

12.16: History of Odd Pricing

Learning Objectives

- Explain the concept of KVC and KVI and their impact on retail pricing strategy

One of the latest pricing strategies used by retailers is based on the concept of KVCs and KVIs. Key Value Categories and Key Value Items are a holistic method of pricing that do not rely exclusively on cost, demand or competition to make pricing decisions.

In the 1970s and 1980s, mass merchants developed the concept of “Key Items.” Key Items were identified by retailers during the planning phase of an upcoming season as a way to ensure that products perceived to be most important to the customer base are given extra attention by the retailer. For retail management, it was a way to cull broad assortments of products to ensure investment in the “right” products, and lists of roughly 200–300 Key Items were developed so that all areas of the business could work together on a common objective—maximizing the sales revenue of Key Items.

Key item strategy involved several pieces working together:

- Management inspection of buying plans to ensure proper product quantities, flow, and replenishment
- Product development departments developing the appropriate supply chain to ensure consistent quality and source of supply
- Store presentation guidelines (plan-o-grams) that would be consistent in every location to leverage impact and “market basket” benefits
- Promotion plans to take advantage of deep quantities and store presentations
- Pricing to be either especially sharp against competition or premium pricing to reflect the retailer’s strong position in the key item product



What is an example of a Key Item? They vary depending on the retail market, but most have one thing in common—they tend to be a basic or staple item in the retailer inventory. One of the earliest examples of a Key Item in apparel retailing was the basic pocket t-shirt in the 1980s at Gap Stores. What made it special was the unique high-quality of the product and that it was displayed in twenty colors (most competition at the time would carry 3 to 4 colors of that item). A more current example would be supermarkets displaying cases of soda in such quantity that they are displayed in the form of castles so as not to be missed.

Over time, as more retailers have embraced this strategy, the Key Item terminology evolved into Key Value Items or KVIs. And further, to take advantage of the extra transactions KVIs stimulated in related products, Key Value Categories or KVCs became another area of focus for the retailer. Both KVI and KVC lists have expanded due to the advances in data analytics, allowing retailers to maintain scrutiny of over 1,000 products. Commercial software applications have been developed exclusively to help retailers plan and track KVIs and KVCs.

KVIs and KVCs are probably the best example of how retail pricing strategies directly support high-level business objectives. In addition, retailers gain more leverage and a bit more control to make pricing decisions based on their priorities instead of reacting to purely external forces.

Practice Questions

<https://assessments.lumenlearning.co...sessments/9286>

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