Calculating Markup: A Merchandising Tool

Part 3: 3-3 Pricing Policies

There must be defined action plans or pricing policies for all pricing strategies and types. As defined previously, **pricing policies** are procedures and guidelines utilized by the retailer to price the store's merchandise. Some of those major procedures include: a) product line pricing, b) zone pricing, c) discount pricing, d) promotional pricing, and e) others such as psychological, geographical, and international pricing. These pricing policies are discussed below.

Most retailers use **product line pricing** or setting prices for specific product classifications across an entire product line. The *floor* or the lowest retail prices for a product classification is specified along with a *ceiling or* the highest retail prices for that same product classification. Between the floor and ceiling there are various *price points* from which the retailer may select specific prices for each of the items. All of the different price points constitute the *price range* for the product classifications. With the product line pricing policy, all retail prices are determined by differences between the wholesale cost of the products as well as the quality and design features of each of the items, and the consumer's perception of value of the items. For example, a retailer pricing a line of cotton sweaters may price a basic cotton turtleneck at the lowest price point (i.e., floor), a fashion basic sweater in a cotton blend at a mid-price point and a high quality 100 % cotton sweater in a trendy or high-fashion design at the highest price point (i.e., ceiling). Usually, to describe this type of pricing policy, a range of price points near the floor is designated as *good*, with the middle range price points designated as *better* and the highest range of price points designated as *best*. The *good*, *better*, *best* terminology explains the correlation between price, quality, and value.

Another pricing policy that is used frequently in apparel is zone pricing. **Zone pricing** is based on the fashion level, design type, construction quality and details, fibers and fabrications and size availability of the merchandise found within the structural zones of the women's apparel market. Thus the price range and price points for each zone are based on the above criteria. The zones include designer, bridge, contemporary, better, moderate, and popular price merchandise. For example, a sundress in the Contemporary zone that is designed by a highly respected designer for a national brand, made of 100% cotton, is screen printed in the latest trendy exclusive print with hand painted buttons, may sell for \$300.00. A *knock-off* of the same sundress in a cotton/polyester blend without the exclusive print and hand painted buttons is sold as private label merchandise in the Better Department. The dress retails at \$150.00.

Discount pricing is the most often used pricing policy in the discount and mass merchant channel of distribution. In fact, when the consumer thinks of that particular channel, he automatically thinks of *odd-price endings* such as \$10.99 or \$12.88. These odd-price endings psychologically denote lower prices, bargain merchandise, or discounted prices to the consumer. In this category of pricing, the *one-price-only pricing* (i.e., all merchandise in the store is the same price regardless of product classification) is most prevalent in dollar stores, while warehouse clubs such as Sam's Club and Costco often times offer product in *multiple unit or bundle prices*. Or, a specific product classification must be purchased in quantity or a product bundle of six, twelve, or eighteen pieces of the same item. Lastly, *quick markdown pricing* or marking down product at specified intervals of time to create high volume and repeat customers is also a discount pricing policy found in discount and mass merchant stores.

Promotional pricing is used in most channels of distribution. This policy utilizes several different models. Promotional pricing may consist of establishing the initial price or original price of the product, which sometimes is a premium price, and then temporarily reducing or discounting that price for a short period of time for a special sale. This *discount* pricing procedure is used to build store traffic, reduce inventory, or increase sales volume.

Another promotional pricing policy which is very popular in today's price sensitive market environment is *special event pricing*. Throughout the selling season, retailers have the opportunity to buy special cuts and purchases as well as closeouts and off-price merchandise. This merchandise is purchased by the retailer either at below wholesale cost or at a special cost and is then priced with the markup on the original wholesale cost. The merchandise is sold at the higher price for a specified period of time and then reduced for the special event or sales promotion. Many times these special events are seasonal sales to build customer traffic. Also *limited time offers* and online *flash sales* provide the consumer opportunities to purchase regular merchandise at a discounted retail price.

Other pricing action plans include psychological, geographical, and international pricing. **Psychological pricing** takes into consideration the psychology of pricing or the consumer's perception of product price and value. If consumers see a new product with which they are not familiar and the product is offered at a high price point, then most consumers assume that it is more than likely a higher quality product and they will pay a higher price for the item. **Geographical pricing** must take into account the location, the region, country or part of the world in which the consumer resides and the shipping costs incurred in order to get the product to that consumer. The retail price of the product is based on the company's policy of charging additional prices to cover or not to cover the extra shipping costs. **International pricing** addresses the differences in retail price of the same product in different countries.

Even though management establishes sound pricing strategies, using various types and policies for pricing merchandise categories, external and internal factors constantly impact pricing procedures, action plans, techniques and models. In any retail store, retail prices must be constantly adjusted to meet consumer demand and market conditions. These price changes and adjustments will be discussed in **Section 1**, *Part 4: Effective Markdown Techniques: Planning Markdowns*.