Pricing Strategy: Using Taxonomy to Help you Determine your Pricing Point

Alessio Romeni
Chief Revenue Officer at ZALORA Group
## Discussion Topics

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Revenue team at Zalora
- what we do

- Lack of relevant attributes
- Difficult to navigate and search specific products
- Lack of product hierarchy
- Too few attributes / Too many attributes

Results in

- Misleading consumer insights
- Poor planning
- Loss of customer to your competitors
- Lack of customer loyalty and understanding
- Missed revenue and loss of sales
# Revenue team at Zalora - what we do

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- Short-med term CR% and ABS optimisation
- Mid-long term CR% and active base optimisation
- Highest Revenue within profitability target
### Revenue team at Zalora - where do we use **taxonomy**

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**Pricing Strategy: Using Taxonomy to Help you Determine your Pricing Point**

- Short-med term CR% and ABS optimisation
- Highest Revenue within profitability target
- Mid-long term CR% and active base optimisation
Taxonomy on setting of RRP

- The initial price of a product determines its “market value”. Before setting the price for a product, we often need to ask ourselves a list of exhaustive questions. These questions further classify the product for us to come to a most accurate pricing.

- With Taxonomy, we are able further breakdown the the product into greater granularity and have a full view on the product positioning within our product offerings.

- The enhanced granularity then allows us to do a more accurate benchmark against our competitors who are offering similar products.

- It also streamlines the process and organize better the assortment, allowing clear owners. Flawless execution is part of winning strategy.
Taxonomy on setting of RRP

Example

For a particular activewear brand, with taxonomy, we can further breakdown the product category into subcategories and price them accordingly. We can see that products categorised under Shoes tend to be priced the highest, followed by Pants/Leggings, and Tops/T-shirts. These products can then be further categorized by design, material, and more which would then bring us to the final set of prices.
Taxonomy on discounts

- Upon setting the initial price, next we would need to determine the subsequent price changes for the product (if required).

- Better taxonomy allows us to have more data points (e.g., size availability, age) for our in-house pricing algorithm to run more accurately. The initial process of setting the RRP has already identified our competitors. Now, we can delve deeper into the performance of it which can be further split into different categories for price matching.

- Competitor price matching is commonly done to ensure that we would not lose out customers to our competitors and this can be in terms of markdowns or markups.

- Taxonomy ensures that we are matching our prices to the right product and helps us classify them by the various performance metrics (e.g., Stock Availability, Size Availability) for an accurate price change decision.
  - Eg. The competitor changes price for their night party dress. Using Taxonomy, we split our dress catalog further and only match prices for night party dress instead of floral dresses too.

- Also, the discount and price range classification of our product in our competitors’ website can guide us on the optimal discounts whilst maintaining the brand image.
  - Eg. Luxury brands such as Ferragamo tend to have less discounts due to their brand image.
Taxonomy on discounts (Useful classifications in competitor price match)

- When we look at stock availability we then also categorise them by occasion tagging of the product (core/seasonal plc)
- On size availability, we also further split the type of sizes available.
Taxonomy on discounts (Markdown)

- Lowering of prices to match competitor prices can be done on a more precise level with Taxonomy.

- Price matching can be done based on the comparison of further classification via Taxonomy.
  - **Stock Availability**: In stock/ Out of stock
    - When both the competitor and us have the same product in stock, we ought to markdown to match prices when possible so as to not lose out to our competitors.
      - Next, we split the product type into core/seasonal stock.
      - Eg. Raya stock is considered seasonal with short plc and tends to only sell during Raya period. Hence, we would need to stay more competitive and markdown to match prices during this period.
**Taxonomy on discounts (Markdown)**

- **Size availability:** High/ Low
  - In the case where we have low size availability compared to our competitor, we ought to markdown prices to lure more end purchasers.
  - With low size availability, we should also look at the type of sizes we have left. Whether they are the more commonly bought average sizes or sizes on the extreme ends.
    - Eg. For a pair of boots if we are only left with the smallest size while the competitor still has a good range of sizes, we should definitely lower prices or perhaps go even lower to entice customers.
Taxonomy on discounts (Markdown)

- Besides doing markdowns, we can also markup prices based on Taxonomy.

- Increasing prices via competitor price matching helps to save our margins and gives us visibility on whether we are over discounting products.

- Increasing prices via price matching can be done based on the comparison of further classification via Taxonomy:
  - Stock Availability: Instock/ Out of stock
    - Eg. If the competitor has no more stock for a core product like sneakers, we can markup prices to save margin.
  - Size availability: High/ Low
    - In the case where the competitor has low size availability and we still have a good range of sizes, we can markup prices.
    - With low size availability, we should also look at the type of sizes we have left. Whether they are the more commonly bought average sizes or sizes on the extreme ends.
      - Eg. For a pair of boots if we are only left with the largest size while the competitor is still has the average sizes remaining, we should definitely lower prices or perhaps go even lower.
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<td><strong>1 -</strong> Averages are bad. Better taxonomy allows more granular (i.e. optimal) actions</td>
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<td><strong>2 -</strong> Any pricing action should consider the categorisation of the product (RRP, inventory, competitive, trading)</td>
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<td><strong>3 -</strong> Detailed taxonomy allows to map competition and refine trading more dynamically, while clearly communicating to the customer</td>
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<td><strong>4 -</strong> The art of classification - it allows a cleaner product assortment organization, clarifying ownership and improving execution</td>
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<td><strong>5 -</strong> Taxonomy drive category tree structure and therefore increases complexity of the systems</td>
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<td><strong>6 -</strong> Build it to go more granular but move there in phases</td>
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Taxonomy Beyond Pricing

It is very likely that your customer knows the taxonomy at least as well as you (especially if you are a vertical player).

You can refine the messaging based on more granular and precise taxonomy to drive higher engagement (CTR and CR usually).

Discoverability is crucial - a more complete taxonomy improve performance of search non-linearly.

Strong taxonomy will translate in a clearer category tree, the basis of data structure (ERP) and therefore also of most of the app/site set up.

A granular taxonomy allows the creation of more granular customer cohorts, which can then be targeted with campaign/different pricing.
Thank You!

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