

Optimizing Wants and Needs

MGM Resorts taps into the science of analytics for retail pricing

by M.V. GREENE

MGM Resorts International is a well-known and highly regarded purveyor of the plush.

As a Las Vegas-based global hospitality company, MGM Resorts operates some of the heavyweights of the hotel-casino brands — Bellagio, MGM Grand, Mandalay Bay, The Mirage — drawing hordes of visitors to its destinations each year for vacations, events and conferences. Some \$6.7 billion of its \$9.2 billion in 2015 revenue came from its casinos and hotel rooms.

MGM Resorts is also a formidable retailer, generating more than \$200

million in pure retail sales in 2015. Food and beverage sales brought in another \$1.6 billion.

A footprint like that operated by MGM Resorts may not come to mind when thinking about traditional retail, but MGM relies on many of the same principles — especially weighing price against demand.

More so than many traditional retailers, MGM has to focus on determining how to price items based on consumer “want and need,” says Steve Schnur, the company’s director of merchandise planning and analytics. To achieve the right balance

between want and need, it has pushed hard since 2015 on the use of sophisticated price optimization technology tools. The company uses these tools in more than 150 store locations within 15 hotel casino properties and resorts, merchandising a product line that runs the gamut from Rolands to Rolexes.

At stake are opportunities for revenue growth and customer satisfaction.

DIVERGENT NEEDS

A snapshot of MGM Resorts properties shows there are high-end customers who require the very best amenities and are willing to pay several hundred dollars a night for luxurious hotel room stays. There are convention-goers on company-sponsored trips who are constrained by expense accounts. There are those coming in to

Export	Zone Name	Item	UIC	Description	Unit Cost	Cost Status	Current	Margin	Suggested	Price Status	Lock	New Month	New Product	New Sales	New MSU List	Elasticity
<input checked="" type="checkbox"/>	01	2845	893372894	Olde Timer Vcl 2 Leat Hills	\$8.50		\$17.99	52.75%	\$16.79	Red	<input type="checkbox"/>	49.87%	\$6.29	\$248.83	\$4.85	1.40
<input checked="" type="checkbox"/>	01	5382	912846158	Olde Timer Souvenir Buckle	\$3.19		\$1.99	20.00%	\$4.19	Green	<input checked="" type="checkbox"/>	23.87%	\$1.00	\$8.97	2.54	1.13
<input checked="" type="checkbox"/>	01	5348	912846158	Olde Timer Souvenir Buckle	\$2.79		\$1.99	30.08%	\$4.19	Green	<input type="checkbox"/>	33.41%	\$1.40	\$8.07	2.14	1.13
<input checked="" type="checkbox"/>	01	0125	090000015	Momma P Hot Sauce 12 oz	\$3.31		\$1.49	5.36%	\$3.69	Red	<input type="checkbox"/>	10.30%	\$0.38	\$151.01	\$5.13	0.91
<input checked="" type="checkbox"/>	01	0132	090000018	Momma P Hot Sauce 42 oz	\$8.10		\$9.89	18.10%	\$10.50	Green	<input type="checkbox"/>	23.53%	\$2.49	\$166.58	\$4.82	1.00
<input checked="" type="checkbox"/>	01	0127	090000021	Momma P Med Sauce 12 oz	\$3.31		\$1.49	5.36%	\$3.69	Green	<input type="checkbox"/>	10.30%	\$0.38	\$185.39	104.44	1.00



Las Vegas in a rush for a day or two to attend sporting events or concerts, and there are penny-pinching families embarking on their first vacations in years seeking modest room rates.

“If you are paying \$600 a night for a room, are you expecting a \$2 bottle of water or do you really care if it is \$4?” Schnur says.

For many retailers, pricing merchandise like a bag of chips, T-shirt, pair of shoes or six-pack of beer is a no-brainer. Chips can only retail for so much at a convenience store, and that T-shirt will have a ceiling on its cost at the local mall.

But Schnur says when customer need and want preferences are factored into the retail operations under the MGM Resorts umbrella, the pricing game must be played differently. “Need” tends to be things that consumers must have to get on with their lives, while “want” items are enticements consumers would like to have, according to Schnur.

“If you are thirsty and you are going to buy that bottle of water, we ask, ‘What’s the right price for it that is still profitable?’” he says. “We spend a great deal of our efforts separating the need from the want.”

To help get a better grasp on optimizing pricing structures, MGM began working with Revionics, which provides merchandise optimization to companies through what it calls a science-based model that features pricing recommendations, self-tuning price scoring and real-time “what-if” price planning.

State-of-the-business data is distributed to the Revionics platform; users receive results through a graphical

dashboard that reports on various pricing strategies.

FILTERING OUT NOISE

Pricing optimization is nothing new to retail, but with advances in using data to generate predictive analytics, new software-based tools such as those offered through Revionics platforms have proliferated.

As retailers face growing competitive threats to their margins amid an environment of exploding shopping channels and smart device-carrying consumers with information at their fingertips, pressure also has increased to get the pricing right by removing the guesswork in the heads of merchandisers.

Optimization strategies fueled by big data are being applied to the full lifecycle of products, from introductory pricing to promotional pricing to markdown pricing.

“Whatever that moment in time or that [retail] space or environment happens to be, pricing optimization is designed to provide that proper price or maximum value to retailers,” says Mike Isom, Revionics vice president of global price strategy.

In this new environment, retail executive management is convinced that how its enterprise manages price is central to successfully increasing profit, enhancing market presence and driving customer loyalty. Isom characterizes the current retail merchandising environment as one of “noise” — similar to a cable TV platform that gives viewers 500 channels to select from.

In developing pricing strategies, retailers are challenged to filter out the noise of the market to ensure they arrive at the right pricing solutions — not only for their organizations but also for their discerning customers.

“There are a myriad of ways that products can be delivered to the customer today,” Isom says. “Being able to understand your customer and being sensitive to their pricing needs and desires is really what optimization is all about. It’s really important to filter

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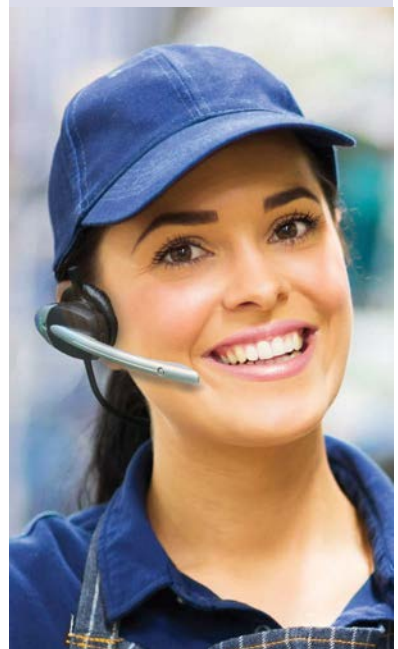
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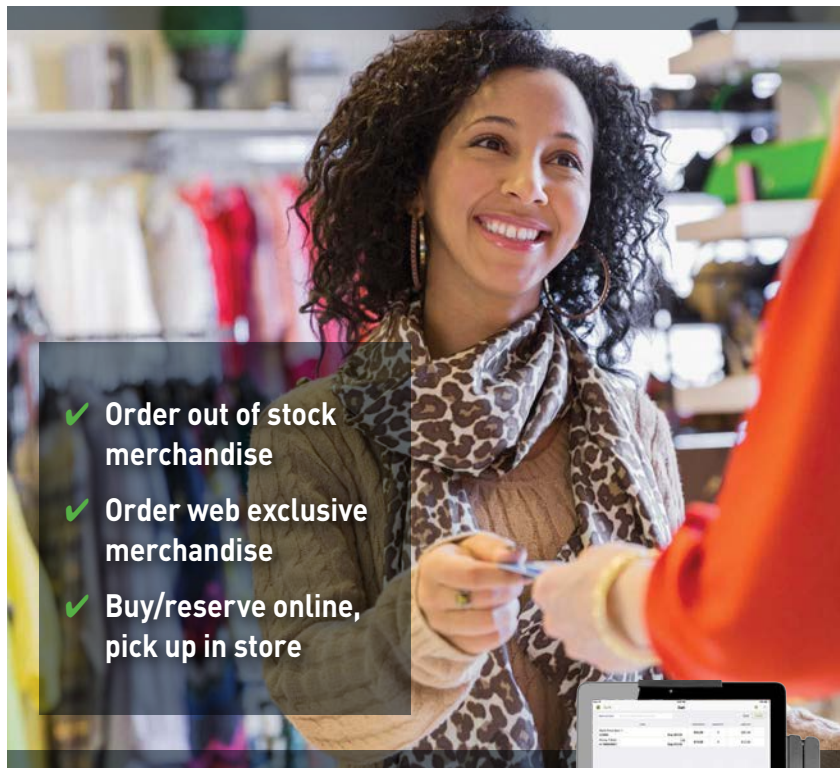
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through all the noise and help the customers not have to listen to all of those voices out there trying to sway them.”

Isom says pricing optimization can also manipulate historical data to predict and understand how customers behaved during certain periods to help determine the types of merchandise that will entice them in the future.

PRICING THE MIX

Schnur acknowledges that hospitality retail pricing can get tricky. MGM does business in various forms with untold intangibles hovering over pricing decisions. Retail outlets could be in the form of a shop near a swimming pool focusing on loungewear and souvenirs, a store in the lobby selling convenience goods and general merchandise or a well-appointed shop merchandising a class of goods that includes brands like Louis Vuitton.

Required is a mix where pricing scenarios must be adjusted for particular kinds of consumers, events and wants and needs, according to Schnur — deciphering data to generate analytics on its broad base of customers allows MGM to account for factors such as inventory levels, flow of goods and seasonality.

“It really depends on the category,” Schnur says. “When you start to separate the want versus the need, the analytics are completely different. We try to understand why the guest is buying it, what the pricing is, what are the right transition periods to get out of it.”

Industry consultants and analysts term the practice of optimization as “price elasticity.” Schnur says the challenge for merchandisers also is to price accordingly while still realizing profit goals.

“I can charge \$30 for a pack of cigarettes,” he says. “You’re going to pay it if you are desperate. But it’s not the right thing to do.” **STORES**

M.V. Greene is an independent writer and editor based in Owings Mills, Md., who covers business, technology and retail.