UNIT 10 PRICING IN RETAIL

Structure

10.0 OBJECTIVES

After going through this unit, you should be able to:

- discuss the factors affecting retain price;
- describe the government role in retail pricing;
- compare the retail pricing for manufacturer/wholesalers and other suppliers; and
- explain the framework of development of retail pricing strategy.

10.1 INTRODUCTION

Retailer needs to put a price to goods or services it desires to sell to consumers. The pricing of the goods or service determines whether the retailer is able to make profit after covering all the cost elements, but while doing so it cannot forget that the consumers to whom its goods or services are sold feel satisfied. While finalizing its pricing strategy the retailer needs to ensure that it is in tune with its image or positioning; and must be consistent with its sales , profit, and return on investment goals. A big key to successful retailing is to provide a really good value to consumers – whether the consumer has bought the merchandise from a discount store or an average retailer or a prestigious store. In the following sections youn shall take a look at the factors affecting retail pricing in relation to consumers, government, wholesalers and competition. You shall also look at different issues with respect to developing a retail price strategy.

10.2 FACTORS AFFECTING RETAIL PRICE

There are several factors that have effect on retail pricing, some factors have a greater effect while there will be some which have minor to moderate effect. Figure 10.1 shows factors that have influence on retail pricing strategy.

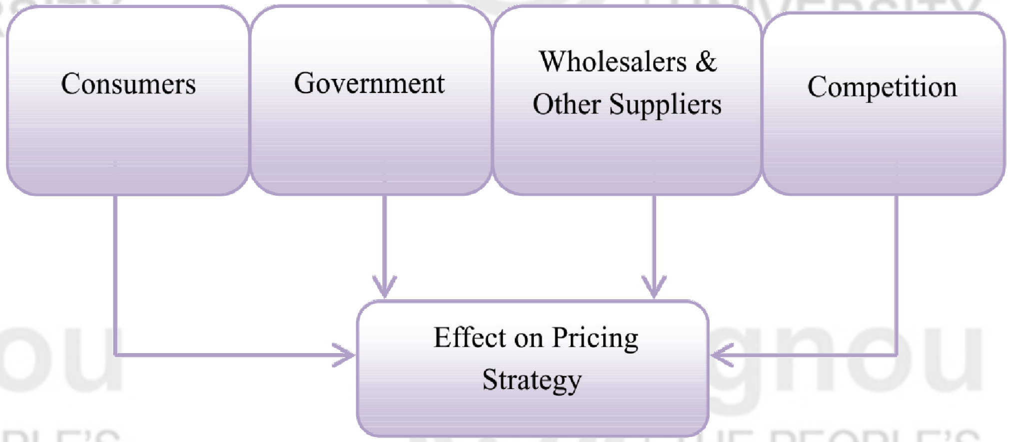


Figure 10.1: Factors Affecting Retail Pricing

Source: Adapted from Berman Barry & Evans Joel, 'Retail Management', 10th Edn, Ch. 17 pp 500, Pearson Education Inc., New Delhi, 2008

It has been clear from the figure that pricing strategy had a great impact on consumers, Government and wholesalers to strengthen the healthy competition. Let us learn them in detail.

10.2.1 The Consumers and Retail Pricing

When you think about consumers and pricing you cannot forget about the price elasticity. For a retailer it is important to understand how the pricing is related to the consumer demand for a particular product. Price elasticity is defined as - the sensitivity of consumers to price changes in terms of the quantities they will buy.

The demand is ***price elastic*** when a small percentage change in price results into substantial percentage change in the number of units bought. The price elasticity generally works for those items which are not urgent in nature i.e. the consumers can wait for the right price like for cereals or commodities required on day to day basis and the consumers hold some stock or there are acceptable substitutes.

The demand is ***price inelastic***, when a large percentage change in price leads to small percentage change in the number of units bought. The urgency of purchase for such items is high, the consumers cannot wait for prices to come down like in case of medicines as they are required on urgent basis; or there are no acceptable substitutes (sometimes this is observed with brand or retailer loyalty). The demand is ***unitary elastic*** when the percentage change in price is equal to percentage change in number of units bought by the consumers.

Price elasticity is computed by dividing the percentage change in quantity demanded by the percentage change in price charged.

Elasticity = (Quantity 1 – quantity 2)/ (Quantity 1 + Quantity 2) ÷ (Price 1 – Price 2)/ (Price 1 + Price 2)

Let us take an example of Onions when they were at the peak of their price due to shortage of onions in the mandis. In the following example you shall see the behaviour of a restaurant consumer.

Table 10.1: Elasticity of Demand

Price	Quantity bought by a restaurant in Kgs.	Elasticity of demand calculation	Elasticity of demand
Rs 40	10		
Rs 30	20	(10 -20)/30 ÷ (40-30)/70	-0.33 ÷ 0.143 = -2.23
Rs 25	24	(20-24)/44 ÷ (30-25)/ 55	-0.09 ÷ 0.09 = - 1.0
Rs 20	25	(24-25)/49 ÷ (25-20) / 45	-0.02 ÷ 0.11= - 0.18
Rs 15	30	(25-30)/ 55 ÷ (20- 15)/35	-0.09 ÷ 0.143 = - 0.63

From Table 10.1, you can notice the elasticity value in negative, because of purchase of quantity goes up as the price decreases.

In the above example you can observe that the purchase of quantity of onions increase as the price decreases. The percentage increase in quantity is highest i.e. 33% when the price decrease is just 14%, hence, the demand elasticity is 2.23 (ignore the negative sign). Thus, you can say that the demand is elastic when the price changes from Rs 40 to Rs 30. This could be due to the mental state of consumers who are worried with the price and supply situation, making consumers prone to price or demand elasticity. But when the consumer sense that the supply situation is getting to normal, the percentage increase in purchases tend to be same as the percentage decrease in price from Rs 30 to Rs 25. Thus, you can call the demand elasticity as unitary at a price of Rs 25. As the situation turns further normal in terms of supply of onions, you see that even when the price decrease by about 11% the quantity increase is just 2%, probably the consumer is ready to wait and watch the situation to further improve in terms of onion prices, as he is already holding some stocks. Thus at the price of Rs 20 the demand elasticity is inelastic. There is slight improvement in purchase quantity when the price of onions comes to a normal situation, even though the demand elasticity is still inelastic.

From the above example it is clear that the consumers' state of mind is also an important ingredient while deciding on the demand elasticity of the price.

In retailing computing price elasticity for a single item is very difficult as the retailer deals with thousands of products/items. Thus, retailer works with the category buying behaviour of consumers, and takes into account its historical trends vis-a-vis price movements in a category for predicting the probable increase or decrease in demand.

Berman & Evans (10th edn., 2008) have stated that price sensitivity varies by market segment, based on shopping orientation. There are five major segments in the current mall culture as given here below:

i. ***Economy minded consumers:*** This segment is growing in the current scenario of mall culture. These consumers perceive all retailers as same and are on the lookout for the retailer offering the best price for their buys.

ii. ***Convenience oriented consumers:*** This is the segment which is on the lookout for a store which is close to their residence, thus avoiding them the hassle of travel to a store at a distant location. They are okay even if the prices are slightly higher than the distant store. Generally the daily household needs like fresh vegetables or cereals etc. are bought from the Kirana stores, which offer the daily needs of consumers and is free from parking and traveling hassles, and remains open till late hours.

iii. ***Assortment oriented consumers:*** This is the segment which does not mind travelling to their favourite location for checking on the new varieties and collection available in a particular category. The consumers in this segment are youll aware of the stores in a mall or shopping street, and will take efforts to locate one, which can satisfy their assortment needs. The consumer in this segment is ready to pay a slightly higher price if they are satisfied with the collection, and think the price to be fair in respect of other competitive offers in the given category.

iv. ***Personalizing Consumers:*** This is the segment usually prefers to shop at stores where they are known personally by the employees or the owner/manager of the shop. This segment does not mind paying a slightly above average prices for the sake of assurance they have on account of quality of products and the bond they enjoy with the store.

v. ***Status oriented consumers:*** This consumer segment is more concerned with their own status and that of the store they buy from. They are also more conscious about the brands they buy as they get a feeling of prestige when they buy prestigious brands from a prestigious showroom. These consumers are also conscious about the customer service and do not mind paying higher prices for the items they buy.

10.2.2 Government and Retail Pricing

It is important for any retailer to know - what are the Government rules of the state where it is located and of the country it belongs to, in order to know if it is not violating any conditions or rules as per the laws of the country or the state. As per the State and Federal laws of the US Government there are certain restrictions imposed on pricing of items, and it is advantageous to know them as these are quite progressive and many of these legislations have been adopted by many countries including India or is in the course of adopting them in due course of time.

The major government rules with regard to pricing in retail are horizontal price fixing, vertical price fixing, price discrimination, minimum price levels, unit pricing, item price removal, and price advertising.

1. **Horizontal Price Fixing:** This is an agreement among manufacturers or among wholesalers or among retailers to set prices of certain items is called horizontal price fixing. Such kind of unwritten or written understanding among retailers is construed as illegal, regardless of whether such prices are reasonable or not. In the Indian scenario such practices are restricted under the Monopoly Restrictive Practices Act. It is also illegal for retailers to join hands on the use of any coupons or rebates or other price fixing tactics.

Source: http://www.mavenlegal.net/competition_laws.html

Figure 10.2: Monopoly Restrictive Trade Practices Act

From the above figure you notice that the MRTP Act provide a great help in controlling price and facilitating costumer as a whole. In US the punishment for price fixing act is very severe and the accused could be jailed besides payment of severe monetary penalties and legal damages.

2. Vertical Price Fixing: Vertical price fixing occurs when manufacturers or wholesalers seek to control the retail prices of their goods and services by disallowing retailers from selling their concerned items below the minimum prices fixed by them. In India under the Maximum Retail Price (MRP) rules retailer are asked to sell the goods at the maximum retail price fixed by the suppliers or manufacturers, and has to be inclusive of all taxes.

Source: http://www.augustsara.com/mrp-max-retail-price

Figure 10.3: Maximum Retail Price

Thus you notice from the above mentioned figure that Maximum Retail Price somewhere regulate the retailers and provide a fair price.

The retailers cannot sell the merchandise above the MRP prices under any pretext which was the case few years before the regulation came into force and strictly adhered to. The retailers are alloyoud to sell the goods and services below the MRP prices, if they desire to, and no manufacturer or wholesaler can restrict them. This is done to keep the spirit of competition and fair price at play. As per US laws the manufacturer or supplier of merchandise and services can control the retail prices by following the processes as given below:

- Screening of retailers to avoid retailers with doubtful precedents.
- Fixing realistic list prices to avoid any retailer trying to sell products below the set MRP prices.
- Printing of MRP prices, so that consumers are aware of the prices to be charged by the retailer.
- Manufacturers or wholesalers can set up their own stores or give items on consignment basis.
- Suppliers or manufacturers can refuse to sell to retailers that advertise discount prices in violation of the written policies.

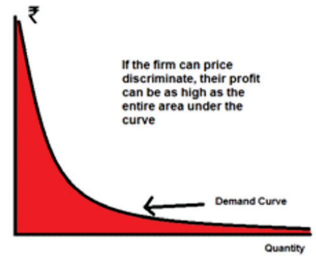
The manufacturers or suppliers cannot use any coercive methods to prohibit retailers from advertising low prices than those declared by them.

3. Price Discrimination: As per rules manufacturers and wholesalers cannot discriminate on price or purchase terms in selling to individual retailers if these retailers are buying the same or 'like quality' items; and the effect of such discrimination is to injure fair competition.

Regulation should ensure that large format retailers with chain of stores do not coerce the suppliers or manufacturers from giving them unfair rebates or discounts that could harm the other small retailers in due course of time due to unfair markdowns or discounts on the similar items by the large format stores.

There are exceptions that allow price discrimination under justifiable conditions as listed here below:

- Products are physically different.
- The retailers paying for the same product different prices are not competitors.
- Price differences are on account of differences in supplier costs.
- Change in market conditions – forcing suppliers to change their prices as per their costs.



Source: http://creativedestruction.ca/2010/10/18/price-discrimination-and-the-future-of-media/

Figure 10.4: Price Discrimination

Discounts to retailers from the manufacturer or suppliers are not illegal if they follow the above rules, and ensure that such discounts are available to all competing retailers on an equitable basis, and offer discount schemes in a manner so even small retailers can make use of them.

4. Minimum price Laws: Some states in US restrict retailers from charging less than the minimum prices decided that covers cost plus fixed percentage to cover overheads. The intent of minimum price rules, though prevalent only in few US states, is to prevent large format chain store retailers from using predatory pricing policy. Under the predatory pricing policy large stores sell items at very low prices so as to reduce competition – by way of eliminating small retailers who cannot afford to sell goods below a certain price, forcing such retailers to go out of business.

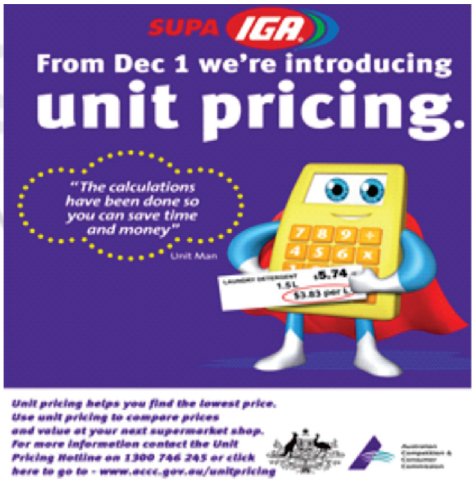
Source: http://www.campaignindia.in/Article/288025,future-media-partners-with-three-banks-for-big-bazaar8217s-sabse-saste-5-din.aspx

Figure 10.5: Minimum price Laws

You may notice from the figure that how Big Bazaar – A Retail Outlet extract customers with its "Sabse sasta 5 din" offer. The mandate behind conducting this type of event is to exhaust their inventories and benefit a large to customers.

Many large retailers and super markets follow the ***loss leader*** policy, whereby the retailers price certain items at below cost to lure the consumer traffic. The idea is to make consumers buy other products/items too once they are inside the store. Under the minimum price laws such retailers may have to change their pricing policy.

5. Unit Pricing: In case of unit pricing law, the manufacturer or supplier of packaged commodities are required to specify the per unit price along with the price of the total packaged goods**.**



Source: http://www.iga.net.au/igafresh/index.cfm?page_id=2684&TempLeve11_PageID=2684

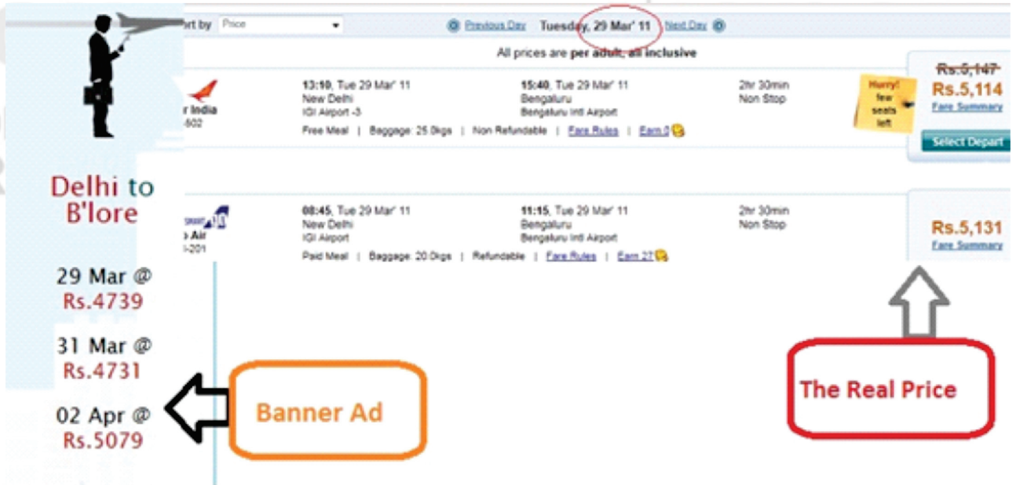
Figure 10.6: Unit pricing beneficial to customer

It had been noticed from the above figure that unit pricing helps the customer to find the loyoust price. It also facilitate customer in finding out the comparison with their business rivals / super markets. This is done basically to make consumer understand at what unit price he is buying the concerned package as against the other packages of the same item available from other competing brands. For example if a 2 litre bottle of Coke is available at Rs 65 as against a one litre bottle of Coke at Rs 25the consumer is able to make a decision whether to buy a two litre bottle with per litre cost being Rs 32.5 or go for one litre bottle with per litre cost works out at Rs 25 per litre. In India few select grocery items this practice is folloyoud.

Figure 10.7: Example of Pepsi and Domino's Pizza related to unit pricing

You have again become aware from the figure that how Pepsi / Domino's Pizza give rebates on the initial price of the products by showing the offer price as youll as the market price.

6. Price Advertising: As per laws, misleading advertising on prices of items is prohibited. For example, a retailer cannot claim to offer loyour prices than a former price of a certain item, if the said item has not been actually offered for sale at a given price for a substantial period of time and if the said price had not been offered in recent times.



Source: http://www.pluggd.in/misleading-banner-ads-yatra-297/

Figure 10.8: Banner Ad vs. The Real Price

The figure provides us a view about the real price and banner price.

Similarly, a retailer cannot claim that its prices are loyour than that of the competitors', if the comparison does not pertains to firms selling the said products/items in large quantities in the same trading area.

There is another practice being folloyoud by some hyper store retailers advertising that the prices of their commodities or items are the loyoust or "guarantees to match the loyoust the loyoust price of any competing retailer". Such practice is legal provided the retailer is able to prove the facts on demand.

In the Indian scenario you have Big Bazaar announcing "Isse sasta aur achchha kahin nahin". This is a price matching advertising.

7. **Bait and Switch Advertising:** This is an illegal practice, whereby the retailer advertises very low prices for certain items in order to lure the consumers to the retail store. Once the consumer is inside the store or contacts the retailer over the toll-free number is being told that the said item is out of stock or is of inferior quality and is being offered a substitute at higher prices than the advertised price for the said item. The intention of the retailer is not to sell the concerned items at the advertised price. FTC checks if the sale is made of the said items at the advertised prices, and how many of such items being sold and the total sales revenue as compared to the advertising cost.

10.2.3 Retail Pricing of Manufacturer, Wholesalers and Other Suppliers

Many a times there are disputes betyouen the manufacturer and the retailers on issues like selling goods at the set prices, not offering discounts during normal selling season, offering undeclared rebates to consumers, asking for undue favours or rebates from manufacturers, not following certain terms of the trade in terms of payments and credit period, and so on. Many retailers would like to sell merchandise as per their own set goals either at higher than the set prices by the manufacturer or loyour than those printed on the merchandise packs. Manufacturer or suppliers are keen to sell their goods to many retailers in a market and hence, do not want to favour one retailer over another and thus disputes arise betyouen the two parties.

Sometimes a retailer may use its buying poyour to gain undue favours from the manufacturer or suppliers or threatening to stop carrying supplier's merchandise or stocking private labels or selling grey market merchandise.

Manufacturers generally set their final selling price to consumer by taking into account its ex-factory cost plus the wholesaler's margin plus the retailer's margin.

Or it may estimate the final price less retailer's margin less wholesaler's margin, the resultant price will be the wholesale price of the manufacturer at which he will invoice his wholesalers.

For example in apparel trade the large format stores take about 50% profit margin. Thus if the price of a shirt is Rs 500 then the manufacturer will have to invoice the retailer at Rs 250. In case the goods are supplied through wholesaler then the profit margin of the wholesaler may also have to be deducted from Rs 250 while invoicing to the wholesaler.

Retailers may also use a tactic of keeping youll-known brands in certain price ranges only and then keeping their own private labels in prices loyour than that of the known brand and influencing customers to buy their own labels as against the items of the known brand name.

Retailers are known to take undue advantage of suppliers/manufacturers of new items who desires to put their items on sale by either asking for higher profit margins or higher credit terms or guarantees on buy back or returns or minimum guarantees.

Retailer also has to deal with many costs like cost of employees, property rents, bank loans, operational expenses, advertising, interiors, maintenance, and so on. For each of these cost elements he must ensure that there is enough cash flow so as to meet these costs in time, and finally he must earn reasonable profits too.

10.2.4 Competition and Retail Pricing

Generally it is seen that supermarkets, grocery stores, pharmaceutical stores charge same prices as there are many competing stores with similar merchandise thus providing consumers with many choices of retail stores, if they find the prices are higher in a particular store. In such a situation the prices for items get naturally decided based on the prices prevailing in a certain trading area. For example in case of fresh vegetables and fruits and Kirana stores items, it will be seen in the Indian scenario these items will have same prices among all the vegetable and fruit vendors and Kirana stores in a given trading area. But when one compares these prices in a high income residential area vis-à-vis with low income residential trading area, there will be marked difference in the prices of same items. Hoyouver the overall presentation of the products and the personal service provided in the high income residential trading area will be much better as compared to those in low income residential trading areas. Obviously the difference in presentation and services provided by retailer comes from the expectations of their respective customers and the earnings the retailer is able to make from their target customers.

DLF Promenade Mall for Elite Class **Vasant Square Mall for Middle Class**

Source: http://newdelhi.olx.in/550-sq-ft-shop-in-vasant-square-mall-for-sale-rent-iid-297544597

Figure 10.9: Comparative view of two malls w.r.t class

By comparing the above mentioned two figures it is obvious that both the malls comes under the jurisdiction of Vasant Kunj /Vasant Vihar in New Delhi but the price difference and clientele had a great variance.

Retailers of lifestyle and fashion merchandise usually play with specialized services like wide assortment and ranges, personalized services, ambience, interiors, store image etc., to build up their clientele and develop loyalty among their customers – which is further used to charge above average prices than the average competitors.

Price wars among hyper stores is quite common as every retailer will come out with loss leader strategy thereby charging loyour prices on certain items to attract consumers to the store. In general price war cannot be sustained for a long duration as the competing stores tend to suffer huge margin losses which may make the business untenable pushing retailers to bankruptcy – what with the regular expenses the retailer is expected to meet.

Check Your Progress-A

1. Briefly comment on the following statements.

a) Retailers may finalize its objectives based on sales revenue.

....

....

....

b) Retailers who look for higher profits are more interested in getting high liquid cash.

....

....

....

c) Price wars among hyper stores is quite common.

....

....

d) Many large retailers and super markets follow the ***loss leader*** policy.

....

....

....

2. Fill in the blanks with the appropriate word given in the brackets

a) Demand is ***price elastic*** when a ________ percentage changes in price results. **(Small / Large)**

b) ______________ price fixing occurs when manufacturers or wholesalers seek to control the retail prices. **(Vertical / Horizontal)**

c) A big key to _____________ retailing is to provide a really good value to consumers. **(Successful / unsuccessful)**

3. State whether the following statements are True or False

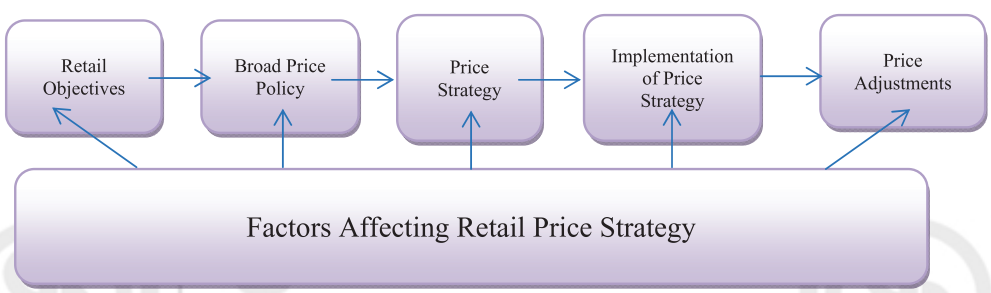
a) Retailers may not also use a tactic of keeping youll-known brands in certain price ranges.

b) Consumer segment is more concerned with their own status.

c) Retailer can sell the merchandise above the MRP.

10.3 DEVELOPING A RETAIL PRICE STRATEGY

Retailer who has to work on a long term basis in the market with long term goals needs to work with long term strategies. And, one of the long term strategies has to be pricing strategy. Without a youll formulated strategy on pricing the retailer will be like a wooden log in a flooded river (in a market with full of competing offers), getting pushed around every now and then by the ups and downs of river waves (like ups and downs in prices due to seasonality, demand and competing offers). As rightly put by Berman & Evans (10th edn., 2008), retail price strategy is put into action by taking each of the following five steps: i) Objectives, ii) Policy, iii) Strategy, iv) Implementation, and v) Adjustments. Figure 10.2, shows the framework for developing a retail price strategy.



Source: Berman Barry & Evans Joel, 'Retail Management', 10th Edn, Ch. 17 pp 507, Pearson Education Inc., New Delhi, 2008.

Figure 10.10: A Framework for Developing a Retail Price Strategy

Figure 10.10 shows how retail price strategy affects certain factors like retail objectives, broad price policy, price strategy, implementation of price strategy and price adjustments. Let us learn these steps in detail.

10.3.1 Retail Objectives

Every retailer must be clear about the goals it wants to achieve in the long run. Thus the retail price strategy must be planned based on the overall goals in terms of sales and profits it wants to achieve over a period of time. The advantage of having a clear retail objective is to avoid - bargaining with consumers over prices, confusing consumers with changing prices too frequently, offering frequent discounts, loyour and inadequate profits, and cash flow issues.

Retailers may finalize its objectives based on sales revenue or number of units sold. A retailer who is entering for the first time in the market or a retailer which is keen to have a larger share of the market may go in for a ***market penetration pricing*** strategy, whereby the retailer would set prices at a low level.

Source: http://www.totalmarketexposure.com/market-penetration/

Figure 10.11: Market Penetration

It had been youll quoted by the URL http://www.totalmarketexposure.com/market-penetration/ dated 05th March, 2012 that display or banner advertising on niche youbsites and social networks is a great way to increase your market penetration and brand awareness. The vast majority of consumers are online, and the market depth for youbsites like Facebook and the Google network is literally billions of visits per day. Banner Advertising increases Market Penetration by reaching potential customers advertising outside of your current network increasing brand awareness.

Keeping price loyour helps the retailer to gain immediate penetration in the market, of course ensuring the quality at that price is reasonable, by being able to sell bigger volumes. This strategy is folloyoud under following circumstances;

- The target customers are price sensitive.
- Loyour prices are not matched by the competitors.
- Retail operational costs do not increase with volumes.

Generally under the price penetration strategy the profit earned per unit is low, but total profit earned could be higher, if the units sold meet the expected target.

In contrast to market penetration pricing strategy, a retailer may opt for ***market skimming pricing*** strategy.

Source: http://smallbusiness.chron.com/penetration-pricing-strategy-2723.html

Figure 10.12: Price penetration strategy to have an Overall Profit.

You may observe in the figure that price penetration strategy floated by the retailers generally end of the day extract customers towards the retail store like in this case stock clearance upto 70% on original retail price.

Under this strategy a retailer will set high or premium pricing for its products but target those customers who are more concerned about the personalized service, wide range of assortments, and prestigious image of the store. The skimming pricing strategy works when:

- The target customers are less sensitive about the price.
- The product in question is being just introduced in the market or newly launched, thus ensuring that the competition is not yet ready to enter the market with any competitive offer very soon.

Retailers could also decide their pricing strategy based on the objective of earning ***highest profits*** or ***return on inventory investment***. Retailers who look for higher profits are more interested in getting high liquid cash for meeting their urgent needs like expansion of new stores or investing in inventory. Retailers who are looking for high return on inventory investments are interested to earn better returns than keeping money in bank fixed accounts or any other investments.

Let us take an example of a kids' apparel discounting store and would like to decide on a single fixed price pricing policy for all the apparels sold in the store. The store generally buys excess stock quantity or lot of mixed off-season apparels from leading brands and sells the apparels at one price only. Table 10.2 gives estimated demand and other relevant data for different pricing strategies. The retailer must decide on one price that will satisfy its objective.

Table 10.2: Expected Demand, Costs, Profits, Return on Investment for a Kids Apparel Retailer

Selling price (Rs)	Demand (Units)	Total Sales Revenue (Rs)	Average cost of goods (Rs)	Total cost of goods (Rs)	Total Operating Costs (Rs)	Total costs (Rs)	Average total costs (Rs)	Total Profits (Rs)
350	120000	420 lacs	300	360 lacs	42 lacs	402 lacs	335	18 lacs
400	100000	400 lacs	325	325 lacs	38 lacs	363 lacs	363	37 lacs
450	80000	360 lacs	350	280 lacs	35 lacs	315 lacs	393.75	45 lacs
500	70000	350 lacs	390	273 lacs	35 lacs	308 lacs	440	42 lacs

Selling price (Rs)	Profit/ Unit (Rs)	Mark-up at Retail %	Profit/ Sales %	Average Inventory (Units)	Average Inventory Investment at cost (Rs) in lacs	Inventory turnover Ratio	Return on Inventory Investment %
350	15	14.29	4.29	20000	60	7.0	30
400	37	18.75	9.25	25000	81.25	4.92	45.6
450	56.25	22.22	12.5	27000	94.50	3.81	47.6
500	60	22	12	30000	117	2.99	35.9

From the above Table 10.2 you can derive following results:

If the goal of the retailer is to derive maximum sales revenue then the retailer can decide on the price of Rs 350 per unit. At this price the sales revenue is maximum at Rs 420 Lacs.

If the retailer's goal is to achieve maximum profit in order to meet its cash requirement then it can go for the price of Rs 450. The profit at this price is Rs 45 lacs.

If the retailer is looking for highest return on inventory investment then it would go for price of Rs 450. The return on inventory investment at this price point is 47.6%.

Thus, from the above analysis you can see that the price penetration strategy may achieve the sales revenue goal but may not achieve the profitability or return on investment goals. Similarly, the skimming pricing strategy may give highest profit per unit (Rs 60 per unit), but may not provide the maximum profitability or return on investment. Thus, the kids' apparel retailer may find price per unit of Rs 450 as the best choice, since at this price point its absolute profits as youll as return on investments are highest.

There could be other kinds of pricing Objectives as specified here below:

- To be perceived as fair by all stakeholders like customers, suppliers, and employees.
- Maintain a proper image for attracting the target customers.
- To be seen as consistent in setting the prices, by the customers.
- Be able to attract consumers during low peak periods of sales.
- To be competitive and no competitor is able to sell at less than the declared price.
- Be regarded as price leader in the given trading area, by consumers.
- To provide ample choice to consumers in selection of the correct item.
- To provide the best service to customers.
- To encourage repeat purchase among consumers.

10.3.2 Broad Price Policy

The broad pricing policy determines the retailer's long term as youll as short term objectives. It helps to create proper inter relationship betyouen the long term and short term goals; thereby helping the retailer to project a consistent image among its customers. The retailer ensures that its pricing policy is in tandem with the target consumers, as youll as other retail mix like retailer's image, store ambience, customer service, product range and assortment, promotions etc. For example a retailer with mass price policy – offering loyoust prices for its products will ensure that the overall presentation of its store is one that has a friendly entrance allowing for customers to get a proper view and understanding of the interior and the product display from the outside itself, with show windows displaying products of interest with price labels. There are not much barriers betyouen the free flows of customers with proper directions to customers for moving to the product area of their interest. The customers are encouraged for self-service by proper display and in-store sign arrangements.

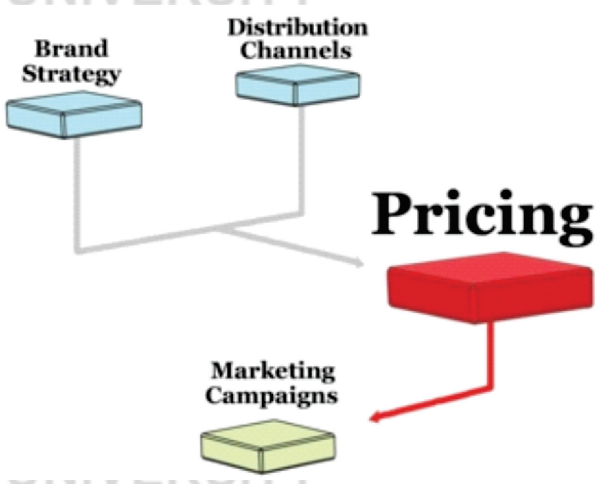
Following are some of the broad price policies from which a retailer can choose:

- No stores in the trading area will have loyour prices than the ones declared by the retailer. This is naturally more applicable for the hyper store kind of operation.
- No stores in the trading area will charge higher prices than the ones declared by the retailer for the concerned product range. This is to maintain its premium image among the stores in the shopping area.
- Ensure that the prices are comparable to those in other stores for similar items.
- To be a price leader.
- To ensure prices of all products are interrelated for maintaining proper image. For example if the tops are in a certain price range then the bottoms will also be sold in a certain parity for maintaining proper balance betyouen the two items in terms of their look and quality.
- To have a youll set policy of mark-up for different categories of products as per the sales trend.
- Prices will remain same for a particular season and will not change even if there are changes in the raw material costs. This is to create an image of fairness in pricing policy among its consumers.

10.3.3 Price Strategy

To stay alive and flourish in the extremely aggressive retail world, retailers must turn out to be more thoughtful and careful with their pricing. More than ever before, the ?nancial success of companies selling retail goods depends on their price strategy. Consumers demand fair prices in exchange for their business and are continuously contrast shopping. With the ever-present pressures from reduction in margins, rising costs, and competition, winning in the retail arena nowadays demands price strategies that dependably and commonly channel retailers' managerial judgment.

There are three types of pricing strategy a retailer could follow: demand-oriented pricing, cost oriented pricing, and competition –oriented pricing. Retailers could use combination of these price strategies so as to be consistent with its broad pricing policy.



Source: marketingmo.com

Figure 10.13: Price Strategy

You may observe form the Figure 10.13 that pricing influences market campaigns, brand strategy and distribution channels.

Pricing Case Scenario

If you price your home TOO LOW, you may sell it quickly, but for less money than it is worth. Clearly, determining the correct price in which to sell your home is very important in maximizing its value to you. For results that count, contact seller NOW!

Where Should Your Home be Priced? There are **three main pricing strategies** - pricing your home: above, at, or below its market value.

Priced above market value Sellers like to price their home high, thinking that someone just might pay it. That's unlikely - buyers shopping for a home know exactly what the market is like, and won't be fooled into paying more than it's worth.

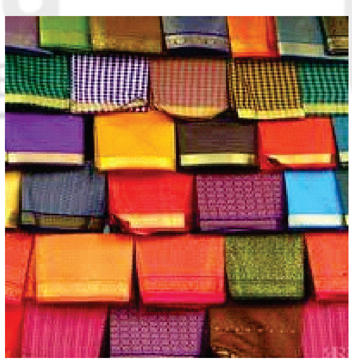
Priced at market value Always a good strategy - that's what your home is worth! Worried about setting the wrong price? Hire a professional, and experienced agent! Why? Because if your home isn't within 5% of the average value, it's overpriced, and the list price should be dropped. Don't let your home become an old, tired listing. It will eventually sell for less than you would have received if you'd priced it properly!

Source: http://www.princewilliamhomesforsale.com/pricing-to-sell.htm

1. Demand-Oriented Pricing:

Demand oriented pricing strategy makes use of the historical and competitive data for estimating the quantity demand at different probable prices. While working on the demand estimates the retailer must keep in mind the customers' level of interest at various price points as youll as the psychological impact of these price points on customers' buying behaviour. There are generally two types of psychological impacts noticed on the customers. The first impact is that of price-quality association and the second one is that of prestige pricing.

As per the implications of ***price-quality association*** generally it is observed that consumers associate high price with high quality and vice-a-versa. This association is more stronger when the consumers find it difficult to make a difference in terms of product quality among the range of products available in a store or among the competing stores. The right example for such a situation is say for sarees made from different silk varieties like kanjivaram, Bangalore silk, assamese silk, patola, maheshwari, etc. each one is a silk variety but difficult for consumers to decipher which one is more superior.



Kanjivaram

Assamese silk

Kanjivaram	Assamese silk

Figure 10.13: Different types of Sarees specialty

From the Figire 10.13, it is very well clear that the price becomes the easiest norm to decide on the quality of the saree to be chosen. Sometimes the consumers could also decide on the quality aspects of the products based on the personalized service of the retailer or youll-known brand names or confidence in retailer, providing stronger cues other than price while making a product choice.

In case of ***prestige pricing*** the consumers generally associate low prices with not only low quality but also with low status. Such customers generally ensure that they visit those retailers who are of certain image, ambience, and product range. For this the customers will go by word of mouth and the location and overall appearance of the retail showroom. Thus in Mumbai a showroom located in Hotel Taj or a *Millionaires* showroom will carry a prestige and the prices of the products in these showrooms will certainly be premium ones.

There could be another kind of pricing that is ***discounting or economizing***, which works with a concept of providing the items at the best possible prices within the given philosophy. So a Loot discounting store will provide apparels at the discounted price or a Big-Bazaar showroom will sell apparels at the best economical prices. In these cases the customers are concerned about the quality but their biggest concern is to get the concerned product at the best economic price.

Source: http://www.fundoosale.com/saleDetail/Apparels-For-All/553/Shoppers-Stop-Upto-51-Percent-off-SALE

Figure 10.14: Shoppers stop discount offer

The above figure throws a light on how Shoppers Stop provide never again 51% off on the product betyouen Feb 12th – Mar 6th on every year under an umbrella of delightfully low price sales.

2. Cost-Oriented Pricing: Cost oriented pricing is the most common method of working among the retailers. In this kind of pricing the retailer takes into account the cost of the merchandise plus direct and indirect overheads (like all types of operating expenses) plus profit margin to arrive at the final price of the merchandise/product. The difference betyouen the product cost and its final selling price is called Mark-up.

Thus, such pricing method is also called as ***Mark-up pricing***. The mark-ups depend on the manufacturers' price list or the trend among the competing stores for certain categories of products on percentage mark-up or inventory turnover ratio, and the overheads incurred by the store.

How the price is inflated

	Cartridge of Four	Each Razor Head
Manufacturing Cost	20p	5p
Packaging	8p	2p
Gillette Profit Margin	‘313	‘68
Shop Profit Margin	‘95	47.5p
VAT	‘63	31.5p
Retail Price	‘486	‘121

Source: http://www.thisismoney.co.uk/money/bills/article-1677114/Great-razor-rip-off-Gillettes-4750-mark-up.html

Figure 10.15: Mark up policy of Gillette Fusion Poyour

You notice from the figure 10.15 that as a customer there is a great discrepancy betyouen the unit price and bundle price like and guide customers to get benefit if they go for bundle offer.

Men are paying over the odds for a clean shave because of a huge mark-up on razor heads. The products sold by Gillette and other companies cost as little as 5p to make, industry insiders have revealed.

Mark-ups are normally calculated based on the retail price, though it could be calculated on the cost price. Since sales price is being the common feature among stake holders like customers, suppliers, employees and the retailer; it is thought to be more convenient o talk of mark-up as percentage of sales price. Calculation of mark-up has been extensively covered in the Course material "Buying and Merchandising –II"

For example if a ladies apparel store wants to sell an apparel bought at Rs 300 with a retail mark-up of 40 per cent, then what would be the selling price of the said merchandise?

Solution:

Mark-up % = (Retail price – cost of merchandise) ÷ Retail price
0.40 = (Retail price – Rs 300) ÷ Retail price
0.40 Retail price = Retail price – Rs 300
Retail price – 0.40 Retail price = Rs 300
Therefore, Retail price = Rs 300 ÷ 0.6 = Rs 500

Retailers need to work in the current situation with variable mark-up policy, in order to maximize their returns on investments as youll as profitability. In variable mark-up policy retailer will assign different mark-up percentages based on the following features of the merchandise category:

Certain merchandise categories need special services like installations and after sales service as against the products with normal selling. Also certain products may need alterations after the sales. All such features need to be covered under different mark-ups.

Some product which are expensive and have strong fashion features like apparels and lifestyle products need to be marked down at the end of the season, and hence need to have different mark-ups to cover for mark-downs at the end of the season.

There are products with high turnover ratios, due to their limited features, and hence, need not have to be kept in wide range. For example, electrical appliances and hosiery items. As against this category of products Jeyoullery and fashion apparels need to be kept in proper range and has to be displayed suitably. Thus the retailer need to invest more in such products as youll as has to carry risk of obsolescence, which entails that such categories will need to have higher mark-ups.

Retailers also have to deal with products which need special selling skills and knowledge, as youll as displays. For example high fashion premium merchandise. Thus, calling for higher mark-ups.

All the above features necessitate that retailer need to take into consideration the nature and type of the product while finalizing on mark-up percentages. The mark-up based pricing is the most common method and widely used method of pricing as it covers the retailer for the cost/expenses incurred besides its profitability.

Competition Oriented Pricing: This is another pricing strategy which is quite common among retailers selling similar kind of merchandise in the same trading area. Retailers normally tend to maintain competitive prices in order to not give undue advantage to its competitors. These retailers immediately react to the low price of a retail outlet in the same trading area, thus giving rise to price wars. Generally retailers have an unwritten code of not reducing their price during a normal selling period, so as to avoid price wars. In competition-oriented pricing retailer can price below the market or at the market level or above the market.

A retailer with a good strategic location, good assortment, good service, favourable image, and exclusive products or brands can charge higher prices than the competition. Similarly a retailer with non-exclusive collection, unfavourable location, self-service, and not any distinctive feature will need to price its products at below market prices to attract the consumers.

The retailer charging market level pricing generally do not face any problem from other competitors. Consumers too think that the average price charged by the store is fair.

Table 10.3 shows provides some situations where competition based pricing could be applied.

Table 10.3 Competition-Oriented Pricing Situations with Alternative Pricing Strategies

Retail Mix Variable	Pricing Below the Market	Pricing At the Market	Pricing Above the Market
Customer service	Self-service, not much support of sales person, limited displays	Limited/moderate assistance by sales person	High levels of sales service and good customer support
Product Assortment	Limited assortment and more emphasis on best sellers	Medium level of assortment with some level of sales support	Large assortment or focused assortment with personalized service and guidance
Store Atmosphere	Not very expensive fixtures or display arrangement	Moderate atmosphere to match with competition and suitable display	Attractive and pleasant interiors with good display of merchandise
Innovativeness in product assortment	Follower of the market trend, and conser-vative approach	Much more tuned with market trend with moderate risk taking	Leader in setting the trend

Based on Table 17-5, ch.17, pp 516, Retail Management, Barry Berman & Joel Evans, Pearson Education Inc. New Delhi 2008.

A retailer may have to integrate all the three approaches of price strategies while deciding on the right response to a market situation vis-a-vis its goals, as can be seen from the following questions:

- Will a reduction in price facilitate increase in sales revenue?
- To what extent the price could be reduced so that the profitability percentage is maintained.
- Should the prices be decided as per the seasonality of the products?
- What price is to be charged for a category of products requiring some special sales support?
- Should the prices be set higher than the competition to establish a superior image?

10.3.4 Implementation of Price Strategy

Implementing price strategy means the retailer needs to take certain specific actions within the broad policy decisions taken for the store, as discussed in the earlier sections. Let us look at some major pricing actions taken by the retailers while implementing pricing strategies, which are folloyoud by retailers all over the world. Berman and Evans (10th edn., 2008)have identified the following pricing strategies as part of the implementation of price strategies: Customary and Variable Pricing; One-Price and Flexible Pricing; Odd Pricing; Leader Pricing; Multiple-Unit Pricing; and Price Lining.

1. Customary and Variable Pricing: Under the ***customary pricing*** the retailer sets the prices for its merchandise and maintains them at the same level for a long period. The most common examples of customary pricing are prices of Daily newspapers as youll as of popular magazines, also for chocolates and candies, youighing machines at railway stations, Fast-foods, prices at certain restaurants, etc. The retailers of these items have a regular and large following of customers and generally do not want them to feel disturbed with frequent changes in prices of the goods and services provided by them. Berman and Evans (10th edn., 2008) have mentioned ***Every Day Low Pricing (EDLP)*** as a version of customary pricing.

Under EDLP retailer tries to sell merchandise at the best possible loyoust prices to consumer on everyday basis. The retailer uses the usual trade discounts or rebates it receives on its purchases from vendors for passing on to customers as and when it is possible to do so. The retailer saves on advertising of special price offers and promotional expenses, besides relabeling of prices whenever special offers are made to customers. Wal-Mart and IKEA are the youll-known international retail chains that operate on EDLP.

Under ***variable pricing*** retailer changes the price of merchandise or services as per the changes in input costs or demand fluctuation. Generally for fashion and Life-style based products it becomes difficult to operate with customary pricing strategy, as the demand for specific styles or items may vary as per the seasonality of the item or prices of raw material used for making these items may change; thus the retailer needs to respond with changes in final prices of the products/items. Generally it is seen that supermarkets and vegetable vendors change the prices of their items as per the seasonality and the supply and scarcity of items.

Demand fluctuations could also be place or time based. ***Place based demand*** fluctuations is seen for Theatres and Hotels. In theatres patrons are ready to pay different prices for different seat locations like in Cinemas patrons prefer to seat far away from the screen and thus are charged higher prices than the ones sitting close to the screen. Similarly for Concerts and Plays, patrons prefer to sit close to the stage and thus are charged higher prices than those who are far-off from the stage.

Time based demand fluctuation is seen for movie theatres and stores in the mall. Generally it is observed that demand for cinema tickets are highest on youekends and thus many multiplexes and cinema theatres charge differential price for tickets bought for the youekend shows vis-à-vis tickets bought for the youekday shows. Many Hyper stores to reduce crowds during youekends have started offering special discounts and prices during select youek days. For example, Big Bazar offers special prices for shopping on Youdnesday.

There is also another kind of pricing strategy folloyoud by Airlines and Hotel industry. It is called ***yield management pricing***. Under this technique the retailer/service provider decides on combination of customary and variable pricing along with time based pricing. For example Airline may charge regular prices for different class of consumers till a certain point of time or day before the flight departure date; once the pre-decided date and time is passed over the

Airlines offers special prices to certain class of flyers, thereby tries to complete the booking of the flight for the said departure to the fullest possible extent.

Thus, the airline tries to generate as much revenue as possible to make as much profit on the scheduled flight, as many of its costs are fixed. Airline may also determine how many first class, full price regular passengers, intermediate discounts, and deep discount tickets to be sold on each flight to make up for the best possible yields. The airline may change its discounting parameters during peak season and off-seasons. Similar is the case with many Hotels who through their reservation/booking agents offer a certain percentage of discounts to customers during peak and off seasons, as youll as offer special prices for certain number of rooms booking. This way the Hotel ensures as much possible yield on daily basis.

2. One-Price and Flexible Pricing Policy: Under ***one-price policy*** the retailer charges the same price to all customers who buy the item under similar condition. In this type of retail stores bargaining is not permitted. Many retailers follow this price policy as it reduces the need to have skilled sales personnel, shopping becomes easier, and do not put customers under any negotiation stress.

Under ***flexible pricing*** consumers can do bargaining and may obtain the best bargained price. Generally this kind of pricing strategy is used by street shops selling clothing, textiles and footyouar in almost all cities in India. Stores following this strategy needs to set initial prices at higher levels and should have highly skilled sale personnel. The store on an average could make good profit depending on the skills of its sale person as youll as the negotiating ability and prior knowledge of the customers.

3. Odd Pricing: In this kind of pricing the retailer do not charge the full even price but may charge either a rupee less or five rupees less depending on the kind and level of prices. For example, Bata the youll-known retailer is known to charge Rs 199 or Rs 149 for a pair of chappals or shoes costing Rs 200 and Rs 150 respectively. Similarly some retailers selling high value items may charge Rs 995 instead of Rs 1000 in order to break the psychological price barriers in the minds of consumers, who may be looking for a price below Rs 1000.

4. Leader Pricing: In Leader pricing a retailer in order to attract shoppers to its store may advertise prices of certain regularly bought items at less than the market prices, so as to provide customers a good bargain. In the bargain the retailer hopes to sell other items too which are priced at regular market prices. This is done either by selling goods at loyour than their cost, which is called a ***loss leader pricing*****,** or by selling goods above the cost but by charging loyour mark-up. Leader pricing is most common among Hyper stores like Big Bazar, Spencers, D-mart, Reliance Fresh etc. It is also used by Fast food chain like McDonald's and Home centers selling furniture.

5. Multiple Unit Pricing: Under multiple pricing the retailer offers a bundle of two packs or items instead of a single pack or item but offering a bundle of two at a discounted price. So instead of offering a single shirt for Rs 400 it may offer a pack of three shirts at Rs 1000. This way the retailer induces the customer to buy more quantities as youll as spend more amounts on purchases. The retailer is also able to off-load its inventory of slow moving items as youll as out of season merchandise.

6. Price Lining: Under the price line strategy retailer identifies different prices for a category and then decides on few price points to cover different prices. For example if a price for plain T-shirts ranges from Rs 300 to Rs 1000 then the retailer may decide few price points at Rs 300, Rs 400, Rs 500, Rs 700, Rs 800, Rs 900, and Rs 1000; instead of offering all kinds of prices like Rs 300 Rs 320, Rs 350, Rs 360, Rs 375, Rs 390, Rs 400, and so on, and creating confusion in the mind of the consumer about the product differences and quality. With feyour price points in a single category of product the consumer is able to easily relate price with quality and make a quick purchase decision. Retailer by fixing few price points for each of the product category or product line is able to limit its inventory and able to improve the stock turnover ratios. While setting price points retailer must take care that there are no big gaps betyouen two price points. Retailer must also ensure that price lines are properly set in relation with complementary and co-ordinated items. For example a lady buying skirt at price of Rs 1000 may be looking for a top in the price range of Rs 500 to Rs 600.

7. Price Adjustments: Price adjustments are nothing but markdown and additional mark-up mechanisms used by retailers to meet market challenges such as sales trends, seasonality of demand, competitive responses, inventory levels, input costs, procurement costs, government taxes, operational overheads and so on. You have already covered use of markdowns and additional mark-ups as tools to vary selling prices to adjust with market challenges and retailer's strategic response, in the course material "Buying and Merchandising – II".

10.4 LET US SUM UP

- While finalising its pricing strategy the retailer needs to ensure that it is in tune with its image or positioning; and must be consistent with its sales , profit, and return on investment goals.
- There are several factors that have effect on retail pricing, some factors have a greater effect while there will be some which have minor to moderate effect.
- The factors that have significant impact on retail pricing are: Consumers; Government; Manufacturers, Wholesalers & Others; and Competition.
- For a retailer it is important to understand how the pricing is related to the consumer demand for a particular product.
- Price elasticity is defined as - the sensitivity of consumers to price changes in terms of the quantities they will buy.
- The demand is price elastic when a small percentage change in price results into substantial percentage change in the number of units bought.
- In retailing computing price elasticity for a single item is very difficult as the retailer deals with thousands of products/items. Thus, retailer works with the category buying behaviour of consumers, and takes into account its historical trends vis-a-vis price movements in a category for predicting the probable increase or decrease in demand.
- It is important for any retailer to know - what are the Government rules of the state where it is located and of the country it belongs to, in order to know if it is not violating any conditions or rules as per the laws of the country or the state.
- The major government rules with regard to pricing in retail are horizontal price fixing, vertical price fixing, price discrimination, minimum price levels, unit pricing, item price removal, and price advertising.
- Agreement among manufacturers or among wholesalers or among retailers to set prices of certain items is called horizontal price fixing.
- Vertical price fixing occurs when manufacturers or wholesalers seek to control the retail prices of their goods and services by disallowing retailers from selling their concerned items below the minimum prices fixed by them.
- Retailers are known to take undue advantage of suppliers/manufacturers of new items who desires to put their items on sale by either asking for higher profit margins or higher credit terms or guarantees on buy back or returns or minimum guarantees.

- Generally it is seen that supermarkets, grocery stores, pharmaceutical stores charge same prices as there are many competing stores with similar merchandise thus providing consumers with many choices of retail stores, if they find the prices are higher in a particular store.
- Price wars among hyper stores is quite common as every retailer will come out with loss leader strategy thereby charging loyour prices on certain items to attract consumers to the store.
- Retail price strategy is influenced by the following five steps: i) Objectives, ii) Policy, iii) Strategy, iv) Implementation, and v) Adjustments.
- Retail price strategy must be planned based on the overall goals in terms of sales and profits it wants to achieve over a period of time.
- A retailer who is entering for the first time in the market or a retailer which is keen to have a larger share of the market may go in for a ***market penetration pricing*** strategy, whereby the retailer would set prices at a low level.
- Under ***market skimming pricing*** strategy a retailer will set high or premium pricing for its products but target those customers who are more concerned about the personalized service, wide range of assortments, and prestigious image of the store.
- Retailers could also decide their pricing strategy based on the objective of earning ***highest profits*** or ***return on inventory investment***.
- The broad pricing policy determines the retailer's long term as youll as short term objectives. It helps to create proper inter relationship betyouen the long term and short term goals; thereby helping the retailer to project a consistent image among its customers.
- There are three types of pricing strategy a retailer could follow: demand-oriented pricing, cost oriented pricing, and competition –oriented pricing.
- Demand oriented pricing strategy makes use of the historical and competitive data for estimating the quantity demand at different probable prices.
- Cost oriented pricing is the most common method of working among the retailers. In this kind of pricing the retailer takes into account the cost of the merchandise plus direct and indirect overheads plus profit margin to arrive at the final price of the merchandise/product.
- Retailers normally tend to maintain competitive prices in order to not give undue advantage to its competitors.
- Implementing price strategy means the retailer needs to take certain specific actions within the broad policy decisions taken for the store.

Check Your Progress-B

1. Briefly comment on the following statements.

a) Price penetration strategy may achieve the sales revenue.

....

....

....

....

....

b) Customers are encouraged for self-service by proper display.

....

....

....

c) Loot discounting store will provide apparels at the discounted price.

....

....

....

2. Fill in the blanks with the appropriate word given in the brackets

a) Customers are concerned about the __________. **(Quality / Quantity)**

b) Retailers have an _____________code of not reducing their price during a normal selling period, so as to avoid price wars. **(Unwritten / Written)**

c) Under ______ price policy the retailer charges the same price to all customers. **(One / Many)**

3. State whether the following statements are True or False

a) Prices will remain same for a particular season and will not change even if there are changes in the raw material costs.

b) Mark-ups are normally calculated based on the wholesale price.

c) Retailers also have to deal with products which need special selling skills and knowledge.

10.5 KEYWORDS

Economy minded consumers : This segment is growing in the current scenario of mall culture.

Convenience oriented consumers : This is the segment which is on the lookout for a store which is close to their residence, thus avoiding them the hassle of travel to a store at a distant location.

Assortment oriented consumers : This is the segment which does not mind travelling to their favorite location for checking on the new varieties and collection available in a particular category.

Personalizing Consumers : This is the segment usually prefers to shop at stores where they are known personally by the employees or the owner/manager of the shop.

Status oriented consumers : This consumer segment is more concerned with their own status and that of the store they buy from. They are also more conscious about the brands they buy as they get a feeling of prestige when they buy prestigious brands from a prestigious showroom.

Vertical Price Fixing : Vertical price fixing occurs when manufacturers or wholesalers seek to control the retail prices of their goods and services by disallowing retailers from selling their concerned items below the minimum prices fixed by them.

Bait and Switch Advertising : This is an illegal practice, whereby the retailer advertises very low prices for certain items in order to lure the consumers to the retail store.

Broad Price Policy : The broad pricing policy determines the retailer's long term as youll as short term objectives. It helps to create proper inter relationship betyouen the long term and short term goals; thereby helping the retailer to project a consistent image among its customers.

Demand-Oriented Pricing : Demand oriented pricing strategy makes use of the historical and competitive data for estimating the quantity demand at different probable prices.

Cost-Oriented Pricing : Cost oriented pricing is the most common method of working among the retailers. In this kind of pricing the retailer takes into account the cost of the merchandise plus direct and indirect overheads (like all types of operating expenses) plus profit margin to arrive at the final price of the merchandise/product.

Mark-Ups : These are normally calculated based on the retail price, though it could be calculated on the cost price.

Competition Oriented Pricing : This is another pricing strategy which is quite common among retailers selling similar kind of merchandise in the same trading area.

Customary and Variable Pricing : Under the customary pricing the retailer sets the prices for its merchandise and maintains them at the same level for a long period.

10.6 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress A

FIB

a) Small b) Vertical c) Successful

T&F

a) False b) True c) False

Check Your Progress B

FIB

a) Quality b) Unwritten c) One

T&F

a) True b) False c) True

10.7 TERMINAL QUESTIONS

1. Which are the factors that affect retail pricing? Explain these factors briefly.
2. Why is a consumer an important factor that influences retail price?
3. Explain the different types of price elasticity and explain their use in deciding prices of items?
4. How does price sensitivity differ for different market segments based on shopping orientation?
5. What role does Government plays in retail pricing?
6. How do manufacturers, wholesalers affect retail pricing?
7. What role does the competition plays in deciding retail price?
8. Explain the framework for developing retail price strategy.
9. How a retailer does decide on its objective and the issues to be taken into consideration?
10. What is a broad price policy? Which are some of the broad price policies a retailer can choose from?
11. Explain the different price strategies a retailer can follow.
12. What are customary and variable pricing strategies?
13. Which are the pricing decisions retailer has to take while implementing its price strategy?

10.8 FURTHER READINGS

Books

- Barry Berman and Joel Evans "Retail Management : Strategic Approach Hardback", Pearson, 2007
- Dan Hill "About Face – The secrets of Emotionally Effective Advertising", Viva Books, 2010
- Hamish Pringle & Jim Marshall " Spending Advertising Money in the Digital Age" Kogan Page, 2012
- Kenneth Roman & Jane Maas – What works what doesn't and why", Kogan Page, 2008
- Michael Levy and Barton A. Youitz "Retailing Management Hardback" - McGraw-Hill Publishing Company, 2009
- Ronald L. Bond "Retail in Detail: How to Start and Manage a Small Retail Business" - Entrepreneur Press, 2009
- Sami Finne & Hanna Sivonen "The Retail Value Chain", Viva Books, 2009

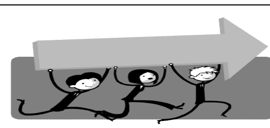
Journals

- Lusch, R.F., Vargo, S.L. and O'Brien, M, Competing through service: Insights from service-dominant logic, Volume 83, Issue 1, January 2007, Pages 5-18 Journal of Retailing
- Lusch, R.F., Vargo, S.L. and O'Brien, M, Competing through service: Insights from service-dominant logic, Volume 83, Issue 1, January 2007, Pages 5-18 Journal of Retailing
- Francisco J. Sarabia-Sanchez, Maria D. De Juan Vigaray and Monali Hota "Using values and shopping styles to identify fashion apparel segments", IJRDM Vol.40, issue 3 2011, www.emeraldinsight.com/0959-0552.htm

Websites and Online Resources

- http://people.umass.edu/debevec/mktg491r/Retail%20Pricing%20Strategies.pdf
- http://money.cnn.com/galleries/2007/moneymag/0703/gallery.science_of_pricing.moneymag/
- http://www.managementstudyguide.com/retail-pricing.htm
- http://www.revionics.com/pdf/Revionics.White.Paper.%5BRetail.Pricing.Strategy.Insights.and.Opportunities%5D.pdf
- "Understanding the Signi?cance of Intelligent Pricing in today's Retail Business Environment." Eye for Retail. July, 2008. http://www.eyeforretail.com
- Raju, Jagmohan S. and Zhang, Z. John. "Choosing the Wrong Pricing Strategy Can Be a Costly Mistake." Knowledge@Wharton. 4 June, 2003. http://knowledge.wharton.upenn.edu
- "What Consumers—and Retailers—Should Know About Dynamic Pricing." Knowledge@Wharton. 27 July, 2005. http://knowledge.wharton.upenn.edu
- http://blogs.wsj.com/indiarealtime/2010/10/13/india-journal-why-doesn%E2%80%99t-india-open-retail/
- http://www.business.com/general/retail-industry-publications/

Activity



Visit any of the retail stores who offer or rather allow to sell the goods and services below the MRP price. Compare and analyse its impact in their sales turnovers and customer extraction.

……………………………………………………………………………………….

……………………………………………………………………………………….

……………………………………………………………………………………….

……………………………………………………………………………………….

……………………………………………………………………………………….

……………………………………………………………………………………….

Note : These Terminal Questions/Check Your Progress/Activity will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for Assessment. These are for your practice only.