

WHAT TO SELL? WHAT PRICE TO CHARGE? ASK THE DATA

What's the best way to get a discount on your morning coffee at Starbucks? Well, if you live in Manhattan, you could get up an hour early and take the subway downtown to Brooklyn. A single espresso is 10 cents cheaper than in your neighborhood, as are a coffee latte and slice of lemon pound cake. But a muffin runs 10 cents more uptown in Marble Hill, and a tall Pike's Place Roast costs \$1.70 no matter where you live.

Starbucks is one of many retailers using sophisticated software to analyze, store by store and item by item, how demand responds to changes in price. What customers are willing to pay for certain items depends very much on the neighborhood or even the region of the country where they live. Shoppers in certain locations are willing to pay more.

The Duane Reade drugstore chain, recently purchased by Walgreens, is also adept at adjusting prices. Software analyzing sales patterns found that parents of newborn babies are not as price-sensitive as those with toddlers, so the company was able to raise prices on diapers for newborn infants without losing sales. The chain's information systems also showed how to adjust pricing based on location. Shoppers at the Duane Reade store near 86th Street and Lexington Avenue pay 20 cents more for a box of Kleenex and 50 cents more for a bottle of Pepto-Bismol than customers in Harlem.

Business analytics software such as that used by Duane Reade typically analyzes patterns in sales data to create a "pricing profile." A store near a big commuting hub might discount convenience items to present a low-cost image while one in a family neighborhood with many young children might discount baby items to get more people through the door.

Analyzing large troves of digital sales and customer information from both online and physical stores also helps retailers decide what to sell as well. Fashion Web site HauteLook confirmed that Southerners buy more white, green, and pink than people from other regions, while ShopItToMe learned that the average woman spends less on fashion in Dallas than in Washington D.C. and that women are thinner on both coasts than in the U.S. heartland and wear more petite clothing and shoe sizes meant for smaller women.

How much of a difference does this knowledge make? Lots. 1-800-Flowers, which sells flowers and gift baskets online, has used analytics software from SAS Inc. to tweak its online storefront and marketing activities. The software helped the company quickly record and analyze buyer profiles to help improve targeting of its product, determine what "specials" to offer, and plan sales and marketing strategies based on an understanding of real customer needs. The company is able to quickly change prices and offerings on its Web site—often every hour. In the first half of 2010, 1-800-Flowers used more finely targeted Web pages and e-mail promotions to improve the conversion rate of Web site browsers to buyers by 20 percent.

