

Is Chicken a Good Loss Leader¹

Objective: analyze contribution for complements and substitutes

As a pricing analyst for the Value Supreme grocery chain, you are asked to prepare the analysis of a proposal to price whole frying chickens low in order to attract shoppers to VALUE SUPREME stores.

Use the following data to analyze whether chicken would make a good loss leader:

- The current price for whole fryers is \$.89 per pound. The proposal is to set a promotional price of \$.59 per pound. The wholesale cost of the fryers, prepackaged and ready for sale, is \$.55 per pound
- By tracking past changes in sales of chicken with changes in sales of other grocery products (how would you do this?), you discover that each one pound change in the sales of whole fryer chickens is associated with the following changes in the sales of other products:

Product	Dollar Change	Contribution Margin
Fruits and Vegetables	\$.154	50%
Packaged Groceries	\$.692	20%
Frozen Foods	\$.114	33%
Other meat, including chicken parts	\$.250	40%

1. If this past relationship between sales of whole fryers and increased sales of other goods holds, by how much must chicken sales increase to make this price promotion profitable?
2. How might you structure the promotion to increase the likelihood that additional chicken sales will in fact result in a corresponding high level of sales for other products?
3. Could this store have profitably promoted whole fryers at \$.49 per pound?

¹Nagle and Hogan, *The Strategy and Tactics of Pricing Instructors Manual*, 4th Edition (2006).