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Key Value Items (KVIs) in retail: how to improve profitability without hurting your price perception.

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For most retailers, the current trading environment is very challenging. On one side, profitability is being impacted by a level of inflation caused by increased supply-chain and other costs. And on the other side, a cost-of-living crisis means that few have the capacity to accommodate more across-the-board price rises without making some very difficult decisions.

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However, when the market headwinds are this strong, doing nothing is also not an option. Luckily, there is an alternative solution that enables you to attract consumers and convince them to spend with you, while also driving increased margin.
To achieve this, you need a deep, fundamental understanding of your key value items (KVIs) – the products that have a disproportionate impact on your ability to attract consumers and improve the perception of your brand.

Know your KVIs

While some experts consider 'key value item' to be a single umbrella term, we would argue that these products actually fall into three separate categories, each one serving a different purpose. So, let's look at how each one is defined, their characteristics and how they influence consumer behaviour.

Destination items: These are the products that your consumers plan ahead to buy. They are high value, highly visible, and likely to be the subject of plenty of comparison before a purchase is made. Not just in terms of price, but whether they might be easy to return, or come with additional support that makes the purchaser's decision easier when it comes to making a significant investment.

You may not sell these items in high volume or at high margin, but their strength is in their capacity as your competitive weapon. Once you have established which brands you want to compete against, you can develop your product strategy accordingly, using destination items to position yourself against your competitors according to where you want to be perceived in the market.

Everyday items: As the name might suggest, are the products bought regularly by your consumers. These habitual, day-to-day items account for a large portion of your turnover and their prices are often closely monitored by your buyers. Changing these prices can risk changing the customer's price perception of you as a retailer, which often means selling them at high volume, but low margin.

Impulse buys: These are the items that your customers buy on the spur of the moment. They are neither planned or regular purchases, which means consumers have not compared prices, nor do they have a regular benchmark. These products offer the greatest opportunity to drive a higher margin without risking your customer's price perception.

Getting the combination right

The right composition of your KVIs is not fixed. It depends on seasonality, demographics that you target, sales channels, even the weather. But your composition will always consist of some combination of these three categories. And by targeting your different customer segments effectively, you can significantly improve your competitive advantage, brand perception and profitability.

In the world of bricks and mortar, TK Maxx offers an excellent example of how retailers can combine the three categories to terrific effect. After being lured by destination items such as discounted designer handbags, shoppers will then browse rows-upon-rows of reasonably priced everyday clothing, before being quietly tempted by checkout displays that offer everything from designer sunglasses to Bluetooth headphones.

Online, the opportunity for retailers is even greater. Because not everyone has the technology integrated into their websites to suggest potential impulse buys, the ones that do have a significant head start.

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When purchasing from Amazon, for example, you cannot fail to have noticed the 'Buy it with' option that pre-selects several additional items for you to add to your basket at the click of a button. Armed with your sales data and by tracking user behaviour online, you can quickly hone your key value item offering.

All you need is data

It's entirely possible that you might be able to instinctively categorise some of your products according to whether they are a destination, everyday or impulse purchase. But the good news is that there are machine learning and optimisation techniques that can be applied to your sales data to do this for you – across your entire inventory. With even six months of data, it is possible for any retailer to set up a pilot – online or in the real world.

Improve profitability

We recently helped a large European retailer to identify and structure their product lines to ensure the right key value items were being positioned according to their different customer segment and sales channel combinations. Once we had done the market research, it was very clear how these items impacted brand preference, and it allowed the retailer to make a number of positive changes to improve profitability.

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Pricing power

When combined with the right price positioning, a KVI-based product strategy offers a powerful combination that enables you to improve brand perception and profitability at the same time. And in the current trading environment, that is a rare thing indeed.

Get In Touch

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Alex is a retail pricing expert, with more than 25 years' experience working in pricing and revenue management. He has advised clients in the UK, Europe, North America and Australia across both B2C and B2B – delivering profit improving strategies and tactics through the application of price and promotion optimisation, revenue management, cost-to-serve optimisation, customer value and segmentation.

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