UNIT 6 ETHICAL PRACTICES IN PRICING

Structure

6.0 OBJECTIVES

After studying this unit, you will be able to:

- Identify the pricing practices followed by retailers;
- Discuss dynamic prices followed in retail;
- Explain the concept of price discrimination;
- Explain the concept of price gouging;
- Understand price benchmarking;
- Identify the factors effecting price surging;
- Identify the reasons for current display of price.

6.1 INTRODUCTION

Pricing of a product is a vital aspect for any business which sells products to the customers. A customer may consider various factors while making a purchase decision but for majority of the customers, price of the product is their top priority. A retailer may follow various methods of retail pricing when it comes to setting the price of the product offered at the store. Whatever may be the retail price, one must include the cost of that item plus any markups aimed to gain a profit from selling that product or item to the final consumers. The retail pricing reflects the types of customers the retail company is targeting. It is therefore vital for a retailer to keep in mind the customer segment targeted. A mismatch in retail pricing and customer segment may lead to business failure. There are a number of pricing methods open to the retailers and a method is selected depending upon various factors which may affect the retail pricing. It is not surprizing that every retailer looks for maximizing the profit and keeping the margins high. In other words, retail pricing is very important because a retailer needs to generate enough profit by selling merchandise to meet the business expenses and survive the competition.

6.2 PRICING PRACTICES

Before we discuss different retail pricing strategies, let us talk about the factors which impact the retail pricing in a big way. The factors can be broadly classified into two as internal factors and external factors; let us discuss them in detail.

6.2.1 Factors Influencing Pricing

Internal Factors: Consist of internal business elements which are under the control of the business or can be controlled,such as the costs and processes associated with manufacturing, or investment decision on promotion or in marketing. Internal factors help to draw a baseline or give an idea about the margin or profit required to survive the business. There are two ways to increase the profitability of the business- either increase the price of the retail product or reduce the cost of production which is called cost cutting. This phenomenon (cost cutting) is commonly seen during the recession. But price increase would pose serious challenge to the business from the competitors, therefore cost control is the better option to keep the business profitable

External Factors: On the other hand, external factors are the factors present in the environment in which the business operates. The businesses cannot control these factors directly and are out of the control of the business. Competition, channels, and geography, etc. are such factors which are out of the control of the business. These factors largely influence the retail price.

6.2.2 Retail Pricing Strategies

There are various strategies available for pricing a retailer needs to focus on offering fair price of the product to the customers. The retail pricing of the product or strategies are as follows:

1. Retail Pricing Suggested by Manufacturer

This is one of the most familiar pricing strategies for retail consumers. The objective of this pricing strategy is to bring uniformity in the retail price of the product for all the different geographical regions. This method of pricing is also used for mass-oriented items, such as consumer electronics or household appliances.This is a cost-based approach since it considers both the cost of production and a profit for both manufacturer and the retailers; it also considers the competitors' price. The advantage of this method of pricing strategy is that it removes the guess work in price setting and thus saves lots of time and energy for the retailers. There is a shortcoming of this approach of pricing- it makes the product less competitive among the competitors. Because if you offer the same item at the same price as other retailers, how do you set yourself apart?

2. Keystone Pricing

This is another variation of the manufacturer-suggested pricing strategy. In this method, the retailer doubles the wholesale price or production cost of a product to determine the retail price. For example, if the wholesale price of a product X is Rs. 100, then according to this method, it is increased to Rs. 200 to arrive at the retail price of the product X. Again, this approach saves lot of time and energy of the retailers, since it does not require any complex calculation or formula to arrive at the actual retail price.

A retailer must keep one thing in mind that this approach will not work for all types of products and items. For example, if the product is high on worth and keeping the price low for the sake of following this method of pricing would really hurt retailer's profit margin. Therefore, it is necessary to check the feasibility of this method of pricing for the product before adopting it.

3. Bundle Pricing

The bundle price refers to creating a value pack or bundle of the same items or product and sell it at the single price point. During our visit to a retail store, we may come across with the products kept in a bundle or in pack of 2, 3 or 5 items with the display price such as 299, 399, 499, etc. Here the focus of the retailer is to sell more numbers of quantities rather than value. This method of pricing is very effective in case of impulsive product like chocolate, pair of socks, T-shirts, handkerchief, deo and many such products. In the retail scenario, it is very common to see that customer might ask to break the set and seek to buy one or two products from the bundle of the said product. But there is a challenge to do this as one cannot set the price of the single or double units since the product code is for the whole pack or bundle and not for the individual items.

4. Discount Pricing

As the name suggests, this is a very common type of retail pricing method. According to this method, the retailers sell product at a lesser or lower than the maximum retail price (MRP) of the product. For example, let us say there is a 20% discount on a product and the MRP is Rs 500. So actual selling price is Rs. 400 (500-500*20/100). Discounts can be also given in the form of coupons and vouchers which the customer can produce while making payments to avail discounts. Generally, retailers do not prefer to offer discounts as it eats away their margins or in other words, reduces the profitability of the company. This is a very effective method of pricing especially when the stocks are piling up and there is pressure on retailers to liquidate the non-moving stocks. However, there is a shortcoming of this method; a frequent discount offering will encourage the customers to expect discounts on every purchase and it will become almost impossible for a retailer to sell their product without the discount.

5. Penetration Pricing

Penetration pricing refers to the introductory price of a product which needs to enter a new market or to penetrate a particular market. When the competition in the market is high, it is difficult for a new product to enter the market. Moreover, the customers are already using such product since long and developed a level of trust. In this scenario, a new product would fail to create such trust in the mind of the customers with a similar price point. Hence to attract customers, retailers introduce the new product with a comparatively lower price than the competitor's price.As the price of a product is a big factor in influencing the buying decision of a consumer,a lower price of the product can push the customer to buy and try the new product.

6. Loss-Leading Pricing

In this approach,the retailers sell their product below the cost. But this is possible only for a big or established retailer to follow such pricing approach because selling product lower than the cost price would incur huge losses and only big retailer can sustain that loss due to their financial strength. In a highly competitive market, a retailer follows this method of pricing to wipe out the small retailer from the competition. This method of pricing helps the retailer to increase the average cash memo size of a customer. A lower price pushes the customers to buy a greater number of items or units even what the customer does not plan. However, there is a shortcoming of this approach: when a retailer reduces the price of the product lower than the market price, it gives an indirect message to the buyers about the reliability of the product in terms of their quality and sustainability.Moreover, continuously selling the product at a price lower than the cost can badly affect the large retailers too in the long run.

7. Psychological Pricing

The concept of "Psychology Pricing" is related with the psychology of the customer. In a retail store quite often, we may see a price of a product as Rs. 199, 299, 399, etc. instead of a round figure, such as 200, 300, 400, etc. The logic behind such pricing comes from a theory according to which a customer trusts the price more which ends with the odd digit such as 5, 7, 9, etc. Out of all the odd digits, the most common odd digit is 9. This sort of pricing is used for lower range and or impulse product by the retailers to push the sales volume. In case of a luxury or premium brands, the retailer would not like to take a risk of hampering the image of the brand with such pricing strategy. Customers catering to luxury item keep the price as a secondary factor to buying decision. There is another name of this method of pricing that is "Charm price."

8. Competitive Pricing

Many times, retailer prefers to set the price of their product based on their competitors in the market. In this pricing method, a retailer offers their product at the price lower than their competitors to penetrate or enter the market. They use the price of their competitors as a bench mark and try to cover the losses incurred in this process by increasing the sale volume of the product. For a small retailer, this can be very much challenging as they need to ensure large sales in terms of volume so that they can negotiate the unit cost by selling more quantities.

Let us understand this with an example.

Retailer A, who is an established player sells 1000 pieces in a moth at a price of Rs. 100 and generates a revenue of Rs. 100x1000= 100,000.

Retailer B, who is a new player sells his offering at a lower price of Rs. 80, so the retailer B needs to ensure to sell 1250 units to generate revenue equal to retailer A to justify his cost to negotiate his unit cost compared to the retailer A.

9. Premium Pricing

This is just opposite to the previous pricing method. In this method, the retailer sets the product price above the competition. This pricing method helps you in creating an image of your product as a premium product among all other similar products available in the market. As we have already explained in the previous method, the customer who is buyer of a premium product will consider price as a secondary factor to buying decision.Therefore, a retailer together with effective marketing efforts can increase the sales volume to the desirable extent.

10. Anchor Pricing

In this method, both the original and the discounted prices are displayed simultaneously on the product. The retailer tries to give an idea to the customer that how much they are saving if they buy the item with the discounted price. It impacts the psychology of a customer and encourages to buy it if with a sense of saving more. During the end-of-season-sale (EOSS), we might come across with a product carrying a price tag which says “was and is” price tags. In this price tag, the original price is written as “was price” and the discounted price is written as “is price.” This makes it easier for the customer to calculate how much they can save if they buy the respective product. Companies like Shopper’s Stop, Lifestyle, Central, Pantaloon Westside, etc. are in a regular practice of following this pricing method.

11. Channel-based Pricing

This is altogether a new pricing method. In this method, the retailers set different price points for the same product to be sold in different channels. This method is more suitable for the omni channel retailer as they sell their products through various channels, such as brick & mortar, website, social media, etc. But there is risk of customer getting disloyal as they may feel cheated because the retailer is charging different prices for the same product in different channels. To counter this, the retailer may offer same price for the same product across the channels but may offer channel specific discount to create a price differentiation among the channels.

12. Wholesale Pricing

As the name suggests, this type of pricing is practised by the retailers who sell their product to the whole sellers, i.e. B2B businesses. The retailers do not sell their products directly to the end users, i.e. consumers. The retailers need to calculate their cost of goods sold which includes both material and labour costs plus additional cost of production. Again, this type of pricing method is helpful when the retailer wants to move large volume of stock.

6.3 DYNAMIC PRICING

There can be a scenario wherein a retail company or a retail store may continuously change the price of its product throughout the day to adjust according to the prevailing situation.The objective of the retailer to follow such pricing is to maximize the profits, and to increase the possibility of the sale. Let us discuss about this in detail.

6.3.1 What is Dynamic Pricing?

Dynamic retail pricing is a **pricing strategy in which retailers adjust the prices of their products or services throughout the day based on various**

factors. In this pricing strategy, the price of the product is variable and not fixed unlike in case of other pricing strategies. Dynamic pricing should not be confused with personalized pricing as both these pricing strategies are different from each other. The dynamic pricing is related with the relative value of the product depending upon the present market condition whereas the personalized pricing depends upon the individual consumer behaviour.

Let us understand this concept with an example: Fresh-frozen is a retail store which sells fish. During the morning hour, which is a lean time and customer entry is very low, they sell Rohu-fish (A kind of river fish very famous among Bengali community) at Rs. 300/kg.But at the evening time, they sell the same fish at Rs. 250/ Kg due to the rush hour and customer demand and entry is quite high. To capitalize on the situation, they sell it at a discounted price. At the late hours, they sell the same fish at Rs. 200/kg because it is a closing time and hardly anymore customer will come. Fish is a perishable item which loses its quality after a certain period; therefore the retailer does not take the risk of holding the stock for tomorrow. This is going to increase the carrying cost of the retailer and therefore they want to get rid of such items and sell them at the discounted price.

6.3.2 Factors Influencing Dynamic Pricing

There are several factors which influence the dynamic pricing. These factors are-demand and supply, seasonality, time of the day, competitor pricing, and customer behaviour. Let us discuss them in detail as under.

a. **Demand and Supply:** Demand and supply of a product are the two forces which determine the price of a product to a great extent. When the supply of a particular product goes down, the demand goes up which in turn increases the price of the respective product provided other things remain the same, i.e. other factors which may influence the price of a product like quality of the product, purchasing power of the customer, substitute of the product, competition in the market,etc.

b. **Seasonality**: Retail industry in India operates in varied climatic conditions such as autumn, winter, summer, and spring. Along with the regular product, many retailers sell seasonal products to capitalize on the opportunity as the demand for such seasonal products is high in the pick season. Therefore, the retailers may try to sell the product on a full MRP without any discount or offer with the objective to earn better margins. Whereas at the end of the season, the retailers have pressure to liquidate the left-out stocks and they want to get rid of this. Therefore, they offer heavy or huge discount to sell the left-out stocks.

c. **Time-of-the-day:** Let us understand this factor with a real-life example. In bars and restaurants, there is a concept of "Happy hours."During this time, bars or restaurants offer discounts on different meals or beverages. This is done to attract more customers since this is a lean hour of the day and business is slow. On the contrary, the retailers try to sell their offerings at par with the goal to earn more margins during the rush hours. During the rush hours, the retailer needs to make comparatively less efforts to sell the product.

d. **Competitor Pricing:** Competitor's price plays a crucial role in setting the retailer's price. In a highly competitive market, the customers have large numbers of options and choices to make from. The customer can influence the market but the sellers cannot; therefore, the retailers are bound to set their price of the product at the competitors' price to retain the customers.

e. **Customer Behaviour:** This factor also influences the dynamic price. Here the retailer sets the price of the product depending on the mood of the customers. In case where the customers are buying large quantities, the retailer may reduce the price per unit to encourage the customer to buy more. On the other hand, when a customer buys very limited items, the retailer may be quite rigid and sells the product at the full MRP along with additional charges.

6.3.3 Benefits and Limitations of Dynamic Pricing

As of now we are clear about the Dynamic pricing and the related factors influencing it. There are also some benefits and limitations associated with the dynamic pricing. So, let us discuss these in detail.

Benefits

1. It can be used as a Tool to Boost Sales.

Dynamic pricing is often used as a tool by the retailers to increase the sale of the store or the company. During lean hour or periods when the sale is very low, this measure is very effective and can bring back the sales on track. With this approach of pricing, the company liquidates slow moving or dead stock and can easily get rid of them. While adopting this approach, the goal of the company is to increase the quantity sale rather than, value. However, this is not always true; sometime dynamic pricing is followed just to match the competitors' price point. In a competition, a market leader may set the competitive price due to their financial strength but weak players need to follow the leader otherwise they would lose the potential buyers due to lower price point of the same product in the market.

2. It Helps to Maximize Profit.

A retailer selling a product at price lower than the market price can use dynamic pricing to maximize their profit. Here the retailers can adjust the price of the product according to the buying behaviour of the customer. Let us say market price of a product is Rs. 200 and the retailer increased his price from Rs. 100 to 150. With this strategy, the retailer increased the margin by Rs. 50 more and at the same time gives the impression of reasonable price to the customer. The consumer would feel that they have saved some amount of money.

3. **Boosts the Demand.**

This pricing strategy is commonly used for products related to event such as cricket-match, etc. For example, Shoppers' Stop launched cricket world cup final match Tees. After the match, the left-out Tees would not generate the required value; therefore, the objective of the retailer is to sell the Tees at whatever minimum price those left-out Tees can be sold out. This throw-away price during the last time of the event would give rise to an additional sale.

Limitations

1. **Customer does not like it at all.**

Customers are always in favour of a lower or fixed price and they do not want any sudden surprises regarding prices of the product. Customers never like when a retailer changes the price of the product within an hour of the day to capitalize the business opportunity as they feel cheated. This creates great dissatisfaction among the customers which adversely affects their loyalty towards the brands.

2. **It may lead to price war.**

In this pricing strategy, the prices of the product change suddenly in any hour of the day. Therefore, a price change (lower) by one retailer forces the other retailer or competitor also to lower down their prices. It becomes necessary for other players of the same market to follow the lower price to attract customers. This gives rise to the price war; this practice continues till it reaches to the lowest margin and only the big player can survive the competition.

3. **It may lead to the loss of a sale.**

Due to price war, the retailers keep on lowering the price of the product to attract the customers. On this, many customers return the product purchased at a certain price when they get the same product at lower price than the price what they paid for the product already bought. These returns of the product result into loss of sale.

4. **It affects customer loyalty.**

When a retailer is unable to meet the customers' expectation, it surely reduces customers' loyalty towards the retailer's brand. Therefore, sudden fluctuation in the product price brings great dissatisfaction among customers and consequently reduces the loyalty of customers, especially when they find that the other competitors are offering the same product at the lower price point.

5. **It increases competition in the market.**

Offering product at lower price than the market would encourage new players to enter the market. With entry of more players in the industry, the competition automatically goes up. A greater number of retailers offering the same product at lower price increases the options for the customer.

6.4 PRICE DISCRIMINATION

This is another type of pricing strategy the retailers follow in retail industry. Here the retailers charge different price from different customers for the same product. Let us discuss the concept in more detail.

6.4.1 What is price discrimination?

Price discrimination is a pricing strategy according to which a retailer sells the same product at different prices to different consumer groups. The retailer sets the price based on the assumption that the customer is willing to pay the price the retailer offers. In a pure price discrimination, the retailer charges maximum price the customer is willing to pay. In more common forms of price discrimination, the retailers create different groups of customers based on certain attributes and charge different price for the same product.

The term discrimination in the concept of "price discrimination" does not lead to anything illegal or unlawful. Rather, it refers that a retailer may change the prices of their products or services dynamically based on the market conditions change, charging different consumers different price for the same product or service with different **cost.** This practice does not violate any laws—it would become unlawful only if it creates or leads to specific financial losses.

Key Highlights

- In the price discrimination pricing strategy, a retailer charges different prices from different customers for the same product.
- The retailer may charge the maximum possible price the customer is willing to pay for each unit consumed.

6.4.2 Different Types of Price Discrimination

We can categorize price discrimination into three sub-categories such as first-degree or perfect price discrimination, second-degree, and third-degree. Each one of these price discriminations is also known as personalized pricing (1st-degree pricing), product versioning or menu pricing (2nd-degree pricing), and group pricing (3rd-degree pricing).Let us discuss in detail.

a. First-degree Price Discrimination

First-degree price discrimination, or perfect price discrimination is a situation in which the retailer charges the maximum possible price from the customers willing to pay for each unit consumed. Let us understand this with an example. X a car manufacturing company sells its Y model of car at

Rs 10 Lakh in India and at Rs. 18 Lakh in Pakistan. The product is same in both the countries that is model Y, but the geographical location is different.

b. Second-Degree Price Discrimination

This type of price discrimination takes place when a retailer charges different prices for different quantities consumed by the customers like quantity discount on bulk buying. For example, a pet bottle of 650 mL of Coca-Cola costs Rs. 40, but a1 litre pet bottle of Coca-Cola costs Rs. 50 that means the consumer is getting additional 350 ml in just Rs. 10.

c. Third-degree Price Discrimination

This type of price discrimination takes place when the retailer charges different prices from different customers for the same product. For example, Indian Railway charges different prices from senior citizens for travelling in the same coach and no fare at all for the kids below 7yrs.

Check Your Progress A

1 Distinguish between internal and external factors influencing pricing strategy?

2. What is price discrimination? Give an example.

3. What is dynamic pricing?

4. Give an example of second-degree price discrimation

5. Which of the following statements are **True** or **False**?

   (i) There are two ways to increase the profitability of the business.

   (ii) Loss-Leader is a retailer who sells the product below the cost.

   (iii) When a retailer changes his price once in a day, it is called dynamic pricing.

   (iv) Price discrimination can be divided into three categories.

   (v) Dynamic pricing leads to increasing cost.

6.5 PRICE GOUGING

Till now we discussed many pricing strategies that the retailers follow to sell his or her product or services in the market. There is one more pricing strategy that a retailer might follow- it is “Price Gouging.” First-of-all, let us understand, what is price gouging? Price gouging is a pricing strategy in which a retailer increases the price of his product to an unfair or unreasonable extent, i.e. more than the usual price of the product to capitalize the business opportunity arising due to some emergencies like, natural disaster, national emergency, pandemic, etc. This sort of pricing can be seen in case of essential commodities.

"Price gouging is the practice of increasing the prices of goods, services, or commodities to a level much higher than is considered reasonable or fair."

In many countries, such a pricing strategy is illegal and they have very stringent law against it. The retailers practicing such strategies are penalized in many ways. The idea of making such a practice illegal is to protect the interests of the customers from an unfair trade practice. Look at the figure 6.1 which explains the concept of "Price Gouging".

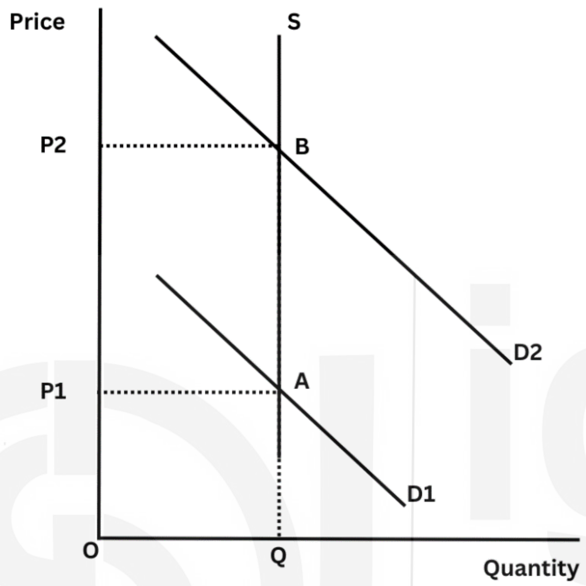

Figure 6.1: Price Gouging

X-axis=Denotes price of the product

Y-axis= Denotes unit quantityof the product

P1= Price during normal time

P2= Price during crises time

Q =Quantity in unit

D1= Demand curve of the product during normal time

D2= Demand curve of the product during the crisis time

S = Supply curve

O = Point of origin

A= Point where demand and supply meet during normal time (For better clarity please refer demand and supply theory in economics)

B=Point where demand and supply meet during crisis time (For better clarity please refer demand and supply theory in economics).

Let us assume that there is flood in Bihar due to which there is a huge shortage of drinking water. A packaged drinking water company was selling Q1 quantity at P1 price per unit during the usual time in the market. But due to outbreak of the natural calamity (Flood) and shorter supply, the company is selling one unit of water at a very high price at P2 which is way above the usual market price. This extra price is known as price gouging.

6.5.1 Price Gouging is Illegal or not?

Every country in the world follows its own economic policies based on which countries treat a particular economic activity as legal or illegal. Likewise, different countries of world have different opinions regarding "Price gouging". For example, countries fall under European Union allow retailer to practice price gouging whereas countries like India and China have made this practice an illegal pricing strategy. Libertarian economists, such as Thomas Sowell and Walter E. Williams have argued price gouging serves a useful purpose for allocating resources during a disaster.

Arguments in favour of "price gouging"

a. **Encourage Hoarding:** The option to charge higher price for the essential commodities during emergency may encourage companies to hold the stocks for crisis. Therefore, when the crisis situation occurs, the availability of the essential commodities would be more. But if the price gouging is not allowed, it would discourage the firms to stockpile essential commodities for emergencies. Consequently, the society would suffer during emergencies.

b. **Limit the Allocation:** Higher prices may restrict the allocation of the essential commodities to only those who need it the most. It also ensures the optimum utilization of the essential commodities and minimizes the wastage. During emergencies, people tend to do panic buying and consequently may land up buying excessive of an essential commodity which they may not require and it leads to wastage. Whereas those who need it may not get even at a much higher price.Therefore, at unusually higher price, people would tend to buy only in limited quantity to meet their current requirement.

c. **Encourage Supply**. According to the economic theory of supply, the suppliers would tend to increase the supply of a particular commodity when the price of that product goes up and vice-versa. Therefore, with increased price of the essential commodity, the suppliers would increase the supply of the product. This works as an incentive for the supplier to increase the supply.

Arguments Against Price Gouging

a. **Encourages Black-Marketers**. A crisis situation encourages black marketers to buy the scarce or essential commodities at a subsidised price from the government agencies or shops and pile up the stocks and sell it at higher price. Buyers may run here and there to search the seller which may cause great inconvenience at time and need to pay higher price for the same product which they could get at the lower price.

b. **Encourages Unequal Distribution**: Everyone needs basic or essential commodity whatever may be the situation or status of the individual. Due to price gouging, the basic and essential commodities are beyond the reach of the poor people. During crisis, the people who have savings or high income can buy even at the unreasonably higher price.This creates an unequal distribution in the society. For an example, we can witness this in case of life saving drugs; the high-income group can afford it even at the unreasonablyhigher prices but a poor man cannot get it and may lose his near and dear ones.

c. **Disrupts the Social Connect**: During emergencies or crisis situation, there is a negative sentiment among the people in the society. People become self-centred and they are concerned about their own survival only; they are not bothered about others. This gives rise to the panic buying and encourages hoarding or stock piling and sends a message in the society of "survival of the fittest." This creates a social disconnect among individuals in the society.

d. **Hard to Predict**: Future is totally uncertain and no-one can make prediction about it accurately. For example, during the wide spread pandemic "Covid-19", nobody could have predicted the shortage of hand-sanitisers, face-masks, and ventilators. So, the "price gouging" cannot be a justification for stockpiling.

6.6 COMPETITION AND FAIR MARKET PRACTICES (PRICE BENCHMARKING)

Earlier we have discussed about many pricing strategies a retailer may follow. Whatever pricing strategy the retailer follows, he or she must compare their price with that of their competitors in the same market segment to see the effectiveness of the pricing strategy. Such a practice in retail is called "price benchmarking."

Price benchmarking is a process of comparing your prices to the prices of the competition in a specific market segment.Price benchmarking gives a competitive edge to the retailers in the market. The retailers get the confidence that their price is a reasonable price the customer is willing to pay for their product.Price benchmarking helps a retailer in case the retailers want to penetrate the new market. Let us understand the concept with an example.In an automobile industry, there are three car players X,Y, and Z selling their cars at Rs. 10 lakh, 10.5 lakh, and 10.4 lakh. A new player P wants to penetrate the market with its product. Initially the price of its car was 12 lakh, but after careful price benchmarking,it is realized that the customer would not prefer their car over the competitor based on the price.Therefore they reduce the price of their car to Rs. 10.3 lakh. Now this made it easier for the new entrant to penetrate the market because in most of the cases, the customers are price sensitive.

Steps to Follow in Process of Price Benchmarking

To develop a strong price benchmarking process, one needs several important steps to follow. Let us discuss these steps one by one in detail.

a. **Planning:** Planning is the first step in the price benchmarking process and lays down the foundation for the entire process. The retailer needs to determine which products or services to benchmark, identify the strong competitors and the market leaders, and select the data base to be used to make the comparison. The benchmarking process would be more effective and efficient if the planning is effective and efficient. And the planning to be efficient and effective, it should be more specific and targeted. A planning to be specific and targeted, the retailer needs to identify the right target market segment and identify different competitors for different segments. The retailer needs to remember one thing specifically here is that the objective of the process "price benchmarking" is not to copy the price of the competitors rather one must analyse their own price compared to that of the competitors.

b. **Analysing:** In this step, the retailer collects the data of the competitor's price and commences the analysis. This involves several aspects, such as comparing prices, monitoring changes, and evaluating market trends and sentiments about the new launch.

c. **Implementing:** Now it is time to implement the plan made based on the analysis of the competitors' pricing and make changes in your own pricing strategy. But the retailer must remember that this is not a one-time process so that once you implement your plan and it is done. In fact, it is a continuous process and the retailer needs to constantly keep on adjusting his price point to be competitive and stay in the market. They need to keep a tab on every movement on the competitors at all time.

Advantages of Pricing Benchmarking

1. Price benchmarking can improve your position in the market.
2. Increases the ability to monitor the competitor's price.
3. Helps to understand the current market trend and customer expectation.
4. Enables retailer to optimize cost.
5. Allows to identify opportunity to reduce expenses and enhance profitability.
6. Enhances market share.
7. Enhances the competitive edge.

Disadvantages of Pricing Benchmarking

1. This is a time-consuming process.
2. May divert attention from other important business aspects.
3. Encourages reactive pricing and leads to lack of innovation.
4. Can create its own USP.

6.7 SURGE PRICING AND SUPPLY-DEMAND DYNAMICS

Surge pricing strategy is another form of dynamic pricing strategy which is implemented on a temporary basis for a very short period when the demand is higher than the supply at a particular point of time. For example, Dola is a taxi service company charging Rs. 30/km on a particular rout X.On a particular day, there were lesser number of drivers available on the route at a particular time, which means the demand was higher than the supply.Therefore the company suddenly increased the prices to Rs. 60/km. This is called surge price, the price increased only for a short period of time.

Difference Between Dynamic and Surge Pricing

Retailers enjoy flexibility in both types of pricing strategies dynamic as well as surge pricing.Dynamic pricing automatically adjusts the prices of the product or service depending upon various factors. For example, the retailer may increase the price in case of high demand and lower the price when there is deep in the sale.

Surge pricing on the other hand is a type of dynamic pricing but little different from it. In this case, the price goes up when there is short in supply and demand is high to maintain a balance between demand and supply of the product,but the price of the product does not go down when the supply is back to the normal or in excess. Therefore,all surge price is dynamic pricing but all dynamic pricing is not surge price.

Characteristics of Surge Pricing:

- **Paying Extra:** The customer pays extra for availing the product or service, such as paying extra to get the delivery same day, etc.
- **Sudden Price Rise in Rush Hour:** There is price rise suddenly for a short period of time and comes back to normal when the situation becomes normal.
- **Varying Price:** The price is variable depending upon demand and supply.
- **Promotes limited time:** The offer, discount, or scheme is for very short period of time, and does not last for long.

6.8 PROMINENT AND CURRENT DISPLAY OF PRICE

When we talk about prominent, it means clear and loud and not concealed, hidden, or covered. Current means updated or prevalent.So when we put both the concept “Prominent and current display of price”, it is related to the act of displaying the price of a product or service in a way which is **clear, loud, visible, noticeable, current, and up-to-date**. The retailers must always think how to achieve such a display of price. The retailer can achieve this by putting the price in a way so that the customer or any layman can easily understand the price without any confusion or misunderstanding. This is not only about the ethical business practices but stringent laws are imposed for display of misleading price on the part of retailer by the Indian commercial law.

Different Ways of Displaying Price Prominently and Clearly in Retail.

In the above section we have discussed the significance of prominent and clear price display in retail. Let us now know what are the prominent ways of such displays in detail.

a. **Shelf Wobblers:** This is basically a VM material made up of plastic and is transparent displayed at shelf on the wall fixtures in a retail store. The price displayed with the help of wobblers can easily grab customers’ attention. The font of the prices mentioned on the product is very small which is not visible to the customers from a small distance. The customer needs to try by getting closer to the product to see the price. Therefore, with the help of shelf-wobblers the visibility of the price can be increased to attract the customer towards the product.

b. **Data Strips:** This is the most common way to display the price the retailers use to promote their products. It is made up of transparent acrylic and the price is written on a piece of paper and it is inserted inside the strip. The objective is again same here to get the attention of the customers from a distance. In addition to this, it enhances the look and feel of the retail store.

c. **Ticket and Card holders:** This type of signageis commonly used in apparel retail. A clip is attached to it at one end and a printed piece of paper in standard size is inserted mentioning the price of the product. It is very convenient to change over tickets without changing the holders from their place.

The Reasons for Prominent and Clear Pricing Strategy for Retailers

Prominent and clear display of price has a great significance in retail store operation and a person working in retail can understand this better. Clear display of the price is more than just profit or loss. It has the ability to alter the perception and loyalty of the customer. Let us discuss various benefits in detail.

a. **It Can Change Customers' Perception:** The price of the product plays a vital role in the creation of perception regarding the retailer's format whether it is a value format, mid-range or catering to premium segment**.** Therefore,the retailers need to be very-much careful about displaying the price and it must reflect the identity of the retailer.

   For example, if the retailer promotes a higher price point, the customer will perceive that the retailer has premium.

b. **Enhances Customer Loyalty**: A retailer who promotes correct price reflecting the identity causes great convenience and can meet the customers' expectation. Both these factors enhance the customer loyalty towards the retailer and their brands to manifolds. The customer would like to shop with such retailer more and consequently will increase the sale.

c. **Creates Competitive Advantage:** Doing something productive to add value to the customer differently always creates a competition edge in the industry for the retailers. A display of the pricing strategy reflects the clear intention of the retailers and it can win consumer trust. This trust gets converted into customer loyalty which enhances the sustainability of the retailer in the long.

d. **Helps in the Success of Promotions:** Display of price takes the central space in the retail promotion. The price must complement the promotion to make it successful. A gap between promotion and price displayed on the floor will lead to many complications for the retailer. Such gap will create great dissatisfaction among the customers. But if promotion complements the displayed price, it increases the customer satisfaction and leads to promotion success.

Check Your Progress B

1. Explain"price gouging".

2. Explain the term "Price benchmarking"

3. How is surge price different from dynamic pricing?

4. List down the reasons for prominent and clear pricing strategy by retailers.

5. Which of the following statements are **True** or **False**?

   i. Clear pricing strategy can change customers' perception.

   ii. Prominent and clear pricing earns customer loyalty.

   iii. Price gouging is the practice of decreasing the prices of goods.

iv. Price benchmarking is a process of comparing your prices.

v. Sudden rise in price is not the characteristic of price surge.

6.9 LET US SUM UP

Pricing of a product is a vital aspect for any business which sells products to the customers. A customer may consider various factors while making a purchase decision but for majority of the customers, price of the product is their top priority. There are two types of factors which may impact the retail pricing in a big way, namely internal factors and external factors. Different pricing strategies are available which a retailer may adopt in setting the price of his product. Some of these strategies are Retail Pricing Suggested by Manufacturer, Keystone Pricing, Bundle Pricing, Discount Pricing, Penetration Pricing, Loss-Leading Pricing, Psychological Pricing, Competitive Pricing, Premium Pricing, Anchor Pricing, Channel-based Pricing, Wholesale Pricing, etc. There are few more methods of pricing which a retailer may adopt, such as dynamic or surge pricing These pricing strategies are influenced by certain factors, such as demand & supply, seasonality, and time-of-the-day, competitors' price, and consumer price, etc. Dynamic pricing strategy suffers from certain limitation like customer does not like it at all, it may lead to Price War, it may lead to the Loss of a Sale, it affects customer loyalty, and it increases competition in the market. One more form of pricing strategy is "price discrimination." In Price discrimination, there are 3 degrees of price discrimination, namely first degree, second degree and third degree. Price gouging is a pricing strategy in which the retailer raises the price of the product above the usual level during emergencies. In benchmark pricing, we set the price by following few steps, namely planning, analysing, and implementing of the plan.

6.10 KEY WORDS

B2B businesses : Business-to-business refers to business that is conducted between companies, rather than between a company and individual consumer.

Brick & mortar : A traditional business that operates in a building, when compared to one that operates over the internet.

Margins : An amount allowed or available beyond what is actually necessary.

Markups : The amount added by a seller to the cost of a commodity to cover expenses and profit in fixing the selling price.

Rush Hour : A time of the day in which large numbers of people visit the retail store.

Vital aspect : An important factor

6.11 ANSWERS TO CHECK YOUR PROGRESS

A 5. (i) True; (ii) True; (iii) False; (iv) True; (v) False

B 5. (i) True; (ii) True; (iii) False; (iv) True; (v) False

6.12 TERMINAL QUESTIONS

1) Explain the factors that influence the pricing strategy of a retailer.

2) Define dynamic pricing. Discuss the benefits and limitations of the same.

3) Explain different types of price discriminations.

4) What do you mean by price gouging? Explain the advantages and disadvantages of price gouging?

5) Explain price bench-marking and discuss the steps followed in price bench-marking?

6) What is the significance of prominent and clear display of price? Please elaborate.

7) What are the different retail pricing strategies? Briefly explain them.

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