

SUMMARY

Chapter 11 : Retail Pricing

11.1 Concept of Retail Price

Most buyers decide to buy a product based on its price. It is the most important factor that determines the success of a product.

it requires an assessment of the current business scenario, market situation and a thorough understanding of the consumers. Pricing needs to have flexibility. This dual assessment of costs and the market makes pricing a very complex task.

Price is the amount of money that the good or service is sold for. In other words price is the value or worth of a product or a service.

Pricing is crucial ingredient of the marketing mix because it is a Flexible Variable, creates first impressions, is a key to Sales Promotions and is a tool for comparison.

11.2 Costvs Price

Cost is amount of expenditure incurred for a specified activity/product. From consumers viewpoint, value is the ratio of what consumers receive to what they have to pay for it. Cost determines the price of a product or a service and not vice versa. Hence, price can be said to be the subset of cost.

11.3 Elements of Retail Price

Variable Costs depend on the production level. **Fixed costs** are costs that don't change based on the activity or production level.

Total costs = Total Fixed cost + Total Variable Cost

Markup is the amount earning on a single product sold out by the retailer.

Markup = Retail price – Cost

Break Even Analysis is a useful analytical tool to determine how many units have to be sold in order to achieve a break even profit.

Break-even quantity = Fixed costs / (actual unit sales price – unit variable cost)

11.4 Objectives of Retail Pricing

The objectives of the company are the starting point for pricing decisions.

Usual pricing objectives are :

- ✓ Profit Maximization
- ✓ Revenue Maximization
- ✓ Market share increase
- ✓ Counter Competition
- ✓ Sales maximization
- ✓ Capacity Utilization
- ✓ Quality Leader

11.5 Factors affecting Price Decisions

- **External**
 - **Nature of competition** – a monopolist can dictate price.
 - **State of economy** – recession or boom and inflation affect price.
 - **Distribution Channels**, intermediaries and influence of the retailer.
 - **Consumers perception** of price and their expectations.
 - **Government Regulations** on MRP and taxes.
- **Internal**
 - **Image retailer wants to project** – mass or exclusive or upmarket.
 - **Store Location** and the neighbouring market impact price.
 - **Product range** - width and depth of the range and price relationship between them. Basic and fashion products have to be priced differently.
 - **Product cost** has to be covered by the price.
 - **Price objective** of the retailer.

11.6 Pricing Strategies

- **Market Penetration** is an aggressive policy followed when the product is basic or staple. It aims to capture a large market share by selling at low prices. Low prices discourage the competitors from entering the market. This strategy is appropriate when consumer is price sensitive and demand elastic.
- **Market Skimming** is used when the retailer has a unique product. The objective is to 'skim' the maximum revenue possible before the competitors emerge. It charges a high price initially and then reduce it gradually. It is a form of price discrimination over time.

11.7 Methods of Setting Price

- **A. Cost-plus pricing method** - Cost of product is calculated and a fixed amount of profit is added to arrive at a selling price. This policy ignores the prices set by competitor and the demand for that product.

$$P = (AVC + FC) X (1 + MU\%)$$

- **B. Market or demand based pricing method** is based on intensity of demand. It is calculated by working backwards from target selling price. This method relies on good knowledge of consumer price sensitivity and awareness levels. It is usually used for seasonal products wherein the demand varies.
- **C. Competition based pricing method** prices based on the level of competition. The various options available to a retailer to price a product keeping competition in mind are:
 - Meet competition
 - Price above competition
 - Price below competition

11.8 Pricing Approaches

- **Multiple-Pricing or Multi unit pricing** : Selling two or more of the same product at a unit price that is lower than the unit price if only one is purchased.
- **Price Bundling** is a variation of multiple pricing wherein two or more different products are bundled together and sold as one unit.
- **Leader Pricing** involves selling of a few items at a deep discount in order to increase traffic and sales on complementary merchandise.
- **Every day low pricing (EDLP)** is adopted by retailers who continually price their merchandise lower than that of competitors in that area.
- **Odd pricing or psychological prices** ends in odd numbers, thus it is a price just below an even amount or round figure, such as \$1.99 instead of \$2.00. They give an illusion of value.
- **Single pricing or one –price** policy refers to the charging of same price for same product under similar circumstances.

11.9 Calculating Retail prices

$$\text{Markup} = \text{Retail price} - \text{Cost}$$

Markup % = (markup X 100) / Retail price

Markup % = (markup X 100) /cost price

11.10 Pricing Challenges for Retailers

Retailers face numerous pricing challenges :

- Customers' have become increasingly price sensitive. They have value conscious and will scout the internet for the best bargains.
- Amplified pricing aggressiveness from competitors. A lot of emphasis is being laid on promotions and discount sales.
- Increased price transparency due to ready access to prices online
- Need to provide consistency in price across channels

11.11 How to reduce Price based Competition

Strategies that can help a retailer reduce price based competition :

- A retailer should distinguish his merchandise through unique product features that are difficult for competitors to emulate. Retailer must promote the distinguishing features to create customer awareness.
- Retailer can offer private label merchandise that has unique features or offers better value than competitors.
- Store or Brand Positioning : when a retailer identifies a well-defined market segment. A unique store or brand positioning will help reduce price based competition.
- Skim Pricing shifts focus away from using price competitively is effective when the product delivers, a unique value or when demand is relatively consistent.
- Focus on value, not price : The retailer should provide other benefits to the customer. Emphasize product features, service, quality etc. to build customer loyalty towards the brand.
- Build loyalty to the retailer, not price : Developing a long term relationship with customers that keeps customers coming back even when the price goes up.

11.12 Legal and Ethical Pricing issues

A business operating in today's competitive environment might be tempted to try a variety of unethical pricing strategies to increase market share and profits. Some of them are : Opportunistic Pricing, Price Discrimination, Price Fixing, Price Wars , Predatory pricing, Flexible Pricing and Bait and switch selling .

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