INTRODUCTION

How does a business decide what to charge for its product? Imagine a new product in the box and you were asked to provide a point of view of what you should charge for it. Well, there are three main approaches to set prices. Cost-plus pricing, with a variant called marginal-cost pricing, Value-based pricing and lastly, Market-based pricing.

Here, we go around a supermarket and gather some products of different prices based on the quality and quantity. We would also make certain analysis of each product with respective discounts given on the product by the supermarket store and draw conclusions of the profit gained by the company selling the product as well the supermarket store.

Also, while calculating we would consider two major terms for pricing strategies i.e. Cost-plus pricing and Product line pricing.

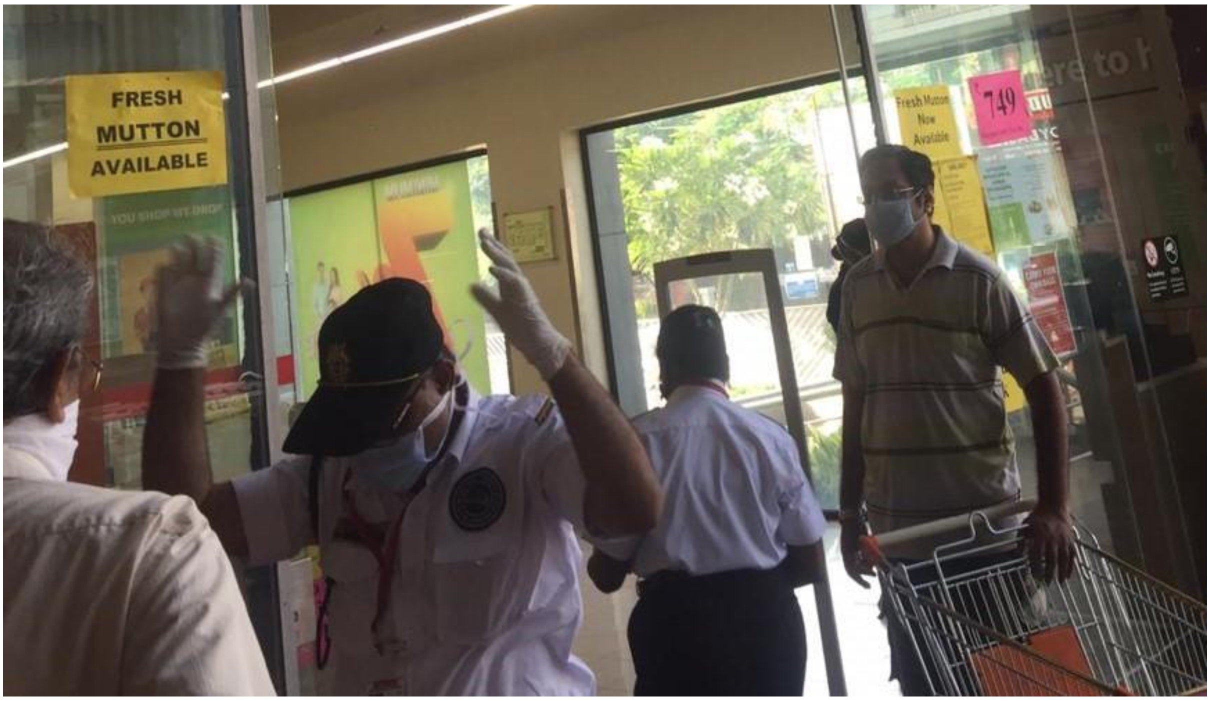
Near to my home we have a supermarket - STAR MARKET

Also, we get all the essential products like fruits, vegetables, meat, different flours, body care products and many more.

We go to market and purchase products based on various factors such as the need of the product, the conditions of a place and cost of product the store provide (discounts). These are some factors on how much to spend to acquire a customer (Customer Lifetime Value).

Thus, we will be discussing pricing strategies of the STAR MARKET.

DISCUSSION



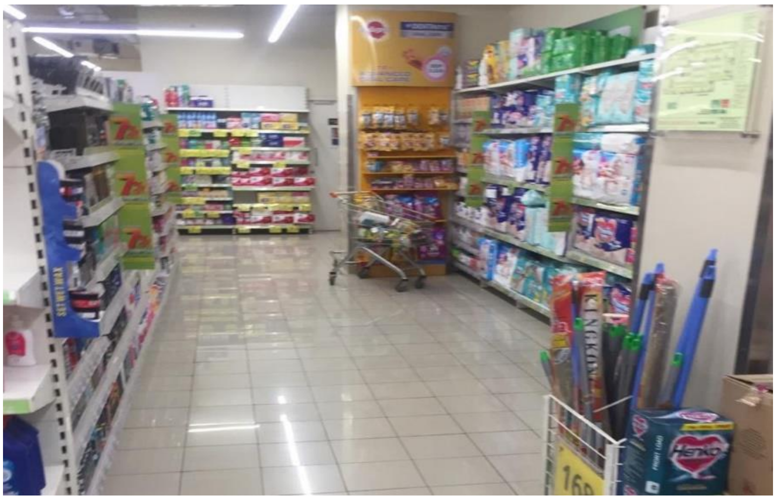
As you can see in the above picture, due to COVID-19 people would go to a place where it is properly sanitised, and all the necessary products are available at one place. Thus, the STAR MARKET ensures proper sanitation and only allows 10 customers at a time. Also, before entering inside the market the temperature of the person is checked and then allowed which also ensures safety of the customer.

Now, after entering the store what all strategies are applied in order to attract the customers? Those are nothing but the pricing strategies. It varies from place to place and also depends on two major factors: - quantity and quality.

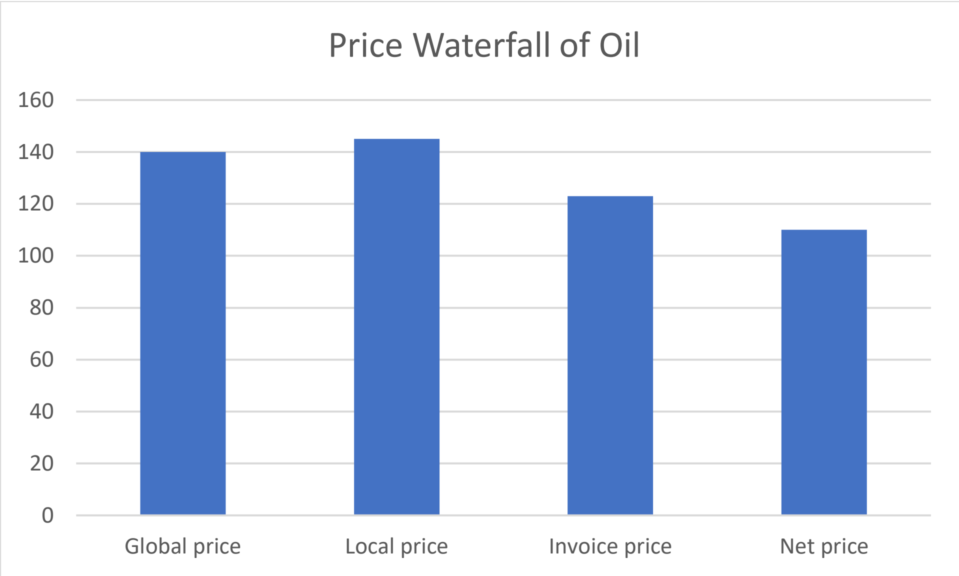
So, below is a data on the products purchased from the store, its market price and price to be paid after discount.

SNO	PRODUCT NAME	MARKET PRICE	SELLING PRICE	DISCOUNT
1	TISSUE PAPER (8 PACKS)	590	567	4%
2	KETCHUP (800g)	110	69	38%
3	WHEAT FLOUR(5Kg)	190	179	6%
4	COOKING OIL(1L)	140	110	22%
5	SHAMPOO	205	154	25%

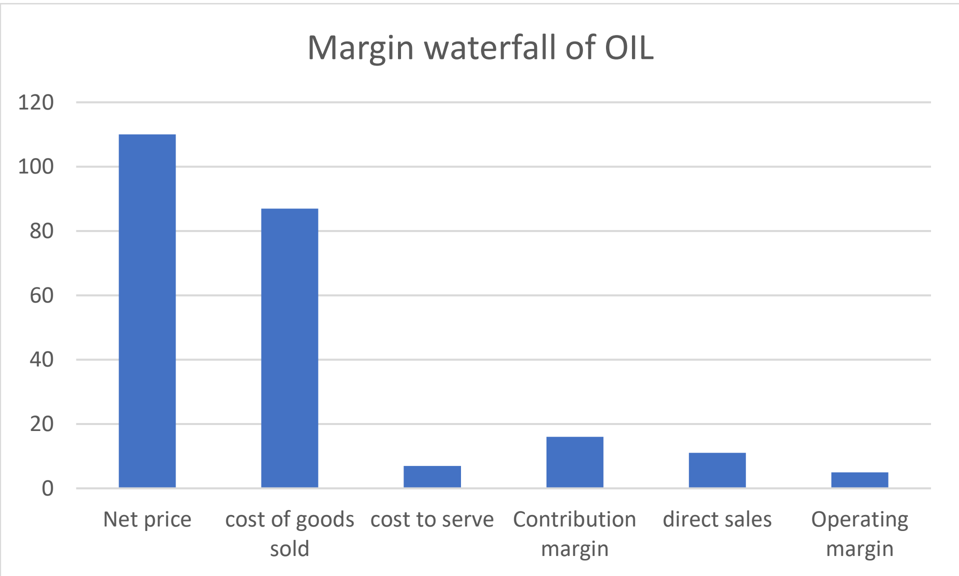
As we can see the discount percent varies from product to product as it depends on volume, quality, how much necessary the product is and many other reliable factors. The STAR MARKET has set low margin (selling price) for many products based the surplus stock and market responses. This ensures them the profit and keeps their customer happy.



CALCULATION AND ANALYSIS



The graph above shows a price waterfall of a product. Here the global price is the actual market price i.e. from the store data we know that the market price of oil is 140 but the selling price i.e. after invoice and local deductions (discount, promotions, buyback guarantee etc.) is 110.



The graph shows margin waterfall of oil. Here, the net price of Oil is 110. Then the cost of goods and service sets contribution margin to 26 and direct and indirect sales sets an operation margin of 15. From, the graph we can also calculate the FIXED COST of oil i.e. 87+7+11(costs of goods sold + cost of serve + sales) = 105.

From above graphs, we analyse price and margin waterfall for a product for better pricing.

Now, how the product prices are varied?

They are varied through volume(quantity) and quality. For, example there is not an equal price variation on 5KG wheat flour and 10KG wheat flour or a tissue paper of 4 packs or 8 packs.

For example, in case of tissue paper the cost of 4 pack tissue is 300 rupees and thus the cost of 8 pack tissues should be 600 but pricing strategy plays an important role as customer would only intend to buy pack of 4 instead of 8.

TISSUE PAPER	MARGIN	UNIT MARGIN
4 PACK	20	20/4 = 5
8 PACK	40	40/8 = 5

So, we make same amount of per unit on either of these 2 sizes. But, is that really true? Maybe its not. What if the when you buy the 8-pack your consumption goes up to 20% as you just have more tissues in hand you would use 3 tissues instead of 2. That can easily happen a lot in these kinds of markets. Well, we take that into a count through consumption- adjusted margins.

So, the consumption is now high upto 20% expansion.

We multiply the standard unit margin that we calculated before with 1+0.2(20% expansion). And thus, we get 5(1.2) = 6.

TISSUE PAPER	CONSUMPTION UNIT MARGIN
4 PACK	5(baseline)
8 PACK	5(1+0.2) = 6

Also, with the help of break even analysis we can make the margin upto 1.2X = 5

X = 5/1.2 = 4.165

TISSUE PAPER	MARGIN
4 PACK	5 * 4 = 20
8 PACK	4.165 * 8 = 33.32

Thus, the margin for 8 pack is 33.32 and we can make as much money as if they sold 2 4 packs.

So, here price of tissue paper would be 600- 33.32 = approx. 567 exactly the same of the selling price at the STAR MARKET.

Using the consumption adjusted margin method though the price of the tissue on 8 packs is decreased still the company producing tissues as well as the market store would gain equal amount of profit or more if they has kept the original price.

Let us take another different example,

They are various quantity of ketchup. Here, we consider 3 sizes and their respective margins and CA margin (consumption adjusted margin) which are already given.

KETCHUP	MARGIN	CA MARGIN
680 gm	23	-(baseline)
1020 gm	46	44%
1300 gm	85	78%

Now, to calculate and compare the profit gained by purchasing 1300 gm than 1020gm than 680 gm ketchup we do the following:

KETCHUP	CALCULATION	PROFIT PERCENT
680	33/680 = 0.033	3.3%
1020	46/1020 = 0.045	4.5%
1300	85/1300 = 0.066	6.6%

What do we get from that particular calculation? Well, because its very illustrative of the differences in the amount of money that you are making between the sizes. In particular, if you look the 680 gm gives profit percent of 3.3% and 1300 gm gives double profit about 6.6%

What does that tell you? It tells that the company is making twice as much on 1300 gm rather than 680 gm so in the pricing terminology it means that the company and the market store should promote 1300 gm size ketchup packet in order to gain double profit.

CONCLUSIONS

From the above discussions and calculations, we draw certain conclusions as follows: -

- The basic factors to attract customers in a store is through 3 ways: products present at the store, selling price (lower margin) and area of the store.
- Due to COVID-19 social distancing and safety measures play an important role which is precisely followed by the store.


- The selling price of products at the store are reasonable when compared to market price which satisfies the customer (Customer lifetime Value).
- To set a certain price for a product we need to understand the price waterfall and margin water and its components which also helps us to calculate Fixed price of any product.
- Using the consumption adjusted margin method we could decrease the margin of a product having higher volume and make it reasonable for the consumers to buy and earn higher profits or even double profit.

Hence, these were the main pricing strategies required to sell products to customers by following certain analysis and earning maximum profits.

THANK YOU

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