Module – 5

Retail Pricing

Setting the right price will result in increased revenue to the retail firm. The prime objective of retail pricing is to achieve profitability which is influenced by two factors. They are Profit margin of the offering and cost of merchandising.

Factors Influencing Pricing:

The porter's model can help to understand the influences of retail pricing.

1. **Customer**: Customer's price sensitivity is influenced by many factors. For ex: Café coffee day offer the coffee at the same price of Rs.35 (minimum) in all its branches of urban and semi urban areas, though it is a general assumption that semi urban customers won't go for highest prices. But in order to maintain, its positioning strategy, coffee day maintained the same price and attracting its target customers through its ambience. Segmentation of the customers can also be useful for fixing the appropriate price. There is some customers look for the benefit of owning the brand rather than the price. Situations also affect the pricing policy of the firm. A store located in hill station may fix high price and the same may be accepted by customers.

2. **Suppliers**: In order to maintain image of the brand and to achieve the goal of the firm, sometimes the manufactures direct the pricing policy of the retail firm. The conflict between the retailer and manufacturer may arise when the manufactures decides to introduce a new model and that hampers the movement of retailer's old stock. Reputed Retailers have more bargaining power when they buy bulk items from the manufacturer. Also sometimes retailers seek, for price guaranteed ie if the prices of sold items to retailer go down.

3. **Competitor**: It affects the freedom to fix price. The range varies from being perfect to monopoly. Retailers generally avoid price based strategy because it may end up in price war.
4. **Government**: There are legal issues relating to price discrimination. The retailer can charge different price to different customer only when the distance is the justifying factor.

Vertical Price Fixing: The retailer to set price at manufacturer suggested price.

Horizontal agreement: - agreement between retailer competitors

Predatory pricing- This pricing is considered as illegal as it intends to drive away the competition.

Retail pricing strategies:

1. EDLP- Every Day Low Pricing: It is popularized by Wal Mart, Home Depot. In India, this strategy is followed by Big Bazar. But the bulk volume is necessary to negotiate with the manufacturer for price concession so that it can be offered at reduced price to the customer. Low prices are stable and not subject to one time sale. The strategy is that it continues to offer products below MRP.

Advantages: Less reliance on price reduction to change, Reduced Advertisement, Informed customer service, Better Inventory management.

2. High – Low Pricing: Prices that are sometimes above their Competitors EDLP. It uses Advertisement to promote frequent sales. Also use ‘sale’ to respond increased competition.

Advantages: some merchandise can be used to target different segments; Enthusiasm is created among customers (impulse Purchase), Image of quality is created (high price- no compromise on quality); EDLP is difficult to implement, so it has advantage over that.

3. Loss Leader Pricing: Fast moving products offered at low price as to attract buyers and to persuade them to buy other products also

4. Skimming: sets relatively high price for a product or service at first and then lower price over time. Effective only when the firm is facing inelastic demand.

5. Penetration Pricing: setting a relatively low initial entry price so as to increase market share. The retailer has to be very careful with this strategy as it may establish long term price expectation and that makes it difficult to eventually raise prices. The solution is to set the initial price at the long term price but include an initial discount coupon

6. Price lining: refers to the offering of merchandise at a no. of specific but pre-determined prices. Prices may be held constant over a period of time eg. 79.50, 109.50, 149.50

7. Psychological pricing: intended to have special appeal to customers.

- *Prestige pricing*: high prices to convey distinct and exclusive image for the product. Charging high price for a product where it is judged this in itself give it prestige. For e.g.: TAJ
- *Reference Pricing*: uses consumers frame of reference that is established through previous experience of purchasing eg: sports items.
- *Traditional Pricing*: uses historical /long standing prices (sports products)
- *Odd-Even pricing*: eg: $ 9.95 to denote lower price or a "good deal" $ 10.00 –imply high quality.
- *Multiple Unit pricing* –encourage additional sales and increase profits. Gross margin that is sacrificed in a multiple unit sales is more than offset by the savings that occur from reduced selling and handling expenses.
- *Bundle Pricing:* Practice of offering two or more different products at one price. Used to increase both unit and rupee sales by brining traffic in to the shop.
- *Pre-emptive Pricing:* setting low prices in order to discourage or deter potential new entrants
- *Extinction pricing:* Has overall objective of eliminating competition and involves setting very low prices in the short term in order to undercut competition.

RETAIL PROMOTION:

Retail promotion is broadly defined as all communication that informs persuades and or reminds the target market or other prospective segment about marketing mix of the retail firm. The retailer seeks to communicate with customers to achieve a number of objectives.

a) Increasing store traffic by encouraging new shoppers to visit store

b) Increasing the share of wallet for all shoppers

c) Increasing the sale of a given product category

The promotional elements include:

Advertising, sales promotion, Publicity, personal selling, Direct marketing, Public relations.

Selection of Promotion Mix:

Retailers usually employ a combination of the above. The degree and nature of usage of each promotion method depends on the objectives of the retail firm. For ex. McDonald's extensively relies on advertising in national and local newspaper. Haldiram, the Delhi centric food chain, primarily relies on point of purchase (POP) material. Retail banking Industry makes extensive use of all promotional methods including television, print media. Various retail promotion methods can be compared on the basis of the degree of control, flexibility, credibility and cost associated with them.

Retail Advertising:

The American Marketing Association defines Advertising as any paid form of, non personal presentation of ideas, goods, services by an identified sponsor" Advertising is recognized as an indispensable tool of promotion. Based on the conceptualization, advertising can be understood as follows:

1. paid form of communication
2. Non personal presentation of message (face to face direct contact with customer)
3. Issued by an identified sponsor.

OBJECTIVES OF ADVERTISING:

- To promote new product, to support personal selling programme
- To reach out to people not accessible to salesperson
- To enter new market, to manage competition
- To enhance goodwill of the retail firm and to improve dealer relation
- To warn the public against imitation of the retailers products.

SIGNIFICANCE OF ADVERTISING IN RETAIL SECTOR:

Its imperativeness has increased in this era of globalization and liberalization around the worlds. Raymond's the apparel retail chain, primarily used television and print ad to promote experiential aspect associated with shopping at its stores.

TYPES OF ADVERTISING:

a. Consumer oriented or persuasive Advertising: The major objective of consumer oriented advertising is to inform consumers about the new products, holding consumer patronage against intensified campaign by rivals, promoting a contest or a premium offer. It helps in maintaining a regular demand and attracts a lot of attention and preferences of the customers. eg: Wills Lifestyle, the ITC owned apparel retail chain
b. Informative Advertising: Purchase of durable products is often too expensive to buy, so the buyer requires elaborate information about them. Hence the retailer and manufacturer spend a huge amount of informative advertising.
c. Institutional or corporate Advertising: Its main motive is to build corporate image. An attempt is made to highlight the achievements and objectives of retail organization. E.g. HDFC bank has tied up with Business Today the leading business magazine to sponsor 10000 copies of the Magazine in each metro. The cover of the sponsored copies of December 2003 rated HDFC bank as the best bank in the country.
d. Financial Advertising: advertisement by various financial institutions like standard chartered Bank, ICICI etc. Recently HDFC bank has evolved a mix of sales promotion and advertising to attract new customers.
e. Classified Ad: which are placed under specific headings and columns in various magazines.

SALES PROMOTION:

Sales promotion refers to communication strategies designed to act as a direct inducement, an added value or incentive for the product to customers. Sales promotion provides extensive tactical measures to marketers to manage internal or external impediments to sales or profits. Internal impediment (unsold stock); External impediment (competition)

Objective of Sales Promotion:

- Assist the other communication activities undertaken by the store.
- to encourage new tiers by offering free trial
- to encourage repeat purchase

Supplier originated sales promotions:

Sales promotion can originate from two sources – suppliers or retail store itself.

In-store Activities:

Price –off Pack: The product is sold at reduced price form its normal selling price. This is in the form of a discount.

Premiums: These are in the form of small gifts that a customer gets on purchasing a product. It's attached to the pack or inside the pack.

Self-liquidating Premiums: Customer has to write to the supplier for the gift, enclosing empty packets, bottle crowns etc. of the product plus some money. Basically the customer provides some proof of the purchase. *For eg: Rin gift hunt, Rs. 5 lack worth of educational gift to children (requires customer has to fill the form and submit to the nearby store)*

Personality promotions: Many companies use show –business personalities to endorse their products. The suppliers tend to associate the charisma associated with these personalities. For ex: T.N Shesan the former election commissioner was used by Safal Vegetables since he did not appear for any other product and he had an honest and upright image.

Co-operative promotions: two or more products share and fund in joint store promotion. Shaving foam and after shave lotion.

Sampling: Free sample, and sometimes the demonstrator may also be present to explain the product. The product may be entirely new and customers may have little knowledge about the product

Multipack: two or more packs are attached and sold for a better and attractive price than the price of the items singly. Maggie noodles packet free with the purchase of four or one gets three soaps at the price of two.

Buy one Get one free: The customer can get two units of the product at the price of one.

Point of purchase (POP) Display Material:

Leaflets, special fittings: Products are kept in the special racks row stands provided by the suppliers. For ex: racks provided by the toothbrush suppliers, dry battery stands, glass case for watches.

Demonstrators: sometimes demonstrators used in this context. For ex: a children's product may use a person dressed as their logo (e.g.: teddy bear)

PUBLICITY:

Publicity entails any communication that fosters a favourable image for the retailer among its public. It can be personal or non personal, paid or non-paid and sponsor controlled or non-sponsor controlled. Publicity is a non personal form of promotion where messages are transmitted through mass media, the time or space provided by the media is not paid for, and there is no identified commercial sponsor.

TYPES OF PUBLICITY:

PLANNED PUBLICITY: A retailer outlines its activities in advance, strives to have media report on them, and anticipated that certain events will result in media coverage. Community services like donations, and social sales, and introduction of new goods or services of the activities which lead to media coverage.

UNEXPECTED PUBLICITY: It takes place when the media reports on a firm without any advance notice about the media coverage. TV and newspaper reporter may anonymously visit stores and rate their performance for their coverage.

COMPLEMENTARY PUBLICITY: Sometimes media reports about a firm in a complimentary manner with regard to the excellence of its retailing practices. eg: HDFC

Retail promotion needs to be organised with due understanding of the retail business and its positioning.

Demonstrators: sometimes demonstrators used in this context. For ex: a children's product may use a person dressed as their logo (e.g.: teddy bear)

DIRECT MARKETING:

Direct marketing is a channel-agnostic form of advertising which allows businesses and non-profit organizations to communicate straight to the customer, with advertising techniques that can include cell phone text messaging, email, interactive consumer websites, online display ads, database marketing, fliers, catalog distribution, promotional letters, targeted television commercials, response-generating newspaper/magazine advertisements, and outdoor advertising. Amongst its practitioners, it is also referred to as *direct response*.

Direct marketing is one of the forms of communications which seeks to cause action; forms databases about clients; influences separate layers of consumers; gives the chance to learn and analyze their action of the consumers to various offers.

Direct marketing is directly reaching market (customers and potential customers) on a personal (phone calls, private mailings) basis, or mass-media basis (infomercials, magazine ads, etc.).

PROBLEMS AND PROSPECTS

PROBLEMS

- Cannot see and examine
- Operating costs
- Low response rates
- Intense competition
- Image problems
- Lack of comfort with interactive technology
- Privacy and ethical issues

PROSPECTS

- Segmentation and targeting
- Geographical range
- Shopping convenience
- Technological advances
- Lower prices to customer is possible
- Lower operating costs are possible

Tools of Direct marketing:

Personal relations with clients

• Public statements

• Use of recommendations

• Personal SALE

• Catalog marketing

• Mobile marketing

• TV marketing

• Web marketing

• Door to door contacts

PERSONAL SELLING:

Personal selling is a promotional method in which one party (e.g., salesperson) uses skills and techniques for building personal relationships with another party (e.g., those involved in a purchase decision) that results in both parties obtaining value.

In most cases the "value" for the salesperson is realized through the financial rewards of the sale while the customer's "value" is realized from the benefits obtained by consuming the product. However, getting a customer to purchase a product is not always the objective of personal selling. For instance, selling may be used for the purpose of simply delivering information.

Because selling involves personal contact, this promotional method often occurs through face-to-face meetings or via a telephone conversation, though newer technologies allow contact to take place over the Internet including using video conferencing or text messaging (e.g., online chat).

PUBLIC RELATIONS:

Public relations (**PR**) are the practice of managing the spread of information between an individual or an organization (such as a business, government agency, or a non-profit organization) and the public.

Public relations may include an organization or individual gaining exposure to their audiences using topics of public interest and news items that do not require direct payment.

This differentiates it from advertising as a form of marketing communications. The aim of public relations is to inform the public, prospective customers, investors, partners, employees, and other stakeholders and ultimately persuade them to maintain a certain view about the organization, its leadership, products, or of political decisions. Public relations professionals typicallyworkfor **PR** and marketing firms, businesses and companies, government and public officials as PIOs, and nongovernmental organizations and non-profit organisations.