Phil Mitchell
Co-founder of Discovery-Based Retail. Co-author of two books on retailing. Consults for and teaches retailers to improve operations.

Hardware Retailing spoke with Phil Mitchell, founding partner of the consulting service Discovery-Based Retail. Here are his thoughts on pricing in the independent home improvement industry.

HR: Do you encourage attempts to match online prices?

PM: It absolutely depends on how a store is slotted within its competitive arena. The strategy for a convenience store is different from that of a regional competitor and a destination store, for example. But, as a rule, I do not recommend matching online prices. People are not only evaluating price, but they're also considering value. Part of the value that a brick-and-mortar store offers is the tactile experience—holding a drill to check for balance, for example. The store also offers shoppers the advantage of taking items with them to solve immediate needs. Those attributes have value.

Create the most visually attractive shopping environment possible, focus on creating pleasant experiences and then communicate the value you have created.

I had a friend who once told me, "Price is not the most important thing; it's the only thing." Thankfully, he was wrong.

If price were the only focus, there would be only one winner, and we see there are a lot of winners. It's a matter of understanding where competitors are priced, setting a price within a reasonable range and then working to understand what other value you offer. Once you understand that value, constantly reinforce it with your communication pieces.

HR: How have changes in price impacted what retailers carry in traditional stores?

PM: The first thing that comes to mind is a move toward privately branded items. If the quality is good, and that's an important "if," then an alternate brand can offer additional value and make price attractive.

HR: How are successful independent retailers maintaining profit margins while trying to compete on prices with big-box stores such as Lowe's and online marketplaces like Amazon?

PM: There are three elements to profit margin: cost, retail price and expenses. So the retailers you have described have to buy right,

> "Single stores or stores with a multi-store platform POS will look to that system for sales, cost of goods sold and gross profit information."

which means they constantly examine their sourcing. They have to be aware of what prices are out there and then assign margins that are competitive enough to appeal and attract customers. They then have to constantly ride expenses to ensure the margin is adequate to achieve their profitability goals.

HR: How should employees be trained to talk to customers about pricing?

PM: Your employees should be aware, in general terms, what is meant by variable pricing. It should be communicated to them that your prices are fair and necessary to fund their salaries. The amount of information that would be shared would vary from store to store and certainly the level of the job.

HR: How should employees deal with common customer reactions to prices?

PM: The common response, it seems, regardless of pricing is, "You're too darned high" or "I can buy it somewhere else for less." But, honestly, I believe if you were selling for 10 cents on the dollar, you'd probably still hear that. Employees should always be courteous, of course, but an awareness of brand and the value-added equation may help customers process it all.

HR: What should employees be trained to do when they see customers price-shopping on their phones?

PM: Employees should be available to any customer at any time and, once again, I think the communication of value is important.

But, remember, knowledge is king. On higher-ticket items, particularly, knowing what prices are out there is extremely helpful. If someone is comparing prices, you're not caught off guard. Perhaps your saw has a bonus blade or your drill comes with an included option. Price against price does not always paint the entire picture.

Q&A