

THE IMPACT OF PRICING STRATEGY IN RETAIL SECTOR

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Abstract:

Big shopping malls, Super markets & Hypermarkets are growing rapidly by adopting aggressive pricing strategies to attract customer. These pricing & sales promotion strategies is turn affect the existing small retailers & customer buying behavior. The purpose of this research paper is to assess the attitude of customer towards pricing & sales promotion strategies. This paper investigated the customer behavior as regards to big shopping malls & traditional retailers. A total of 100 customers were interviewed to know their attitude & buying behavior towards sales promotion strategies in organized retail sector. The result finds that the customer attitude is affected by the sales promotional strategies adopted by the supermarkets & Big shopping malls. These sales promotional strategies also affected the business of unorganized retail sector. After sales services & long term relation with customer are the major business strategies adopted by the small players & unorganized retailer to retain customers. The result also indicates the traditional retailer's needs to redesign their business strategies to attract the customer & the organized retail sector must consider the customer values & their buying pattern. The first and foremost objective of the study is to make ourselves aware of the various pricing strategies of the organized retail sector, which now a days are prevailing in the market. Retailers have made the pricing as their tool to promote their product, by offering discounts on their products.

Some of the main *objectives* of the report are as follows:

- To study the various pricing strategies as a promotional tool opted by the organized retail sector
- To know about the attitude of customer towards pricing strategies of retail shops.
- To study the motivating factor which influence for buying the goods in retail sector?

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The study aimed to explore the impact of pricing strategies as a promotional tool in organized retail sector in India. A total of 100 respondents were considered for the study i.e. 50 customers & 50 retailers from Panipat chosen as the study location and stratified random sampling used to select the respondent. Strata's were identified based on organized retailer's concentration and a list of organized retailer was prepared.

Initially organized retailers were approached and in-depth interview were conducted to know about their strategies. Then the customers were asked about the impact of the pricing strategies on their buying behavior to get more information. A pilot study was conducted with a sample of 100 respondents to know the feasibility of the questions for personal interview. After the required changes, the respondents were approached and an in-depth interview was conducted to get the data. Statistical tool such as Chi-Square test were used to get inference from the data.

Introduction

Price is the cost of the product paid by the consumer. This is the only element in the marketing mix that generates revenue for the firms. In order to generate revenue, managers must consider factors both internal and external to the organization. Internal factors take the form of marketing objectives, the marketing mix strategy and production costs. External factors to consider are the target market, product demand, competition, economic conditions and government regulations. A number of pricing strategies are available to marketing managers: skimming, penetration, quantity and psychological. With a price-skimming strategy, the price is initially set high, allowing firms to generate maximum profits from customers willing to pay the high prices. Prices are gradually lowered until maximum profit is received from each level of consumer. Penetration pricing is used when firms set low prices in order to capture a large share of a market quickly. A quantity-pricing strategy provides lower prices to consumers who purchase larger quantities of a product. Psychological pricing tends to focus on consumer perceptions. One of the most crucial areas of decision making for retailers is pricing. Yet, we have found that small firms often do not have well-conceived pricing plans. And many such firms seem to panic (or ignore the problem) when large discount-oriented retailers enter their trading areas – or become more aggressive. This is not necessary; small retailers can prosper in today's discount-oriented environment, as long as they have a good understanding of their niche in the marketplace.

Retailers are in business to run a profit. While there are many factors that affect the profitability of a business, setting the right price is a major step toward making that profit. The first step in determining which retail pricing strategies to use is to understand the costs associated with your products.

The cost of goods includes the amount paid for the product plus any shipping costs. The cost of operating the business, or operating expense, includes overhead, payroll, marketing and office supplies. Regardless of the pricing strategy used, the price of your products should cover the cost of obtaining the goods plus the expenses related to operating the business.

Research Methodology

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Initially organized retailers were approached and in-depth interview were conducted to know about their strategies. Then the customers were asked about the impact of the pricing strategies on their buying behavior to get more information. A pilot study was conducted with a sample of 100 respondents to know the feasibility of the questions for personal interview. After the required changes, the respondents were approached and an in-depth interview was conducted to get the data. Statistical tool such as Chi-Square test is used to get inference from the data.

Hypothesis Testing

The chi-square test is one of the simplest and widely used non-parametric tests in statistical work. The symbol is Greek letter chi χ . It was first used by Karl Pearson's in the year 1990. The quantity chi-square describes the magnitude of the discrepancy between theory and observation

$$\text{Chi-square} = \frac{\sum (O-E)^2}{E}$$

Where O=observed frequency

And E=expected frequency

Degree of freedom:

While comparing the calculated value of chi square with the table value, we have to determine the degree of freedom. By degree of freedom we mean the number of classes to which the values can be assigned arbitrary or will without violating the restriction or limitations placed.

H₀ = Brand loyalty and product price do not motivate customer to purchase the product. And retailers are not following the manufacturers pricing policy.

H₁= Brand loyalty and product price is the motivating factor for purchase to a customer. Retailers are following the manufacturers pricing policy.

Observed frequency table:

| Factors | Price | Brand Image | Availability | Technolo gy | Total |
|------------------------------------|-----------|-------------|--------------|-------------|------------|
| Effect on customer buying decision | 34 | 42 | 24 | 0 | 100 |
| Customer Perception | 37 | 45 | 10 | 8 | 100 |
| Total | 71 | 87 | 34 | 8 | 200 |

$$E_{11} = \frac{71 \times 100}{200} = 35.5$$

$$E_{12} = \frac{87 \times 100}{200} = 43.5$$

$$E_{13} = \frac{34 \times 100}{200} = 17$$

$$E_{14} = \frac{8 \times 100}{200} = 4$$

Expected Frequency table:

| Factors | Price | Brand Name | Availability | Technology | Total |
|---------------------------|-----------|------------|--------------|------------|------------|
| Effect on buying decision | 35.5 | 43.5 | 17 | 4 | 100 |
| Customer Perception | 35.5 | 43.5 | 17 | 4 | 100 |
| Total | 71 | 87 | 34 | 8 | 200 |

$$E_{21} = \frac{71 \times 100}{200} = 35.5$$

$$E_{22} = \frac{87 \times 100}{200} = 43.5$$

$$E_{23} = \frac{34 \times 100}{200} = 17$$

$$E_{24} = \frac{8 \times 100}{200} = 4$$

| Observed Frequency(O) | Expected Frequency(E) | O-E | (O-E) ² | (O-E) ² /E |
|-----------------------|-----------------------|------|--------------------|-----------------------|
| 34 | 35.5 | -1.5 | 2.25 | .06 |
| 37 | 35.5 | 1.5 | 2.25 | .06 |
| 42 | 43.5 | -1.5 | 2.25 | .05 |
| 45 | 43.5 | 1.5 | 2.25 | .05 |

| | | | | |
|--------------|----|----|----|--------------|
| 24 | 17 | 7 | 49 | 2.88 |
| 10 | 17 | -7 | 49 | 2.88 |
| 0 | 4 | -4 | 16 | 4 |
| 8 | 4 | 4 | 16 | 4 |
| Total | | | | 13.98 |

$$\chi^2 = \frac{\{(O-E)^2\}}{E} = 13.98$$

Degrees of freedom = V = (r-1) (C-1)
 = (2-1) (4-1)
 = (1) (3)
 = 3

At degrees of freedom V = 4, $\chi^2_{.05} = 8.75$

Since the tabulated value of $\chi^2_{.05} = 8.75$ is less than the calculated value of χ^2 so, we reject the null hypotheses (H_0).

Hence it is proved that brand image; Price, Brand name and availability influence the customer in their buying decision.

Responses

1) Do you have an overall pricing philosophy? What is it?

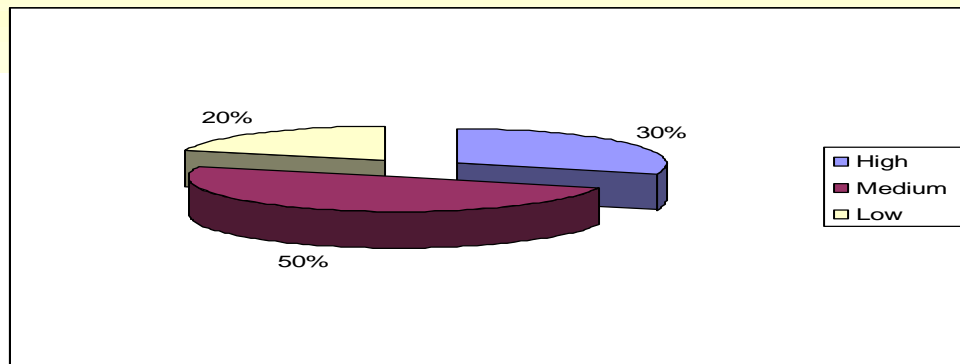


Figure No. 1

Interpretation

30% of the retail shops charge high prices for their products.

50% of the retail shops charge medium prices for their products.

20% of the retail shops charge low prices or discount policies for their products.

2) **What are the characteristics of the customers at your store? For what reasons do they shop at your store?**

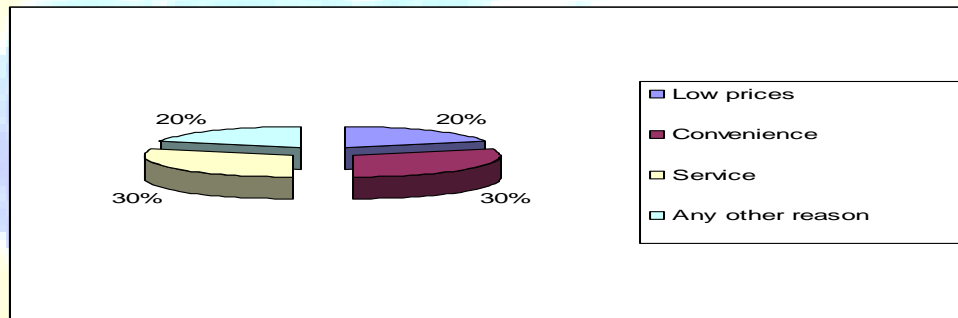


Figure No. 2

Interpretation

20% of the shops have customers who come at their shop for low prices.

30% of the shops have customers who look for convenience.

30% of the shops have customers who rely on services.

And remaining 20% are there for other purposes.

3) **How do the retailers compute their product prices?**

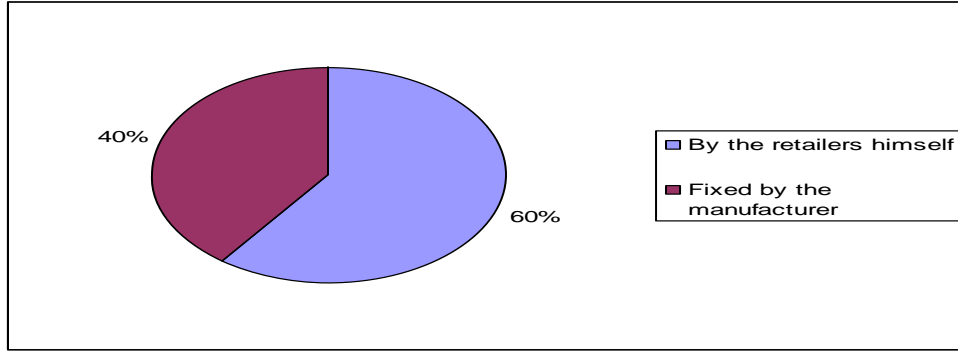


Figure No. 3

Interpretation

60% of the retailers often visit the nearby stores or shops for checking up of the prices and 40% don't go for the other shops; their prices are fixed by the manufacture company itself (mainly in case of branded products).

4) How often do you change prices?

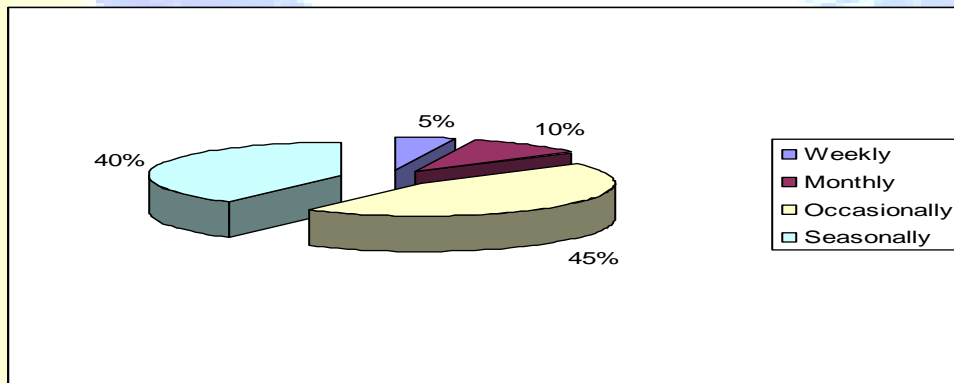


Figure No. 4

Interpretation

Most of them prefer to change occasionally and seasonally as most of them deal in garments, and the prices for which are decided both occasionally and seasonally.

5) Do you advertise the price factor in regular advertisements?

Interpretation

80% of the shops advertise for prices through pamphlets, or by display at the shops itself remaining shops often do not advertise for prices.

6) Do you let customers bargain over the prices of any item?

Interpretation

More than 95% of the retailers said that they do not let their customer bargain over prices as they have already fixed their prices and from time to time they provide huge discounts also.

7) Do you use odd prices (Rs.94.95, Rs.59.95) rather than even prices (Rs.95.00, Rs.60)?

Interpretation

More than 90% of the retailers use odd pricing as they assume that customer has a psychology that paying Rs.99 is better to pay rather than paying Rs.100 for the same product.

8) How are prices displayed in your store?

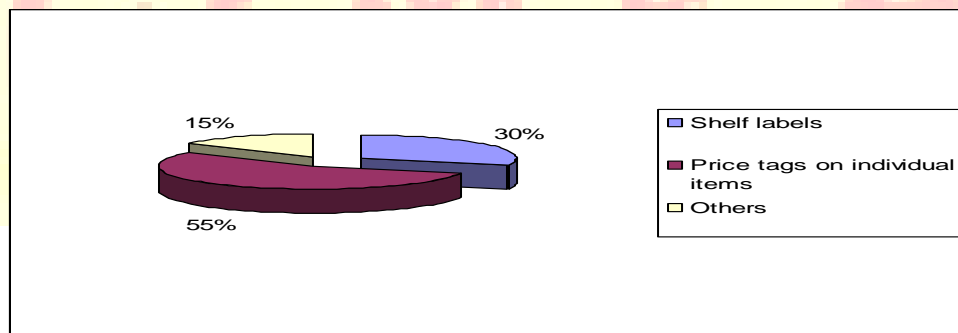


Figure No. 5

Interpretation

Most of the retailers prefer to have tags on individual items to avoid disturbance and conflicts in pricing.

9) What do you think about everyday low pricing?

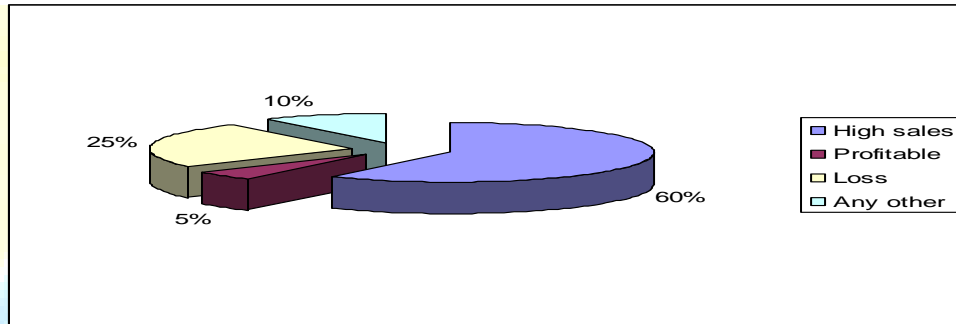


Figure No. 6

Interpretation

Every day low pricing would have high sales but the profit do effected by it on the other hand, so 60% of the retailers have same assumption as it would obviously have high sales.

9) When setting prices, do you take all of your operating costs into account?

Interpretation

More than 95% of the retailers said that they are not bothering about the operating expenses; company itself pays the operating expenses. And remaining does include their operating costs.

10) Do you understand both of these terms: Elastic demand? Inelastic demand?

Interpretation

Very few retailers said that they don't know the meaning of elasticity but they also replied that it is not much used in the garment retailing and others were not aware of the meaning.

11) If you do check competitors' prices? How does your firm react to what you learn?

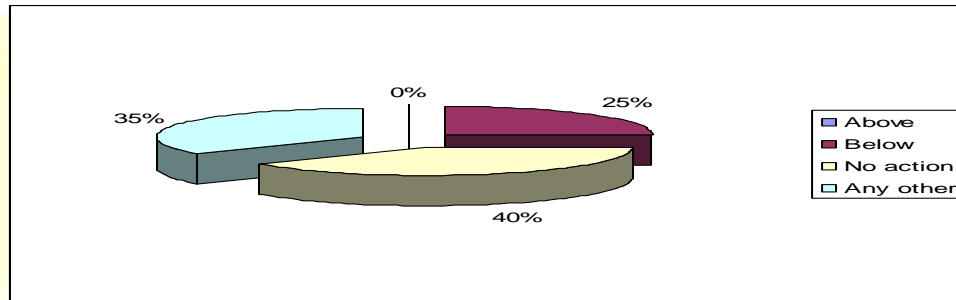


Figure No. 7

Interpretation

25% of the retailers said that they set prices below than their competitors,

40% of the retailers replied that they do not take any action against the competitor's price as this is company's affairs,

Remaining said that they just inform the company about the prices with the competitors.

12) Do you plan for stock shortages (due to shrinkage and clerical errors) when setting prices? How?

Interpretation

65% of the retailers said that they plan for stock shortages and remaining just inform the company about the errors and shortages due to shrinkages.

13) Do you advertise discounted prices?

Interpretation

95% of the retailers advertise prices through pamphlets provided by the company for either discounts or low prices. Remaining advertise but not for prices.

14) What payment method(s) do you accept?

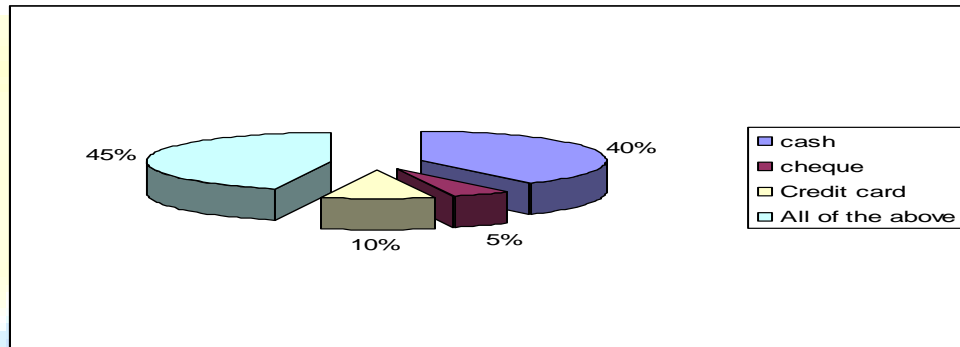


Figure No. 8

Interpretation

Only 5% of the retailers said that they accept payment through cheques only,

10% of them said they accept payment only through credit cards,

40% of them accept payment in cash.

Conclusion

India retail industry is the largest industry in India, with an employment of around 8% and contributing to over 10% of the country's GDP. Retail industry in India is expected to rise 25% yearly being driven by strong income growth, changing lifestyles, and favorable demographic patterns.

It is expected that by 2016 modern retail industry in India will be worth US\$ 175- 200 billion. India retail industry is one of the fastest growing industries with revenue expected in 2007 to

amount US\$ 320 billion and is increasing at a rate of 5% yearly. A further increase of 7-8% is expected in the industry of retail in India by growth in consumerism in urban areas, rising incomes, and a steep rise in rural consumption. Shopping in India has witnessed a revolution with the change in the consumer buying behavior and the whole format of shopping also altering. Industry of retail in India which has become modern can be seen from the fact that there are multi-stored malls, huge shopping centers, and sprawling complexes which offer food, shopping, and entertainment all under the same roof.

India retail industry is expanding itself most aggressively, as a result a great demand for real estate is being created. Indian retailers preferred means of expansion is to expand to other regions and to increase the number of their outlets in a city. It is expected that by 2014, India may have 600 new shopping centers.

In the Indian retailing industry, food is the most dominating sector and is growing at a rate of 9% annually. The branded food industry is trying to enter the India retail industry and convert Indian consumers to branded food. Since at present 60% of the Indian grocery basket consists of non-branded items.

Suggestions

- Manufacturer & company should consider the level of knowledge of the customers while deciding the price of the product. Customer knowledge would be highly price sensitive.
- Mostly organized retail shops are opting pricing strategies decided by the manufacturer or company. It should be somewhat in the hands of retailer which would be beneficial for the company also.
- A proper market research must be considered about the consumer behavior i.e. of buying habits and motives of the customers. Customer's response & customer satisfaction must be considered.
- Proper cost & profit evaluation should be there from time to time regarding individual retail shops profitability.
- While pricing the product, the competitive environment must be analyzed. Like what kind of pricing & sales promotion strategies opted by the competitors. The price & discount structure of the company should compete with the competitors.
- Market segmentation should be considered as it is the basis of pricing strategies.

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