

Pricing in the Retail Environment

As with most sectors, in retail, pricing is an all-important part of how a company presents itself to its customers. As such, the setting of prices is an extremely important function that requires a calculated approach. This is perhaps most important for independent retailers, who are facing a wide array of challenges from the mass merchandisers and discount clubs. The success of these mega-retailers stems, in no small part, from their mastery of pricing. This article reveals many of the important points on pricing. Maybe it will even the playing field a bit.

Despite the dominance of the Wal-Marts, Home Depots, and Barnes & Nobles, the small retailers can operate profitably if they understand and exploit their place in the market. Tudog believes it is possible to achieve this if certain pricing related elements are well conceived and administered. They are:

1. A Clearly Communicated Pricing Philosophy – you need to make sure that you have a pricing philosophy that is easily understood by your customers. They need to know whether they are entering a shop that is exclusive, discount, or targeted toward a specific niche.

2. Proper Calculation of All Factors – when calculating prices it is necessary to make sure you have a complete picture of your total operational costs. Some items retailers often overlook include:

- Owner's earnings
- Earnings of other family members
- Non-retail floor rent (rent for things areas like storeroom)
- Repairs on the property or equipment
- Credit card processing costs
- Legal and accounting services
- Insurance premiums
- Advertising and marketing costs

3. Use of Price Lining – price lining is a practice in retailing that calls for the establishing of a price floor and a price ceiling for categories of goods and then selling goods within the category for price points within the two extremes. This helps the retailer in a number of ways, including:

- It allows the retailer to more clearly identify suppliers and products that are appropriate because their offerings fall within the price range.
- It provides additional benefits to the consumer as there is less confusion between different products and value propositions.

4. Advertise Your Prices Prominently – customers gain confidence when prices are displayed in an open manner. The options for displaying your prices can also extend beyond the store shelves and can be communicated through advertising channels, local press, and throughout your store.

5. Selectively Compete on Price – while it is true that you will not be able to compete across the board with the major discount chains, you can compete on specific items,

offering a rotating selection of products for less than the major competitors. This will allow you to draw shoppers into your store and demonstrate your commitment to value. Make sure that while doing this you also preserve all your other advantages, so that you can convert the shopper drawn to your store because of the special offer into a long term customer.

The retail sector is highly competitive. The major chains have diminished the capacity of independent retailers to compete because they have the volume and efficiencies to offer every day low prices on a wide selection of good. The independent retailer has some niche opportunities, and buying and selling flexibility, which can be used to allow it to compete effectively, albeit on a smaller scale. The beginning of an effective effort to compete is defining and managing a pricing policy.