Pricing in Retail
(continued)

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Objectives and Pricing



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Specific Pricing Objectives

- ✓To maintain a proper image
- ✓To encourage shoppers not to be overly price-conscious
- ✓To be perceived as fair by all parties (including suppliers, employees, and customers)
- ✓To be consistent in setting prices
- ✓To increase customer traffic during slow periods
- ✓To clear out seasonal merchandise
- ✓To match competitors' prices without starting a price war
- ✓To promote a "we-will-not-be-undersold" philosophy
- ✓To be regarded as the price leader in the market area by consumers
- ✓To provide ample customer service
- ✓To minimize the chance of government actions relating to price advertising and antitrust matters
- ✓To discourage potential competitors from entering the marketplace
- ✓To create and maintain customer interest
- ✓To encourage repeat business

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Price Policy Choices

- No competitors will have lower prices; no competitors will have higher prices; or prices will be consistent with competitors.
- All items will be priced independently or the prices for all items will be interrelated to maintain image and ensure proper markups.
- Price leadership will be exerted; competitors will be price leaders and set prices first; or prices will be set independent of competitors.
- Prices will be constant over a year or season; or prices will change if costs change.

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Price Strategy

- Demand-oriented pricing
- Cost-oriented pricing
- Competition-oriented pricing

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Demand-Oriented Pricing

- **Psychological pricing**
  - Price-quality association
  - Prestige pricing

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Markup Pricing Calculation

$$\text{Markup percentage (at retail)} = \frac{\text{Retail Selling Price- Merchandise Cost}}{\text{Retail Selling Price}}$$

OR

$$\text{Markup percentage (at retail)} = \frac{\text{Planned Retail Operating Expenses + Planned Profit}}{\text{Planned Net Sales}}$$

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Initial and Maintained Markup Calculation

Initial Markup percentage (at Retail)

$$= \frac{\text{Planned Retail Operating expenses + Planned Profit + Planned Retail Reductions}}{\text{Planned Net Sales + Olanned Retail Reductions}}$$

OR

Maintained Markup percentage (at Retail)

$$= \frac{\text{Actual Retail Operating Expenses + Actual Profit}}{\text{Actual Net Sales}}$$

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Ideal Yield Management Applications
(1 of 2)

- Significant variation in demand by time of day, season, day of week (weekend vs. weekday).
- Demand that is capable of being segmented. Significant differences in price elasticity by marker segment.
- Existence of reservations: Demand is somewhat predictable. Service is reserved by consumers in different time periods (ranging from well in advance to just before the service expires). Uncertainty of actual usage despite reservations creates possibility of unsold seats. Service providers can protect against no-shows through overbooking.

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Ideal Yield Management Applications
(2 of 2)

- Cost characteristics: Low costs of marginal sales in comparison to marginal revenues.
- High fixed costs.
- Capacity limits: Capacity is relatively fixed. The fixed number of output units needs to be allocated among customers. Service providers have excess capacity at certain times and excess demand at other times. When demand peaks, many services face binding capacity constraints that prevent serving additional customers.

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