

Retail Marketing Strategy

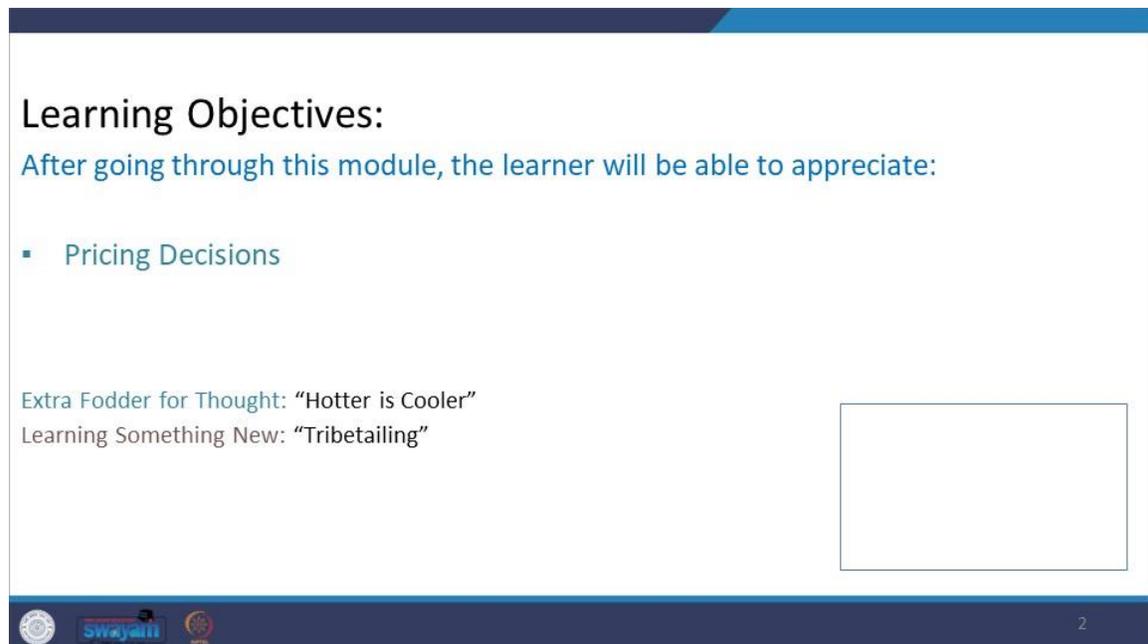
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Lecture-33

Welcome back everyone. Today we will be beginning with session 3 of the week 6 of the course Retail Marketing Strategy. So, as far as week 6 is concerned and last two sessions were concerned we discussed in detail about the location mechanics for retailers and what is the importance that we need to give to location decisions. And we ended that particular module with the discussion about whether we are in the transition phase as far as location and experience based mechanics are concerned or how much importance we need to give to locations in the advent of emergence of online retailing. But as we begin with this module we will start looking at the pricing mechanics or pricing decisions for a retailer.



Learning Objectives:
After going through this module, the learner will be able to appreciate:

- Pricing Decisions

Extra Fodder for Thought: "Hotter is Cooler"
Learning Something New: "Tribetailing"

The slide features a blue header and footer. The footer contains logos for IIT Roorkee, Swayam, and NPTEL, along with a small number '2' in the bottom right corner.

So, considering this module we will be looking at pricing decisions along with that we will also be looking at the tactics or pricing strategies which can be adopted by the retailers.

Along with that we will be looking at the section extra fodder for thought and learning something new. While in extra fodder for thought we will be learning about hotter is cooler and you will be surprised to see at this particular retailing strategy which was

adopted by a leading brand in Kuwait along with that we will be learning about right tailing. But as we begin let us first understand what is pricing. See technically it is the payment or compensation given by one party to another in return of goods and services.

Understanding Pricing

Price is technically the payment or compensation given by one party to another in return for goods or services

Only element that produces revenue; the other elements produce costs

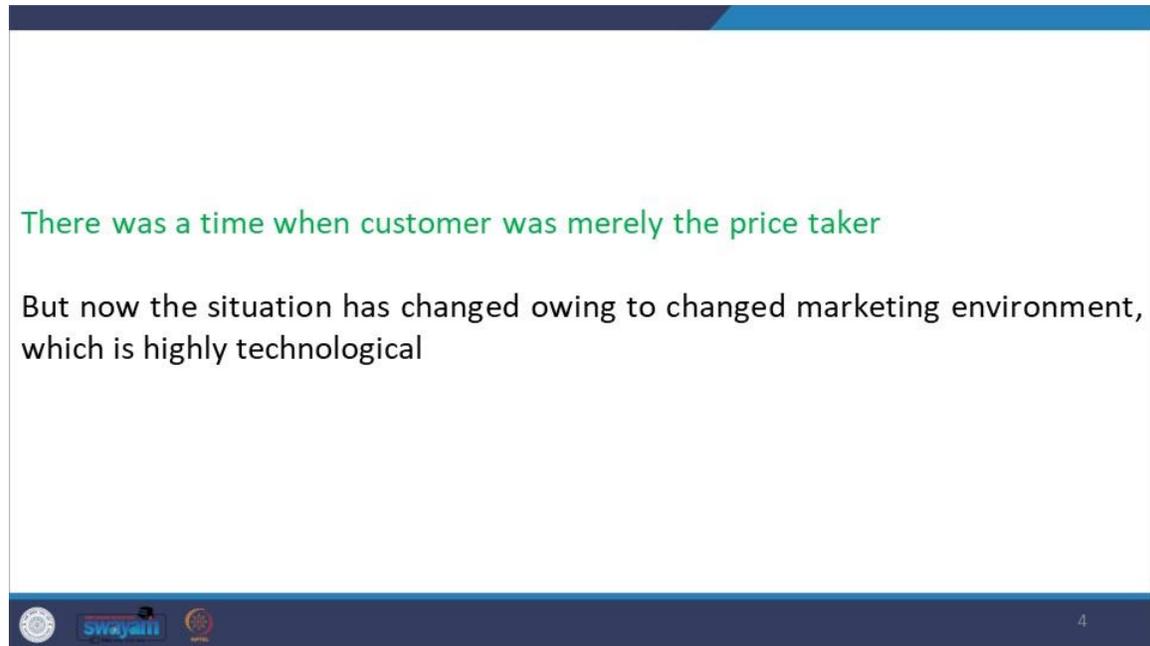
It can be changed quickly, unlike product features and channel commitments

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Now another way of looking at it even when you look at 4 Ps this is the only P which brings in kinds of a revenue for a particular marketer or a retailer. Other Ps are precisely the cost whether it is a product manufacturing, developing a product, doing experiments to figure out the best versions of a product or likewise there are lot of the cost which can be associated with that particular P. Now, when you talk about promotions again executing a integrated marketing communications campaign whether it is about advertising, sales promotion tactics, organizing events or managing public relations or having a sales team who will be selling products face to face anyway entails a lot of cost. Now if you get to the other P which is again place kind of having retail establishments you need to pay for their rent you also need to incur cost as fast as far as their management is concerned. So, eventually we are left with only P the price which brings in revenue for a particular marketer or a retailer.

So, the another advantage you can actually associate with prices it can be changed quickly as compared to product features or channel commitments right. Even if you decide to add more channels it might require some time even if you think of a mobile application or let us say having a new brick and mortar store you might be taking a lot of decisions how the app should be, how it can be designed, what will be the kind of social presence that you can have on a particular mobile app with respect to channels you might be figuring out which is going to be the best location. Then you might also be

considering a lot of facets with respect to site characteristics, but it is only price which can be easily changed and many times retailers do that also when they see a lot of competitors changing prices and this precisely happens if the products are too much comparable. If you are not offering anything which is unique or if you are not working on the experiences which you are creating for customers you will be bound to decrease prices if the retailers other competing retailers do so right. So, that is how the mechanics can be looked at.



There was a time when customer was merely the price taker

But now the situation has changed owing to changed marketing environment, which is highly technological

swayam swayamprarthana 4

Apart from this the another thing which can be associated as far as the pricing mechanics are concerned are the changing time. So, there was certainly a time when the customers was merely a price taker manufacturer or the retailers would decide what is going to be the price and the customer has to accept it, but now the situation has completely changed and these changes have precisely happened on account of the changing technical environment or maybe you can say with the penetration of internet. Now, there are a various ways in which the internet allows retailers to discriminate between buyers and buyers to discriminate between retailers or sellers.

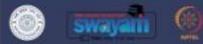
Here is a list of how internet allows retailers (sellers) to discriminate between buyers and buyers to discriminate between retailers (sellers).

Buyers can:

- Get instant price comparisons
- Name their price and have it met
- Get products free

Sellers can:

- Monitor consumer behaviour and provide tailored offerings
- Give access to special prices to customers
- Negotiate prices with the buyers in online auctions



Now as far as today's dynamics are concerned buyers can get instant price comparisons they can name their price and have it met they can also get products for free which is precisely called as freemiums. Now see the one power which buyers have gathered is the power of internet.

Gone are the days when they would go to a store and whatever price the retailers would say they will believe in that is not the case today. Many times you will even see a lot of customers kind of negotiating or having an argument with a particular retailer or a sales agent or a customer care executive that the prices is so less online why are you charging me so much. They definitely use this information as a way to kind of negotiate, but when you talk about sellers the internet also allows them to access a lot more things or maybe we can say the marketing intelligence system right. It allows them to monitor consumer behavior and provide tailored offerings. Let us say if you are talking about sales promotions offers or having a bundled offer which can also be mapped with pricing it is only possible because you can map the behavior of consumers and that also becomes possible in account of the power of internet.

You can also give access to special prices to consumers by having robust email marketing campaign or through some other means right. Sellers can also negotiate prices with buyers in online auctions. So precisely what we need to understand is just because of the internet dynamics or the penetration of internet things have changed as far as the pricing mechanics are considered for both sellers retailers or buyers right. But I have a question for you is pricing only monetary is this the only thing that you pay in money what about the expenses or let us say the efforts that you have to make in reaching out to a store which is far away. If you remember I talked about the concept of a trade off right.

So, along with money you will also be considering the facets of effort or psychological effort that you are making with respect to making a particular product choice or picking a particular retailer or even going to a particular retailer right. Let us say if there is a particular mobile app which is owned by an online retailer and it is very difficult for you to retrieve information out of it the app is very chaotic it does not have any element of social presence right. It is neither easier to filter information this is definitely going to involve a lot of kind of cognitive effort that you would be investing in. So, we also need to consider these facets as far as the context of pricing is concerned and also we should not forget the concept of a trade off which happens with respect to picking the retail stores where we are going to purchase our products from that is why this is definitely going to make an impact in retail store choices. Now these are the popular pricing strategies which are actually used by retailers.



So, the first one is penetration pricing, the second price skimming, competitive pricing, bundle pricing, psychological pricing, value based pricing, promotional pricing, dynamic, target return and markup and we will also be looking at the context of a reference price that in some ways can also be linked to the psychological aspects, but when we get there I will explain what it means and what is the relevance that it has for retailers. Now whenever you are talking about penetration pricing this is about setting a price relatively lower as compared to the competitors to quickly capture market share.

Penetration Pricing: This is about setting a relatively lower price for the product or service to quickly capture market share

Aims at attracting customers (new as well as customers of competitors) by offering a lower price

Overtime, prices may be increased to push profits



See in this case the whole objective of the retailer is to marketer is to capture larger market share and that is only going to happen when you offer a lesser price as compared to the competitor. Let us say if it is a commodity driven market which means the products are very much identical there is not too much difference with respect to experience creation or relationship building and all these facets and in this case as I was saying the objective is to attract customers new as well as the customers of competitors by offering a lower price, but with time prices could be increased to push profits, but overall penetration pricing is to penetrate more into the markets to have a larger market pie or to have a larger customer base as compared to competitors by offering a lower price or by decreasing a price to the little as compared to the competitors. Now one example which can be best for understanding this is Jio when it was competing with let us say Airtel, Idea and Vodafone which merged together later on it kind of captured the market by decreasing the prices which was very less as compared to all these competing service providers.

So, that is how by using the penetration pricing they were able to capture all the customers and were even able to capitalize on the customers which actually be linked to Airtel or Idea or Vodafone at that time. Another example with respect to penetration pricing can also be Amazon prime.

amazon prime

FREE fast delivery, videos, music & more
One simple membership, many benefits. Join now.

SPECIAL OFFER
ENDS SOON

3 months of Prime	Prime monthly	Prime yearly
₹329 ₹87 for 3 months	₹129 per month	₹999 per year
With any payment method except Pay on Delivery	Only with credit card or select debit cards.	With any payment method except Pay on Delivery

Source: <https://www.desidime.com/deals/amazon-prime-subscription-3-months-329>

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So, what they are doing is they are offering a special offer with respect to 3 months of prime subscription which is at a very less price as compared to what they offer generally and this can also be some way lesser than let us say what Netflix is charging right. So, that also becomes a case of a penetration pricing. Now the next strategy which we have is price skimming.

So, this has been derived from skimming the cream which is all about setting high prices initially. So, what you are trying to do is you are trying to make up a major part of your profits from the initial customers which are basically early adopters or innovators.

Price Skimming: This is about setting high prices initially. This is more apt when a business introduces an innovative product or service

The objective is to target early adopters who are willing to pay a price premium for the product

Overtime prices are reduced for price sensitive customers

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Now these basically are the people specifically innovators who would be willing to pay a premium for getting a product as a part of first few set of customers right. Now over time in this case prices could be reduced, but this is a strategy which is precisely works best for technical or highly advanced products. Now what you see on screen is the snapshot of a particular mobile.

Flipkart
Search for products, brands and more

Electronics TVs & Appliances Men Women Baby & Kids Home & Furniture Sports, Books & More Flights Offer Zone

Big Bachat Dhamaal Sale Starts In 11 hrs : 15 mins : 46 secs

MOTOROLA Razer (Black, 128 GB) (6 GB RAM)
197 Ratings & 15 Reviews

₹1,49,999
+ ₹99 Secured Packaging Fee

Sold Out
This item is currently out of stock

Brand Warranty of 1 Year Available for Mobile and 6 Months for Accessories. [Know More](#)

Highlights:

- 6 GB RAM | 128 GB ROM
- 15.75 cm (6.2 inch) Display
- 16MP Rear Camera | 5MP Front Camera
- 2510 mAh Battery
- SUM710 Processor
- Interactive Quick View Display
- Flippable and Pocket-Ready Design

Seller: Vision Star
7 Days Service Center Replacement/Repair

Source: <https://www.flipkart.com/motorola-razr-black-128-gb/p/itm4c4bee7d49861>

Initially its price was 149,999 or could be even more. But with time the price was reduced because they wanted to kind of now penetrate more

motorola | RAZR

₹74,999*

- Revolutionary 6.2" (15.74 cm) Foldable Display
- Dual displays. Singular experience with Quick View Display
- Flippable and Pocket-Ready Design with Zero-gap hinge
- Brilliant Dual Use Camera with Night Vision

[Find Stores Near You](#)

Get upto ₹2,000 Cashback on payment via Mobikwik Zip
(Min. Assured ₹300 Cashback) T&C

[View more offers >](#)

Compare Free shipping Fast Delivery Buy now

Source: <https://www.motorola.in/smartphones-razr/p>

into the markets. Initially it was high priced because the tactic which this particular retailer was following was price skimming.

The screenshot shows the Flipkart website search results for 'iphones xr'. The page displays two product listings for the Apple iPhone XR (PRODUCT)RED, 64 GB and the Apple iPhone XR (Coral, 64 GB). Both products are priced at ₹36,999. The (PRODUCT)RED model is currently unavailable, while the Coral model is available. The page includes navigation menus, a search bar, and a footer with logos for Swiggy and Swiggy Instamart.

Source: <https://www.flipkart.com/search?q=iphones%20xr&otracker=search&otracker1=search&marketplace=FLIPKART&as-show=on&as=off>

Now the another example which you can see is in case of Apple phones whenever you see an iPhone being launched it is heavily priced, but as and when they launch newer models they decrease the prices of older ones to make it more accessible for the late adopters right. So, this is again one example which you can consider.

Now this is again one category definitely for technological products or innovative products this happens.

Source: https://www.amazon.in/s?k=sony+4k+camera+dslr&adgrpid=61920369314&ext_vrnc=hi&hvadid=398133655142&hvdev=c&hvllocphy=9301027&hvnetw=

So, if you see the third one Sony Alpha you can see in ways it was priced at 75,990, but now it is being priced at 66,993. Now this price could also be on account of other offers, but as far as price skimming strategy is concerned the essence lies in charging high pricing initially to make up for a larger part of profits or to kind of capitalize on innovators who would be willing to pay a higher price premium then you decrease the price to capture other segments who are a little price sensitive. Another strategy could be competitive pricing.

Competitive Pricing: Prices are set in line with competitors. Either at par with them or slightly below.

This strategy aims to capture market share and remain competitive in the market by offering similar pricing.

Now in this case prices are set in line with competitors either at par with them or a slightly below.

Now this strategy aims to capture market share and remain competitive by offering a similar pricing. Now see even in case of services these are going to hold true many times let us say if you talk about saloons you will see in a particular city they will be charging very similar prices. You might have a particular saloon who could be charging more, but definitely then they will be offering something extra or something more. Now if it is that not the case then you will not see customers visiting there more often. So, many times in case of competitive pricing prices are very much at par right you will see all the competitors charging very similar pricing.

Prices are set based on perceived value they provide to customers. This takes account of factors like quality, features, benefits and customer perceptions.

Value-based Pricing:

Takes account of prices customers are willing to pay. Businesses assess the perceived value to the customer instead of determining manufacturing costs and applying a typical markup, and then charge appropriately.

This pricing indeed is based on value customer's attribute to a product or service.

So, the another important pricing strategy is value based pricing. Now in this case prices are set on the basis of perceived value which they provide to customers or in another way of saying this could be the pricing is indeed based on value customers attribute to a product or service. Now in this case before deciding prices we definitely do some kind of research which could be experiments in service to analyze what is the price which consumers are willing to pay for this product and consumers eventually decide this on the basis of the value which they attribute to a particular product. So, as far as value based pricing is concerned businesses excess the perceived value to the customer instead of determining manufacturing cost and then applying a typical markup and then charge appropriately. So, in this case the your manufacturing cost and other things on a second threshold how you are deciding pricing on the basis of how consumers perceive the product or how much value they attach to a particular product.

Psychological Pricing:

This strategy aims to exploit customers psychological tendencies and perceptions. Setting price at 99 instead of 100 psychologically indicates a lower price.

Precisely used to create impression of better deal as we read prices from left to right, it gives the impression of a lower price.

199.. 299.. 399.. 999...

So, another strategy psychological pricing now this precisely aims to exploit customer psychological tendencies and perceptions. So, setting prices like 99 instead of 100 psychologically indicates a lower price and this also works best because people always read prices from left to right and it gives the impression of a lower price that is why many times you see that products are priced at 199 299 399 or 999 right and this anyway captures the essence of how psychologically we perceive prices.

Bundle Pricing:

Involves offering multiple products or services together as a package at a low price in contrast with individual prices.

This projects a perceived cost saving benefit.

It also helps businesses promote slower selling products.

Now another important strategy is bundle pricing now in this case one objective is to decrease price comparisons because when you offer something as a bundled offer many time consumers are not able to make out the individual prices of those products and even the sum would appear larger than its parts right. That is why bundle pricing works best. So, in this case it involves offering multiple products or services together as a package at a low price and contrast with individual prices.

The advantage is this projects a perceived cost benefit to the customers and also helps businesses promote slower selling products like if you bundle a star product with a slower selling product you will many times see because of the perception which is built around cost saving benefit consumers would eventually buy them collectively.



Source: <https://cxl.com/blog/product-bundling/>



Swajati



Source: <https://reliancesmartpoint.com/reliance-smart-offers/>

Now this can be an example of a bundled offer 5 for 4 dollars now this again indicates a bundled offer another one could be this now different pack of biscuits now many times different grocery items sugar flour or tea or another things could also be bundled together to kind of indicate more of cost benefit to the customers you will see a lot of grocery retailers doing this and many times they also display all these collectively in their brick and mortar stores or on their websites just to give an indication to the customers or allow them to make out that they are getting much larger benefit with respect to what they are paying and that is where the essence of bundled offering lies.

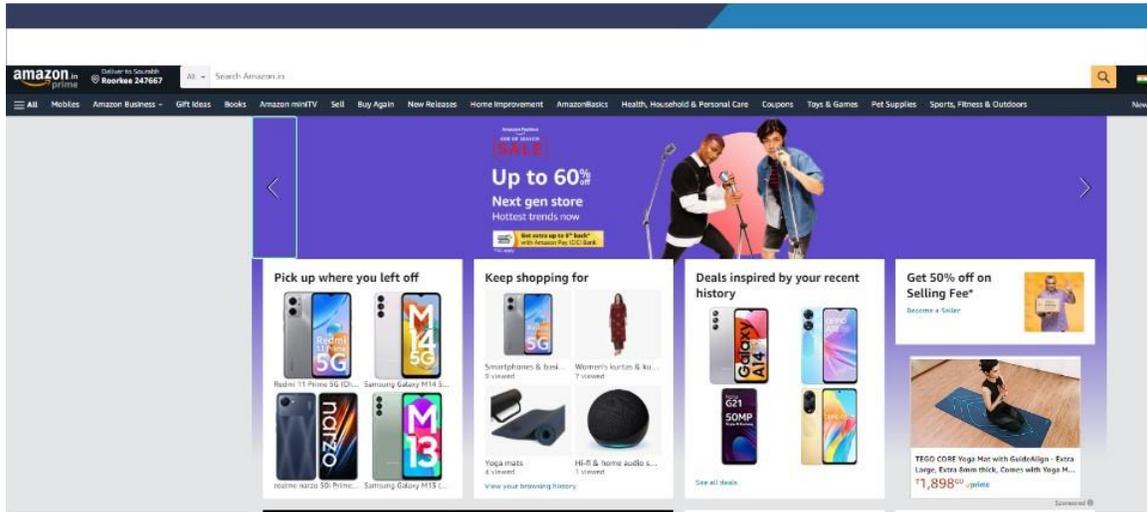
Promotional Pricing:

Temporary reduction to stimulate sales

Includes tactics like discounts, buy one get one, limited time promotions, flash sales etc.

Helps in clearing out excess inventory, generates excitement and increases customer traffic.

Now another could be promotional pricing now this definitely indicates temporary reductions to stimulate sales it includes tactics like discounts buy one get one limited time promotions or flash sales, but one of the biggest advantages of promotional pricing can be aligned with the fact that it can help you clear out excess inventory it sometimes also generates excitement in the people and you will see a more of customer foot traffic in your stores.



Source: https://www.amazon.in/?ext_vrnc=hi&tag=googinhydr1-21&ref=pd_sl_98xjxt9817_e&adgrpid=



Source: <https://www.upto75.com/d-mart-hyderabad-sales>

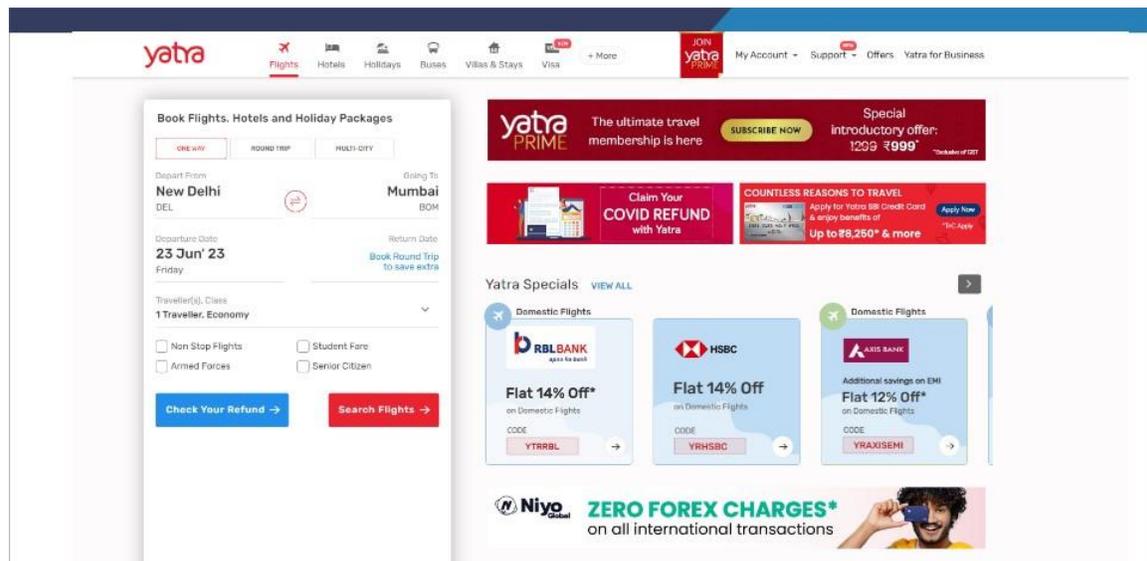
Now this can be considered as an example of promotional pricing up to 60 percent of next gen store hottest trends now another could be this up to 60 percent of DSL virtual

mall Dmart now open now this again can be considered as an example of promotional pricing.



Source: <https://www.thehindu.com/coupons/woodland-deals-offers>

Now this another snapshot 40 percent of can also be aligned with promotional pricing, but many times you will see retailers can also partner with others to offer promotional pricing and



Source: <https://www.yatra.com/>

this is very popular with respect to online ticketing platforms like Yatra, make my trip they many times partner with banks and credit cards companies to offer promotional offers to the customers.

Now in this case what you see is RBL bank flat 14 percent off if you use the credit card of RBL bank what you get is an additional 14 percent off likewise for HSBC and for excess bank it is 12 percent off see, but the advantage to the partnering organization is you will see customers kind of you know subscribing or taking up these credit cards when they see that regular benefits are available with respect to booking tickets.

Dynamic Pricing:

Adjusting prices on real time on basis of factors like demand, time of the day, seasonality, customer segment or competitors etc.

Source: <https://www.yatra.com/>

Month	Day	Price
June	25	30,394
June	26	1,21,136
June	27	36,317
June	28	30,296
June	29	30,296
June	30	30,319
July	2	39,996
July	3	39,470
July	4	39,730
July	5	39,996
July	6	39,716
July	7	39,918
July	8	39,418
July	9	39,716
July	10	39,730
July	11	39,730
July	12	39,730
July	13	39,937
July	14	39,320
July	15	39,937
July	16	39,394
July	17	39,320
July	18	39,937
July	19	39,429
July	20	39,937
July	21	39,340
July	22	39,937
July	23	39,444
July	24	39,356
July	25	39,937
July	26	39,898
July	27	39,937
July	28	39,340
July	29	39,479
July	30	39,394
July	31	39,220
August	1	39,429
August	2	39,429
August	3	39,429
August	4	39,311
August	5	39,311
August	6	39,311
August	7	39,429
August	8	39,429
August	9	39,429
August	10	39,311
August	11	39,311
August	12	39,311
August	13	40,148
August	14	39,311
August	15	39,311
August	16	39,311
August	17	39,311
August	18	39,311
August	19	39,311

Now the another important pricing tactic which is used by retailers is dynamic pricing now in this case prices keep changing on real time basis on the basis of factors like demand time of the day seasonality customer segment and competitors many times yield pricing is also used and it is very popular with respect to flight bookings which means that initially if you book the ticket initially or very early the prices would be less, but as and when you approach the date of travel or a specific date on which you want to travel you will see the prices would be very high. So, you can see the snapshot for different dates there are different prices like on third it is 28,316 then if you see it on 14 it is 80,320 then on 25 it is 29,907 then if you get to August on 13th it is 40,148 now this can be considered as a case of dynamic pricing. Now there are two more pricing strategies which we need to understand now one could be markup pricing and other one is target return.

Mark Up and Target Return Pricing

Mark-up pricing: The most elementary pricing method is to add a standard mark up to the product's cost. For eg. 10% to the total cost

$$\text{Markup price} = \frac{\text{Unit cost}}{1 - \text{desired return on sales}}$$



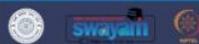
28

Now these will precisely work best in case of private labels let us say when the retailer decides to manufacture because in this case the cost of manufacturing a product is calculated then we add a markup to it.

Mark Up and Target Return Pricing

Target-return pricing: In target-return pricing, the firm determines the price that would yield its target rate of return on investment (ROI).

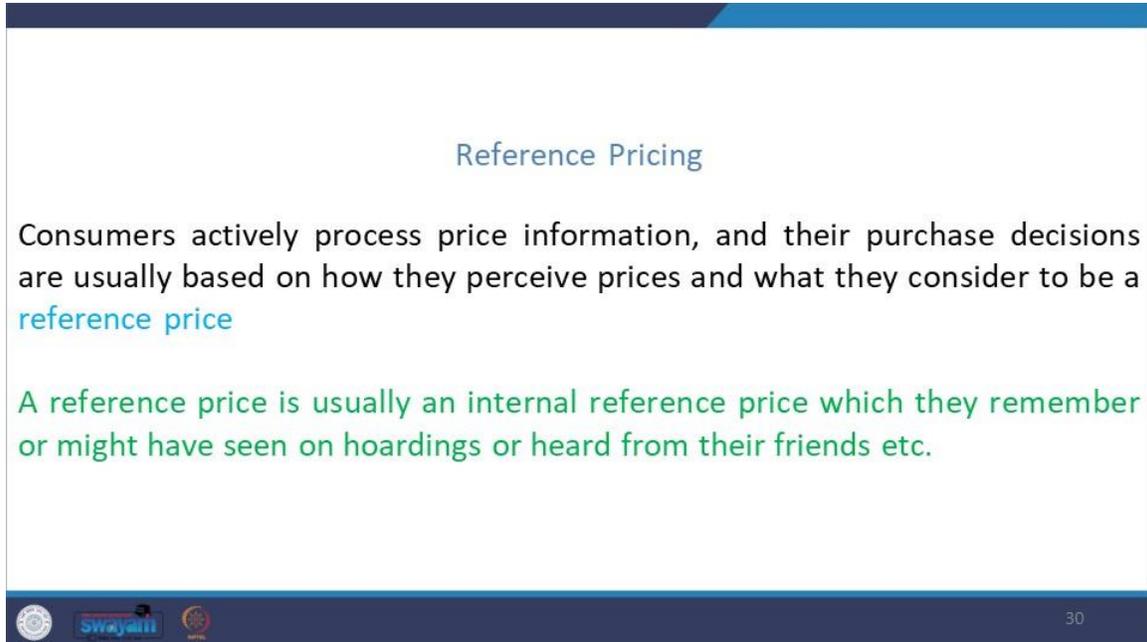
$$\text{Target return price} = \text{Unit cost} + \frac{\text{Desired return X invested capital}}{\text{unit sales}}$$



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So, the formula is unit cost by 1 minus desired return on sales this is going to give you an idea of the markup price. Apart from that in case of target return pricing the firm determines the price that would yield its target return of on investments and for this this formula is used unit cost plus desired return into invested capital by unit sales. I am again repeating it these will make more of sense for a retailer only when they are into the business of manufacturing private labels because that is how they would be looking at the

return on investment as far as the investment which they have made with respect to manufacturing private labels is concerned. Otherwise these are many times used by marketers or the manufacturers itself. Now as I told you in the beginning we will understand the concept of reference pricing.



The slide features a dark blue header and footer. The main content area is white with a blue title 'Reference Pricing'. Below the title, there are two paragraphs of text. The first paragraph is in black, and the second is in green. The footer contains three logos on the left and the number '30' on the right.

Reference Pricing

Consumers actively process price information, and their purchase decisions are usually based on how they perceive prices and what they consider to be a **reference price**

A reference price is usually an internal reference price which they remember or might have seen on hoardings or heard from their friends etc.

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See you will see consumers actively process price information they might look at it on various platforms websites they might read about in newspapers they might even hear about it in their circle. So, what happens is they will develop a case of a reference price. Now reference price is something which is precisely an internal price point reference which they remember or might have seen on hoardings or heard from their friends.

Possible consumer reference prices:

- Fair price (what the product should cost)
- Last price paid
- Upper bound price (what most consumers would pay)
- Lower bound price (lower threshold price)
- Discounted price
- Competitor's price

Now they will start using this price as a benchmark to compare it with the price which retailer is saving right. Now these can be the possible consumer price references fair price which the customer thinks is the fair price or what the product should cost that is why you many times see people telling to the retailers you are charging this much I do not think price the product is worth it right.

Now another consumer reference price could be last price paid you always compare it with the last price which you have paid for the same product or similar product and that is why again you will see people negotiating I paid this much last time by the price has increased and all these things. Upper bound price can also be a reference price which means the most or the maximum amount which consumers would pay lower bound price is the lowest threshold that is why whenever there are negotiations between the customer and the retailer you will see the retailer would ask what is the amount that you think is right or how much you would be willing to pay. Then if the customer says a certain price the retailer might say no no I cannot go below this particular price now that becomes the lower threshold price, but it has to be from the eyes of the customers. Then discounted price can also be a reference price let us say if you have purchased the same product at some discounts last time then that is definitely going to register as a reference price. Along with that competitors price are also used as a point for reference or for a point of comparison with respect to the prices being charged in the present state.

Setting Pricing



Now see I will explain the process of setting prices in brief. So, it starts from selecting the pricing objective determining demand estimating cost analyzing competitors pricing selecting a pricing method and finally, selecting the final pricing.

Pricing Objective

Survival: Companies pursue survival if they are plagued with over capacity, intense competition, or changing consumer wants. Objective is to cover variable costs and some fixed costs.

Maximum Market Share: Market Penetration, Low prices

Maximum Market Skimming: Prices start high, and slowly drop over time.

Product Quality Leadership: Affordable luxuries: Price just high but not out of customer's reach: Pure luxuries: High Prices, Selective sales.

So, I am just giving you a snapshot of these factors if your pricing objective is all about survival right then you would not be charging more of price rather the focus would be on selling it at a lower price which is with respect to covering variable cost and some fixed cost right because you just need to survive in the market you are not thinking of making profits. Now this will only happen in situations when the marketer or the retailer is

plucked with over capacity intense competition or consumers preferences have changed the products which you want to sell just now considering survival as your objective has become obsolete right. So, in that case this might work when the price is considered or decided on the objective of covering only variable cost in some form of fixed cost.

But when your objective is to kind of capture maximum market share then you will be following market penetration the prices are going to be kept low as compared to competitors because you are eyeing a larger pie of the market. But if you want to kind of have the objective of earning maximum as far as the present situation is concerned or to maximize profits then prices start high and you can slowly drop them and what you would be adopting is a market skimming or price skimming strategy. Another way could be product quality leadership. Now in this case pure luxuries are usually highly priced and you have selective sales mechanisms right. In this case you are not compromising on the quality of the product how you want the consumers to perceive you is on the basis of product quality leadership.

You are one of the retailers or marketers who wants to be perceived as we supply or sell best quality products. So, that is why the prices are also kept high, but whenever we are talking about the context of a food able luxuries prices are high, but just high that they do not go out of customers reach. Now these are a few objectives which need to be considered as far as the process of determining prices is concerned. Along with that you also need to determine demand. Now in this case you need to consider the facets of price sensitivity how sensitive consumers are with respect to changing prices.

Now these can be kind of decoded by conducting some surveys or doing some experimental studies right. See if the consumers are too much price sensitive then higher prices will not work you will see a lot of consumers moving to competitors, but there could be certain situations where let us say you are offering a unique experience or your merchandise is exclusive or your product is much superior as compared to competitors then things may work otherwise. You also check out the facets of elasticity of demand which means what is the change in quantity demanded due to a change in price. Now this in a ways allows you to arrive at the optimum price at which you will be able to sell the maximum units of a product. Because each price will lead to a different level of demand and will have different impact as far as the company's marketing objectives are concerned.

You also need to analyze cost. Now this is again going to be a case where the retailer is involved with respect to manufacturing private labels. You need to take account of both fixed and variable cost. Now fixed cost are also known as overheads and earth cost that do not vary with production or sales revenue like the rent of the retail establishment.

This is not going to increase if you are manufacturing more of product or less of product. We are talking in context of manufacturing of private labels.

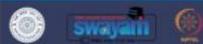
Analysis Costs

A fair return for an effort and risk must be accounted for a retailer

Types of Costs and Levels of Production: A company's costs take two forms, fixed and variable.

Fixed costs (also known as overhead) are costs that do not vary with production or sales revenue

Variable costs vary directly with the level of production.



Now variable costs are the ones which vary with the level of production which could be the cost of raw materials right. Considering the mechanics of cost your price should be such that it should surpass both the fixed and variable cost if a retailer wants to be profitable. But if there are unique circumstances let us say if the product has become obsolete as I told you in the beginning in that case you will be pricing your product or you will be reducing the price of the product in such a way that you are able to at least cover variable cost or some kind of fixed cost right. In otherwise also you might keep a very less markup to the actual cost in case you want to follow the market penetration right. But if you want to follow market skimming that you could price is much higher as compared to what is the actual cost of the product.

Analyzing Competitor's Pricing

The firm must take account of the competitors' costs, prices, and possible price reactions.

The firm can decide whether it can charge more, the same, or less than the competitor based on what the product/service offers viz a viz that of the competitor.

The firm must be aware, however, that competitors can change their prices in reaction to the price set by the firm.

Along with this you also need to see the competitors pricing right. We also discussed about competitive pricing in this case prices are kept at par with competitors. But in case your product is much superior things can be looked at from a different perspective. Because many times in highly competitive markets you will see if you decrease the price even the competitors will decrease the price right. Now in that case it will become very much difficult for you to survive you will anyway have to decrease the prices otherwise all your customers can even move to competitors if the product is more like a commodity which means it is not differentiated from other products in the market.

That is why we also consider the facets of responding to competitors right. Now in this case let us say if you follow a price cutting strategy there can be a case of falling into traps also. So, the first one is low quality trap if you are continuously decreasing the prices as competitors are doing it then there could be a low quality trap which indicates that the consumers assume that the quality of your product is low. It can also lead to a fragile market share trap which means decreasing the price will not going to buy you loyal customers if another retailer decreases the price they will move to them right. So, these such kind of customers who are basically called as switchers will keep shifting to the retailer who is offering a lower price.

Fragile market share trap: Low price may not buy market loyalty. The same customers will shift to any lower price brand that comes along.

Shallow pockets trap: Higher priced competitors have longer staying power; they will keep lowering the prices which might not be possible for all players.

Price wars: Continuous pricing reactions by players.

It can also lead to shallow pocket strap which means high priced competitors who have longer staying power or have more of money power will be able to survive all these price cuts. And if you also keep doing it regularly in order to stay in competition with them it might not work. You can consider the case of Jio what it did with other players and it can eventually also lead to continuous price reactions by the players leading to price wars which eventually is going to impact the profitability of all the players who are competing in that particular market. So, now we are back with the exciting element which is extra fodder for thought. So, today we will be looking at hotter is cooler this is one of the most stimulating strategies which was adopted by Burger King in Kuwait.

Extra Fodder for Thought: Hotter is Cooler



<https://www.youtube.com/watch?v=siPiKHfmx-g>

Source: Official YouTube Channel of Burger King Kuwait

 Burger King Kuwait
8.57K subscribers

Source: <https://www.imagesretailme.com/latest-news/burger-kings-smart-campaign-in-kuwait/>



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I would urge you to look at this video and you will be able to figure out how fascinating this was and this can also be looked at as a way of a very different dynamic pricing. So, please have a look at this video and then we will get to the facet of learning something new.

We don't have it yet.

That's a good one. That's a good one. We don't have it yet. That's a good one.

That's a good one. That's a good one. That's a good one. That's a good one. That's a good one.

That's a good one. And that's our job. And that's our job. We want to live a life and cape. And that's our job.

That's our job. And that's our job. We're here. That's our job.

So, I really hope that you enjoyed looking at the video and that you got into the facets of Hotter is Cooler Strategy which was adopted by Burger King in Kuwait and it indeed gave you a different perspective on pricing. Now, we will be learning a new term which is called as tribe tailing.

Learning Something New



Tribetailing:

Marketing and selling goods and services to a particular tribe (group of people) is known as tribetailing.

Special products for Sneaker heads



Tribe tailing is all about marketing and selling goods and services to a particular tribe or group of people and is technically called as tribe tailing. Let us say if you consider the market of sneaker heads that can be considered as one of the examples of tribe tailing or if there is a certain group which has a very unique or distinguished needs and if you decide to manufacture products for them or you are kind of keeping on track with how their preferences are changing or what is it new that they would prefer that will also amount to the facet of tribe tailing.

So, as far as this particular module was concerned I really hope that you enjoyed learning about the pricing mechanisms and you also gained some enhanced perspective considering the strategy which was adopted by Burger King and also with respect to learning the new term tribe tailing. So, wishing you a good day for now and we will soon be meeting for the next session. Thank you for now. Thank you very much.