

# PRICING STRATEGY USED AS A TOOL FOR BUILDING CUSTOMER SATISFACTION IN THE RETAIL SECTOR

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*The purpose of this article is to highlight the importance of pricing strategy in the retail sector and the power of their influence on consumer behavior. Merchants should consider the price generates perceptions and can influence consumer behavior and buying customers. They must also understand how to participate in the price of consumer satisfaction.*

*Keywords: Consumer behaviour, price strategy, retail, price satisfaction, price fairness.*

*JEL Classification: M31.*

## **Introduction**

The competition in retail trade is a complex phenomenon. Retailers are running into competition using the whole arsenal of the marketing strategies at the level of marketing mix, tempting the customer with an attractive set of products, competitive prices, suitable places and a lot of other services and promotional activities.

Therefore, the companies choose the service stocks which helps at the maximization of profits, depending on the types of consumer, they expect to attempt and their rational belief, regarding the rival's actions. Price strategy in retail trade becomes a key element in this multi-dimensional package. Price becomes one of the most important elements of the retail marketing mix. Lately, the complexity and the speed with which the merchants develop raise the influence upon the final prices of the products that they have.

Traders usually use various pricing tools and promotion policies to attract new customers and increase customer loyalty. Surprising is that pricing strategies have proved to be a fruitful research area for marketers. Marketing scientists have offered both theoretical and empirical estimates showing that for all types of consumers different price policies are likely to attract.<sup>831</sup> Although well known reasons why a consumer selects a store, we know relatively little about how retailers choose pricing strategies because of the complexity of such a decision should take into account both consumer preferences and current and anticipated actions of rivals.

## **Price strategy and retail performance**

Price perception has a significant impact on consumer satisfaction<sup>832</sup>, which determines performance in retail sales and consumer loyalty. Different dimensions of price perception and potentially can lead to customer satisfaction in addition to simple product price level. In a retail context, additional dimensions

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<sup>831</sup> Rajiv Lal, Ram Rao,(1997) *Supermarket Competition: The Case of Every Day Low Pricing*, Marketing Science, 16, (1), 60-80.

<sup>832</sup> Varki, S. and Colgate, M. (2001), *The role of price perceptions in an integrated model of behavioral intentions*, Journal of Service Research, 3(3), 232-240.

include, for example, value for money and price fairness, convenience and price perception and mental processing the price<sup>833</sup>.

However, not only generally important to explore the power relationship between these dimensions and satisfaction, optimal strategy, but it is essential to identify asymmetric effects in these relationships. For example, based on opponent-process theory assumes that some dimensions of price perception, such as price fairness, are mandatory requirements. If these demands are not met, customers will become very unhappy, however, their fulfillment will not actually increase satisfaction. In contrast, a good performance in other dimensions may not come by itself.

Underperformance in these dimensions could lead to dissatisfaction, but a good performance will increase satisfaction significantly. Low performance could not lead to dissatisfaction, but a good one rise notably the satisfaction. Knowing these asymmetric effects is extremely important because it helps retail managers to allocate resources to different performance dimensions. Retailers must be aware that price requirements must be met to a basic level and that their value must be fulfilled.

A modern price policy must protect consumer perception on choosing the best place to buy for their family. Consumers face prices that's hard to pay tend to buy elsewhere. Many consumers get confused by the pricing policy without having an understanding and only reacting to competition, prices or marginal goals. Even if some consumers are capable of saying why they are confused in retail trade environmental, the study done by the Wharton Business School indicates that consumers rely on three references points when they decide what they think is a fair retail price:

1. How much does the object cost in the past?
2. How much the rivals ask for same object?
3. Their perception about selling costs of the same objects

Considering other areas for business improvement, development and implementation of strategic pricing schemes can produce higher repercussions compared with the of loss control efforts. Teachers at Wharton, Z. John Zhang and Jagmohan S. Raju had made an important statistic in a recent research paper: a 1% reduction in fixed costs improves profitability by 2.3%; a 1% increase in volume will result in a 3.3% increase in profit; a 1% reduction in variable costs will prompt a 7.8% rise in profit; but a 1% hike in pricing can boost profitability by 11%.<sup>834</sup>

So far, satisfaction of the retail price has not been addressed in detail in the international marketing literature. Only a few researchers have discussed issues related to service satisfaction price.<sup>835</sup> Therefore a satisfaction price definition has been derived for many common projections of client's contentment.

### **Price satisfaction: a definition**

Therefore, a definition of price satisfaction is derived from the more common projections of customer satisfaction. Satisfaction seen in the context of retail sales is an emotional reaction to his or her individual evaluation of an overall set of experiments conducted by encouraging dealer. The satisfaction is "the function of knowledge and affect". By merging the two definitions, price satisfaction can be defined as an emotional reaction resulting from the interaction of cognitive and affective mental processes that are caused and enabled by specific experiences with different dimensions of price perception. After defining the satisfaction price it is necessary to clarify the relation between this and similar constructions latent variables, especially image price and attitude price. Price satisfaction is

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<sup>833</sup> Zielke, Stephan (2006): *Dimensionality and Impact of Retail Price Images*, Proceedings of the 35th EMAC Conference, European Marketing Academy (EMAC), Athens, Greece.

<sup>834</sup> Raju, Jagmohan S. and Zhang, Z. John. (2003) "Choosing the Wrong Pricing Strategy Can Be a Costly Mistake." Knowledge@Wharton.

<sup>835</sup> Matzler K., Renzl B. & Rothenberger S. (2006). *Measuring the Relative Importance of Service Dimensions in the Formation of Price Satisfaction and Service Satisfaction: A Case Study in the Hotel Industry*, Scandinavian Journal of Hospitality and Tourism, 6 (3), 179-196,

different from image price and attitude satisfaction price because the result is the peculiar shopping, buying or experiencing, which is not necessary to complain about an image or attitude.

However, different relationships exist between these structures. Satisfaction through a shopping trip may influence attitudes towards the store price image. But customers can derive the expected price, which is taken as a price comparison in the process of building the satisfaction.<sup>836</sup>

In the literature, price perception is often measured in one dimension as an antecedent of overall satisfaction. However, research on retail price image illustrates the price perception by each customer sizes. It is therefore possible to treat these dimensions of price perception as antecedents of a single dimension of price satisfaction and overall satisfaction<sup>837</sup>. Such multidimensional analysis is advantageous because it offers greater diagnostic potential for improvement if you have unsatisfied customers<sup>838</sup>.

In addition, customers often evaluate their satisfaction after shopping at an attributive level, a finding that also related to the price of satisfaction.

Consequently, the impact of different dimensions of perception of price satisfaction on price formation will be explored. International literature does not offer any tool for analyzing price retail satisfaction for a scale with more products. However, research on retail price image provides important suggestions on the dimensions of price perception are potentially relevant to price formation of satisfaction. Six dimensions of satisfaction can be derived from the image perceived in terms of consumer prices:

- Value for money is often defined as a result of price matching and quality evaluation. On a more abstract level, the result of a careful balancing trade between the utilities from product stores and stores duties. (“Reasonable prices”, ”offers good value for money”, “service or good for the price is economical”).

- The perception of price level (“low prices“). Of course, the perception of price level is somewhat correlated with value for money and some researchers even treat the perception of price as an indicator of value, “the general prices compared with competitors. However, in this study, value and price level are treated as different dimensions of price perception. A connoisseur can assess value for money in a wine shop as good, although he perceives as higher prices compared with those of supermarkets.

- Fairness price. How fair is a price or not? More precisely, price adjustment is perceived as fair? Most clients consider a price increase for snow shovels after a snowstorm, increasing the price of lamb meat and eggs in Easter or price increase during the holiday season as unfair , while price growth in wholesale trade to protect profit acceptable.

Consequently, customers can charge the same price, right or wrong, depending on the context.

- The price perceptibility is the ease with which prices are found in the store. It is strongly related to price labeling, which has a significant impact on customer satisfaction.

- The prices processability refers to the ease of processing the price, especially when comparing price with other products in the store. Shelf may have a strong influence on this dimension (eg, processability is supported if the marks are national private brands almost equivalent value for money).

- Special Offers relates to products offered at reduced prices temporarily. Special offers are important promoters of satisfaction. Customers wishing to receive information on these bids. Therefore, relevant advertising price is also a dimension of price perception.

Traditionally, the price is established depending on the cost of goods sold. Such a practice is no longer accepted in the current context of economy.

Thus, the retailers must take into consideration, in the formation of the price, other elements, such as the type of the commercialized goods, the store image, the consumer’s buying and consume behavior, the supplier’s price policy, the technical and functional quality and the legislation.

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<sup>836</sup> Oliver, Richard L. 1980. *A Cognitive Model of the Antecedents and Consequences of Satisfaction Decisions*. Journal of Marketing Research 17 (9): 460-469.

<sup>838</sup> Mittal, V., W. T. Ross, et al. (1998). *The Asymmetric Impact of Negative and Positive Attribute-Level Performance on Overall Satisfaction and Repurchase Intentions.*, Journal of Marketing 62(1), 33-47.

The commercialized goods, either alimentary or not, can be divided into four categories according to the effort consumers make in order to obtain them and according to the frequency in which they do it.<sup>839</sup>

There will be obtained categories, such as:

- a) Household goods;
- b) Tradable goods;
- c) Specialties
- d) Goods without interest on / Unwanted goods

Household goods are goods with a high buying frequency and for which the consumers make a minimum effort. Thanks to the frequency in which these products are found in the market and magazines, the consumer doesn't have to assign a very long period of time to purchase them.

The consumer is not involved too much in the search for price offers for this type of product, the price not being a very important element for them. Therefore, the price for these products is similar in all stores.

The negotiable goods are those goods for which the consumer has to compare price offers, taking into consideration the quality, the presentation of the product, the services attached to the product and also the assistance that is given through the acquisition. These products ask for a higher implication and effort from the consumer, being products that are purchased not so often and for which a higher price can be established.

The retailer must get involved into activities that can add value to these products, such as the packing or presentation mode, technical assistance etc to justify a higher price and to win the consumer.

The specialties are products for which the consumer is willing to make a higher effort in the search for it and also to pay a higher price. The price for these products isn't mainly important for the client, the retailer having more liberty in choosing the price, but has to choose wisely the products that he commercializes and to put effort in their sustain.

Unwanted goods are products whose existence is known or not, but consumers don't want to purchase. For these products, a sustained marketing effort is required, especially from the promotional part. The price established by the retailer must be attractive enough to push the product towards the consumer.

The image of the store influences directly the price asked by the retailers. The stores that want to transmit and maintain the image of a superior quality will practice higher prices that are meant to preserve the image and financially support it, the higher prices covering the costs for image investments.

The merchants who want to create an image of the small prices have to closely define their product categories and client flow to be able to maintain the profit margin.

The intensity of the competition is also another factor that influences the price strategy that retailers choose. When the competition is powerful, merchants only have a small liberty margin in the price establishment. Also, in the situation of a powerful competition, the retailer must perceive and understand quickly the changes made in the competitor's price strategies and react promptly.

The retailer establishes the price and depending on other objectives or strategies that he already has established. Thus, the price can support the company's image, can help at the entrance on new markets or reaching a target market share, the fast turnover of a category of products or the obtain of an established profit margin.

Legislation is a very important factor in the price establishment policy. The state can exert a powerful influence over the merchants through the ban of agreements over the price made by distributors, through the establishment of a minimum or maximum price for certain products, through the ban of loss sales, etc.

This year it is being tried to introduce a code of good practices in the retail agroalimentary industry. Through the implementation of this code, in the product price there will be no longer included the 15

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<sup>839</sup> Vrânceanu, Diana Maria 2005 *Strategii de preț în comerțul cu amănuntul*, Revista de comerț, 6, (8), 21-28

taxes imposed by the retailers, such as shelf tax. The Government hopes that in this way, the Romanian products will be more „present” in stores, and expects a decrease in prices between 20% and 30%.

### **Price strategies and price tactics**

There are many outside influences that affect profitability and even survival of the retailer. Pricing correctly is a crucial step to achieve and maximize profit and to ensure consumer loyalty and repurchase. Many pricing strategies are used and each is based on a special set of circumstances and criteria. These are some of the more popular pricing strategies.

Strategies used by retailers depending on the price evolution:

a) Fixed prices strategy for a long period of time that presumes the implementation on a long term of constant prices. This strategy bets on economies created through the simplification of product management and also the development of a tight connection with the consumers. But in the conditions of a powerful competition it is a strategy that is tough to support and imposes over the retailer the abnegation of some services offered at the sale’s place, downsizing and the tough negotiation of contracts with the suppliers.

b) Variable price strategy presumes the regular appeal to the sales promoting strategy through sales so that in short periods of time, the price is changed. The initially prices, before the discount are bigger than those established in the fixed prices strategy for a long period of time, but those obtained after the discount are smaller. Among the benefits of this strategy are: approach of different sectors of consumers, consumer’s attracted with a grown sensitivity to price, the intensification of the in-store consumer flow and the consumer’s loyalty strengthening.

Price strategies depending on the competition:

a) The low price strategy is practiced by stores who don’t have other advantages or competitive instruments apart from the other competitors, who don’t offer post-sale services, who have a small range of sentiments, the accent being put on products with a high turnover.

b) The same level prices with the competition strategy imply the practice of prices at a similar level with that of the competitors. The retailers who practice such a strategy are differenced from their competitors through the sentiments, in store and post-sale services.

c) The high price strategy is practiced by the merchants when either there isn’t a high competition or when they have powerful advantages over their competitors, such as a very good position, a high variety of sentiments, in store and post-sale services or a very good image. Such a strategy is adopted by merchants that aim the top of Maslow’s pyramid towards the consumers who aren’t so sensitive to price, but to quality, stile, prestige, self accomplishment.

Retailer’s strategies depending on the structure of the assortments:

a) The unitary price strategy. The retailer establishes a price for each product and next to it is being shown the price of a standard unit. This strategy can be used only for products that can be measured using standard measurement units.

b) The brand level strategy. This strategy implies the establishment of prices at the level of each brand, the profit margin being established depending on the power of the brand and the contribution that that can bring to the profit.

c) The product price-leveled strategy. This strategy implies the fact that the retailer has to establish a very low number of prices for the products from the same category and the classification of those below those prices. Thus, it can be established a price for a category that can cover the profit margin for all or two or three price levels depending on the quality and marginal cost of the products in that category.

### **Conclusions**

Globalization and free development of economies and industries of all kinds enable new ways for retailers to develop, but born as many problems. Social pressures and new competition and extremely sophisticated traders, are forcing merchants of any size to develop and to implement proactive pricing strategies.

As a mechanism, which generates strategies like the ones treated in this paper needs more than an organizational commitment and a purchase order, it needs a consultative approach to create a comprehensive pricing strategy made for the unique needs and objectives of each dealer. Constant measurement should be in place with a long-term pricing strategy that incorporates feedbacks from the consumers. Over time, as you learn the system and exploit the opportunities to build an system that creates value for the customers and, consequently, satisfaction, profits will explode.

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