

Setting the Right Price

Setting the right price can influence the quantities of various items that consumers will buy, which in turn affects the total revenue and the profit in the store. In the end, the right price for the product is the price that the consumer is willing to pay for it. Hence, correct pricing decisions are a key to successful retail management. Systematic and informed decisions regarding pricing strategies must be made while considering a wide range of issues.

A major step toward making a profit in retailing is selling merchandise for more than it has cost you. The difference between the cost of the merchandise and the retail price is called the markup. These are the dollars that are now available to pay the operating expenses of the business. When establishing the markup on a product, two points should be noted:

1. The cost of the merchandise used in calculating markup consists of the base invoice price for the merchandise plus any transportation charges minus any quantity and cash discounts given by the seller.
2. Retail price, rather than cost, is ordinarily used in calculating percentage markup. The reason for this is that when other operating figures such as wages, advertising and profits, are expressed as a percentage, all are based on retail price rather than on the cost of the merchandise being sold.

The following points will highlight issues that should be considered:

Target Consumers and the Retailing Mix

In this section, your attention is directed to price as it relates to your potential customers.

- ❖ Is the price of this item very important to your target consumers? You need to know your customers' desires for different products and whether price is an important issue in their purchasing decision?
- ❖ Have you established a price range that people will pay for the product? What is the high and low price that the merchandise will have to fall within for someone to buy?
- ❖ Have you considered what price strategies would be compatible with your store's overall retailing mix that includes merchandise, location, promotion, and services?
- ❖ Will trade-ins be accepted as part of the purchase price on items such as appliances and television sets?

Competitor Considerations

This set of questions looks outside your firm to the competitive factors that you cannot directly control.

- ❖ Do you know what your direct competitors are doing price wise?
- ❖ Do you regularly review competitors' ads to obtain information on their prices?
- ❖ Do you do comparison shopping of competitors to obtain information on their pricing strategy?
- ❖ Have you considered how your competition will react when you enter the market place, and how will you deal with their reactions?

A Price Level Strategy

Selecting a general level of prices while considering the competition is a key strategic decision.

- ❖ Should your overall strategy be to sell at the prevailing market prices or do you want to work at an above-the-market or below-the-market strategy?
- ❖ Should competitors' temporary price reductions ever be matched?
- ❖ Could private-brand merchandise be obtained in order to avoid direct price competition?

Calculating Planned Initial Markup

- ❖ In this section you will have to look inside your business, taking into account sales, expenses, and profits before setting prices. The initial markup must be large enough to cover anticipated expenses and reductions and still produce a satisfactory profit.
- ❖ Have you estimated sales, operating expenses, and reductions for the next selling season?
- ❖ Have you established a profit objective for the next selling season?
- ❖ Given your estimated sales, expenses, and reductions, have you planned initial markup? The Initial Markup Percentage is calculated by adding the operating expenses, planned reductions (markdowns, stock shortages, and employee/customer discounts) and profits together, and then dividing this total by net sales and planned reductions.
- ❖ Different initial mark-up figures may have to be used for various lines of merchandise or services, particularly when different lines have different characteristics than others.

Store Policies

In this section, overall store policy and the message that you want to convey will be considered.

- ❖ Setting the price must be compatible with your established store policies and your desired image.
- ❖ Will a one-price system, under which the same price is charged to every purchaser of a particular item, be used on all items or is the price negotiable with the customer?
- ❖ Will odd-ending prices such as \$1.98 and \$44.95, be more appealing to your customers than even-ending prices?

- ❖ Will consumers buy more if multiple pricing, such as 2 for \$8.50 is used?
- ❖ Should any loss leader product pricing be used?
- ❖ Will price lining, the practice of setting up distinct price points and then marking all related merchandise at these points, be used?
- ❖ Would price lining by means of zones be more appropriate than price points?
- ❖ Will prices include applicable taxes for customer convenience?
- ❖ Will cents-off coupons be used in newspaper ads or mailed to selected consumers on any occasion?
- ❖ Would periodic special sales, combining reduced prices and heavier advertising, be consistent with the store image you are seeking?
- ❖ Has the impact of various sale items on profit been considered?
- ❖ Will "rain-checks" be issued to consumers who come in for special sale merchandise that is temporarily out of stock?

Nature of the Merchandise

- ❖ In this section you will consider how selected characteristics of particular merchandise affect planned initial markup.
- ❖ Did you get "good deal" on the wholesale price of the merchandise?
- ❖ Is this item at the peak of its popularity?
- ❖ Are handling and selling costs relatively great due to the product being bulky, having a low turnover rate, and requiring much personal selling, installation, or alterations?
- ❖ Are relatively large levels of reductions expected due to markdowns, spoilage, breakage, or theft?
- ❖ Will customer services such as delivery, alterations, gift wrapping, and installation be free of charge to customers?

Other Considerations

- ❖ Are additional markups called for because wholesale prices have increased or because the item's low price causes consumers to question its quality?
- ❖ Should purchase discounts be given to special groups?
- ❖ When markdowns appear necessary, have other alternatives been considered first? (i.e. merchandising out of the problem)
- ❖ Has an attempt been made to identify the cause of markdowns?
- ❖ Has the relationship between timing and size of markdowns been taken into account?
- ❖ Would a schedule of automatic markdowns after merchandise has been in the stock for specified intervals be appropriate?

- ❖ Is the size of the markdown "just enough" to stimulate purchases?
- ❖ How is the seasonality of products allowed for?

MARKUP AND MARGIN

What is the difference?

Markup is a percentage of the cost.

Margin is the same dollar amount as markup, but expressed as a percentage of the selling price.

Example

Item costs \$1.00; Item sells for \$1.50.

Markup is .50 or 50 % of the cost.

Margin is .50 or 33.333% of the selling price.

Margin vs. Markup Comparison Chart

Margin % of Selling Price	Markup % of Cost	Margin % of Selling Price	Markup % of Cost	Margin % of Selling Price	Markup % of Cost
4.8	5.0	22.0	28.2	37.5	60.0
5.0	5.3	23.1	30.0	39.0	63.9
7.0	7.5	24.0	31.6	39.4	65.0
8.0	8.7	25.0	33.3	40.0	66.7
9.0	9.9	25.9	35.0	41.0	69.5
9.1	10.0	26.0	35.1	41.2	70.0
10.0	11.1	27.0	37.0	42.0	72.4
11.0	12.4	28.0	38.9	42.9	75.0
12.0	13.6	28.6	40.0	43.0	75.4
13.0	15.0	29.0	40.8	44.0	78.6
14.0	16.3	30.0	42.9	44.4	80.0
15.0	17.6	31.0	45.0	45.0	81.8
16.0	19.0	32.0	47.1	45.9	85.0
16.7	20.0	33.3	50.0	46.0	85.2
17.0	20.5	34.0	51.5	47.0	88.7
18.0	22.0	35.0	53.8	47.4	90.0
19.0	23.5	35.5	55.0	48.0	92.3
20.0	25.0	36.0	56.3	48.7	95.0
21.0	26.6	37.0	58.7	49.0	96.1
				50.0	100.0

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