

Pricing Against Aggressive Competitors

Retailers often face the challenge of deciding between 'everyday low pricing' and 'high-low' pricing. As suggested by the names, the first approach uses a consistent low pricing approach, where the second approach utilizes higher prices combined with frequent specials/discounts.

Your task is to help determine what would be the best pricing approach.

Excerpts from the Pricing Meeting

- Greg: At this meeting we need to make a decision on the way forward with our pricing. Ever since the major supermarket chains started providing their customers with discount coupons for gas/fuel purchases (after spending \$30 or more at their supermarkets), to use at our competitors, our sales have fallen by about 20%. We need to do something about this!
- Gianna: Well, why don't we just match them?
- Gary: Because there are only a few major supermarket chains and they have already formed alliances with our competitor chains. So there aren't really any significant alliance opportunities left for us.
- Gianna: OK, how about this approach, but why don't we just honor their offers. That is, give anyone who has one of these competitive coupons a discount as well. We'll make less money, but we'll defend against these aggressive competitors.
- Gail: And we could improve our margins by adding a small amount to our prices across the board before the discount. These consumers just want the 'perception' that they are getting a good deal. So we add a little bit first and then give the coupon customer's a discount.
- George: But either way we're just reducing our margin. I think that we should forget about the coupons and the paperwork and simply give a gas discount if the customer spends \$5 or more in our store. At least that way we get some extra sales out of it.
- Gloria: Actually, I would like to see us adopt a different pricing approach. I think that the market is getting cluttered with all these deals and special offers. So let's just simplify things. Let's be the chain that offers gas at a constant discount. This deal is for everyone, every time, with no receipts and no catches. I really think that the simplicity and ongoing value will appeal to a lot of consumers.
- Greg: OK team, we've got a variety of good ideas before us - so let's now decide what we should do.

Student Discussion Questions

1. Outline the benefits and risks of each of the pricing options discussed.
2. What would be your pricing recommendation? Why?
3. What general advice would you have for any firm/brand that is facing significant price competition?