

Hospitality chain

9% profit uplift through transitioning from cost-based pricing to value-based pricing approach



Client challenge

A client in the hospitality sector was looking to update its pricing strategy. Pricing across its beverages portfolio was based on a traditional cost-based pricing approach and was not aligned to customer preferences or willingness-to-pay. The client applied wholesale price changes to all products and outlets twice a year, relying on an agreed inflation budget and local competitor prices. This resulted in a wide range of prices across outlets, leading to value leakage from misaligned prices with limited consideration of consumer's willingness to pay.

Our approach

Working closely with the client, our specialist team developed a three-phased approach to set product-outlet prices based on value:

- Defined a value-based clustering of outlets to drive consistency in pricing across the estate. This included creating a framework based on an outlet's potential to drive scale/spend and reflecting local demographic buying behaviours to create seven segments, from value to premium.
- Conducted a two-stage consumer study (on product and venue) to evaluate consumer product preferences, evaluate price elasticity across segments and establish a product price hierarchy aligned to consumers' willingness to pay. The venue study enabled understanding of drivers of venue choice.
- Built an automated rules-based pricing tool consisting of a product architecture, value-levers to customise outlet pricing for venue attributes and a market signals engine to track for movements in key KPI. This was supported by visualisation dashboards to inform pricing opportunities and decision making.

Benefits for the client

- The fully dynamic pricing tool we developed, backed by bespoke house-product level price recommendations and supported by a defined product hierarchy, led to a 9% uplift in margin over 18 months.
- We also developed interactive dashboards to analyse historical performance and identify pricing opportunities, while the data-driven pricing capability we helped to implement enabled the client's team to continually manage pricing on an on-going basis.

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