combined outcome of visibility as experienced by the consumer.

The analysis does not suggest that products are insensitive to price. Rather, it shows that, for 95.81% of the products analysed, differences in visibility explained more of the observed variation in sales than the observed differences in price. For these products, visibility represented the stronger commercial influence within the conditions that existed during the period analysed.

Given the competitive nature of retail, where acceptable alternatives are often available, this finding may also help explain why product substitution is more widespread than is generally recognised. When a product is not consistently visible to shoppers, competitors are given the opportunity to satisfy that demand instead.

The implication for suppliers is straightforward. Rather than assuming that pricing will always provide the greatest commercial return, they can begin by asking a different question:

Has the product achieved the level of visibility required for pricing to deliver its full commercial return?

Products found to respond primarily to pricing can be managed accordingly. Equally, products whose sales are more strongly associated with visibility may offer greater returns from improving product visibility than from further price intervention.

The results presented here are not intended to predict the outcome for every supplier. They demonstrate that the question can now be answered objectively. Every supplier's data will contain its own answer. **SR**

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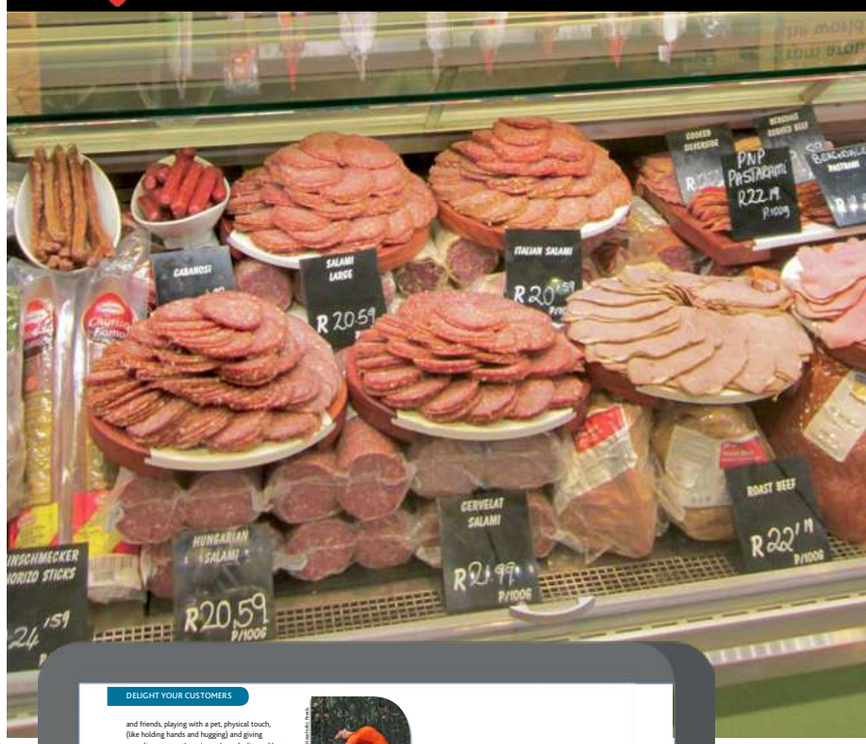

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