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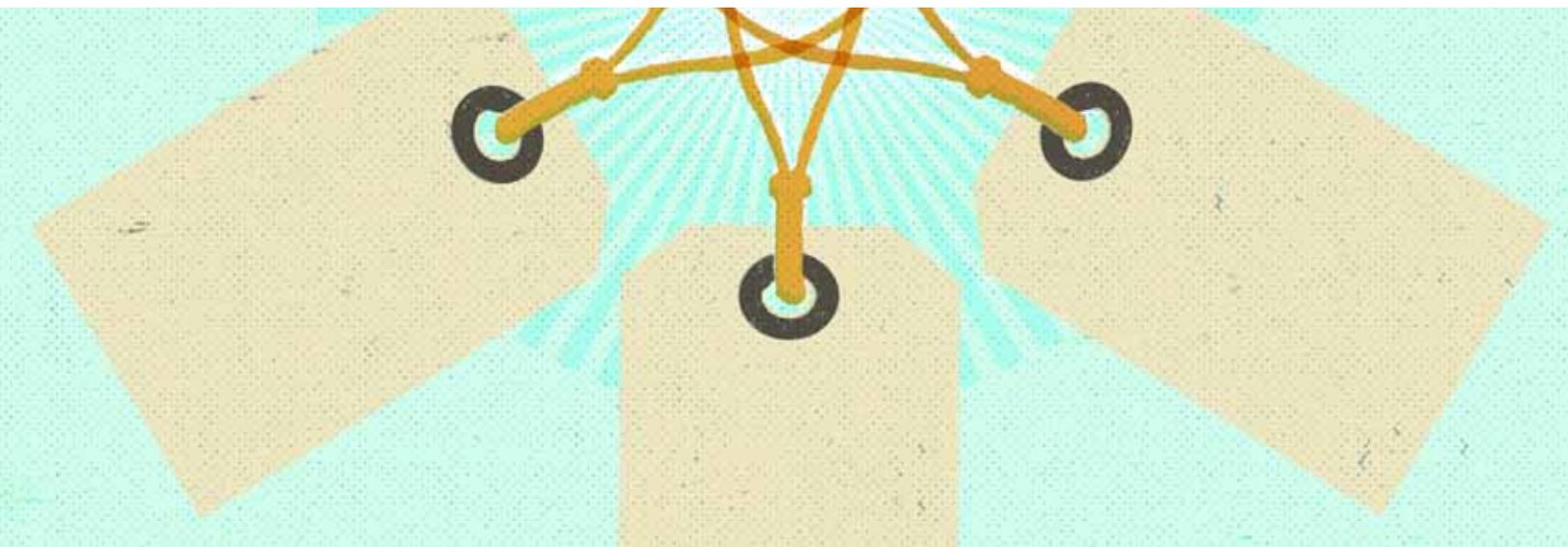
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The value proposition in multichannel retailing

**Consumers love low prices, but retailers shouldn't overlook
the way shoppers perceive value online and in stores.**

Jeffrey Helbling, Josh Leibowitz, and Aaron Rettaliata



It might be a retailer's worst nightmare: a consumer stands before a wall of flat-screen TVs, contemplates a purchase, and pulls out a smartphone to see if a better deal is available elsewhere. This increasingly common sight may heighten retailers' fears that they are caught in an inevitable race to the bottom on price. Yet while price competition is tough, our consumer research and client experience show that *perceptions of value* still matter in the ever-more-complex multichannel-retailing environment. Retailers can employ proven tactics to shape perceptions and take advantage of the fact that consumers care about more than just the price tag when they buy.

A recent survey we conducted¹ shows that price is just one of a range of factors consumers take into account when buying products: they also consider the degree of trust they have in a retailer, its product assortment, and their previous buying experiences (Exhibit 1). So even in the most competitive product categories, such as consumer electronics, retailers can look beyond price and actively shape perceptions of the value they offer. None of this happens by chance; retailers can implement strategic moves to get credit for superior value.

Consider, for example, how consumers view leading sellers of women's apparel in the United States (Exhibit 2). While *actual* average prices at Kohl's and JCPenney are similar (the *x*-axis), consumers clearly *perceive* Kohl's as offering lower prices (the *y*-axis).

¹Multichannel pricing survey of 6,000 US consumers and price checks (conducted during September and October 2010) of more than 1,100 items at 20 retailers.

Exhibit 1

Consumers consider more than price in deciding whether to purchase a product.

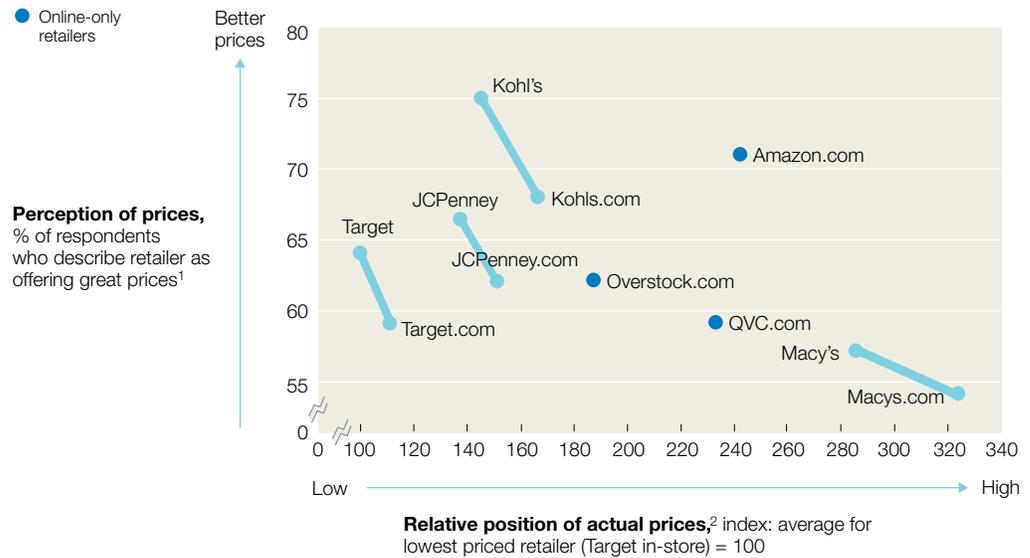
Relevance to perception of value for money,
% of respondents

		Description
Price	24	<ul style="list-style-type: none"> In general, consistently offers better prices compared with anywhere else Offers exceptionally low prices from time to time
Experience	17	<ul style="list-style-type: none"> I can easily find the specific items I want This retailer is the most convenient for me to shop
Trust	17	<ul style="list-style-type: none"> I know and trust this retailer The items they sell are always good quality
Assortment	12	<ul style="list-style-type: none"> Has good range of prices and quality levels
Return policy	12	<ul style="list-style-type: none"> The return policy and process are reasonable and easy to follow
Product research	11	<ul style="list-style-type: none"> Retailer makes it easy to find information about items and conduct research
Delivery cost	4	<ul style="list-style-type: none"> Has reasonable delivery costs
Loyalty	3	<ul style="list-style-type: none"> Has a loyalty program that gives me rewards I really value

Source: Q4 2010 McKinsey survey of 6,000 US consumers on multichannel pricing and price checks of >1,100 items across 20 retailers

Exhibit 2

There is a gap between what US retailers charge for women's apparel and how their prices are perceived.



¹Percentages aggregate scores of 5 or 6 for “great prices” on scale of 1 to 6, where 6 = highest score; for midtier branded items in women's apparel.

²Based on average price for each item across geographies, using lowest promoted prices and excluding taxes (which would decrease online price averages by ~8-10%); shipping costs are included in averages for online prices.

Source: Q4 2010 McKinsey survey of 6,000 US consumers on multichannel pricing and price checks of >1,100 items across 20 retailers

Amazon.com—which typically has among the lowest prices in categories such as consumer electronics—charges more for similar types of apparel than Kohl's and JCPenney do, yet retains a “halo” of value among the consumers we surveyed.

In our experience working with dozens of offline, online, and multichannel retailers, we've found that they can use certain pricing moves to play the value card. The first is identifying key value items—products that have the greatest impact on value perceptions. In consumer electronics, for example, flat-screen TVs and computer hard drives are hot-ticket products that draw customers to stores or Web sites. Second, these items must be priced competitively to create a public perception that a retailer offers good value, and discounts on them can be recouped with higher prices on less visible products. Finally, prices should be the same no matter which retail channels a consumer uses: stores, the Web, or catalogs.

Retailers also can carefully craft product assortments in ways that influence value perceptions. For instance, in categories with clear “good,” “better,” and “best” ranges—such as flat-screen TVs—retailers can display models side by side, attract consumers with hot

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prices on good models, and then encourage trading up by clearly articulating the features and benefits of the better and best options. This strategy has proved to be as effective online as it is in stores.

Second, value “heroes” with low price points should be overrepresented in online, in-store, and external marketing. An apparel retailer, for example, can disproportionately showcase \$15 men’s business shirts in marketing materials while keeping the majority of its product assortment well above that price point. Third, tactics such as free shipping, in-store pickup, generous return policies, and price-match guarantees are critical drivers of value perceptions. For the consumer pondering the wall of TVs—or, for that matter, browsing a Web page of them—any money saved by purchasing one elsewhere may seem trivial compared with benefits such as free shipping, in-store pickup, a range of financing and extended-warranty plans, and options for expert installation. ○

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