2. Pricing Management
Objectives

- Understand the Importance of Pricing
- Analyze Pricing Strategies and Factors Influencing Price-setting in China
- Discuss How to Develop Strategic Advantages through Pricing in China for MNREs.
Fundamentals in Pricing Management

Why pricing is important?

- It determines customers’ perceived value
  
  \[
  \text{Value} = \frac{\text{Perceived benefits}}{\text{Price}}
  \]

- It determines sales.
- It influences market share.
- It determines retailers’ profit.
- It determines store image.
- It differentiates a retailer from its competitors.
Fundamentals in Pricing Management (Cont.)

- Price Sensitivity
- Competition
- Cost
- Legal Constraint

Retail Price
Fundamentals in Pricing Management (Cont.)

EDLP
- Guaranteed low prices to customers
- Lower advertising costs
- Better supply chain management
  - Fewer stockouts
  - Higher inventory turns

Hi-Lo
- Higher profits – price discrimination
- More excitement
- Build short-term sales and generates traffic
Fundamentals in Pricing Management (Cont.)

- Approaches for Setting Prices
  - Cost-oriented
  - Demand-oriented
  - Competition-oriented
Carrefour: high-low price

Carrefour applies a composition of different pricing strategies and made profit from different compositions.

- Sensitive product (high price elasticity): very low price
- Non-sensitive product: constitutional price
- Carrefour brand: elastic price
- Foreign product: very high price
Pricing in China (Cont.)

- Wumart: Everyday Low Price
  - Promise its customers a price lower than its competitors.
  - Wumart stores monitored its competitors’ prices every day.
Pricing in China (Cont.)

- Different pricing practices in China
  - Prefer lucky number 8
  - e.g., 888.888, 18.88
Price management of Carrefour in China (Deng, 2006)

- Background
  - The second largest Retailer in the world
  - Ranking 22 in Fortune 500 (2005)
  - 1995 entered China
  - 79 stores in China (by 2006/8)
Pricing in Carrefour

- Pricing department: collect product-related data in the market, study the merchandise to be sold in Carrefour, perform competition analyses, and determine appropriate prices for each product.

- Headquarter pricing department is responsible for the negotiations with national and foreign brand.

- Regional pricing departments (four regions in China) are responsible for the negotiations with regional brands and prepare posters and flyers.

- Prices were entered into the company’s electronic retail price system and were applicable to all Carrefour outlets in the same market.

- In order to enhance quick responses to the market, store managers were given the power to make real-time price adjustments—something other retailers did not do.

- Decentralized management: store managers have power in price adjustment, merchandise management, promotion negotiation, and human resources etc.
Old Price Management System

- Suppliers
  - Enter Negotiation
  - Promotion Negotiation
  - National and Regional Pricing Department
  - Store operation Department

- National and Regional Pricing Department
  - Promotion Price
  - Initial Price
  - Store Pricing Department

- Set up Initial Price
  - Supervising
  - Market Research
  - Competitors

- National and Regional Pricing Department
  - Initial Price
  - Marketing Research
# Old Market Research Policies

<table>
<thead>
<tr>
<th>Categorizing Criteria</th>
<th>High sensitive SKU</th>
<th>Sensitive SKU</th>
<th>Non- Sensitive SJU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biggest sales in term of volume or money</td>
<td></td>
<td>Good Sales in term of volume and money</td>
<td>Others</td>
</tr>
<tr>
<td>Daily necessaries</td>
<td></td>
<td>Seasonal product</td>
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<tr>
<td>Consumers know the price.</td>
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<td>Frequently purchased products</td>
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<tr>
<td>At least 80% competitors carry the product.</td>
<td></td>
<td>Highly promoted by suppliers</td>
<td></td>
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</tbody>
</table>

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<thead>
<tr>
<th>Department</th>
<th>Frequency of market research</th>
<th>Frequency for updating the pricing list</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery department</td>
<td>Twice/week</td>
<td>Update once/ three months for grocery and household merchandise</td>
</tr>
<tr>
<td>Fresh food department</td>
<td>N/A</td>
<td>Update once/ one month for home appliance</td>
</tr>
<tr>
<td>Home appliance department</td>
<td>N/A</td>
<td>Update once/</td>
</tr>
<tr>
<td>Household merchandise department</td>
<td>N/A</td>
<td>Once/6 month for home appliance and household merchandise</td>
</tr>
<tr>
<td>Textile department</td>
<td>N/A</td>
<td>Once/3 month for grocery</td>
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## Old Pricing Policies

<table>
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<tr>
<th>Pricing Policies</th>
<th>Reference Price</th>
<th>Restrictions</th>
<th>Competitor Promotion</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Sensitive</td>
<td>Competitor’s price * .95</td>
<td>The cheapest price of the competitors</td>
<td>Non sensitive products should not have a negative profit; Do not lower the price if the competitor out of stock for its lower price products; Price increasing should not be more than 10%</td>
</tr>
<tr>
<td>Sensitive</td>
<td>Competitor’s price * .98</td>
<td>The cheapest price of the competitors</td>
<td></td>
</tr>
<tr>
<td>Non-Sensitive</td>
<td>Competitor’s price * 1.00</td>
<td>One competitor</td>
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</tbody>
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Question

- What are the advantages and disadvantages of Carrefour’s pricing management system and pricing strategies?
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<tr>
<td>Bejing</td>
<td>Huapu</td>
<td>Meilian</td>
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<td>Ouchan</td>
<td>Locus</td>
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Problems of the Old Pricing System

- Price changes were too frequent, which caused a lot of human and operating cost.

- Because prices were changed for hundreds and thousands of products each day, employees often forgot to change the price labels, causing that the label prices were different from checking-out prices.

- Customers were unsatisfied with the frequent price changes. Its perceived honesty on prices was decreasing.

- The update period of product list for market research was too long, leading to unclear target and low quality of market research.

- Product prices on flyers and posters were often inconsistent with real prices.
Problems of the Old Pricing System

- There were too many SKUs and too much market research, which were not necessary.

- The market research, price adjustment, and feedback based on stores were not efficient.

- Different stores in one city investigated the same competitors.

- Price adjustment by stores was influenced by store situation and the price policies might not be well implemented.

- The price image of Carrefour was damaged and its profit decreased.
New Pricing Management System

- Building up city-level commission unit
  - Negotiate new brand entry and promotions for stores in the city.
  - Design and produce posters and flyers
  - Responsible for the profit of the stores in the city

- Advantages
  - Flyer and poster promotion has better targets and is more powerful
  - Greater negotiation power with local suppliers
  - Better control over merchandising and prevention of corruption
  - Better cooperate with local brands to optimize merchandising assortment
  - Better customized according to local needs
  - Better high sensitive product list and better managed prices
  - Better profit control
New Pricing Management System

- Building up city-level pricing department
  - Conducting market research and adjusting prices according to price policies and competitors’ prices
  - Inform the negotiation department about the SKUs with negative profits
  - Manage stores’ promotion prices
  - Learn about competitors’ pricing policies and recent strategies, and manage stores’ price image in the city
  - Checking tags, labels, posters, and ads in order to provide an image of price honesty.
## New Pricing Policies

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<td>Market Research Frequency</td>
<td>Twice/week (Every day for fresh food)</td>
<td>Once/Two weeks</td>
<td>Once/Two months</td>
</tr>
<tr>
<td>Lowest price from competitors</td>
<td>Competitor’s price * 100%</td>
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<td></td>
</tr>
<tr>
<td>Following competitors’ price</td>
<td>Flyer or poster promotion (or newspaper)</td>
<td>Follow price</td>
<td>Follow price</td>
</tr>
<tr>
<td>In store promotion</td>
<td>Follow price</td>
<td>Do not follow</td>
<td>Do not follow</td>
</tr>
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