

Pricing strategy of metro cash and carry



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In the foreign literature, the retailing theme is deeply approached by numerous authors in the work “ Principles of retailing”, the authors J. Fernie, S. Fernie and C. Moore (2003) present the model of the five competitive forces belonging to M. Porter in the retailing field, the retailers’ strategic alternatives, after the model of M. Porter and respectively I. Ansoff, the SWOT analysis and a series of other theoretical aspects referring to this sector. P. Kopalle (2009) analyze the price strategies of retailers and the competitive effects generated by them, considering that nowadays, firms do a considerable effort to determine and quantify the competitive effects of price changes, the two elements – price strategies and their competitive effects are strongly connected, becoming a particular case in retailing.

For those products that a supermarket wishes to take a market-oriented approach to in relation to price, the approach is different (Gibson, 1993). This approach is believed to be based upon product that are seen as having the characteristics of including being purchased regularly, are used by a wide range of consumers who have a high degree of prior knowledge regarding them, and are able to have price comparisons made in relation to competitor offerings (Kumar & Leone 1988).

In an aggressive competitive environment and an increasing need for operational efficiency and client focused, retailers look beyond their organizations' borders in order to develop and extend the resources and competencies of the partners from the supplying chain for creating a superior value and competitive advantages on the market (George et al, 2009). M. Santandreu and R. Lucena (2009) approach the issue of the strategies used by supermarkets, as a part of retailing, hypermarket and supermarket concepts, their dynamics and importance in the economy.

An extraordinary introduction in retailing is made by the authors R. Cox and P. Brittain (2004), they presenting in detail the term of retail, its functions, and the place occupied in a country's economy, theories and tendencies present in this field. Porteus (1990) provides an excellent review, focus on operational efficiency to minimize expected cost.

Whitin (1955) was the first to formulate a newsvendor model with price effects. In this model, selling price and stocking quantity are set simultaneously. Whitin adapted the newsvendor model to include a probability distribution of demand that depends on the unit selling price, where price is a decision variable rather than an external parameter (Nicholas 1998).

Costs are seen as being the starting point in price decision making according to Monroe (1990) and Nagel (1994). From previous research conducted in New Zealand the predominant pricing strategy employed by most organizations was found to be one of cost plus (Gray et al., 1996; and Varssnji, 1986). As discussed by Kahn and McAlister, 1996; and Simon, 1989

the supermarkets most common method of pricing a product is by using a standard mark-up across each entire product category. The basis or context for setting the category margins being governed by the elements of location, range of product, and service offering, (Glasser 1998) together with customer convenience, and comparative prices with competitors (Arnold et al., 1983).

J. Zentes, D. Morschett and H. Schramm-Klein (2007) approach in the book „Strategic Retail Management“ a wide issue: typology of retail organizations, growth strategies, retailers' internationalization, supply and logistic platforms management in this field, as well as a series of study cases. One of the most difficult, yet important, issues you must decide as an entrepreneur is how much to charge for your product or service. While there is no one single right way to determine your pricing strategy, fortunately there are some guidelines that will help you with your decision.

They are also seen as being able to promote store switching (Kumar & Leone, 1988) and to draw customers to the store (Mulhern & Leone, 1991). While these products are likely to be small in number in relation to supermarkets overall product range their impact is considered to be important to the overall performance of a supermarket due to the image that they create (Kaufmann, Smith and Ortmeyer, 1994) and for their ability to increase overall store profits (Walters and McKenzie, 1988).

Pricing Strategy Objective

Pricing objectives provide direction for action (Oxenfeldt, 1983). “ To have them is to know what is expected and how the efficiency of the operations is

to be measured” (Tzokas et al., 2000). Diamantopoulos (1991) suggests that pricing objectives can “ fall under three main headings relating to their content (i. e. nature), the desired level of attainment and the associated time horizon”. Channon (1986), Cannon and Morgan (1990) summarizes the fundamental pricing objectives that are;

Profit maximization

Sales maximization

Market Share maximization

Price stability in the market

Sales stability in the market

Discouragement of new competitors’ entering into the market

Maintenance of the existing customers

Long term survival

Attraction of new customer

Creation of prestige image for the company

Pricing is a crucial management responsibility that has serious strategic and operational consequences. Among the important items in the marketing mix, price is the only variable that can cause immediate financial impacts. Price can ring the cash register, generate revenue and can influence the profitability of a company. Therefore, it is viewed as the ultimate marketing

lever (Shipley & Jobber, 2001; Feldman 2002; Wyner 2002; Clemons & Weber, 1994; Monroe, 2001).

Pricing has tremendous ramifications that permeates into nearly every area of an organization: the marketing process (Wyner, 2002), competitive strategy (Clemons & Weber, 1994) and corporate performance (Shipley & Jobber, 2001) and yet it is the most disregarded, least understood and ineptly managed variable (Shipley & Jobber, 2001, Wyner 2002; Monroe 2001)

While revenue management systems help firms maximize revenues, adding optimization tools extend their functionality, and firms are thereby able to find optimal price ranges for a particular sub-segment of business customers (Kimes & Wagner, 2001, Kalanidhi, 2001).

Pricing Methods

Oxenfeldt (1983) defines pricing method as the explicit steps or procedures by which firms arrive at pricing decisions.

Cost plus method- a profit margin is added on the service's average cost (Ward, 1989; Palmer, 1994; Bateson, 1995). Target return pricing – the price is determined at the point that yield the firm's target rate of return on investment (Meidan, 1996). Break-even analysis- the price is determined at the point where total revenues are equal to total costs (Lovelock, 1996);

Contribution analysis- a deviation from the break-even analysis, where only the direct costs of a product or service are taken into consideration (Bateson, 1995). Marginal Pricing- the price is set below total and variable costs so as to cover only marginal costs (Palmer, 1994). Cost-based pricing methods are

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the most prevalent in most of the countries (Pricing Society, 2002); (Noble & Grucca, 1999)

Competition-based methods: pricing similar to competitors or according to the market's average prices (Palmer, 1994); Pricing above competitors (Meidan, 1996); Pricing below competitors (Palmer, 1994); Pricing according to the dominant price in the market- the leader's price that is adopted by the rest of the companies in the market (Kurtz and Clow, 1998).

Demand -Based Pricing: Perceived- value pricing- the price is based on the customers' perceptions of value (Lovelock, 1996); Value pricing- a fairly low price is set for a high quality service (Cahill, 1994); Pricing according to the customers' needs- the price is set so as to satisfy customers' need (Bonnici, 1991). Developing and executing a pricing strategy effectively calls for an understanding of the strategic rationale behind prices, having a knowledgeable team of marketing personnel who can reach sound pricing decisions through various model building strategies (Feldman 2002), having suitable technology tools to support pricing decisions (Sung & Lee 2000; Clemons & Weber, 1994) and having a continuous motivation to execute the strategy over time (Wyner 2002). Shipley and Jobber (2001) believe that pricing decisions should be a multistage process that takes into consideration a wide range of forces that are both internal and external to the company and that impact pricing effectiveness

Research Methodology

The most appropriate condition for this case is the qualitative study.

Qualitative approach is used when the essential principle of the research is to realize and increase imminent (Ghauri & Gronhaug, 2005).

The essential characteristic of a qualitative research is that the primary instrument in data collection and analysis is the researcher. The research activities include fieldwork and the process is primarily inductive. The data collections that can be used are the documents data archival data, interview data and direct observation (Merriam 1998). Maxwell (1996) claimed that in qualitative research the main threats of validity are;

Description

Interpretation

Theory

So keeping in view the overall scenario of research we will adopt

Literature

Archival Records

Internet Sources

Interviews

PEST

SWOT and Porter's Analysis