

RETAIL MANAGEMENT – LECTURE 14

CHAPTER 14 – RETAIL PRICING

Overview

Examine price techniques utilized by retailers in the first half of this topic. A review of retail price-setting factors is then conducted. After that, we'll take a look at how shops actually arrive at their pricing. In the next section, we'll look at the various reasons why shops markdown their products. It follows that retailers' pricing strategies for boosting sales and profitability are analyzed. Finally, the chapter discusses the legal and ethical considerations that retailers must keep in mind while pricing their products.

Desired Learning Outcomes

1. Why do certain stores hold sales on a regular basis, while others want to keep their prices low all year round?
2. Secondly, how do retailers determine the price of a product?
3. How are retail prices determined by retailers?
4. Markdowns are a way for retailers to save money.
5. What price strategies do merchants employ in order to boost their bottom lines?
6. When determining retail prices, what aspects of law and ethics should be taken into account?

Because today's customers have more options to pick from and are better knowledgeable about the alternatives accessible in the marketplace, price considerations are becoming more important. To put it another way, they are in a better position to shop around for the best deal when purchasing goods and services. How much people are willing to spend for a product or service depends on how much they think they'll get out of it.

$$\text{Value} = \frac{\text{Perceived benefits}}{\text{Price}}$$

As a result, shops have the option of either boosting or decreasing the perceived value of the services they offer in order to enhance sales (exchanges). A good deal for some customers is simply paying the lowest price because they don't care about the other perks' shops give. Most consumers are willing to spend a little more for extra perks if they feel they're getting value for the money they're paying for.

Learning Objective 1 – Pricing Strategies

High/low pricing and low price on a daily basis are the two most common retail pricing techniques. In this section, the pros and cons of each of these methods are laid out.

High or Low Cost

High/low pricing retailers frequently—often weekly—discount merchandise's initial cost through sales campaigns. Some buyers, on the other hand, become accustomed to regular sales and wait until the goods they desire is on sale before stocking up.

Low Prices Every Day of the Week

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This method has been adopted by many merchants, including supermarkets, home improvement centers, and discount stores. In this method, retail prices are maintained at a level between the non-sale price and the deep-discount sale price of high/low retailers.

Because "low" doesn't indicate "lowest," the expression "daily low pricing" is a little misleading. Customers who shop at online EDLP businesses may not always get the best deal on their purchases. Any time a high/low shop has a deal, the lowest price in a market can be found. Low-price guarantee policies have been adopted by numerous retailers as part of their EDLP strategy in order to guarantee customers the lowest price in a market for products they offer. Most guarantees promise to match or beat any lower price discovered in the market and may contain a provision to repay the difference between the seller's offer price and lower price.

Learning Objective 2 – Considerations in Setting Retail Prices

The price sensitivity of consumers, the cost of the goods, competition, and regulatory limits are among considerations that merchants consider when setting retail prices. The chapter ends with a discussion of legal issues. In this part, we'll cover other variables that come into play when pricing services.

Product Cost and Price Sensitivity

When a product's price rises, fewer people will buy it because they think it's a poor value for the money they're spending. What influences how many units are sold at different prices is the degree to which consumers are price sensitive. Increasing the price of a product can have a major impact on sales if clients are price-conscious. The price of a product will not have a substantial impact on sales if clients are not price-conscious.

Elasticity of Price To gauge price sensitivity, the percentage change in sales compared to the percentage change in price can be used as an indicator:

$$\text{Elasticity} = \frac{\text{Percentage change in quantity sold}}{\text{Percentage change in price}}$$

Competition Consumers have a wide range of options when it comes to purchasing goods and services, and they tend to look for the most affordable option. As a result, when retailers establish their own prices, they must take their competition into account. The previous discussion about pricing based on customer price sensitivity (elasticity) does not take into account the impact of competitors' pricing.

To put it another way:

Additional considerations when pricing services include (1) the requirement to match supply and demand and (2) the difficulty clients have in assessing the quality of the service they are purchasing.

Intangible services, such as matching supply and demand, cannot be inventoried. If a product doesn't sell on a given day, it can be held and resold the next day. Flights and plays that aren't fully booked can't recoup the money they could have earned had they been fully occupied.

In order to regulate sales generated, yield management is the process of altering the price of a product in response to changes in demand.

Defining the Quality of the Service It can be difficult for clients to evaluate service quality because of the intangibility of services, especially when other information is unavailable.

Capacity management is only one part of a successful price-quality strategy. If the price is too low, people may draw the wrong conclusions about the service's quality. Customers may have unrealistic expectations if the price is too high.

Learning Objective 3 – Markdowns

One drawback of relying solely on price sensitivity and cost to decide pricing is that it doesn't take into account the costs that competitors are charging. One of the drawbacks to this strategy is that it requires knowledge of each item's price elasticity (price responsiveness). More than 50,000 SKUs and hundreds of pricing selections must be made by several shops each month.

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They are unable to perform tests or conduct statistical analysis to establish the price sensitivity of each item from a practical standpoint.

Based on Costs, Pricing a Product or Service Most shops determine their prices by increasing the cost of the goods in order to make a profit. On the basis of this information, the starting price is changed to reflect customer price sensitivity and competitive pricing. Price is determined exclusively on the basis of the cost of the product, as outlined in this section.

Price and Markup at the Store The following equation is the starting point for merchants when determining prices based on the cost of goods:

Merchandise cost + markup = retail price.

An item's markup can be defined as the difference between its retail price and its actual cost.

Software for Optimum Pricing

Pricing optimization software is being used in a newer way to setting retail prices. Algorithms in the software programs examine historical and current goods sales and prices, predict the relationship between prices and sales generated, and then establish the ideal (most lucrative) beginning price for the merchandise and the proper size and timing of markdowns. It uses data from its own and competing retailers to set the first prices. If a store is perceived to be a low-cost option, the program can take into account elements such as the proximity of the nearest competitor, seasonal characteristics (for example, soft drinks are more popular in the summer), or if an item is highlighted in coupons.

Use of Break-Even Analysis to Evaluate the Profitability of a Retail Price

Retailers frequently inquire about the number of units they must sell in order to begin making a profit. A retailer might be interested in finding out:

- Selling at a loss is not enough to make a profit.
- Product, product line, or departmental break-even volumes and dollars.
- A price increase requires a break-even shift in sales.

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Using break-even analysis, which takes into account both fixed and variable expenses, you can determine how much stuff you need to sell to break even (zero profit). This is the amount at which revenue equals costs and profit is generated for additional sales.

Why Markdowns Are Given

When it comes to running business, markdowns are a necessary evil. When it comes to fashion, retailers are more worried about running out of a hot item before the end of the season than they are about ordering too much and having to cut prices on unsold inventory at the end of the season. In contrast to discounting at the end of the season, stocking out of popular products can have a negative impact on a fashion retailer's image.

Making the Right Markdown Choices

In addition to setting initial retail pricing, the optimization software mentioned earlier in this chapter can also recommend when and how much markdowns should be taken in different locations. It does this by constantly updating its pricing projections based on actual sales during the season and taking into account price discrepancies.

Learning Objective 4 – Pricing Techniques for Increasing Sales and Profits

Shoppers are charged various costs depending on who they are and where they shop. It is possible to take advantage of the way customers digest information by employing additional strategies such as perceptions of fairness, price line, and unusual pricing. The section continues with a discussion of how the Internet has affected the price decisions of businesses and their customers.

Flexible Pricing and Differentiated Pricing

Retailers charge various prices to different customers in order to maximize earnings.

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Individually Adjusted Fees Each client should be charged as much as they are willing to pay in order for shops to maximize their earnings. It's called first-degree pricing discrimination if you charge customers based on their willingness to pay.

Variable Pricing That You Set Yourself

Consumers with a strong willingness to pay may be deterred from taking advantage of the lower price if the multiple-price schedule is made available to all customers but requires them to do something in order to receive the reduced price. Second-degree pricing discrimination refers to this method.

Competitive Pricing by the Leaders

Leader pricing is the practice of lowering the price of specific products in order to draw more customers to the store or promote sales of related products. These products are referred to as "loss leaders" by some retailers. Loss leads are products that are being offered for sale at a loss. Leader pricing strategy does not necessitate that a product be sold below cost to be used by a merchant. Cherry pickers, who browse from store to store exclusively to buy things that are on sale, may be drawn to leader pricing, which is a concern. Retailers are plainly losing money on these customers.

Lining up a deal

Price line is a common technique among retailers, in which they offer a limited number of predetermined price points for a given product category.

A price that ends in an odd number, usually a 9, is known as "odd pricing." Odd pricing has been around for a long time. Odd pricing was utilized in the 19th and early 20th centuries to minimize losses due to staff theft. Retailers can minimize the focus on price by delivering better services and information through an electronic channel. Customers may be willing to pay more for the product because of these services.

Learning Objective 5 – Legal and Ethical Pricing Issues

When fixing pricing, retailers must take into account both legal and ethical considerations. Predatory pricing, resale price maintenance, horizontal price fixing, bait-and-switch methods, scanning versus displayed prices, and deceptive reference prices are some of the legal and ethical pricing difficulties that arise.

Price Gouging

This occurs when the dominant shop lowers prices below its costs in order to push out smaller competitors. When the competition is gone, the predator aims to raise prices and recoup its losses by raising prices.

Keeping the price of resale up

Retailers are encouraged by vendors to sell their products at a price known as the manufacturer's suggested retail price (MSRP) (MSRP). Retail price competition is reduced, free riders are eliminated, and complementary services are encouraged through the setting of MSRPs by vendors. Vendors enforce MSRPs by withholding incentives such as cooperative promotion or even refusing to deliver products for non-compliant merchants. Vendors

Fixing Prices Horizontally In the case of horizontal price fixing, retailers in direct competition agree to establish the same pricing. This technique is certainly anti-competitive, and it's illegal as well. – merchants are advised not to discuss pricing or terms and conditions of sale with their competitors as a general rule. There are a number of ways for customers and store managers to learn about the prices of competitors.

Tactics of bait and switch It is illegal and misleading to attract clients into a store by promoting a lower-than-normal price (the bait) and then, once they are in the store, persuade them to buy a higher-priced model (the switch) (the switch). Bait and switch usually involve the store either running out on the advertised goods or encouraging salespeople to exaggerate the superiority of a more expensive model.

Price Comparison: Scanned vs. Posted

In most cases, retailers lose money because the scanned price is lower than the advertised price. There are some price differences that are found and pursued by consumer groups and state attorney generals. Good pricing practices necessitate regular price audits. Price audits of a random sample of items should be conducted on a regular basis to determine the degree and cause of scanning errors and to establish processes to eliminate errors.

Inaccurate Benchmark Prices In order for customers to make comparisons between the actual selling price of the goods and its reference price, a reference price is necessary. The reference price is typically referred to as the "normal price" or "original price" by the retailer. When customers see the "sale price" and compare it to the reference price, their opinions of the product or service's worth are likely to rise.

Customers' perception of value is strongly influenced by pricing, making it a vital decision in the implementation of a retail strategy. Both EDLP and high/low retail pricing methods are used by retailers on a daily basis. In terms of pros and cons, each of these methods has its own. Through price discrimination, the high/low method generates excitement and provides an opportunity to sell slow-moving products. To ensure low prices, EDLP ensures customers, decreases advertising and operating costs, reduce stockouts, and improves supply chain management, all while reducing advertising costs. Price sensitivity of customers in their target market, the cost of merchandise and services, competitive prices, and legal and ethical limits are all taken into account by retailers when determining prices. If retailers set prices based on the price sensitivity of customers and goods costs, they can theoretically optimize earnings. Although this strategy does not take into account the pricing that competitors are charging, it is nevertheless useful. Another problem with attempting to establish prices on the basis of customer price sensitivity is the implementation difficulties involved with the vast number of pricing decisions a merchant must make. Supply and demand and the difficulty clients have in judging service quality present additional issues when pricing services. Using yield management approaches, retailers are able to better

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balance supply and demand. Some large shops are employing software to set prices, but most retailers just mark up the item's price to maintain a profitable margin. A retailer's knowledge of consumer pricing sensitivity and competition pricing could then influence an initial cost-based pricing strategy. Markdowns and variable pricing tactics are used to change initial prices over time and for different market segments. In order to get rid of unwanted goods or boost sales, retailers lower the prices of their products. When it comes to running business, markdowns are a necessary evil. By charging varying pricing to different customers, retailers are able to maximize sales and profits. Using these methods, companies can charge different prices to different types of customers, allow customers to choose the price they're prepared to pay for a product, and adjust prices based on client demographics. Price line, leader pricing, and unusual pricing are all tactics retailers employ to boost sales. Final considerations for retail pricing include legal and ethical ramifications. It's a wide range of methods, including predatory pricing and resale price maintenance as well as horizontal price fixing.

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Quiz 14 – Buying Merchandise

Fill in the Blanks

1. The _____ is the point at which total revenue equals total cost, and profit is generated for additional sales.
2. It is common for shops, especially supermarkets, home improvement centers, and discount stores, to use an approach known as an_____.
3. A popular price sensitivity measure is _____, or the percentage change in sales divided by the percentage change in price.
4. _____ Adjusting pricing in response to changes in supply and demand helps retailers keep tabs on the amount of money they're making.
5. Retail price minus cost is known as the_____.
6. It's considered a factor when it lowers the selling price from the initial price called as_____.
7. _____ To put it another way, a is the retail selling price for a product divided by its cost.
8. _____ A newer method of calculating retail prices involves a more thorough approach that incorporates.
9. When making these judgments, it is helpful to employ an analytical method known as _____, which evaluates how much merchandise must be sold to break even (no profit).
10. There are several costs associated with producing and selling a certain product, such as _____.

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11. _____ By lowering the initial retail price, retailers can also take advantage of the lower pricing
12. _____ As an incentive for customers to buy specific products, some retailers give a discount on their prices.
13. Offering multiple items or services at a same price is known as _____.
14. _____ There are many ways to differentiate prices in different marketplaces, regions, and zones.
15. _____ To encourage client traffic or improve sales of supplementary products, companies may price certain items below its regular market value.
16. It is common for retailers to offer a restricted number of predetermined price points within a certain product category, a technique known as_____.
17. _____ In order to eliminate competition, a dominating store may lower its prices below its actual expenses.
18. Agreements between retailers in direct competition to establish the same pricing are called _____.
19. Adequate inventory or pressure from the store's sales staff to criticize quality of marketed model and promote greater performance of a higher-priced model are common causes of _____
20. A _____is the price purchasers use to compare the actual selling price of the product, making the evaluation process easier for them.

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Answer:

1. Break-even point quantity
2. Everyday low-pricing (EDLP) strategy
3. Price elasticity
4. Yield management
5. Markup
6. Reductions
7. Initial markup
8. Pricing optimization software
9. break-even analysis
10. variable cost
11. markdowns
12. Coupons
13. Price bundling
14. Zone pricing
15. Leader pricing
16. price lining
17. Predatory pricing
18. Horizontal price fixing
19. Bait and switch
20. reference price