

A NEW PER\$PECTIVE ON



PRICING

Consumer Perspectives, Knowledge Evolve with Access to Information

You could call Dennis Dorn a sort-of pricing aficionado. No, Dorn, co-owner of Portage Do it Best Lumber in Portage, Wis., doesn't have an Ivy League finance degree or a history on Wall Street—he just puts himself into his customers' shoes. That, and he is never far from his trusty iPad.

"TODAY'S CUSTOMERS COME IN THE STORE more knowledgeable because they can log onto the Internet and get the same pricing information we all have access to," Dorn says. "It's all about putting everything in perspective when it comes to pricing. For example, the difference between a good paint and a fantastic paint is no more than the cost of a Happy Meal or two. When put like that, wouldn't you buy the good stuff if you could?"

That got our editors thinking. Has the ease of finding pricing information changed the retail pricing game?

After we conducted more than 200 consumer surveys, it turns out Dorn was on to something. Whether it's the ease and accessibility of product information or a tough economy forcing consumers to be more price savvy, retailers are dealing with a much more price-aware customer.

According to research conducted by the North American Retail Hardware Association (NRHA) and *Hardware Retailing*, three out of four consumers surveyed say they have used the Internet to research the price of a home improvement product.

Additionally, a quarter of the respondents have used a mobile device in a home improvement store to price a product.

On the following pages, we will discuss the results of this research, and refer to a NRHA similar study conducted in 2009 for comparison. After reading the findings, log on to www.nrha.org/pricingcomparison for access to the detailed data we used to compare our 2009 and 2012 surveys.

The Survey

Our editors gathered a sampling of roughly 200 consumer surveys completed at multiple home improvement retail operations. Then we called retailers we had interviewed regarding pricing in the past to see the differences they were noticing. We also talked to industry pricing experts.

When reading this data, it's important to note that these surveys were fielded at independent home improvement store locations, so the respondents were predisposed to shopping at independents. Additionally, the 2009 data, which we use in the analysis, involved a compilation of information from a national online poll. While the sample size was equivalent in size, the 2009 research has a potentially wider scope.

Furthermore, in any sort of survey asking consumers to consider their habits or beliefs, respondents tend to look at themselves in the most positive light or answer in a way they would like to think they act, which is sometimes opposed to how they may really act.

As with most any research, it's difficult to use these survey results as a direct predictor of the market; however, the surveys will give you a glimpse into the mind of today's consumer.

#1 The Internet Impact

A majority of consumers have used the Internet to research the price of home improvement products; however, they're still opting to head to the brick-and-mortar stores to buy.

What the Finding Means: The first part of this finding should come as no surprise to you—just think about how many times you log onto the Internet in a day. While it's a trend hardly confined to the home improvement industry, nearly three-quarters of respondents say they have used the Internet to specifically research the price of a home improvement product. Moreover, search engines and pricing comparison websites—Google or Bing, for example—are the first places consumers in the survey turned to begin their pricing research.

But what is particularly interesting about consumers' online pricing research habits is that nearly half of the contingent surveyed said they have never changed their minds on where to shop because of pricing information they found online. Either consumers are familiar

enough with the products they are searching that the information they find doesn't prompt action, or they already have determined where they will likely shop regardless of price. Additionally, while the majority of respondents said they've researched pricing online, only 25 percent of the respondents actually purchased a home improvement product online. Today's consumer appears to be researching online but hasn't found enough of a value in actually purchasing online to change their shopping habits significantly.

Dorn has an idea why. "There's no doubt today's consumers are using the Internet to research products, either reviews or pricing," he says. "But they're also looking at what the shipping costs are and how long those products will take to get to them, and a lot of times, you'll still find them turning to the brick-and-mortar stores."

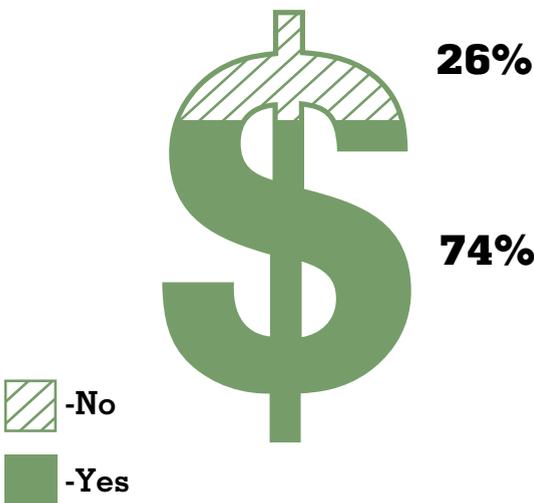
What You Can Do: Before you throw out plans on that ecommerce site, keep in perspective that although only one fourth of respondents said they purchased online, one fourth is a much higher percentage than even five years ago, and the trend has the potential to grow as consumers grow more comfortable with Internet shopping and technology saturates the market.

What is important to focus on is the fact that a majority of people are logging onto the web to do their

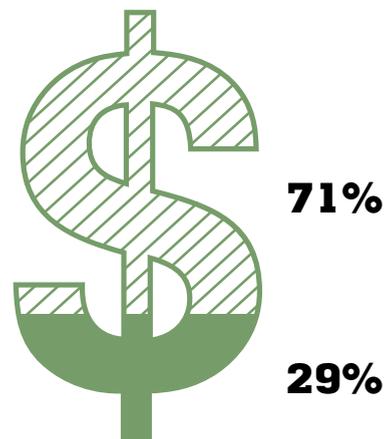
due diligence. That means if you don't have some kind of online presence, you could lose the bid immediately—even if you have lower prices. Sure, a majority of consumers aren't necessarily changing their minds on where to shop because of the pricing information they find online, but there are still many who are.

Nearly 40 percent of respondents say the research did change their minds, and they walked in the doors of an independent retailer as a result.

Have you ever used the Internet to research the pricing of a product?



Have you ordered a home improvement product online in the past 12 months?

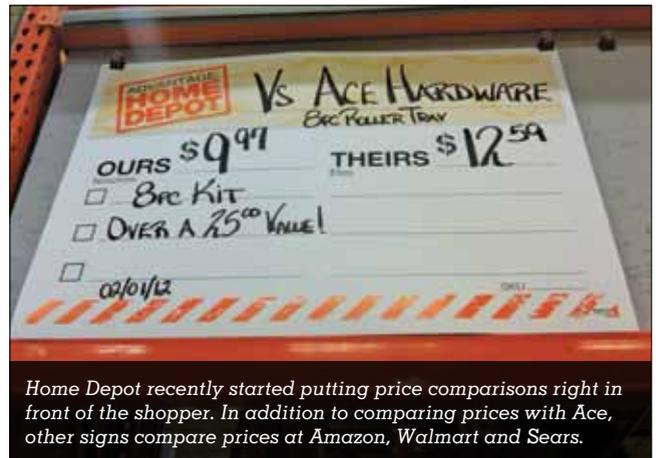


Source: 2012 NRHA/ Hardware Retailing study

#2 A Golden Price Point

Online research starts when consumers look to purchase items at a higher price point.

What the Finding Means: While there's really no arguing that online pricing research is happening, consumers tend to have a good idea about what is worthy of research. According to our research, products between \$100 and \$499 are the products consumers feel compelled to price research. Moreover, just fewer than half of respondents said they would need to see at least a 10- to 20-percent savings on a product in order to purchase online as opposed to buying in a store. Many consumers are weighing the benefits of gas to get to the store versus shipping costs. Additionally, more and more states that didn't previously require consumers to



Home Depot recently started putting price comparisons right in front of the shopper. In addition to comparing prices with Ace, other signs compare prices at Amazon, Walmart and Sears.

pay state sales taxes for online purchases are now requiring merchants to include this in the final cost to consumers.

Keep in mind that our respondents made a point to tell our researchers that there are many factors beyond price that would compel them to purchase online versus in store.

What You Can Do: It's essential to play up the fact that when consumers purchase their products in your store, your price includes shipping costs. A great way to show consumers the realities of online price comparisons is to print off an ad for a similar product online. Better yet, find an advertisement cheaper than your price and add the shipping and tax directly to the ad. Post it right up next to your product. In fact, Home Depot has just released a new pricing strategy nationwide where it does this.

If you have delivery, appeal to consumers' need for convenience. Offer to deliver large orders or even promote that consumers can call the store directly for a product. Throw it on the delivery truck the next time it goes out near their location. Now you're offering the same great benefits of online shopping with none of the upcharges.

But keep in mind that online retailers are stepping up. Amazon, for example is launching membership programs that offer free delivery. Moreover, Amazon is looking to finalize logistics for same day delivery.

Finally, because consumers turn online mostly for high-priced items, focus on those products and make sure you're priced competitively. It's no different than traditional variable pricing.

"The price-sensitive items are typically less than 10 percent of your SKUs," says John Dillon, Orgill, Inc.'s vice president of pricing. "There's not a ton of SKUs consumers are going to scan or preshop, so make sure you're priced right on these products."

An initiative Dorn and his staff are working on to improve pricing accuracy is to develop benchmark pricing standards for all margins in the store. Dorn says giving employees the ability to adjust and keep an eye on pricing allows the store to stay competitive.

What price point would prompt you to conduct online research?

21%

Say products \$50-\$99.

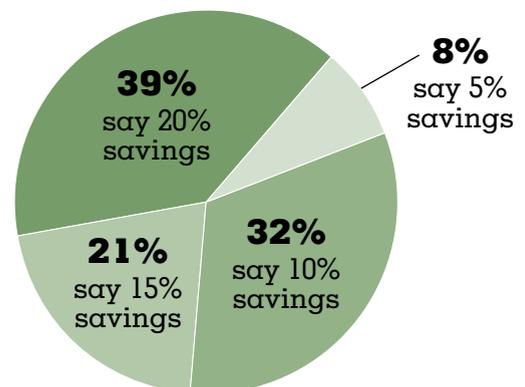
32%

Say products \$100-\$499.

18%

Say price isn't a factor on whether I research products online.

What percentage of savings would prompt you to purchase home improvement products online versus in store?



Source: 2012 NRHA/ Hardware Retailing study

#3 The Mobile Factor

Not as many people are price shopping for home improvement products via mobile devices directly in the store as anecdotal evidence may have suggested.

What the Finding Means: While everyone in the industry has been a little unnerved about how mobile apps like RedLaser and Price Alert allow consumers to scan a product's UPC code directly for immediate product information including price, only a quarter of our survey's respondents admitted they actually do use a mobile device such as a smartphone or tablet device to price compare in a store. Remember, while that number is small—25 percent—that's 25 percent more than in the past. While not every customer today is

using mobile devices to price shop, as mobile devices continue to penetrate the market this trend has the potential to increase.

What's interesting about this trend is what respondents said when asked how much of a discount a competitor would need to tempt them to leave the store where they were already shopping. More than half of the respondents said either they wouldn't leave if they were already at a store or they would need to see at least a 20-percent discount before contemplating leaving.

What You Can Do: Before you start confiscating phones at your front door, remember what Dillon says. Consumers aren't scanning toilet flappers—they're scanning high-priced items. So if you're doing your variable pricing effectively, even if consumers are pulling up competitors prices, you should be right in line. More than 75 percent of the consumers we surveyed said they thought independent hardware stores had competitive prices.

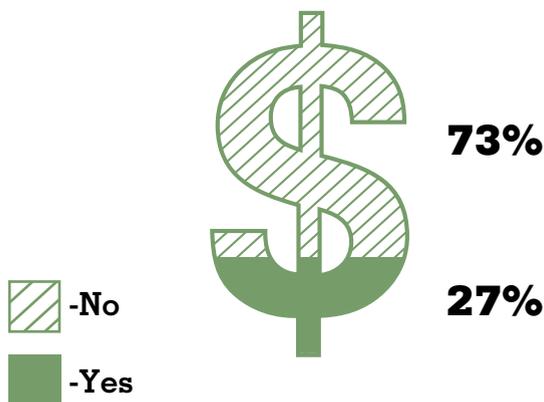
Another strategy to consider comes via big-box retailers like Target and Wal-Mart. To guard against barcode scanning in their stores, management at many stores are working one-on-one with manufacturers to create slightly different products than are being produced in the market. For example, instead of a 16-ounce bottle of shampoo, they'll ask their vendors to create a 15-ounce bottle. Why? A consumer is not likely to notice the single-ounce difference, but that new product now generates its own unique UPC code. When a consumer scans it with a smartphone to try to find a better price, no other options will appear since that product is

unique to that particular store. You can play the game too by tapping into your distributor's private label options. Private label UPCs will be unique only to stores that stock your distributor's private label.

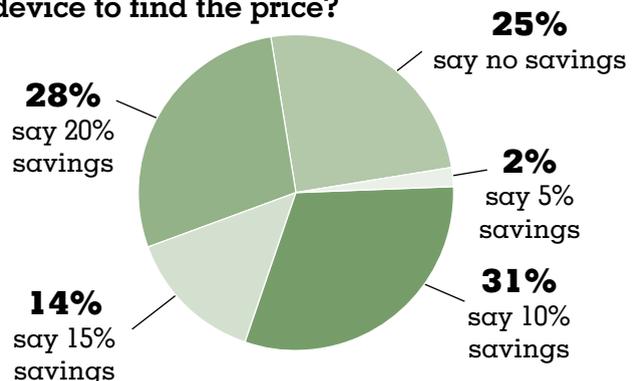
And if you think this is a trend only for your DIYers, think again. A recent study by Syracuse, N.Y.-based marketing and communications agency Eric Mower & Associates Group B2B interviewed more than 500 general professional contractors and found they are relying more on mobile technologies to gather research. Contractors are taking their smartphones and tablets into the field, meaning they're a lot more in tune with information like pricing.

Instead of banning technology, which will likely alienate your consumers, why not embrace it like Home Depot's management did when they gave 30,000 Motorola mobile computers containing barcode scanners and cameras to 2,000 of its stores in order to help equip employees with the knowledge to which the consumers already have access?

Have you ever price shopped in a home improvement store via mobile device?



What percentage savings would prompt you to leave a store after using a mobile device to find the price?



Source: 2012 NRHA/ Hardware Retailing study

#4 Price Matching Matters

Many customers consider stores' price-matching guarantees when deciding where to shop.

What the Finding Means: One of the most dramatic findings the survey revealed came when our editors began analyzing the 2009 pricing study against the 2012 study. Price-matching guarantees are now playing a larger role in the decision-making process.

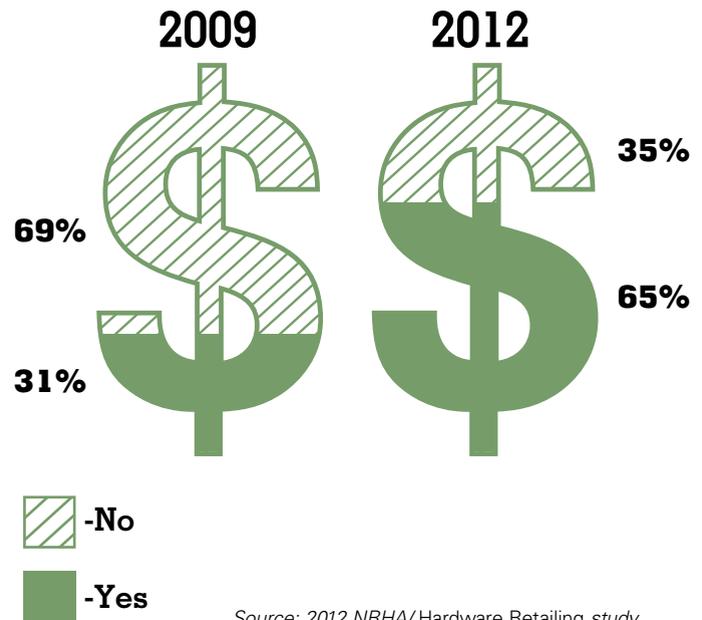
In 2009, when asked how much more willing respondents were to shop at a store because they knew the retailer had a price-matching guarantee, 31 percent of respondents said they would be more willing, while an overwhelming 69 percent of respondents said it would have no effect. Today, those numbers are nearly reversed: 65 percent of respondents said a price-matching policy matters when choosing stores to shop.

There are several theories as to why this finding was so dramatic. Over the course of five years, consumers have been forced to face a tumultuous economy. Unemployment continues to weigh heavily on families, and inflation continues to inch upward. Today's consumers are watching their dollars more closely and are more aware of what they can get for a certain price. They want the comfort of knowing they can get a competitive price.

What You Can Do: If you have a price-matching guarantee, let your customers know. Alan McCollim, general manager at Kenyon Noble Lumber and Hardware with three stores in Montana, knows the price-matching game well—his store has offered the option for more than 10 years. “The main thing about offering this kind of service is you have to promote it,” he says. “Advertise it on everything—radio, TV, your statements, everything. We have price matched since I can remember, and we still have people who don't know we do it. If they don't know about it, we risk losing their purchase.”

If you don't have a price-matching guarantee, it might be time to start thinking about offering one. Think about what you're comfortable offering. Will you allow online promotions? How long does a customer have for price adjustments, etc.? Home Depot promises to beat any competitor's price on an identical in-stock item by 10 percent; however, customers have to ask for the guarantee at the time of purchase. Menards will match

Are you more willing to shop at a store because you know the store has a price matching guarantee?



Source: 2012 NRHA/ Hardware Retailing study



competitors' prices on identical items. If customers buy something at Menards and then find it at a lower price somewhere else, they will receive store credit for the difference if they bring their receipt and the competitor's ad within 14 days of purchase.

To see a side-by-side analysis of identical 2009 and 2012 pricing survey results, log on to www.nrha.org/pricingcomparison.

