## Pricing Strategies

Among the range of products being sold under retail, some of them are well established brands, whereas others are relatively less popular and trying to establish themselves. The popular brands usually offer lesser profit margins for the merchants as compared to their less popular competitors. So a merchant need to balance the sales targets for both type of brands, by ensuring specific profit margins on the reliable brands whereas putting extra efforts on the sale of less popular brands thereby trying to maximize sale for them by providing various schemes/offers/discounts on them.

For every item (regardless of demand statistics) the intended (by merchant) profit target is assumed to have been reached if the target volume (for the specified period) of units is sold at the carefully calculated retail price, all other parameters (purchase price) being constant. If the volume of sale exceeds beyond target, the additional profit (in addition to targeted profit) should be considered as the “bonus” for that item.

There is more likelihood of guaranteed “bonus” on established brands, but in order to get considerable bonus from them the volume of sale (sale target per period) should be substantially high as these items usually yield lower profit margins for the retailers. So retailers need to have some strategies to increase the volume of sale for these items.

There is a less likelihood of guaranteed “bonus” on less popular/low demand products under normal circumstances, but they usually yield much higher profit margins for the retailers even for a moderate volume of sale.So retailers need strategies to promote their sale in order to rip more profits and eventually start gaining bonuses from them. The investment for promotional measures can be provisioned form the bonus gained from high demand items.

But all low demand items do not necessarily yield greater profits, as few of them cannot pick up well in the market, despite of adequate promotional measures. Also as the “bonus” available out of sale from high demand items is limited and hence retailers need carefully crafted strategies to determine how to effectively promote these items and which products are the best candidates for promotional investments.

First let’s see what can be the strategies to earn more and more bonus. First let’s make an assumption that few products exceeded their target sale at target retail price and hence won some “bonus”.

This strategy considers use of the accumulated “bonus” from various items to aid in determining

* The revised price of the same item for new subscriptions, so as to lift more “bonus” on them.
* For determining and sustaining the price of low demand items, who are unable to make their targets.
* For maintaining the corpus to yield additional benefits to subscribers such as offers, loyalty points, basket level discounts, brand loyalty discounts etc.

## Why do products exceed their set target?

1. The product is extremely high demand due to the brand and quality attributes it carries. So obviously more and more subscribers want to buy these products. They will buy it more if they get lucrative discounts or some schemes on their retail price.(???)

1. The purchase price (wholesale price) of an item reduces due to additional discounts by the wholesaler (perhaps due to changed purchase strategies by a merchant), or direct purchase from manufacturer.

Example:

If a merchant has purchased 50,000 units of a product having MRP of 72 Rs and wholesale price of 45 Rs. So he has spent 45\*50,000=22,50,000 Rs. Anticipating the same purchase price he has set a mark-up price of Rs 60(33% higher) for the sale of this product and makes few months/an year commitments with subscribers.

So he has got 50,000 subscribers for this product for one year to whom the committed price is 60 Rs. Per unit.

Yearly sale target for the product is 50,000\*12= 600,000 units.

Assuming that wholesale price remains the same, merchant anticipated purchase cost= 6,00,000\*45=2,70,00,000 Rs.

Committed mark-up price is 60 Rs. So merchant expected revenue for the product= 600,000\*60 =3,60,00,0000

So anticipated profit = 3,60,00,000-2,70,00,000=90,00,000 Rs.( 30%)

After first two months the wholesale price of the item reduces from 45 Rs. to 40 Rs.(due to any of the reasons mentioned above). So purchase price will change as

For first two months (50,000 items per month): 1,00,000\*45=45,00,000 Rs

Next 10 months: 5,00,000\*40=2,00,00,000 Rs

Total wholesale cost = 45,00,000 + 2,00,00,000 = 2,45,00,000 (25,00,000 Rs. less than anticipated purchase price)

But due to customer commitments the mark-up price has to remain at 60 Rs. So expected revenue for the product will remain same=3,60,00,000 Rs

So the actual profit will be = 3,60,00,000-2,45,00,000=1,15,00,000 Rs (approx. 47%)

Thus the “bonus” or gain in profit (difference between actual profit and anticipated profit)=1,15,00,000- 90,00,000 =25,00,000 Rs.

1. The targets set by the merchant for the high demand product are less than its capabilities (under-estimated).

Example:

If a merchant purchased 50,000 units of a product having MRP of 72 Rs. and wholesale price of 45 Rs.. So he spent 45\*50,000= 22,50,000 Rs. towards purchase.

This product is capable of being sold 50,000 units per month and at 50%mark-up price 67.5 Rs. per unit( mark-up price = cost of item\*(1+(desired mark-up/100))=45\*1.5.

So if the merchant intends to sale 50,000 items at 67.5 Rs. Each, he would make 67.5\*50,000=33,75,000 Rs revenue.

So net profit =33,75, 000 – 22,50,000=11,25,000 Rs. which is 50% net profit.

Scenario1: Under-estimation of target sale volume

Merchant expected a mark-up price of 67.5 Rs. (50%) and kept a monthly target sale of 40,000 only (so wholesale price for target sale items would be 40,000\*45=18,00,000).

So if 40,000 units are sold then he would make 67.5\*40,000=27,00,000 Rs. Since wholesale price of 40,000 units is 40,000\*45=18,00,000 Rs, In this case he would make profit of 9,00,000 Rs. which is 50%. This is expected/target profit.

If 50,000 units of that product of sold in that month, merchant made 67.5\*50000=33,75,000 Rs. as against the set target of 67.5\*40,000=27,00,000 Rs. So he got actual profit of 6,75,000 Rs( 33,75,000-27,00,000) as against the expected profit of 6,00,000(24,00,000-18,00,000)

If we compute the original purchase price of 40,000 units of product =40,000\*45=18,00,000 (actually he has bought 50,000 units resulting in the total wholesale price= 50,000\*45= 22,50,000 Rs.)

If we compare the additional profit against the set target then it would be

Actual profit – expected/target profit=(33,75,000-27,00,000) – ( 24,000-18,00,000) = 75,000 Rs.

Scenario 2: Under-estimation of target sale (mark-up) price.

Merchant compromised at expected mark-up price and set it as of 60 Rs. (approx. 33%) and kept a monthly target sale of 40,000 only (so wholesale price for target sale items would be 40,000\*45=18,00,000).

So if 40,000 units are sold then he would make 60\*40,000=24,00,000 Rs. Since wholesale price of 40,000 units is 40,000\*45=18,00,000 Rs, In this case he would make profit of 6,00,000 Rs. which is 30%. This is expected/target profit.

But since he has kept the target price per item considerably less than possible price (60 Rs as against 67.5 Rs and against MRP of 72 Rs.), his sale exceeded much beyond his target volume and he was able to sale 60,000 units in that month. Since he needs additional inventory for this item he would procure it. So the purchase/wholesale price would be 45\*60,000=27,00,000 Rs.

So merchant made 60\* 60,000= 36,00,000 Rs. Thus actual profit is 36,00,000-27,00,000=09,00,000 Rs.(30%).

This example shows how a merchant exceeds targets in some product because he under-estimates

that product in terms of volume of sale or in-terms of mark-up price.

## Why do products fall short of target?

1. Product is relatively newer in the market or having relatively lesser demand than its competitors.
2. The purchase price (wholesale price) of an item increases during the target period.

Example: If a merchant has purchases 50,000 units of a product having MRP of 72 Rs and wholesale price of 45 Rs. So he has spent 45\*50,000=22,50,000 Rs. Anticipating the same purchase price he has set a mark-up price of Rs 60(33% higher) for the sale of this product and makes few months/an year commitment to the customer.

So he has got 50,000 subscribers for this product for one year to whom the committed price is 60 Rs. Per unit.

Yearly sale target for the product is 50,000\*12= 600,000 units.

Assuming that wholesale price remains the same, merchant anticipated purchase cost= 6,00,000\*45=2,70,00,000

Committed mark-up price is 60Rs. So merchant expected revenue for the product=600,000\*60=3,60,00,0000

So anticipated profit = 3,60,00,000-2,70,00,000=90,00,000 Rs.( 33%)

After first two months the wholesale price of the item changes from 45 Rs to 50 Rs.

Purchase price will change as

For first two months (50,000 items per month): 1,00,000\*45=45,00,000 Rs

Next 10 months: 5,00,000\*50=2,50,00,000 Rs

Total wholesale cost = 45,00,000 + 2,50,00,000 = 2,95,00,000 ( 25,00,000 Rs. more than anticipated purchase price)

But due to early commitment the mark-up price has to remain at 60 Rs. So expected revenue for the product will remain same=3,60,00,000 Rs

So the actual profit will be = 3,60,00,000-2,95,00,000=65,00,000 Rs(22%)

1. Demand of a product reduces than the anticipated value resulting into more purchase and lesser consumption (rare but realistic scenario)