



MK 322 Retail Management

Chapter 14: Retail Pricing Part II

By Ajarn Suwalya K.

Setting Retail Prices



Setting Prices Based on Costs

- Retail price = Cost of merchandise + Markup

Retail price = Cost of merchandise + Markup

The **markup** is the difference between the retail price and the cost of an item. Thus, if a sporting goods retailer buys a tennis racket for \$75 and sets the retail price at \$125, the markup is \$50. The appropriate markup is the amount that covers all of the retailer's operating expenses (labor costs, rent, utilities, advertising, etc.) incurred to sell the merchandise and produces a profit for the retailer.

The **markup percentage** is the markup as a percentage of the retail price:

$$\text{Markup percentage} = \frac{\text{Retail price} - \text{Cost of merchandise}}{\text{Retail price}}$$

Setting Prices Based on Costs

Thus, the markup percentage for the tennis racket is:

$$\text{Markup percentage} = \frac{\$125 - \$75}{\$125} = 40\%$$

The retail price based on the cost and markup percentage is:

$$\begin{aligned}\text{Retail price} &= \text{Cost of merchandise} + \text{Markup} \\ &= \text{Cost of merchandise} + \text{Retail price} \times \text{Markup percentage} \\ &= \frac{\text{Cost of merchandise}}{1 - \text{Markup percentage (as a fraction)}}\end{aligned}$$

Thus, if a buyer for an office supply category specialist purchases calculators at \$14 and needs a 30 percent markup to meet the financial goals for the category, the retail price needs to be:

$$\text{Retail price} = \frac{\text{Cost}}{1 - \text{Markup percentage}} = \frac{\$14.00}{1 - 0.30} = \$20$$

Profit Impact of Setting a Retail Price: The Use of Break-Even Analysis

Retailers often want to know the number of units they need sell to begin making a profit. For example, a retailer might want to know:

- Break-even sales to generate a target profit.
- Break-even volume and dollars to justify introducing a new product, product line, or department.
- Break-even sales change needed to cover a price change.

A useful analytical tool for making these assessments is **break-even analysis**, which determines, on the basis of fixed and variable costs, how much merchandise needs to be sold to achieve a break-even (zero) profit.

The **break-even point quantity** is the quantity at which total revenue equals total cost, and then profit occurs for additional sales.

The formula for calculating the sales quantity needed to break even is:

$$\text{Break-even quantity} = \frac{\text{Total fixed costs}}{\text{Actual unit sales price} - \text{Unit variable cost}}$$

Markdowns



Reasons for Taking Markdowns

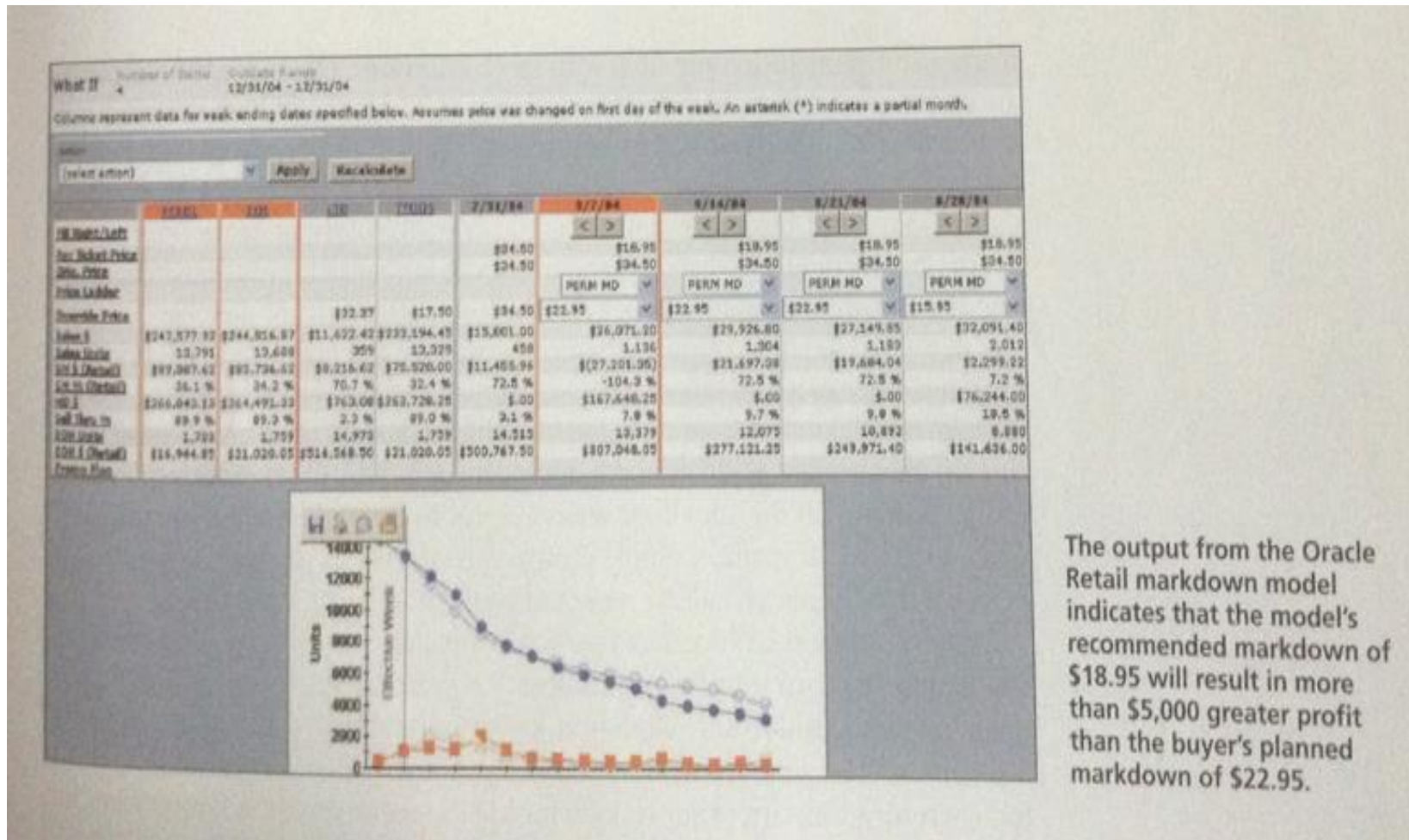
- Two reasons for taking markdowns
 1. Clearance – to dispose of merchandise
 2. Promotional- to generate sales

Markdowns



Pricing Optimization software recognizes when sales for winter coats are slower than expected and suggests both the timing and amount of markdowns.

Markdowns



Pricing Techniques for Increasing Sales and Profits



Variable Pricing and Price Discrimination

- Individualized Variable Pricing – retailers could maximize their profits if they charged each customer as much as the customer was willing to pay
- First-degree price- Charging each individual customer a different price based on their willingness to pay, ie, auction bidding
 - legal, but difficult to assess customer's willingness to pay and retailer cannot change the posted prices

Variable Pricing and Price Discrimination

The screenshot shows an eBay Motors listing for a 2008 Rolls-Royce Phantom Drophead Coupe. The listing includes a photo of the car, a current bid of US \$210,000.00, and a time left of 1d 17h. The seller is located in Miami, Florida, United States. The listing also features a 'Buy It Now' button and a 'Watch' button. The seller's information is displayed on the right, including a 100% positive feedback rating. The listing is categorized under 'eBay Motors' and 'Find Your Car at a Location Near You'. The vehicle specifications are listed at the bottom, including the year (2008), make (Rolls-Royce), model (Phantom), and engine (12 Cylinder).

2008 Rolls-Royce Phantom Drophead Coupe
2008 ROLLS ROYCE DROPHHEAD BK MILES

Item Location: Miami, Florida, United States
Time left: 1d 17h L1V (L1V 14:01:38 PDT)
Bid history: 1 bid

Current bid: US \$210,000.00
Your maximum bid: US \$ (Enter US \$125,000.00 or more)

Get low monthly payments
Order an independent inspection
Get a FREE Guide from GEMCO

Payment: Full payment required within 7 days of auction close.
Shipping: See item description for shipping details.
Coverage: This vehicle is eligible for up to \$50,000 in Vehicle Purchase Protection when your transaction is completed online through eBay. To qualify you must be the winning bidder on an auction or click the Buy It Now button directly on the eBay site. Restrictions Apply. (Not eligible for other Buyer Protection)

Vehicle History Report: See the report

Have one to sell? Sell it yourself

Seller Info: **Scrumptiousness!** (347) 99%
100% Positive feedback
Ask a question
Save this seller
See other items

Other Item Info: Item number: 19080431870
Item condition: Used
Seller location: United States

Show: 12 | 24 | 36 | 48 | 60 | 72 | 84 | 96 | 108 | 120 | 144 | 168 | 192 | 216 | 240 | 264 | 288 | 312 | 336 | 360 | 384 | 408 | 432 | 456 | 480 | 504 | 528 | 552 | 576 | 600 | 624 | 648 | 672 | 696 | 720 | 744 | 768 | 792 | 816 | 840 | 864 | 888 | 912 | 936 | 960 | 984 | 1008 | 1032 | 1056 | 1080 | 1104 | 1128 | 1152 | 1176 | 1200 | 1224 | 1248 | 1272 | 1296 | 1320 | 1344 | 1368 | 1392 | 1416 | 1440 | 1464 | 1488 | 1512 | 1536 | 1560 | 1584 | 1608 | 1632 | 1656 | 1680 | 1704 | 1728 | 1752 | 1776 | 1800 | 1824 | 1848 | 1872 | 1896 | 1920 | 1944 | 1968 | 1992 | 2016 | 2040 | 2064 | 2088 | 2112 | 2136 | 2160 | 2184 | 2208 | 2232 | 2256 | 2280 | 2304 | 2328 | 2352 | 2376 | 2400 | 2424 | 2448 | 2472 | 2496 | 2520 | 2544 | 2568 | 2592 | 2616 | 2640 | 2664 | 2688 | 2712 | 2736 | 2760 | 2784 | 2808 | 2832 | 2856 | 2880 | 2904 | 2928 | 2952 | 2976 | 3000 | 3024 | 3048 | 3072 | 3096 | 3120 | 3144 | 3168 | 3192 | 3216 | 3240 | 3264 | 3288 | 3312 | 3336 | 3360 | 3384 | 3408 | 3432 | 3456 | 3480 | 3504 | 3528 | 3552 | 3576 | 3600 | 3624 | 3648 | 3672 | 3696 | 3720 | 3744 | 3768 | 3792 | 3816 | 3840 | 3864 | 3888 | 3912 | 3936 | 3960 | 3984 | 4008 | 4032 | 4056 | 4080 | 4104 | 4128 | 4152 | 4176 | 4200 | 4224 | 4248 | 4272 | 4296 | 4320 | 4344 | 4368 | 4392 | 4416 | 4440 | 4464 | 4488 | 4512 | 4536 | 4560 | 4584 | 4608 | 4632 | 4656 | 4680 | 4704 | 4728 | 4752 | 4776 | 4800 | 4824 | 4848 | 4872 | 4896 | 4920 | 4944 | 4968 | 4992 | 5016 | 5040 | 5064 | 5088 | 5112 | 5136 | 5160 | 5184 | 5208 | 5232 | 5256 | 5280 | 5304 | 5328 | 5352 | 5376 | 5400 | 5424 | 5448 | 5472 | 5496 | 5520 | 5544 | 5568 | 5592 | 5616 | 5640 | 5664 | 5688 | 5712 | 5736 | 5760 | 5784 | 5808 | 5832 | 5856 | 5880 | 5904 | 5928 | 5952 | 5976 | 6000 | 6024 | 6048 | 6072 | 6096 | 6120 | 6144 | 6168 | 6192 | 6216 | 6240 | 6264 | 6288 | 6312 | 6336 | 6360 | 6384 | 6408 | 6432 | 6456 | 6480 | 6504 | 6528 | 6552 | 6576 | 6600 | 6624 | 6648 | 6672 | 6696 | 6720 | 6744 | 6768 | 6792 | 6816 | 6840 | 6864 | 6888 | 6912 | 6936 | 6960 | 6984 | 7008 | 7032 | 7056 | 7080 | 7104 | 7128 | 7152 | 7176 | 7200 | 7224 | 7248 | 7272 | 7296 | 7320 | 7344 | 7368 | 7392 | 7416 | 7440 | 7464 | 7488 | 7512 | 7536 | 7560 | 7584 | 7608 | 7632 | 7656 | 7680 | 7704 | 7728 | 7752 | 7776 | 7800 | 7824 | 7848 | 7872 | 7896 | 7920 | 7944 | 7968 | 7992 | 8016 | 8040 | 8064 | 8088 | 8112 | 8136 | 8160 | 8184 | 8208 | 8232 | 8256 | 8280 | 8304 | 8328 | 8352 | 8376 | 8400 | 8424 | 8448 | 8472 | 8496 | 8520 | 8544 | 8568 | 8592 | 8616 | 8640 | 8664 | 8688 | 8712 | 8736 | 8760 | 8784 | 8808 | 8832 | 8856 | 8880 | 8904 | 8928 | 8952 | 8976 | 9000 | 9024 | 9048 | 9072 | 9096 | 9120 | 9144 | 9168 | 9192 | 9216 | 9240 | 9264 | 9288 | 9312 | 9336 | 9360 | 9384 | 9408 | 9432 | 9456 | 9480 | 9504 | 9528 | 9552 | 9576 | 9600 | 9624 | 9648 | 9672 | 9696 | 9720 | 9744 | 9768 | 9792 | 9816 | 9840 | 9864 | 9888 | 9912 | 9936 | 9960 | 9984 | 10000

Buy It Now \$210,000.00

Vehicle Specifics for 2008 Rolls-Royce Phantom Drophead Coupe

You've Got Your Eyes on a 2008 Rolls-Royce Phantom Drophead Coupe.
We've Got Our Eyes on the Vehicle's History.

AutoCheck found 17 records for this 2008 Rolls-Royce Phantom Drophead Coupe.
VIN: SCA208578UX16190 Engine: 12 Cylinder
Style: Style Coupe

Vehicle Inspections
Order an inspection to learn more about this vehicle from an independent third party

Condition:	Used: A vehicle is considered used if it has been registered and issued a title. Used vehicles have had at least one owner.	VIN:	SCA208578UX16190 (See the full history report)
Year:	2008	Warranty:	Unspecified
Make:	Rolls-Royce	Vehicle Title:	Clear
Model:	Phantom	Options:	Summit
Mileage:	5,585	Safety Features:	Anti-Lock Brakes, Driver Side Airbag
Sub Model:	Drophead Coupe	Power Options:	Air Conditioning, Cruise Control, Power Windows
Exterior Color:	Black	Fuel Type:	Gasoline
Interior Color:	Tan	For Sale By:	Dealer
		Days:	3

By selling on eBay Motors' online auction, this seller is using the first-degree price discrimination to get the highest price for Rolls Royce.

Variable Pricing and Price Discrimination

- Dynamic pricing or individualized pricing refers to the process of charging different prices for goods and services based on the type of customer, time of day, week or even season, and level of demand
- Retailers may also charge customers different prices based on their loyalty status derived from their CRM systems – ie, the platinum customers receive lower prices than the silver ones

Variable Pricing and Price Discrimination

- Self-Selected Variable Pricing- an alternative approach for dynamic pricing is to offer the same multiple-price schedule to all customers which encourages price-sensitive customers to take advantage of the lower price or also known as second-degree price discrimination

Variable Pricing and Price Discrimination

- Second-degree price discrimination is when retailers offer
 - ❖ Promotional and clearance markdowns,
 - ❖ Coupons (Issued in newspapers, on products, on the shelf, at cash register, over the internet and mobile, via mail, in flyers)
 - ❖ Price bundling (KFC family meal 299 bt.)
 - ❖ Multi-unit pricing (quantity discounts)

Coupons



Extreme couponing causes havoc on a retailer's supply chain when one customer buys all of a store's stock of a single SKU.

Price Bundling



McDonald's uses price bundling when it combines a sandwich, French fries, and a soft drink in a value meal.

Multi-Unit Pricing



Offering two or more similar products or services for sale at one lower price is called multiple-unit pricing.

Variable Pricing and Price Discrimination

- Third-degree price discrimination : retailers charge different prices to different demographic market segments
- For example movie theaters have discounts for students and seniors



A sign for Regency Theatres showing ticket prices. The sign features the Regency Theatres logo at the top, which includes a stylized 'X' shape. Below the logo, the text 'TICKET PRICES' is prominently displayed. The background of the sign shows silhouettes of people's heads in profile, facing each other. The ticket prices are listed in a two-column format.

ADULT	\$9.00
MATINEE*	\$7.00
SUNDAY'S	\$5.50
CHILDREN (2-11)	\$7.00
SENIOR (61 & better)	\$7.00
3D SURCHARGE	\$2.50



A promotional advertisement for Shaw Theatres. It features a cartoon illustration of a young boy with brown hair, wearing a blue shirt, pointing his right index finger upwards. The background is a light yellow with faint, stylized mathematical equations and geometric shapes. The main headline is in large, bold, red letters with a white outline. Below the headline, there is a line of text in black. To the right of the boy, there is a list of ticket types and their prices, each in a colored box with a white outline. At the bottom, there is a line of text in black.

**MOST AFFORDABLE
STUDENT TICKET YOU CAN GET!**

Present your **STUDENT PASS** & enjoy movies at a special rate

Regular Tickets*	\$6.50
3D Movie Tickets*	\$9.00
IMAX Digital Tickets*	\$12.00
IMAX 3D Tickets* *Except for Friday & Opening Titles	\$14.00

*Terms & Conditions Apply • Visit www.shaw.sg for more details

Leader Pricing

- Leader Pricing or loss leader is the practice of pricing certain items lower than normal to increase traffic flow and boost sales of complementary products



Price Lining

- Price Lining: Retailers frequently offer a limited number of predetermined price points within a merchandise category
- For example Kroger's vision for its store brands is to build loyalty among customers, with strong store brands that are exclusive to the retailer, it pursues a price lining store brand strategy to provide Kroger products to all customer segments

Price Lining



When retailers like Kroger offer three SKUs for ice cream that reflect good, better, and best quality at three different price points, they are using a price lining technique.

Odd Pricing

- Odd pricing refers to the practice of using a price that ends in a 9.



The practice of offering odd prices—a price that ends in an odd number, typically a 9—is more than 100 years old. Although empirical studies have mixed results, many retailers believe that the practice can increase profits.



That's All Folks