

# Understanding Zone and Level Retail Pricing Options

**Zone or level pricing options** are an essential part in keeping store retails competitive. The difference between the two is that level, or sometimes called “percentage pricing,” is a system that applies profit margins to complete categories.

*For example:* A cough and cold category may have a 38 percent profit margin, while oral hygiene may have a 29 percent profit margin. Zone pricing employs more of a science in applying retails and offers a fine-tuned method, allowing the store to remain competitive while maximizing potential profitability.

Zone pricing considers not only the category, but also the subcategory, brand name, and size.

*For example:* Advil 24-count tablets will offer a larger margin than Advil 100-count. This is because the 100-count is a more popular size and is subsequently more price-sensitive than the 24-count.

The science of zone pricing recognizes price-sensitive items while targeting blind or less-shopped items and applies the appropriate higher margins. Wholesalers will offer one to three zones to choose from, or, in some cases, one to six zones. They will either be labeled Zone 1 through 6 or Zone AA to E. Zone 1 and Zone AA will offer the smallest of margins. It is important to note that chain drug stores use a zone pricing method.

## **Opinion:**

It is my strong opinion that ***every independent needs to be on zone pricing and should never consider a level or percentage pricing program.*** As mentioned above, zone pricing will keep you competitive and help you stay profitable. As long as the chain stores use zone pricing, you simply have no option but to do so as well.

## **Tip:**

Ask your wholesaler to do better than what they offer: ask them to mix your zones. Personal care products are the most price-sensitive items in your store. Hair care, skin care, oral hygiene, feminine hygiene, shaving, deodorant and contact lens solution products will always be low-margin items. Along with baby care, these are likely the categories of which you sell the least. The combination of these categories most likely does not add up to one percent of your business, but *they play an important role in your pricing image.*

Consider using the most aggressive zone for these items while applying higher margins to the remaining categories in your store. Reducing personal care product retails by 6 percent or more will make little change to your bottom line but will offer great strides in improving your pricing image in the eyes of the consumer.

-- Gabe Trahan, Senior Director of Store Operations and Marketing