



Leading Health & Beauty Company

Skincare Manufacturer Improves Margins with New Pricing Strategy

► SUMMARY

This health and beauty company recognized that pricing and retailer margins for their flagship skincare products were too low and impeding profitable growth. The company engaged Clarkston to evaluate pricing, trade investments and price elasticity models; establish a new pricing strategy; develop retailer sell-in tools; and help drive flawless execution at retail. The outcome of this initiative is expected to help the skincare brand reclaim its desired consumer price to value proposition and generate an incremental \$11.6 million in profits for the manufacturer and its retailers in the second half of 2015.

► CHALLENGES & SOLUTIONS

Challenge 1: *The company's flagship brand was priced too low, impacting the manufacturer's gross revenue, generating low retailer margins and resulting in a misaligned price to value proposition for consumers.*

Solution: Leveraging Clarkston's price optimization and analytics capabilities, the team married art and science to help this health and beauty company develop a comprehensive pricing strategy for their leading brand. Clarkston started with an integrated fact base to help to establish a robust set of quantitative inputs. These included:

- Nielsen price elasticity study
- Nielsen brand switching and interaction analysis
- Enhanced skincare segmentation analysis
- Retail store price checks
- Stakeholder interviews
- Brand strategy, current and future range, and self-medication innovation plan
- Analogous category experience in consumer packaged goods (CPG)
- Proprietary benchmarking & research

Using this comprehensive set of information and considering multiple options, Clarkston narrowed to two scenarios, conducted financial simulations and performed sensitivity analyses to gauge the range of possible outcomes. These results led to a recommended list price and MSRP that would help achieve the company's financial objectives while supporting higher retailer margins—thus alleviating customer margin concerns. Specifically, list costs increased 10 percent and retail prices increased 15 to 18 percent. During the process, Clarkston also identified multiple adjacent initiatives to further enhance gross margin of the product line without a price change; one such example, was changing the packaging size to better align with the product's closest competitors.

Challenge 2: *The company wanted to seamlessly implement increased pricing at retailers.*

Solution: This new, increased list price and MSRP needed to be implemented at key retailers like Walmart, Target, Costco, Walgreens and CVS. Clarkston developed a tailored contact strategy, created customized sell-in tools, and provided coaching and guidance to expedite trade adoption. During this process, Clarkston helped the client reposition pricing with customers as a mutually beneficial activity to drive category growth and profitability, despite overwhelming initial customer concerns and the desire for lower everyday price points.

► RESULTS

As a result of this pricing project, this health and beauty company expects to achieve the following business benefits:

- Realize \$11.6M in incremental profit pool during the second half of 2015, \$4.1M for the skincare manufacturer and \$7.5M for the retailers;
- Increase retail margins between 15 and 20 percent versus the base;
- Improve customer relations with retailers and increase support for upcoming strategic initiatives at trade;
- Enhance self-sufficiency with embedded price optimization and analytics processes.

▶ **PARTNERING FOR SUCCESS**

This health and beauty company partnered with Clarkston to help create and implement a pricing strategy that would improve margins and help them operate more strategically with key customers. Clarkston and Clarkston Executive Alliance leveraged their in-depth consumer products industry expertise to help the company not only determine its new pricing strategy, but to also seamlessly implement it at key retailers to ultimately improve customer relations. In addition to reaping the benefits of the project at hand, this skincare manufacturer is now equipped to continuously monitor pricing-related analytics, and make changes as needed with retailers.



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