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The pan-European pricing question
By Nick Ryan ©2002

International retailers have in recent years become locked in negotiation with manufacturers of international brands over the differences in pricing and terms that exist across Europe. A small number of manufacturers seem to be proactively addressing this issue, while many have decided not to address the issue or are reacting on a case-by-case basis.

One price for a specific SKU across Europe is an unrealistic expectation unless a retailer can offer a single central delivery point serving all of their markets. That said, the spread of price differences between countries that exist for some manufacturers are hard to defend (in some cases 25% variance at the net net level). Retailers will approach the issue from the perspective of only accepting differences that can be justified on a cost to serve basis, and so the battle commences.

Some retailers will choose to compare net invoice prices between countries, recognising the difficulty in arriving at an accurate net net price by SKU, taking account of all the different investment made by a manufacturer. The manufacturer will object that this is not a true basis for comparison and that only net net prices allow for a fair comparison. A retailer and a manufacturer are unlikely to ever agree on the net net price as the methodology applied, assumptions made, and the elements factored into the calculation by either side will be different.

The manufacturer is well positioned to build an elaborate defence for the price differences that exist between their markets based upon variations in: macro economic conditions, production efficiency, consumption levels, marketing investment, product formulation and pack sizes. Manufacturers with consolidated production facilities within Europe will find it harder to justify differences that exist, unless based upon different costs to serve. Some manufacturers have elected to increase the differences in product formulation, branding, and pack size/type between countries in order to protect their pricing architecture. One has to question whether this is in the best interest of the manufacturer or the retailer in the long run.

To avoid getting into a protracted debate around the assumptions made to arrive at the net net price or variations in the key economic indicators between markets, some retailers will demand compensation for the price gap that they claim exists. This seems to be the quickest way that retailers achieve a result. This may be supported by an increase in grey market sourcing or cross border movement of goods in order to illustrate that this is a matter to be taken seriously. In some instances more extreme measures may be taken……..

This results in some short term upset as a manufacturer suddenly finds that their business becomes unpredictable, creating havoc with production planning and inventory management (particularly where a Hi-Lo strategy is in place). This creates another fire for the BAM to put out (not assisting his/her attempt to become more proactive in the way that they run their business with their major customers).

The outcome is likely to be a negotiated settlement. This is more likely to be a lump sum (maybe annual) payment rather than an adjustment to pricing or terms. The outcome may not reflect the true size of the gap that the retailer claims exists, but they can at least feel that a step has been taken towards resolving the problem, and can turn their attention to other issues / suppliers. The manufacturer has in the meantime limited the damage to their P&L (balancing the incremental cost versus risk of further lost revenue), managed to justify the solution internally and have preserved their locally determined pricing architecture throughout the process.

59 Hersham Road · Walton on Thames · Surrey KT12 1LJ · United Kingdom · tel 00 44 1932 220933 · mobile 00 44 777 182 1359