



# A major retailer makes better pricing decisions and maximizes ROI

## CASE STUDY

Lowering prices for makeup added \$2.5m in value by utilizing Mastercard Test & Learn®.

### CHALLENGE

#### Optimizing retail pricing

A large retailer in North America wanted to evaluate and optimize three pricing initiatives – lowering prices for makeup, reducing the price of shampoo and increasing the price of vitamins. The retailer needed to answer several key questions to maximize the ROI of their pricing strategy:

- What is the expected impact of these price changes on overall revenue and units sold?
- How do the pricing initiatives impact customer loyalty?
- Should the pricing initiatives be rolled out across the store network?

### APPROACH

#### Identifying the right testing parameters to gain deeper insights

Using Test & Learn, the retailer accurately analyzed the impact of the pricing initiatives. The software provided a step-by-step process to identify the right testing parameters and tradeoff analyses to determine the optimal number of stores to test in. With proprietary control matching methodology, the software distributed test stores across key criteria, such as total sales, to ensure stores were representative of the broader network, yielding the most accurate results. In addition to the high-level results, Test & Learn also provided flexible breakouts and segmentations, which enabled the retailer to gain deeper insights.

# \$2.5m

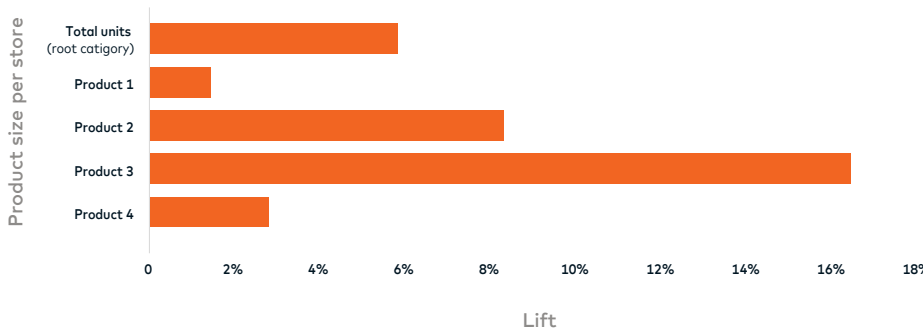
in added value through lowering prices for makeup.

## CASE STUDY

### Lowering prices for makeup

To understand the impact of a proposed price reduction for makeup, the retailer used Test & Learn to conduct an in-market test which revealed that the price reduction resulted in a sales lift. The lower prices for makeup resulted in a positive lift to units sold and a directionally significant lift to revenue. Diving deeper into the results, Test & Learn found that the lift to units was driven primarily by one product.

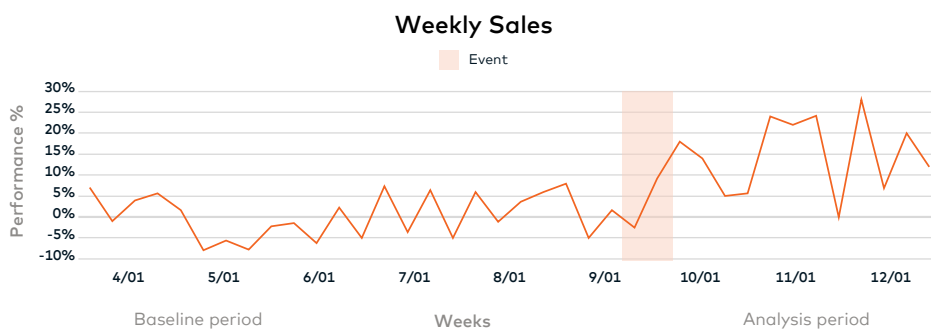
By using Test & Learn the retailer found that they could generate \$2.5m in incremental value each year by rolling out reduced prices for makeup.



### Reducing prices of shampoo

The retailer also wanted to understand the sales impact of a price reduction for shampoo. They used Test & Learn to determine an appropriate number of test stores to ensure statistically significant results, and that the test stores were representative of the broader network by matching test and control stores on key criteria including population density. The retailer conducted an in-market test, which revealed that the price reduction resulted in a statistically significant lift in sales and units sold for shampoo.

The retailer found that they could generate \$161k in incremental value each year by rolling out reduced prices for shampoo.



## CASE STUDY

### Increasing the price of vitamins

In addition to price reduction tests, the retailer also used Test & Learn to assess a price increase. The retailer wanted to increase the price of higher-count bottles of vitamins to drive customers to purchase lower-count substitutes at a higher unit velocity. Using Test & Learn the retailer quantified the impact of the pricing change to the markup items, their substitutes and the items' parent brand. To account for seasonal bias in predetermined test sites, the software analyzed results using a test vs. control methodology. Although the price increase drove a lift in sales for the combined group of markup items and their direct lower-count substitutes, the parent brand saw a negative lift in units sold. This negative lift at the brand-level was interpreted as a threat to customers' brand loyalty.

Since the primary objective of the test was to increase unit velocity, the retailer used these results to inform a decision to not rollout the pricing change across their chain.

## RESULTS

### Ability to make data-driven decisions

By using Test & Learn to understand how new pricing strategies impacted business performance, the retailer was able to make more data-driven decisions, which included rolling out the two price reduction initiatives and discontinuing the higher prices for vitamins.

\$2.5m

in annual incremental value from rolling out the reduced prices for makeup.

\$161k

in annual incremental value from rolling out the reduced prices for shampoo.

-1%

lift to units at the brand-level informed a no-go decision for rolling out higher vitamin prices.



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