

Pricing Predicament

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Acme Supermarket, like most, if not all, supermarkets, sets a price for each unit of a product offered for sale (e.g., \$.79 per can of tomato soup). However, to encourage higher volume sales per shopping journey, on selected items, the store offers an overall reduced price if the customer buys multiple units of the same product at the same time (e.g., canned tomato soup at 3 for \$1.99).

In situations like the one described, while every thing works out fine if the customers buy only one unit when only the individual item pricing approach is used or if the customers buy three units when the “3 for” multiple-unit pricing approach is used. However, when customers deviate from these volume purchase levels, store management is not sure what price should be charged. This decision task is now in your hands.

In all cases, the store does not individually mark the price on any products; shelf labels identify the prices of the products. Computerized scanning is used at the checkout register to tally the value of the purchases.

Questions:

1. Identify the marketing theories and concepts that apply to this type of pricing situation. Explain.
2. Of what benefit is it to the store to offer goods at a lower price if the customer buys multiple units at the same time (include in your discussion the relevance of fixed costs and variable costs)? What are the disadvantages of this approach to the store? Of what benefit is such an offer to customers? What are the disadvantages to the customers?
3. If the store puts up two price labels for the product (e.g., tomato soup) - “\$.79 per can” and “3 for \$1.99” - how much should the store charge per can if the customer buys 2 cans? buys 4 cans? buys 5 cans? buys 6 cans? Why?
4. If the store puts up two price labels for the same product - “\$.79 per can” and “3 for \$1.99 if bought in multiples of 3” - how much should the store charge per can if the customer buys 2 cans? buys 4 cans? buys 5 cans? buys 6 cans? Why?
5. If a customer complains about any of the pricing policies followed by the store, how should store management respond? Explain. How might a customer respond?