

How should pricing respond to Covid-19?

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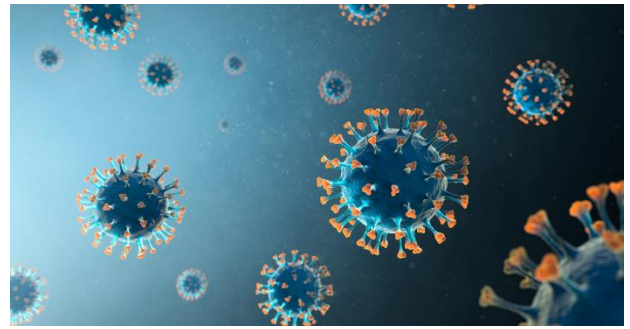
The global Covid-19 pandemic is the most impactful event in living memory, eliciting an unprecedented government response with huge consequences for society and business. Global stock markets dropped by almost 20% between February and March, as strict measures to slow down the spread resulted in supply chain disruption and massive fluctuations in demand.

Although all businesses have been affected in some way, the nature of the impacts are diverse and vary greatly by industry, product, category, and distribution channel. Of the situations that businesses are facing now, each presents unique challenges and opportunities, and there are key pricing questions companies should be addressing in the immediate and longer-term.

REDUCED DEMAND

In some cases, customer demand exists but has been artificially curtailed. The current lockdown situation in the UK makes business as usual impossible in sectors like food and beverage, sports and leisure, arts and entertainment, travel, and hospitality, but much can be done now to prepare for restrictions starting to be lifted.

Consumers are likely to want to get out and enjoy the activities they have been prohibited from doing following a prolonged period of confinement. Businesses need to address questions around the right pricing approaches to a spike in demand coinciding with ongoing regulations to maintain appropriate levels of social distancing.



How should pricing and revenue models be rebalanced? Will it be necessary to introduce additional products and services, and how should these be priced? How will customer reference prices have shifted, and what will the new competitive landscape look like? How can promotional activity be used to build customer loyalty in a potentially confusing marketplace?

Some sectors may be able to start developing propositions, encouraging consumers to buy now for future use. A 'forward selling' strategy will have to be balanced with a view of potential upcoming demand but may represent benefits in both alleviating immediate revenue challenges and ensuring longer term business continuity.

INCREASED DEMAND

Changes in customer behaviour have resulted in an increased demand in sectors such as sports and training equipment, video conferencing software, home office furniture and equipment, streaming entertainment, gaming, and logistics and delivery services. In addition, demand has peaked for some products due to panic buying and stockpiling.

Some customers may have brought forward planned purchases, while others would not have bought had it not been for the current crisis. The challenge for organisations is how to optimise pricing during the current peak, whilst maintaining longer-term customer loyalty. Consideration also needs to be given to whether demand is expected to drop off following the current spike or return to normal levels.

Market growth, even short-term, may result in increased competition and new market entrants. A well thought out approach to pricing, promotions, customer communications, supply chain, and logistics will help the best companies differentiate themselves and provide a good service to their customers, maximising the current opportunity and laying solid foundations for the future.

CHANNEL SWITCHING

In many cases, purchases no longer possible through physical outlets have switched to online channels, opening the markets up to a broader range of providers, and increasing competition. Those businesses with the most effective online journeys are likely to thrive in the current environment, with the opportunity to enjoy longer term growth if they can provide excellent levels of customer service.

Websites should be easy to navigate, with clearly displayed product ranges. Cross-sell and bundling strategies could be used to increase revenue per visit. Customer choice could be improved by offering premium as well as cheaper alternatives, and targeted promotions could be used to deliver better customer value and drive loyalty.

The current increase in demand should be seen for the longer-term opportunity it represents rather than an immediate revenue driver. When lockdown restrictions are lifted consumers will have a choice again. A clear product, pricing, and promotional strategy now, combined with an easy to use website and fantastic service levels could help convert some of the current distress shoppers into loyal customers

STRATEGIES

Regardless of the differences, one thing in common is uncertainty and how best to respond for the immediate and longer-term. For each

scenario, different actions will be appropriate, and different questions need to be addressed.

The competitive landscape must be understood, including the impact of Covid-19 on customer behaviours and attitudes, channel preferences, market pricing, and new entrants. Businesses must consider current pricing and promotional strategies in the context of the longer term, and what can be done now to generate and maintain customer loyalty.

Business models should be reviewed, considering shifts in channel preferences and new customer segment opportunities created by the crisis.

Above all, organisations must be able to adapt. The current situation is extremely fluid and has had a massive impact on business globally. For most companies a return to normal is extremely unlikely and as such a proactive approach to the 'new normal' is crucial. This is as true of pricing activities as it is of other business processes.

ABOUT PEARSON HAM

Pearson Ham is a specialist pricing consultancy. We offer a bespoke service, tailored to your business strategy. We take great pride in our collaborative approach and are passionate about finding and unlocking value.

Our award-winning team is a mixture of consultants and industry practitioners, but ultimately, we are all pricing specialists. We have broad experience across a wide range of B2B and B2C sectors.

To find out more or discuss specific challenges, please contact us at: +44 (0) 203 583 9969 or contact@pearsonham.com.

April 2020