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Grainger's Web Pricing Strategy

(MDM Article Series Summary)

As of Aug. 1, 2017 W.W. Grainger Inc.'s new web pricing strategy was effective for all 1.5 million SKUs. The pricing strategy was launched to reverse unfavorable market share trends Grainger experienced in certain market segments in recent years. A series of articles on this topic, authored by Lee Nyari of the Innovative Pricing Groups, were initially published in Modern Distribution Management. The articles provide an in-depth analysis of the strategy, its impact on the distributor's current earnings and future outlook, as well as lessons other distributors can learn from Grainger's experience. The article series with the full analysis, is available for download for MDM subscribers at https://www.mdm.com/products/category/2039/product/10291**. Here we provide a summary of these topics.**

- **Grainger's core pricing issues are not unique.** In many ways, the pricing problem Grainger is trying to address are typical pricing challenges in B2B distribution. The problems result from the cumulative effect of overpricing in seemingly "less-critical" or "less sensitive" market segments. This is a common mistake by many distributors, which is described in detail under "Strengths and Limitations of "Charge Higher at Smaller Accounts" Pricing Strategies" (see http://www.pricinginnovation.com/Pricing-Practitioner-Blog.php). Also, like other distributors, Grainger is finding its pricing problems are being increasingly exposed, due to growing industrywide price transparency – i.e., as sales shift to e-commerce channels and customers take advantage of easier, electronic ways of comparing prices.
- **Certain aspects of the Grainger's web pricing strategy seem to be working.** The distributor's pricing new, lower web prices are making the distributor more competitive, thereby opening real growth opportunities in previously underpenetrated markets. These benefits are achieved with relatively low chance of igniting or escalating a large scale, industrywide price war.
- **Evidence suggests Grainger's web pricing strategy is not (yet) optimal.** In its current state, the strategy seems to fall short in several aspects. First, the pricing actions are hurting short term performance measured in absolute margin dollars. Second, significant long-term, profitable growth opportunities may also be compromised, unless the web pricing strategy is further refined.
- **Overly simplistic segmentation seems to be the key challenge/problem area.** The segmentation scheme currently driving Grainger's web prices appears to be overly product-myopic. It seems to lack the level of sophistication needed to deal with the highly variable customer demand patterns in the non-contracted business segment, and the mid-market generally. The "sub-optimal" prices resulting from the overly simplistic segmentation are causing Grainger to forego otherwise attainable (a) margin opportunities, due to web prices being too low in some instances, as well as (b) long term, profitable growth/volume opportunities, due to web prices being still too high in other instances.
- **Conclusion: more is likely to come.** The new strategy may be "good enough" so pricing is now less of a barrier, as Grainger steps up non-price marketing efforts in the mid-market. Still, as Grainger seeks substantial profitable growth in this segment, the distributor's web price structure is likely to get progressively sophisticated. In pursuit of these objectives, Grainger will likely increasingly leverage its industry-leading analytics resources, data assets, and pricing technologies.