Impact pricing strategy’s as promotional tool in organized retail sector

Gourav Bareja¹, Mangal Sain²
¹,² Dept of Commerce & Management
Arya P.G College, Panipat

Abstract
The study aimed to explore the impact of pricing strategies as a promotional tool in organized retail sector in India. A total of 100 respondents were considered for the study i.e. 50 customer & 50 retailers. Panipat was chosen as the study location stratified random sampling was used to select the respondent. Strata’s were identified based on organized retailer’s concentration and a list of organized retailer was prepared. Initially organized retailers were approached and in-depth interview were conducted to know about their strategies. Then the customers were asked about the impact of the pricing strategies on their buying behavior to get more information. A pilot study was conducted with a sample of 100 respondents to know the feasibility of the questions for personal interview. After the required changes, the respondents were approached and an in-depth interview was to conduct to get the data. Statistical tool such as Chi-Square test were used to get inference from the data. The purpose of this research paper is to assess the attitude of customer towards pricing & sales promotion strategies. This paper investigated the customer behavior as regards to big shopping malls & traditional retailers. A total of 100 customers were interviewed to know their attitude & buying behavior towards sales promotion strategies in organized retail sector. The result also indicates the traditional retailer’s needs to redesign their business strategies to attract the customer & the organized retail sector must consider the customer values & their buying pattern. The first and foremost objective of the study is to make ourselves aware of the various pricing strategies of the organized retail sector, which now a days are prevailing in the market. Retailers have made the pricing as their tool to promote their product, by offering discounts, huge discounts on their products.

Keywords: Pricing Strategies, Buying Behavior, Sales Promotion, Organized Retailer, Customer Attitude, motivating factor, Small Retailers, Super markets & Hypermarkets

1 Introduction
Big shopping malls, Super markets & Hypermarkets are growing rapidly by adopting aggressive pricing strategies to attract customer. These pricing & sales promotion strategies turn affect the existing small retailers & customer buying behavior. The result finds that the customer attitude is affected by the sales promotional strategies adopted by the supermarkets & Big shopping malls. These sales promotional strategies also affected the business of unorganized retail sector. After sales services & long term relation with customer are the major business strategies adopted by the small players & unorganized retailer to retain customers.

Price is the cost of the product paid by the consumer. This is the only element in the marketing mix that generates revenue for the firms. In order to generate revenue, managers must consider factors both internal and external to the organization. Internal factors take the form of marketing objectives, the marketing mix strategy and production costs. External factors to consider are the target market, product demand, competition, economic conditions and government regulations. A number of pricing strategies are available to marketing managers: skimming, penetration, quantity and psychological. With a price-skimming strategy, the price is initially set high, allowing firms to generate maximum profits from customers willing to pay the high prices. Prices are gradually lowered until maximum profit is received from each level of consumer. Penetration pricing is used when firms set low prices in order to capture a large share of a market quickly. A quantity-pricing strategy provides lower prices to consumers who purchase larger quantities of a product. Psychological pricing tends to focus on consumer perceptions. One of the most crucial areas of decision making for retailers is pricing. Yet, we have found that small firms often do not have well-conceived pricing plans. And many such firms seem to panic (or ignore the problem) when large discount-oriented retailers enter their trading areas – or become more aggressive. This is not necessary; small retailers can prosper in today's discount-oriented environment, as long as they have a good understanding of their niche in the marketplace. Retailers are in business to run a profit. While there are many factors that affect the profitability of a business, setting the right price is a major step toward making that profit. The first step in determining which retail pricing strategies to use is to understand the costs associated with your products. The cost of goods includes the amount paid for the product plus any shipping costs. The cost of operating the business, or operating expense, includes overhead, payroll, marketing and office supplies. Regardless of the pricing strategy used, the price of your products should cover the cost of obtaining the goods plus the expenses related to operating the business.

2. Objective of the study

Some of the main objectives of the study are as follows:

- To study the various pricing strategies as a promotional tool opted by the organized retail sector
- To know about the attitude of customer towards pricing strategies of retail shops.
- To study the motivating factor which influence for buying the goods in retail sector?
3 Research Methodology
The study aimed to explore the impact of pricing strategies as a promotional tool in organized retail sector in India. A total of 100 respondents were considered for the study i.e. 50 customer & 50 retailers. Panipat was chosen as the study location stratified random sampling was used to select the respondent. Strata’s were identified based on organized retailer’s concentration and a list of organized retailer was prepared. Initially organized retailers were approached and in-depth interview were conducted to know about their strategies. Then the customers were asked about the impact of the pricing strategies on their buying behavior to get more information. A pilot study was conducted with a sample of 100 respondents to know the feasibility of the questions for personal interview. After the required changes, the respondents were approached and an in-depth interview was conducted to get the data. Statistical tool such as Chi-Square test is used to get inference from the data.

4 Hypothesis Testing
The chi-square test is one of the simplest and widely used non-parametric tests in statistical work. The symbol is Greek letter chi χ. It was first used by Karl Pearson’s in the year 1990. The quantity chi-square describes the magnitude of the discrepancy between theory and observation
\[ \text{Chi-square} = \sum \frac{(O-E)^2}{E} \]
Where O=observed frequency
And E=expected frequency

5 Degree of freedom
While comparing the calculated value of chi square with the table value, we have to determine the degree of freedom. By degree of freedom we mean the number of classes to which the values can be assigned arbitrary or will without violating the restriction or limitations placed.
\[ H_0 = \text{Brand loyalty and product price do not motivate customer to purchase the product. And retailers are not following the manufacturers pricing policy.} \]
\[ H_1 = \text{Brand loyalty and product price is the motivating factor for purchase to a customer. Retailers are following the manufacturers pricing policy.} \]

Observed frequency table:

<table>
<thead>
<tr>
<th>Factors</th>
<th>Price</th>
<th>Brand Image</th>
<th>Availability</th>
<th>Technology</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Influence on customer buying decision</td>
<td>34</td>
<td>42</td>
<td>24</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Customer Perception</td>
<td>37</td>
<td>45</td>
<td>10</td>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71</strong></td>
<td><strong>87</strong></td>
<td><strong>34</strong></td>
<td><strong>8</strong></td>
<td><strong>200</strong></td>
</tr>
</tbody>
</table>

\[ E_{11} = \frac{71 \times 100}{200} = 35.5 \]
Expected Frequency table:

<table>
<thead>
<tr>
<th>Factors</th>
<th>Price</th>
<th>Brand Name</th>
<th>Availability</th>
<th>Technology</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Influence on buying decision</td>
<td>35.5</td>
<td>43.5</td>
<td>17</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Customer Perception</td>
<td>35.5</td>
<td>43.5</td>
<td>17</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>71</td>
<td>87</td>
<td>34</td>
<td>8</td>
<td>200</td>
</tr>
</tbody>
</table>

\[ \chi^2 = \frac{(O-E)^2}{E} \]

\[ \chi^2 = 13.98 \]

Degrees of freedom = \( V = (r-1) (C-1) \)
\[ = (2-1) (4-1) \]
\[ = (1) (3) \]
\[ = 3 \]

At degrees of freedom \( V = 4, \chi^2_{0.05} = 8.75 \)
<table>
<thead>
<tr>
<th>Observed Frequency(O)</th>
<th>Expected Frequency(E)</th>
<th>O-E</th>
<th>(O-E)^2</th>
<th>(O-E)^2/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>35.5</td>
<td>-1.5</td>
<td>2.25</td>
<td>.06</td>
</tr>
<tr>
<td>37</td>
<td>35.5</td>
<td>1.5</td>
<td>2.25</td>
<td>.06</td>
</tr>
<tr>
<td>42</td>
<td>43.5</td>
<td>-1.5</td>
<td>2.25</td>
<td>.05</td>
</tr>
<tr>
<td>45</td>
<td>43.5</td>
<td>1.5</td>
<td>2.25</td>
<td>.05</td>
</tr>
<tr>
<td>24</td>
<td>17</td>
<td>7</td>
<td>49</td>
<td>2.88</td>
</tr>
<tr>
<td>10</td>
<td>17</td>
<td>-7</td>
<td>49</td>
<td>2.88</td>
</tr>
<tr>
<td>0</td>
<td>4</td>
<td>-4</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>8</td>
<td>4</td>
<td>4</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13.98</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since the tabulated value of $\chi^2 = 8.75$ is less than the calculated value of $\chi^2$, so, we reject the null hypotheses ($H_0$). Hence it is proved that brand image; Price, Brand name and availability influence the customer in their buying decision.

### 6 Data Intrepretation

1) **Do you have an overall pricing philosophy? What is it?**

**Chart 1: Overall Pricing Philosophy**

- High: 20%
- Medium: 30%
- Low: 50%

**Interpretation of the pie chart 1:** 30% of the retail shops have high prices for their products.

50% of the retail shops have medium prices for their products. 20% of the retail shops have low prices or discount policies for their products.
2) What are the characteristics of the people who shop at your store? For what reasons do they shop at your store?

Interpretation of the pie chart 2: 20% of the shops have customers who come at their shop for low prices. 30% of the shops have customers who look for convenience. 30% of the shops have customers who rely on services. And remaining 20% are there for other purposes.

3) How do the retailers compute their product prices?

Interpretation of the pie chart 3: 60% of the retailers often visit the nearby stores or shops for checking up of the prices and 40% don’t go for the other shops; their prices are fixed by the manufacture company itself (mainly in case of branded products).

4) How often do you change prices?
Interpretation of the pie chart 4: Most of them prefer to change occasionally and seasonally as most of them deal in garments, and the prices for which are decided both occasionally and seasonally.

5) Do you advertise the price factor in regular advertisements?

Interpretation of the pie chart 5: 80% of the shops advertise for prices through pamphlets, or by display at the shops itself remaining shops often do not advertise for prices.

6) Do you let customers bargain over the prices of any item?

Interpretation of the pie chart 6: More than 95% of the retailers said that they do not let their customer bargain over prices as they have already fixed their prices and from time to time they provide huge discounts also.
7) Do you use odd prices (Rs.94.95, Rs.59.95) rather than even prices (Rs.95.00, Rs.60)?

Interpretation of the pie chart 7: More than 90% of the retailers use odd pricing as the customer has a psychology that paying Rs.99 is better to pay rather than paying Rs.100 for the same product.

8) How are prices displayed in your store?

Interpretation of the pie chart 8: Most of the retailers prefer to have tags on individual items to avoid disturbance and conflicts in pricing.

9) What do you think about everyday low pricing?

Interpretation of the pie chart 9: Everyday low pricing would have high sales but the profit does effect by it on the other hand, so 60% of the retailers have same assumption as it would obviously have high sales. More than 95% of the retailers said that they are not bothering about the operating expenses; company itself pays the operating expenses. And remaining does include their operating costs.
10) If you do check competitors’ prices? How does your firm react to what you learn?

**Interpretation of the pie chart 10:** 25% of the retailers said that they set prices below than their competitors, 40% of the retailers replied that they do not take any action against the competitors price as this is company’s affairs, Remaining has said that they just inform the company about the prices with the competitor.

11) Do you advertise discounted prices?
**Interpretation of the pie chart 11:** 95% of the retailers advertises prices through pamphlets provided by the company for either discounts or low prices. Remaining advertise but not for prices.

12) What payment method(s) do you accept?

**Interpretation of the pie chart 12:** Only 5% of the retailers said that they accept payment through cheques only, 10% of them said they accept payment only through credit cards, 40% of them accept payment in cash.

### 7 Suggestions

- Manufacturer & company should consider the level of knowledge of the customers while deciding the price of the product. Customer knowledge would be highly price sensitive.
Mostly organized retail shops are opting pricing strategies decided by the manufacturer or company. It should be somewhat in the hands of retailer which would be beneficial for the company also.

A proper market research must be considered about the consumer behavior i.e. of buying habits and motives of the customers. Customer’s response & customer satisfaction must be considered.

Proper cost & profit evaluation should be there from time to time regarding individual retail shops profitability.

While pricing the product, the competitive environment must be analyzed. Like what kind of pricing & sales promotion strategies opted by the competitors. The price & discount structure of the company should compete with the competitors.

Market segmentation should be considered as it is the basis of pricing strategies.

8 Conclusion
On the basis of the study above and the trends right now we can conclude that India is developing itself as a market full of opportunities for the marketers/Entrepreneurs and also it is going to result in certain benefits to the consumers. More over what the companies have to focus is on the priorities of the consumers which can be in the form of the benefits associated with the products. And the benefit includes right products on the right place and at the right price, and moreover what the company can focuses is on for the benefit of the customers is by giving them proper information about the products and also the new uses of the products and moreover the attitude of the seller is also one of the most important factors which influences the customers.

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