

Impact of Pricing Strategies

&

Product Quality

On

The overall Performance

Of

TESCO

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Abstract

The Research has been conducted on the pricing strategies and product quality of TESCO. The research illustrates that there is a positive relation between pricing and perceived product quality and also on the buying decision of the consumers. There also exists some positive relation between pricing and quality. However, this does not necessarily mean that lower prices indicate inferior quality. Pricing Strategies are particularly important for ensuring the success of the products. There are various pricing strategies that have been discussed in this research paper. The research has been conducted on TESCO, which forms a major retailer in the United Kingdom Market. The company has been a champion of cost leadership model and has sustained growth and profitability over the years by adopting such pricing strategies.

The Literature Review presented in this paper illustrates the various pricing policies and also the impact on the product. It has also been illustrated that pricing strategies are much dependant on the demand of the market. The managerial implications of pricing strategies and product quality have been illustrated in this paper. The paper discusses the relevance of dynamic pricing strategies in the current competitive markets. The study presented in this research illustrates the success of products based on pricing strategies.

The research has been conducted as an inductive research and has been a primary research. The data collected has been both quantitative and qualitative. The quantitative data details the consumer perception whereas the qualitative data indicates the managerial strategies of the organisation. By the end of the research, the researcher has been able to illustrate how TESCO has been capable of sustaining its growth and profitability due to the dynamic pricing strategies that the organisation has adopted over the years.

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Chapter 1: Introduction

1.0 Introduction

Pricing plays a very important role in an organization's growth and success. Pricing being a very important aspect of the marketing mix helps an organization to grow, build its brand image and at the same time generate profitability with time. Organizations implement different pricing strategies keeping in view the nature and demand of their products, the market in which they are introduced, competition in the market, the target segment, distribution charges etc. The introduction chapter in this research paper would help in understanding the topic in brief. The importance of pricing strategies, the different pricing strategies, and the relationship between pricing and quality of product would be further discussed in the literature review chapter. Fifield (2007) suggests that pricing strategies are very important for organizations as they not only help in generating profitability for a business but also helps in building a brand image. He believes an exceptional high pricing or a low pricing may be harmful for an organization thus believes that pricing strategies should be implemented after good research of the market, the target segment and the need and demand of the product in the market. However different pricing strategies like penetrative pricing, skimming, geographical pricing, psychological pricing suggests that different prices either high or low are implemented on products in a range of given circumstances. Organizations desiring to enter a new market implement low pricing strategy and sell their goods and services at a very low price. On the other hand companies with dominant market presence often implement low pricing strategies to offer their products at a very low price to eliminate competitors in the market. Likewise companies implement premium pricing strategies to set a perceived standard of their products and services. Thus it can be said that different pricing strategies are adopted by companies from time to time to improve their profit margins and stay in the competition.

More over due to the availability of wide range of products and services in the market there is tough competition and rivalry among companies selling similar goods and services. Thus in such a scenario pricing strategies play a very important role in eliminating competition and being successful in the market place. Several pricing strategies like preventive pricing strategy and penetrative pricing strategy helps a company to face tough competition in the market. Pricing

also plays a very important role in influencing consumer behaviour in a number of ways. Although experts believe that there is little co relation between pricing and quality of products but behavioural experts believe that consumers tend to perceive highly priced products and services to be of a high quality and thus reliable. This is the basis of prestige pricing where luxurious products are highly priced to provide a perceived high standard of products and services. This is called prestige pricing as the purchase of such products and services are a prestige symbol for the buyer and if the prices are lowered then it would have negative impact on buyers who would perceive that along with the prices the quality of products have also degraded.

Thus it can be said that pricing strategies also play a vital role in customer decision making. The market place is full of different types of customers with different types of preferences and thus it is important for companies to identify their target segment and identify their spending capacity along with the competition in the market, to implement effective pricing strategies for products and services.

This particular paper would help in discussing the importance of pricing strategies and the relationship between pricing strategies and quality of products in the retail marketing sector. Pricing strategies play a very important role in the retail marketing sector as with time a number of retail giants have come up in the United Kingdom and other parts of the world thus giving each other a tough competition in the global market place. These retail giants have not only been competing in the real market but they have also been competing in the digital online market. All the big retail giants have their websites for online marketing and thus it has become increasingly important for the retail sector to have proper pricing strategies to gain competitive advantage in the global market place. The new mode of shopping that is the introduction of online shopping has brought in a paradigm shift in consumer behaviour and has provided consumers enough scope for comparing prices and quality of products on real time basis. Thus an effective pricing strategy and the constant monitoring of those strategies have become increasingly important for organizations and mainly those in the retail business to be in competition and eliminate potential competitors from the market. Thus, this research paper would study the impact of pricing strategies and the relation between pricing and product quality in the retail sector in general and would take the example of Tesco to evaluate the importance of pricing. The researcher in the

course of the research would also try to establish whether pricing strategies affect the quality of products and services.

1.1 Aims of the Research

The research would aim to identify the importance of product pricing and their impact on the perceived quality of products and services. Implementation of effective pricing strategies are the responsibility of the management of companies thus skilled and experienced managers should be able to identify the need for implementing changes in pricing policies from time to time to have a competitive advantage. Thus, the research paper would aim at evaluating the importance of pricing strategies adopted by retail giants in general and Tesco in Particular from time to time to gain competitive advantage and eliminate competition.

1.2 Objectives of the Research

The objectives of the research are as follows-

- To identify the importance of pricing strategies
- To identify how different pricing strategies are used to eliminate competition in the market
- To evaluate the relationship between pricing and quality of products
- To identify the importance of pricing and product qualities in the retail sector
- To identify the impacts of pricing and product quality in the overall performance of Tesco

1.3 Purpose of the Study

The main purpose of this research is to evaluate the importance of pricing strategies and the relationship between pricing and quality of products and services. Although no such relationship has been found between quality of products and pricing but according to behavioural experts' consumers tend to believe that when a product is highly priced it is better than a low priced product. Hence through the research the researcher would try to establish the importance of pricing strategies and would discuss why companies adopt different types of pricing at different

times and thus it would help in evaluating that the pre conceived notion of many consumers, that highly priced products are always better than low priced products is always not right.

1.4 Contribution to knowledge

The research paper would help in identifying the importance of pricing strategies and the different pricing strategies used by companies at different times either to enter a new market or to eliminate competition or sell up their old stocks. Thus the research topic would help in contributing to the knowledge of why pricing strategies are so important for any company. The fact that pricing strategies help in gaining a competitive advantage in the market and helps in the growth and success of an organization would also be discussed in the research paper. There are several researches on the importance of pricing strategies and this research would also add to that knowledge base to help readers understand the importance of pricing strategies in the retail sector and the relationship between price and quality of products.

1.5 Justification of the chosen topic

The research paper would aim at evaluating the role of pricing in the growth and success of companies especially in the retail sector. The main justification of the topic selected for the research lies in the fact that pricing strategies are very important for the success of any organization and a lack of effective pricing strategy may result in loss for a company. Pricing strategies being so much important should be the main concern for each and every organization and companies should adopt pricing strategies in a way so that they are able to face competition and gain customer satisfaction. The research paper would discuss the case of Tesco and would discuss in details the pricing strategies adopted by the company which has helped the company to face tough competition from other retail giants in the United Kingdom.

1.6 Hypothesis

The following have been the null hypothesis and alternative hypothesis for this study:

H0: There is no positive relation between Pricing Strategies, product Quality and Consumer Buying Decision

H1: There is a positive relation between pricing strategies, product quality and consumer buying decision.

1.7 Research Questions

The central question in this research paper has been split into several sub questions to make it convenient for the readers to understand what the researcher actually wants to evaluate through his research. The central question of this research is “Is there any relationship between pricing and quality of products”? For answering this question it would be important for the researcher to answer several sub questions like

- 1) What is the importance of pricing policies?
- 2) How is pricing seen as an important factor for deciding the quality of a product?
- 3) How effective is pricing policy and product quality in the attainment of customer satisfaction?
- 4) How has pricing strategies in Tesco helped it to improve its overall performance and brand image?

1.8 Structure of the Research

The research would be conducted in five different chapters which are described below-

Chapter one- chapter one of the research paper is the introduction chapter which introduces the readers to the topic in brief and also introduces them to the aims and objectives of the research. The introduction chapter is important as in this chapter the researcher describes about the purpose of the study and how the research paper would contribute to the knowledge on pricing and quality of products.

Chapter two- Chapter two of the research paper deals with the literature review of the existing articles and the research papers on pricing policies. The literature review chapter is helpful for the readers to form a proper understanding of the topic of research. The literature review chapter provides for the secondary data for the research which helps the researcher to prepare the questionnaire for collecting primary data.

Chapter three- this is the chapter that deals with the methodology or the methods and tools used for conducting the research. The methodology chapter introduces the readers to the research

design, the sampling technique, the sample size, the data collection and analysis method etc. Hence the methodology chapter is an important section of a research.

Chapter four- the chapter four of the research paper deals with the data analysis. Both qualitative and quantitative data would be collected by the researcher for this particular research. The data analysis chapter would represent the analysis of the collected data with the help of different statistical tools.

Chapter five- this is the final chapter of the research where the researcher would map the findings of the research with the aims and objectives of the research and would also throw light on the gaps of the research which could be dealt with in future.

1.10 Ethical consideration

The researcher would conduct the research on pricing policies and their relation with quality of goods and services while maintaining research ethics. Respondents would not be forced for any answer and the researcher would also obtain necessary permission from management of Tesco to conduct the research in Tesco. The collected data would not be used for any other purpose other than this academic research.

1.11 Summary

This chapter introduced the theme of the research to the readers. The chapter illustrated the scope of the research along with the aim and objectives of this research. The chapter introduces all concepts and the research areas which will be dealt with in the following chapters. The chapter has also justified the need of the research and has provided the structure of this research. The chapter prepares the readers for the chapters to follow.

Chapter 2: Literature Review

2.0 Elements of the Marketing Concept

The marketing mix or the 4 P's and the 5 C's of marketing helps in elaborating and illustrating the different concepts of marketing. The marketing mix or the 4ps and the 5cs play an important role in making strategies for market penetration, targeting potential customers and achieving customer satisfaction (Vulcano, *et al*, 2002). Companies come up with various marketing strategies that help them to penetrate their targeted segments (Dobbson, 2007). The 4ps of the marketing concept defines the product, price, promotion and placement. The four P's helps an organization to make strategic decision for their products regarding the life cycle of the product, the pricing strategy of the product, the placement and promotional strategies for ensuring the success of the product (Bitran and Caldentey, 2003). Product in the marketing mix helps companies to come up with new and improved features to add value to their products and to prevent the products from entering the decline stage (Bitran and Caldentey, 2003). The pricing strategies help companies to keep the price of their products and services competitive yet profitable. Efficient placement and promotional strategies used as a part of the marketing mix helps in ensuring that the products and services of a company are promoted in a proper way so that they reach their targeted segments (Brothwick, 2009).

The 5 C's of marketing however deals with customers, company, context, collaborators and competitors. The first C that is "customer" helps in identifying the target segment of a company, which helps the company to undertake effective promotional strategies (Feng and Xiao, 2011). The second C that is the "Company" is also another important factor as the policies and principles of a company play an important role in making marketing strategies (Fifield, 2007). The market environment or the macro environmental factors play an important part in the implementation of marketing strategies and thus needs to be considered. Another important factor that has to be kept in mind while implementing marketing strategies is the role of collaborators and suppliers in a business (Brumelle and McGill, 1993) Competitors are however the most important factors in a business environment and thus needs to be identified carefully before implementing marketing strategies (Feng and Xiao, 2004). Tools like SWOT analysis, PEST analysis and porter's five forces are fundamental in identifying and assessing the five C's

of a business and implementing strategies for development, pricing, promotion and placement of products (Farhor, 2009).

2.1 Micro and Macro Environmental Factors

Implementation of marketing strategies in any business is highly dependent on the micro and macro environmental factors. Micro and macro environmental factors play a very important role in influencing the business strategies in an organization and thus they need to be considered while making important business strategies. Micro environmental factors are internal to the organization and thus although they influence the business decisions at the same time can be addressed by the strategies but the macro environmental factors being external factors cannot be altered by the implementation of strategies (Cooper, 2002). Macro environmental factors or external factors have much impact on a business and its decisions but are beyond the reach of the organization to modify them (Graham, 2008).

The micro environmental factors that influence business decisions are-

- 1) The internal environment of an organization which includes the management and hierarchical structure of an organization.
- 2) Stakeholders of an organization
- 3) Competitors
- 4) Customers
- 5) Suppliers

These are the internal factors in an organization that influence business decisions in an organization. The management tool of SWOT analysis is used to identify the micro environmental factors affecting a business and its decisions and thus helps in making strategies to modify these factors. The SWOT analysis helps an organization to identify its strengths, weaknesses, opportunities and threats and make strategies to overcome its weaknesses and use its strengths for the profitability of the organization. On the other hand, the Porter's five forces model is fundamental in identifying the competitors, customers, suppliers and other threats faced by an organization to ensure implementation of better strategies to overcome the different

internal hurdles in a business. The model also helps in having a general overview of the market in which an organization operates or is planning to operate in future (Kohtler, 2009).

However the external factors or the macro environmental factors affecting the decisions of a business are analysed with the help of PEST analysis (Reiman, 2010). PEST stands for external factors like Political, economic, social and technological factors affecting the business environment in a country. Although these external factors have major impacts on business decisions of an organization but are beyond the reach of the organization to modify these factors for the benefit of the business Kotler and Keller, 2009).

2.2 Factors influencing Targeting Strategies

The targeting strategies of an organization are influenced by a number of factors. The factors are-

1) Stages in the life of a product- the life cycle of a product shows how a product is introduced in the market and how it acquires its market share and reaches the maturity stage (Dr Milićević, 2004). However in the introductory stage there are hardly any competitors but the existence of similar products in the market may require segmentation and differentiation strategies to differentiate the product from others in the market and appeal to its targeted segment (Dobbson, 2007). Hence, it can be said that the differentiation and segmentation strategies are important in the maturity stage of a product when it has to compete with other similar products in the market (Kotler, 1972).

2) Buyer differentiation- the targeting strategies of a company are also greatly influenced by buyer differentiation. When buyers at their end want differentiation of products and service it becomes important for companies to implement differentiation strategies to capture their target segment (Lane, 2008).

3) Market Position- the targeting strategies of an organization also depends upon the market share of an organization (Maglaras, 2009). The more the market share the more powerful are the targeting strategies of the companies (Dr Milisavljević *et al*, 2003).

4) Level of competition in the market- Targeting and segmentation strategies are also influenced by the market competition (Gallego and Ryzin, 1994). The nature of the market and the competition level in the market are taken into consideration before arriving at segmentation and

targeting strategy by a company (Lin, *et al*, 2003). For example when there is high level of competition in the market rival companies tend to implement exclusive segmentation and target strategies to capture the market (Mercer, 1998).

5) Resources of the organization- the targeting and segmentation strategies of an organization also depends on the resources available to the organization for the implementation of those segmentation and target strategies for the benefit of the organization (Elmaghraby and Keskinocak, 2003).

6) Production- the production of a company also needs to be considered for making target and segmentation strategies. When a company produces in huge volume it needs to implement a target and segmentation strategy so as to capture a huge market to generate adequate sales and profit (Paley, 2006).

2.3 Buyer Behaviour and Marketing Activities

Assessment of the buyer behaviour or the consumer behaviour helps organizations to make and implement their marketing strategies effectively (Vulcano, *et al*, 2012). In the business environment there are two different buying situations that needs to be identified by the organizations before making and implementing target and segmentation strategies (Feng and Xiao, 2000). First is the B2B buying situation, which involves a business relationship and buying, and selling relationship between two business houses and the second one is the B2C buying situation. In the B2C buying situation customers and not any business house are the buyers of the end products of a company. Hence companies have to improve their marketing strategies according to their consumer behaviour (Gallego and Ryzin, 1994).

More over in B2C business the buyer's decisions are much more sentimental as compared to B2B marketing (Goldstein, 1988). In B2C marketing it has been noticed that consumer behaviour is much influenced by brand loyalty and perceived value of a brand and thus in B2C marketing organizations should focus on building up their brand loyalty to influence the buying decision of the consumers of their end products (Ansoff, 1990). Since in the B2C marketing the buyers are people and not any other organization social, cultural, psychological and personal factors have major impacts on their buying decisions (Graham, 2008). Hence, in B2C marketing

organizations should focus on these factors to improve their strategies so as to influence buying decision of their customers and improve their sales (Gallego and Ryzin, 1997).

But in B2B marketing there is no scope for sentiments and thus buying decisions are more rational. In the B2B marketing buying decisions are much complex and based on the relationship between the buyer and the seller (Parkin, 2007). In the B2B marketing pricing strategies and product, differentiation plays a very important role in influencing buying decision of customers (Fifield, 2007). Although B2B marketing does not involve sentimental decisions but sentiments and brand value does play a positive role here and are important for influencing the buyer's decision. Thus although relationship building is an important part of B2B marketing strategy but pricing strategies and product differentiation are the most important factors that needs to be focused on in B2B marketing (Hanna and Dodge 1997).

2.4 Extended Marketing Mix

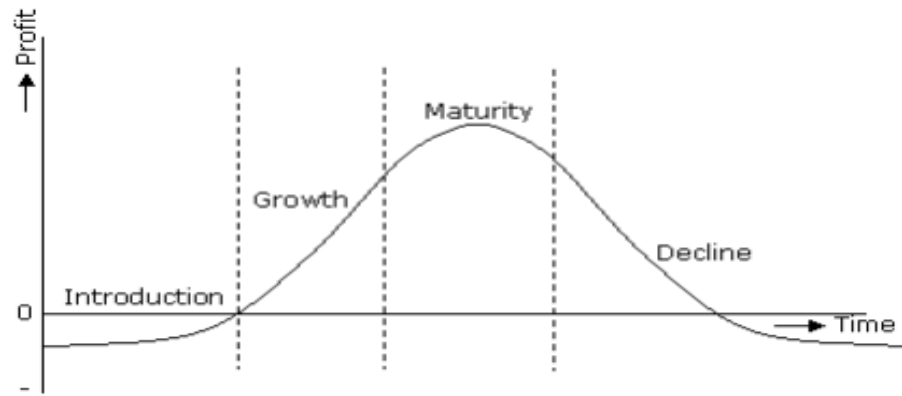
The original marketing mix consisted of the four P's, which are the Product, price, promotion, and placement (Goldstein, 1988). These four P's are however important in making and implementing marketing strategies for a company but with the growing focus on customer satisfaction and quality of services the extended marketing mix came to be adopted by organizations which mainly focus on the four P's of marketing along with people, processes and physical evidence. People or employees being the assets of an organization are important for ensuring customer satisfaction and high quality services in an organization (Horn and Johnson, 1994). The policies or the processes of an organization are also important in ensuring customer satisfaction and quality services and thus form an important part of the extended marketing mix (Dr Milićević, 2004). Last but not the least physical evidence or the way of interacting with the customer also forms an important part of the extended marketing mix. Effective design of stores along with well groomed and well dressed employees serving customers with a smile helps in ensuring customer satisfaction and a good customer experience (Kleywegt, 2001).

2.4.1 Product Development

Product or service being the most important element of an organization has to be improved from time to time (Gallego and Ryzin, 1997). Each organization should focus on product development and adding innovation to their products and services to have a competitive edge over other

organizations selling similar products and services. Thus, product or services of an organization form the very first component of the marketing mix. Products go through different stages, which can be described as product life cycle and has been described below with the help of a diagram.

Figure 1: Product Development Life Cycle



Source 1: Kotler and Keller, (2009), p-256

The product life cycle demonstrates that every product goes through the stages of introduction, growth, maturity and reaches a decline stage (Hutt, et al, 1995). The decline stage thus is inevitable for every product if not developed at the time of maturity (Lautenbacher and Stidham, 1999). Thus, product development forms the most important part of the marketing strategy of any organization during which research and development allows organizations to add innovative features to their products and services to avoid their products from reaching the decline stage (Kleywegt, 2001). Customer surveys and ongoing research and development processes help organizations to understand the needs and demands of customers and thus develop their products and services according to the needs and expectations of the customers. Thus successful research and development and customer surveys play a very important role in products and services development of an organization (Fifield, 2007). Thus product development and innovation ensures the introduction of new products in the market and bringing in continuous competition in the market (Maglaras, 2006)

2.4.2 Product Distribution

Distribution channels and proper placement of products and services ensure that products and services reach their target segment (Ghoshal, 1996). Product distribution being another important element of marketing mix ensures that organizations choose proper distribution channels and

place their products and services in such a way that it becomes easy for customers to locate them (Hanna and Dodge 1997). Experts believe that only effective promotion and pricing policies are not enough for selling products. Proper placement and distribution of products through proper distribution channels is equally important for effective sales. A proper distribution and placement of product is also necessary because when products are not available to the customers easily they would not be considered by the mass market (Gallego and Ryzin, 1997). On the other hand niche marketing strategies are completely opposite as products and services are not for the mass market and thus are not available through common means of distribution (Graham, 2008). In Niche marketing strategies, products and services, which target a particular segment, are only distributed through selected channels and company outlets (Boeker, 1997).

Mass marketing takes into consideration intensive distribution strategies to ensure that products and services reach maximum number of customers. When companies produce in bulk they need to choose effective distribution channels so that products are easily available to the customers easily. Distribution strategies can further be divided into the following categories (Blumenthal and Haspeslagh, 1994).

Intensive distribution- this strategy ensures intensive distribution of products and services so that they reach the customers easily. This strategy includes distribution through as many whole sellers and distributors as possible to ensure maximum reach (Ilić, 1997).

Selective distribution- this strategy of distribution is used by organizations when distribution is done through selective distributors and channels. In such cases, distribution is not in a massive scale. Such distribution strategies are taken into consideration when there is brand loyalty and brand preference (Kohtler, 2009).

Exclusive distribution- exclusive distribution refers to the distribution of goods and services in a specific geographic area through a single distributor or a whole seller (Klein and Sorra, 1996).

2.4.3 Pricing Strategies

Pricing strategies are very important for any organization as a competitive pricing strategy helps in gaining competitive advantage in the market (Krüger, 1996). Effective pricing strategies also ensure the success of a product in the market along with the growth of the company (Burdett,

1999). There are several pricing strategies adopted by different companies, which incorporate the objectives of the company along with the company's economic conditions. The figure below would help in understanding the different pricing strategies adopted by companies from time to time for their growth and success (Parkin, 2007).

Figure 2: Pricing Strategies

		Quality	
		Low	High
Price	Low	Economy	Penetration
	High	Skimming	Premium

Source 2: Paley, (2006), p-356

The poor economic condition of a market is represented when there are low quality products in the market with low prices. However, companies give away high quality products at lower prices at the time of penetration in a new market. This strategy helps companies to become a cost leader and thus capture a larger share of the market which is new for them (Pass and Lowers, 2000). The strategy of skimming is used by organizations when low quality goods are sold in the market at higher prices. This is often done when organizations want to achieve their break-even point faster and when companies need to recover their research and development cost (Minzberg, 1990). Price skimming is used by companies that have a competitive advantage in the market but such pricing strategies are not sustainable as higher prices often attract new competitors in the market (Gallego and Ryzin, 1997). Premium pricing strategies are adopted by companies mainly when they adopt niche marketing strategies. Premium pricing are effective when organizations want to set a perceived standard of a product in the market. Premium pricing strategies are helpful when fixing price for a unique brand which has a competitive advantage in the market (Lambert, 1970).

A number of different other pricing strategies exist in the market that are used by organizations to sell their products in different markets. These are

a) Psychological pricing

This kind of pricing is used by organizations when they perceive that the consumers would respond to a particular good or product emotionally rather than rationally. While choosing products in unfamiliar setting consumers choose price as an important factor (Barr, *et al*, 1992). For example when a customer buys equipment which he/she is not much familiar with he/she would never go for the most expensive or the cheapest product rather they would go for the middle priced product (Lin, *et al*, 2003). Thus when choosing in an unfamiliar setting consumers would always go for a middle pricing strategy and hence this would help companies to price their products keeping in mind the emotional factors influencing consumer behavior (Reiman, 2002).

b) Product line pricing

This pricing strategy is used when a product is offered to the customer with different benefits and features (Van de Ven, *et al*, 1995). The main aim of this strategy is to maximize profits. But for maximizing profit it is necessary to sell the primary product then only the added product which comes with the primary product would be sold even at higher prices (Beer and Eisenstat, 1996). For example a shampoo comes at \$5 dollars and an additional body wash which costs around another \$5 comes for a combined cost of \$ 8. Consumers would be interested to buy the entire combination for a total of \$8 when they are interested in the primary product that is the shampoo (Talluri and Ryzin, 2004).

c) Optional product pricing

This strategy is used by companies when consumers start buying the products or services thus increasing the amount of money they spent on the purchase of their actual products and services (Kossowski, 2011). For example airlines charge extra money from passengers for added services like guaranteeing a window seat or choice of seats, extra luggage and extra legroom etc. However these prices are optional for the consumers (Andrew, 2009).

d) Captive Product Pricing

This kind of pricing is used when companies know that consumers do not have an option other than buying products from them (Armstrong, 2005). For example Inkjet printers come at somewhat lower prices but their refill cartridges come at comparative higher prices as consumers would have no other option other than buying ink at a higher price for their printer (Vulcano, *et al*, 2002).

e) Product Bundle Pricing

This pricing strategy is used when different products are sold in the same package. This is also beneficial for companies to sell of their products that have reached their decline stage. For example in auctions it is often seen that several less interesting things are sold in a box along with one or two attractive products so that the less interesting things are sold along with the attractive products in the lot (Graham, 2008).

f) Promotional pricing

This kind of pricing is used when a new product enters a new market. Discount on products, money off vouchers, buy one get one free etc are all promotional pricing strategies (Pass and Lowers, 2000). The laws and policies across different countries make the promotional pricing strategy a controversy as in some countries the amount of time during which a product has to be sold at its original price before being sold at discounted rates, is governed by the laws of the government (Zhao and Zheng, 2000).

g) Geographical Pricing

Geographical pricing strategy includes different pricing of same products in different markets due to the difference in tax and legislation across geographical boundaries (Kossowski, 2011). The difference in shipping costs, high or low taxes in different regions and other costs tend to increase or decrease prices of products thus forcing companies to adopt geographical pricing strategies (Hanna and Dodge 1997).

2.5 Pricing Strategies and Business Success

The pricing strategies as has been studied in the previous paragraphs shows that these strategies are important for the growth and success of products and services along with the companies

(Fifield, 2007). Different organizations adopt different pricing strategies as per their need and requirement and taking into consideration the market situation and the capacity of the consumers. Effective pricing strategies are potential instruments in the hands of companies to gain competitive advantage in the market and thus lead their organization towards growth and success (Kotler & Keller, 2009). Pricing strategies are also highly influenced by the introduction of new products and goods in the market. Introduction of products and services in the market before others also provide a competitive advantage to companies (Fedrick, 2006).

For the success of any business enterprise it is important for the management to identify the most suitable pricing strategy that would help an organization to have a competitive advantage over others in the market (Lorat, 2009). But a lack of reliable market demand information is the main hurdle in the way of the management to implement effective pricing strategies. When a new product is introduced in the market it is difficult for the company to identify the demands of the consumers and their preference for the products until and unless they start buying and using the product (Lowe, 2008). Thus in this case market research plays a very important role in identifying the interests and preference of customers and their spending trend on particular products (Talluri and Ryzin, 2004).

Whenever a company launches a new product in the market prior to the launch of the product it gathers information about the demand of such products in the market and this information proves to be much valuable to the organization as compared to the expense of collecting the information through market research (Bell, 2009). Although market research is very important for any organization before the launch of any product to understand the demand of the product in the market companies very often carry out new product market testing. Besides gathering information on the demand and supply of similar products in the market, market research also helps in implementing pricing strategies for products (Lin, *et al*, 2003). Thus it can be said that pricing strategies are very important for the success of a new product or service in the market and thus price setting is the primary and the most important task of any organization (Talluri and Ryzin, 2004).

During the initial stages when a company introduces a product in the market it implements either the premium pricing strategy or the penetrating pricing strategy. The company chooses the pricing strategy according to the nature of the product and the time horizon of the company's

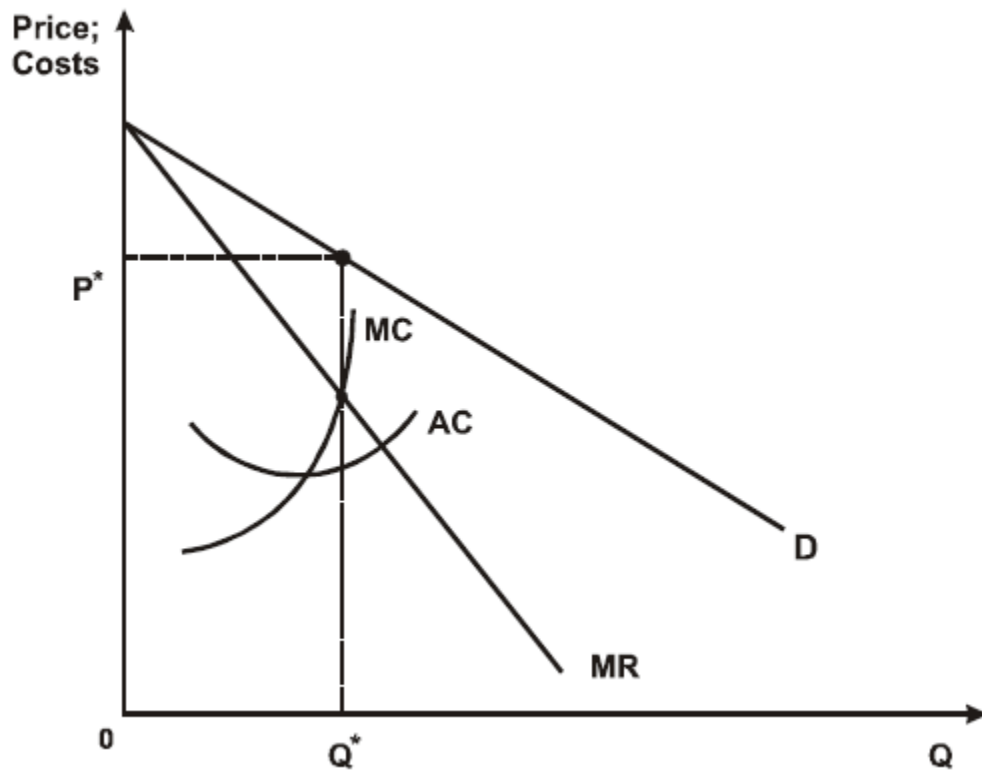
business activities (Arnhold, 2010). Penetrating pricing strategies are often selected by companies when companies need to penetrate a new market and as a result they sell high quality products at a lower price in order to capture their share of the market. On the other hand premium pricing strategies are used when organizations want to set a perceived standard of their products in the market. Usually premium pricing strategies are effective in niche marketing (Vulcano, *etal*, 2002).

2.5.1 Exclusive Pricing Strategy

In exclusive pricing strategy companies use exclusive or high pricing for a product initially. The strategy of exclusive pricing is used when companies want to realize a good amount of profit from a product in the initial stages (Armstrong, 2005). This kind of pricing strategy is generally effective for complex, exclusive, unusual and high ranged products. Products that are technology based and offer the latest and most exclusive technical innovation are the best examples of the use of such pricing strategy (Lorat, 2009). For example when mobile phone was introduced in the market mobile phone companies used this exclusive pricing strategy to realize as much profit as possible in the initial stages. For products like this which are unusual and complex companies often use this exclusive pricing strategy to recover their expense for research and development and exclusive promotional strategies to attract potential customer for the product. More over the implementation of exclusive pricing strategy could also be useful for market segmentation and deciding upon the target segment of the product (Pass and Lowers, 2000). The market segmentation would further help in deciding the promotional strategies for the product (Maglaras, 2012). For example when digital watch was first launched in the market the manufacturers used the exclusive pricing strategy and sold digital watch at a high price as they realized that in the initial stages buyers would pay a high price to buy the watch as a symbol of prestige. When exclusive pricing strategies are implemented the demand for such products are limited to buyers who can afford to pay such high prices but due to the exclusive prices the profit margin on every unit sold is much higher (Graham, 2008).

The Following Figure illustrates the profit maximization (denoted by P^*) for the new product Q^* and in this figure the Marginal Revenue and The Marginal Costs have been considered to be equal. D denotes the Market demand for the product and Q^* is the output level for the same

Figure 3: Exclusive Pricing Strategy



Source 3: Talluri and Ryzin (2004; p-258)

The exclusive pricing strategy is also important when companies realize that demands for a new product would grow in a short time span. The so called “Hit” products are able to generate customer interest in a short time and thus their exclusive pricing ensures the maximization of short run profits (Feng and Xiao, 2000). Thus in general companies implement this pricing strategy when they aim at short run profit maximization. Exclusive pricing strategy is also used by companies aiming at long run profit (Paley, 2006). Companies with an aim of long run profit from their products implement exclusive pricing strategies in case of major barriers during market entry. When a new product is introduced in the market the company has a monopolistic advantage due to the unavailability of similar products (Ansoff, 2012). The company can also suppress the entry of similar products in the market by creating obstacles like patent rights, access to specialized resources and technology etc. In such cases when companies are able to block competitors in the market, exclusive pricing proves to be effective even for maximizing long run profit (Pass and Lowers, 2000).

Exclusive pricing also helps in creating a perceived standard of quality of products and services in the minds of buyers which again helps in realizing long run profits. Thus many companies price their products and services exclusively so that they can form a positive attitude in the mind of their buyers regarding the quality of the products and services. Thus the demand for such products with high quality would be higher in the market as compared to products with lower prices which are mostly perceived to be of lower quality (Bitran and Caldentey, 2003).

2.5.2 Penetration Pricing Strategy

The penetration pricing strategy is used when a new product aims to penetrate deeper in the existing market and to acquire greater market share from time to time. In the penetrating pricing strategy higher quality goods and services are sold at a lower price. Companies are able to sell high quality products at a lower price only when the demand of such products is at a level which helps in increasing the sales volume (Elmaghraby and Keskinocak, 2003). This is what was done in Ford when they lowered their price for a particular model. The low prices not only helped them in creating a mass market for the car model but also helped them to decrease the per unit cost of their product. The high sales volume and increased market share helped the company to lower their costs. In penetrating pricing the profit margin is minimal. Penetrating pricing is effective in the following scenarios-

- When lower price of products and services becomes an important factor influencing buying decision of customers
- If competitors are not attracted to enter the market with the lower prices of their products and services
- When lower prices of products and services prove effective for a company to have a dominant position in the market (Feng, 2011)

Penetrating pricing are effective only when the nature of demand of products in the market are elastic and when products have certain competitive advantage as compared to other products. However penetrating pricing also requires pricing modification in different phases of the product (Talluri and Ryzin, 2004). Thus penetrating pricing strategies are applied by companies when the demand of products and services are long lasting and when a company wants to maximize their profit in the long run (Armstrong, 2005).

2.5.3 Prestige price strategy

This pricing strategy involves a high price of products and services throughout the life cycle of the product unlike the exclusive pricing strategy that involves high pricing in the initial stages of the product life cycle (Reiman, 2010). The added prestige with the product is the main reason as to why companies use this pricing strategy (Minzberg, 1990). The high price could be a motivating factor for influencing consumer behaviour. When people buy luxurious cars, high end mobile phones, expensive perfumes and designer dress and accessories they are satisfied with the price of product as the use of these exclusively priced products gives them a sense of pride and honour (Graham, 2008). There have been instances when price reduction on some exclusive products had resulted in decrease in sales volume, as for people buying products as a prestige symbol lowering the cost of product would be like removing the prestige symbol attached to the product (Klein and Sorra, 1996). Thus lowering the price of such products could have a negative impact on the buyer decision and thus companies do not lower the prices of such products. Moreover highly priced products also have a perceived standard of quality which motivates buyers to invest in certain products and services. But if the prices of such products and services are lowered buyers would feel that along with pricing the quality standards have also degraded. Hence in practice the term “prestige pricing setting” is often used with “quality pricing” (Ansoff, 1990). This helps in understanding the relationship between pricing strategy and the perceived quality of a product or service. This shows that there is a relationship between product, buyer satisfaction and pricing strategy (Zhao and Zheng, 2000).

2.5.4 Expansionistic pricing

This is a pricing strategy where products and services are offered at a lower price to establish a mass market. The name suggests that the main motive of such pricing strategy is to capture a dominant position in the market and expand ones market share (Maglaras, 2009). This strategy is often used for products having high price elasticity and thus lowered prices further helps in increasing the sales volume. In the modern day market where companies face tough competition they often adopt this pricing strategy to create a mass market for their products and at the same time widen their existing market (Hanna and Dodge 1997).

Some of the famous automobile companies of Japan have adopted this strategy to make a mass market for their products and to realize the demand of their products in the global market. Standardized cars like Toyota Corolla and Honda Civic with lower production cost were introduced in global market to see the acceptance of their cars in different countries (Bell, 2009). And once the lower end cars were satisfactorily accepted in the global market the companies offered expensive cars (Ansoff, 2012). Thus the policy helped them to understand the acceptance of their products and thus helped these companies to expand their market (Paley, 2006). On the other hand dumping, a negative domination strategy includes selling products below their production cost. When applied extensively this strategy has the capacity to corner domestic manufacturers in their own market. To avoid such negative domination of the market many countries have strict laws and regulations against dumping.

This strategy has been used by several newspaper and magazine publishing companies where they had decreased their annual subscription rates resulting in an increase in their sales figure. On the other hand the publishers profited from the increased advertisements due to their increased customer base (Barr and Huff, 1992).

2.5.5 Preventive price strategy

In the preventive pricing strategy products and services are sold at a very low price in an attempt to prevent competition (Kossowski, 2011). The prices prevalent in the market are so low that they do not attract possible competitors. This strategy is adopted by companies in case of a lack of competitive advantage compared to others in the market (Zhao, and Zheng, 2011). This strategy is also useful when there is not much completion while entering a new market. when such strategies are adopted by companies it helps in acquiring a good share of the market, reducing costs by acquiring scale of economy and this strategy further proves to be profitable for the company and at the same time helps in building an image of the company. For example when RCA corporation first introduced colour TV they used this pricing strategy which not only helped them to acquire a good market share but also provided their research and development team time to improve their product so that their product could compete with similar products in the future (Graham, 2008).

2.6 Pricing strategy to eliminate competition

The strategy of selling products and services at low prices are mainly used by companies to eliminate competition in the market (Kotler & Keller, 2009). When a company wants to come up with such pricing strategy to ruin completion in the market it needs to price its products and services lower than that of its production cost. These low prices prevail in the market for a certain period and once the competition in the market is eliminated the product prices are increased to a profitable level. Standard oil used this strategy to lower prices to eliminate competition in the market in the nineteenth century. They decreased their prices to the level of half of their production cost (Lorat, 2009). This not only helped Standard oil to eliminate competition but also helped them to overtake their competitors at a very nominal price. And afterwards the company sold their products and services at very high prices to cover the losses they suffered when adopted the low pricing strategy to eliminate competition. According to David (2001), this type of strategy can only be adopted by companies when they have a dominant market position with a strong financial background to bear the temporary monetary losses due to these price reduction strategies (Klein and Sorra, 1996).

2.7 Why Pricing Strategies Fail?

Pricing strategies often fail as companies are not able to align the pricing strategies with the aims and goals of the organization. According to Elmaghraby and Keskinocak (2003) for being success full companies should come up with dynamic pricing policies that represent the company aims and objectives effectively. Companies can only have a strong pricing strategy when they are able to identify their strengths and limitations properly before implementing a pricing strategy. Even though in practice each and every company has a pricing strategy of their own but according to Maglaras (2006) only a fifty percent of the companies have a proper pricing strategy. And the ones having a proper pricing strategy are finding that the life span of these strategies are growing shorter and they have to think of new strategies very often (Graham, 2008).

The main reason behind the failure of the pricing strategies very often is the changing nature of the market place (Paley, 2006). Firstly the competition in the market place is a major concern for

companies and new entrants in the market place makes it important for the companies to revise their pricing policies either to be in competition or to eliminate competitors from the market. Due to tough competition there has also been a change in product life cycle where many products fail or succeed just in a few months (Minzberg, 1990). For example consumer electronic products and media products have a chance of success or failure in a very short span of time. Thus if companies do not use proper pricing strategies in the initial stages when the lifetime profitability of such products are determined it is possible that the long run goals and aims of the company can be destroyed (Krüger, 1996).

On the other hand pricing strategies should also take into consideration the willingness of the consumers to pay for products and services and the cost to serve them at the micro segment level. Other factors, which influence pricing strategies, are the distribution channels, packaging of the products, market selection, promotions and discounts offered by the company etc. The main problem in having an effective pricing strategy is that these factors keep on changing very often thus making it difficult for a single pricing strategy to succeed. Thus Ryzin (2004) believes that with the existence of so many variables it is difficult to comprehend an optimal pricing strategy (Gallego and Ryzin, 1994).

Thus it is important that companies have a right pricing ability for the success of any business house. When a company has skilled people in the managerial positions the proper pricing strategies are ensured. The proper pricing of products and services at the right time is very important for organizations to prevent their products and services from being shelved (Lorat, 2009). The skilled professionals in an organization identifies the proper time of implementation of the pricing strategies to be in competition and to eliminate potential rivals form the marketplace. Top performers believe that pricing strategies in an organization fail when there is no proper co ordination between the implementation and the responses of the customers. This lack of information does not allow new strategies to be successful as the management does not have a clue of the outcome of the pricing strategies and thus the profitability and customer satisfaction (Klein and Sorra, 1996).

Ryzin (2004) believes that pricing strategies are not only implemented for achieving high performance in an organization. The inability to have proper pricing strategies can also destroy

the brand image of a company and can lead to the downfall of a company like in the case of Polaroid Corporation. Experts believe that the company's inability to price its products successfully lead to its downfall. Another example of an improper pricing strategy would be a leading computer systems company which suffered a loss due to poor pricing strategies and poor execution of average selling prices. If the manufacturer had proper information and if it simply added \$10 to \$15 to the price of each of the 9.1 million machines sold it could have covered its shortfall but due to improper pricing strategy it suffered losses.

2.8 Strategic approach to the discriminatory pricing and their implications on managerial decision making

The above paragraph illustrates some of the reasons as to why pricing strategies implemented by companies at times fail. At the same time it is also important to keep in mind that to be successful it is important to implement discriminatory pricing strategies designed to accommodate different customers, different products, market and time of delivery (Paley, 2006).

It is always important to keep in mind the variety of buyers and their wide range of preferences. Buyers as a base for implementation of pricing strategies would mean that different buyers would be charged differently for the same product according to their capacity (Barr and Huff, 1992). On the other hand the product as a base would mean that different products are priced differently without proportion. But in general this pricing strategy is used to sell of products which have high stocks or which has the capacity to generate high profit. When taking location as a base the price of same products differ from one location to another. This kind of strategy is often applied as delivery cost varies from one place to another due to high transportation cost involved in delivering products at a distant, which is added to the product prices.

When time is considered as a base price differentiation is implemented on seasonal products and perishable products which have to be sold off before expiring. This kind of time based price differentiation can be carried out by months, weeks, days and hours (Bell, 2009). The price differentiation implemented by companies depending upon customers, time, location and products should be monitored and checked from time to time and it is the responsibility of the managers to see whether these price differences are effective enough and are preferred by

customers. The managers should be effective enough to monitor the customer responses and sales volume and if there is a tendency of general price increase of all products or some change in the demand of products or new policies implemented by competitors. They should be able to come up with effective pricing strategies to compete with their rivals (Gallego and Ryzin, 1994).

2.9 Product Quality and Product Price Relationship

The pricing strategies and product qualities studies go back a long way; one of the initial studies in this domain by Chase and Schlink (1927) illustrate that there is no relation between price and quality of products. They were of the view that a higher price always does not mean the best quality. Their research has provided a low correlation between the price and quality of nondurable consumer products. In a later study conducted by Oxenfeldt (1950) found a negative co-relation between pricing strategies and quality. Friedman (1967) later suggested that the negative co-relation between pricing and product quality can be because of the pricing policies and the conclusion drawn was: *"consumer goods may be influenced by the manner in which the products are displayed in the marketplace"* (p. 38)

Riez (1972) in his investigation found a very weak relationship between price and quality of products for 679 brands of food products. He found a mean correlation of 0.092 and a range of 0.646 to 0.878 which prompted him to conclude that there is very less relation between price and quality of products (food products). In another study conducted by Faulds (1986) it was founded that relationship between price and quality of non durable products varied from one country to another with the mean correlation coefficients ranging from .034 to .167.

2.10 Consumer Perception regarding Pricing and Quality

Price being the extrinsic cue has been the most important aspect of research on product quality and pricing strategies. Price has always been identified as an important parameter for quality (Scitovsky, 1945). Hence when one uses the word cheap for a product it signifies that the product is of an inferior quality. On the other hand in United States when one uses the word Expensive it signifies that the product or service is of a very superior quality (Farhor, 2009). According to a study on price-perceived quality relationship carried out by Leavitt he observed that when buyers had doubts and hesitations about products and services which are not highly priced. This shows how the price of products and services are perceived to have an influence on the quality of

products and services by buyers. Leavitt in his studies also concluded that higher prices often influenced a buyer's readiness to buy a product or service. However in case of textile products price is an indicator for quality as in this case quality is determined by factors like change in technology and fashion and thus past experience is not effective enough to ascertain quality in these cases (Gabor and Granger, 1966).

Shapiro (1970) believes that price plays a very important role in indicating quality of products and services for four reasons.

- Price being a concrete and measureable variable difference in pricing helps in measuring the quality of products and services.
- It helps in bringing customer satisfaction as customer satisfaction comes with the amount of effort or money spent by the customer to buy or acquire a product.
- Price acts as a prestige symbol
- It also reduces the risk of buying poor quality products sold at low prices.

However, Shapiro suggests that organizations while making pricing strategies should not use price as an indicator for quality indiscriminately (Maglaras, 2000). McConnel (1968) conducted a study on the relationship between price and quality of beer a consumer product. In his study he recognized that consumers use price as an indicator for quality of consumer products, the lower the prices of products consumers perceive that product to be of cheaper quality. In his study he also observed that consumers tended to buy the high priced products than the lower priced products as they believed that lower price is an indicator of low quality. He thus concluded that price is an effective parameter of brand evaluation (Paley, 2006).

Gardner conducted an experimental study in 1971 to explore the degree of price quality relationship and thus used three different products for his study. The products were tooth paste, a shirt and a suit. In his study he observed that price did not affect the product quality for all the three products. However he observed that price affected the product quality of the shirt and influenced the buying decision of consumers (Zhao, and Zheng, 2011). Hence he concluded that price always does not have an effect on the perception of a product quality and that it depends on

the nature of the product. Some of the factors that influences a buyer's perception of price and quality are-

- ✓ When buyers are confident of the predictive value of a product
- ✓ Consequences of choosing a poor brand thus a product with a poor quality
- ✓ products vary from one brand to another and thus varies the perception of quality
- ✓ Importance of the product in his surrounding society
- ✓ difficulty in judging the quality of products
- ✓ ability to judge the quality of a product

Hence it can be concluded that price plays a very important role in purchase decision of buyers. Traditional economic theories hold that price has a negative influence on buying decisions as higher the prices of products they are likely to have a negative effect on the consumer's budget. But as behavioral experts suggest pricing strategies have a great influence on buying decisions as higher priced products are perceived to be of better quality by consumers (Monroe and Krishnan, 1988). Thus price having both negative and positive influence on buyer's decision is an important aspect of purchase-decision process Rao and Monroe (1988).

People see high prices as an indicator for an expensive and thus a reliable product or service and it also reduces their risk of an incorrect decision in buying a low quality product or service. But Gerstner believes that although people see price as an indicator for high quality and reliable product but according to his studies there is little relationship between quality and price of products (Graham, 2008).

2.11 Critical Summary

This chapter presented the literature for this research. The literature review presented in this chapter focused on several researches to illustrate the various pricing strategies that are applicable for any product. The chapter also illustrated studies which show that there is negative co-relation between product pricing and product quality which is quite contradictory to the scope

of this research; but however these studies date back 50 years or more and there have been major evolution of marketing principles and pricing strategies in all these years. Therefore these studies have been illustrated as a reference point and have no direct contribution to this research. Further the literature reviewed also illustrates that there is a positive co-relation between pricing strategies and consumers perception about quality and ultimately towards the buying decision. This chapter has illustrated all such theories and models which have helped the researcher understand the pricing strategies and its implications which will further help in analyzing the primary data.

Chapter 3: Methodology

3.0 Introduction

The methodology chapter of the research paper would help in discussing the different tools and methods used in conducting a research on the pricing strategies used by Tesco to compete with other retail chains in UK (Gauch, 2003). Pricing strategies are very important for any business organization, be it small or big thus this research would help in discussing the importance of pricing strategies for any business enterprise and the impact of the pricing strategy on the perceived quality of products and services by the consumers (Holliday, 2007). The methodology section would help in understanding the methods used for conducting the research for example the research design, the research population, the research philosophy, the data collection method, data analysis method, the time scale etc would be discussed in the methodology chapter of the research on pricing strategies and their impact on the perceived quality of products and services. The researcher has chosen Tesco to study the impact of pricing policies on the business and the impact of the pricing policies on the perceived quality of products and services offered by Tesco (Denzin & Lincoln, 2000).

3.1 Research Philosophy

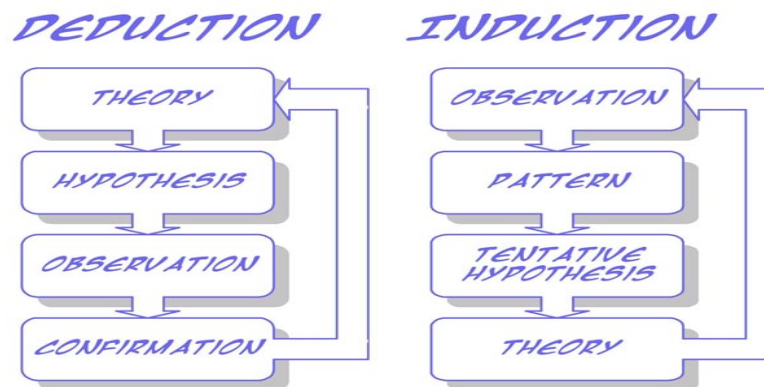
Research philosophy helps in providing a logical base to any research paper. Hence the researcher would chose the post positivism research philosophy for conducting his research as according to the post positivism research philosophy things which cannot be scientifically measured can also form a part of knowledge and can be observed using different tools and methods (Creswell, 2008). Another reason for choosing the post positivism research philosophy is that it involves triangulation method which would help the researcher to use multiple data source and multiple observations. Multiple data source and multiple observations would help the researcher with more accurate results if not flawless results thus it can be said the triangulation method would help in reducing the risk of errors in the research process. The research would be a deductive research which would help the researcher to use multiple observations to prove or negate the Hypothesis of the research (Babbie, 2009).

3.2 Research Approach

There are mainly two types of research approach inductive and deductive research approach. The inductive research approach is also known as bottom up approach as in an inductive research patterns are observed during the research process which leads to the formulation of a hypothesis and a new theory (Trochim, 2006).

On the other hand deductive approach is known as a top down approach as it takes into consideration an existing theory and formulates a hypothesis from the theory which is tested and observed during the research (Neegard & Ulhoi, 2007). In a deductive research approach the researcher collects data for observing and testing the hypothesis and at the end of the analysis of the data either proves or negates the hypothesis formulated at the beginning of the research process (Mouncey, 1994). In this particular research the research would use the deductive approach to test the hypothesis formulated at the beginning of the research (Bacher, 2010). The data collected by the researcher would help in understanding the impact of pricing policies on any business and the impact of pricing policies on the perceived quality of products and services. It is often a belief among consumers that pricing strategies determines the quality of goods and services but experts believe that pricing of goods and products always do not determine the quality of goods and products (Hague, 2000). The researcher would use the deductive approach in this research and throughout the literature review section and the data analysis section would try to determine whether pricing strategies have impact on the quality of goods and services and would also try to evaluate the impact of pricing strategies on the overall performance of Tesco (Douglas, 1998).

Figure 4: Research Approaches



Source 4: Trochim (2006; p-245)

3.3 Research Strategy

The research strategy defines the way in which a research is conducted. There are several types of research strategies, experimental or non experimental research. Experimental research strategy is involved during a scientific research and when dealing with no living objects (Singh, 2001). In the experimental research participants are manipulated for observation but in a non experimental research participants or research findings are not manipulated by the researcher (Handlechner, 2006). In this research the researcher would use non experimental research strategy which would help the researcher to involve participants and collect data from them with the use of structured interviews and closed end questionnaires. The research on the pricing strategies implemented by Tesco would be a non experimental research and would involve structured interviews with the managers of Tesco to gather data on the pricing policies implemented by Tesco and the success of those policies (Hawkins, 2006). On the other hand the researcher would gather data from the customers with the help of closed end questionnaires. These will help the researcher to collect the necessary data to evaluate the role of pricing strategies in the success of a business in general and Tesco in particular (Banerjee, 2006).

3.4 Research choice

Research choice is the choice of data collection method for a particular research. There are three methods of collecting data for a research they are mono method, multi method and mixed method (Denzin & Lincoln, 2000). Each method signifies a certain choice of data collection for

example a researcher would use a mono method when the researcher wants to collect either qualitative data or quantitative data for a particular research. On the other hand mixed method signifies the collection of both qualitative and quantitative data for a research. Another example of data collection is multi method choice of data collection in which a same set of data is collected qualitatively as well as quantitatively. But in this research the researcher would use the mixed method of data collection and would collect both qualitative data and quantitative data from the research participants (Handlechner, 2006).

3.5 Time Horizon

There are two types of time horizon used in a research method considering the nature and the scale of the research. One is cross sectional time horizon and another being longitudinal time horizon. Longitudinal time horizon is used in ethnographic research as the research is done on a massive scale and thus requires massive observation and huge data collection (Singh, 2001). But the research on the role of pricing strategies on the overall impact of Tesco being an academic research would involve cross sectional time horizon as the researcher would not have to collect a huge number of data for the research (Douglas, 1998).

3.6 Data Collection

Data collection is the most important part of any research as a proper analysis of the collected data helps the researcher to either prove or negate the hypothesis of the research (Hague, 2000). There are two types of data collected during a research process Primary and secondary data. Primary data can further be divided into qualitative data and quantitative data. An efficient data collection and analysis of the same ensures the success of any research process (Babbie, 2009).

3.6.1 Secondary Data

The secondary data is the data collected by the researcher in the literature review section. In the literature review section the researcher studies and illustrates the different pricing strategies from existing journals and articles on pricing strategies (Mouncey, 1994). The secondary data is helpful in framing questions for collecting the primary data of a research. In this particular research the secondary data collected by the researcher in his literature review section helped in

gaining a proper understanding of the importance of pricing strategies and thus would be helpful for framing the questions for the research participants (Denzin & Lincoln, 2000).

3.6.2 Primary Data

The research being a primary research would involve the collection of both primary and secondary data. The secondary data collection method has already been discussed and the primary data would be collected with the help of structured interviews and closed end questionnaires (Hawkins, 2006). The primary data in this research would be collected by interviewing around 5 senior managers from Tesco to illustrate the importance of pricing techniques in general and the impact of the pricing techniques in Tesco. The researcher would also collect data from around 100 customers of Tesco with the help of closed end questions to illustrate the impact of pricing on the perceived quality of goods and services (Hague, 2000).

A) Qualitative data

Qualitative data or descriptive data would be collected with the help of structured interviews with the senior managers of Tesco and would help in illustrating the effects of pricing strategies in the retail sector. The qualitative data as the name suggests would be descriptive in nature and would thus be analysed using qualitative data analysis tools (Holliday, 2007).

B) Quantitative data

Quantitative data would be collected with the help of survey of around 100 customers of Tesco. The data collected would be quantitative in nature as the customers would be given closed end questionnaires where they would have to rank their options or just have to choose from multiple options (Banerjee, 2006). The quantitative data would be analysed using quantitative data analysis tools and statistical tools to be represented with the use of graphs and tables (Gauch, 2003).

3.7 Research population

The primary data collection would involve a research population. Since the organization chosen for the research method is Tesco, the researcher would involve some of the senior managers from Tesco and around 100 customers to collect primary data from them on the role and impact of

pricing strategies in Tesco. The researcher would collect data from the senior managers of Tesco using structured interviews and would use survey questions to collect data from the customers of Tesco (Handlechner, 2006).

3.8 Sampling techniques

The researcher would use simple random sampling for choosing customers for the research survey so that respondents are chosen fairly from among the research population (Singh, 2001). On the other hand the researcher would use convenient sampling technique in choosing the senior managers of the organization. Convenient sampling would be used as senior managers are always not available and thus a convenient sampling would help in choosing respondents according to their availability for the research purpose (Hague, 2000).

3.9 Sample Size

The researcher would involve five senior managers for the interview process and would survey around 100 customers from Tesco. The sample size would be small as this would be an academic research and thus would not require a huge research population. The senior managers would be chosen for the interview process as per their availability and the customers would be chosen for the survey using simple random sampling.

3.10 Data Analysis

The researcher will collect both qualitative and quantitative data to evaluate the role of pricing strategies in Tesco and to evaluate the impact of pricing strategies on the perceived quality of goods and services. The qualitative data would be collected by interviewing five of the senior managers of Tesco and the quantitative data would be collected from the customers of Tesco with the help of survey questionnaire (Holliday, 2007). The analysis of the collected data, both qualitative and quantitative would be helpful for the researcher to evaluate the importance of pricing strategies in Tesco and their impact on customer satisfaction and loyalty of the customers of Tesco. The quantitative data would be collected on the basis of the LIKERT scale which helps in identifying the options selected by the research population. The researcher will be statistically evaluated using different statistical tools to confirm the hypothesis of the research (Gauch, 2003). The researcher will perform a data standard deviation of the collected data. The

mathematical calculations will relate the data with the theories studied in the literature review section. The researcher will negate the null hypothesis and establish the alternative hypothesis and relate the findings to the aims and objectives of the research. The null hypothesis of any research can only be negated when the collected data and its analysis shows a large degree of variance from the null hypothesis (Handlechner, 2006).

3.11 Generalisibility

Being a deductive research this research aims at generalizing the findings of the research. The research is on whether pricing strategies make a difference in the perceived quality of products and services (Mouncey, 1994). Thus the researcher through his collected data and observation would have to find out the relation between pricing and product quality. If the researcher is able to map the aims and objectives of the research with his findings then the findings of the research can be said to have generalisibility. Since the research would be done on the retail industry the findings can be generalized for the entire retail industry (Denzin & Lincoln, 2000).

3.12 Reliability and validity

The reliability and validity of a research is dependent on the tools used in the research. The tools used in this research to evaluate the importance of pricing strategies and the relationship between pricing and quality of goods and services are reliable and valid for the research purpose. The respondents of the research are chosen using convenient and simple random sampling and thus can be said to be reliable for the research purpose. The choice of population and the organization is also valid for a research on pricing strategies and their impact on perceived quality of products and services (Bacher, 2010).

3.13 Ethical consideration

The researcher would conduct the research in Tesco and would involve senior managers for the interview process and would also conduct a survey of customers in Tesco. Thus the researcher would need to obtain permission from the management of Tesco to conduct a research on the pricing policies of the company. The researcher would also follow ethical code while conducting interviews with the managers and would not force any respondent for any answer. The researcher

would also give in writing that the data collected would be for academic purpose and thus would not be used for any other purpose.

3.14 Summary

This chapter provides for the methods that would be used for conducting the research on pricing strategies. There would be some limitations to the research process and being an academic research the researcher would have limited budget and time for conducting the research. Despite of the limitations the research would be an important one in evaluating the role of pricing strategies and the relationship between pricing strategies and quality of products and services. The research would be conducted on Tesco which is a leading retailer in UK and thus the research findings could be generalized for the entire retail industry (Handlechner, 2006). The methodology chapter would help in understanding the different steps used in the research and would also help in justifying the use of various methods for this particular research.

Chapter four: Data Analysis

4.0 Introduction

In this chapter the researcher would analyze the data collected from interviews with senior managers of Tesco to form an understanding of the demand of products and services in Tesco, pricing strategies of Tesco in comparison with other retail giants in UK, the market share of Tesco, policies adopted by the management of Tesco to face competition from other retail chains in UK etc. In the latter half of the chapter the researcher would analyze the quantitative data collected from the customers of Tesco to form an understanding of customer satisfaction, brand loyalty, satisfaction with the pricing policies of Tesco etc.

4.1 Qualitative data analysis

This Portion would deal with the qualitative or descriptive data collected by the researcher through structured interviews with some of the senior managers of Tesco.

Estimating demand of products and services in Tesco

Question 1: Which products/services do customers shop around for?

Answer: Tesco being one of the leading retailing chains with around 2100 super markets in Europe, UK, US and South East Asia sell different types of products and services. Apart from selling food items Tesco also has a good market share in grocery, non food items, financial services, telecommunications etc. The company's commitment towards reducing prices and providing the best possible services to its customers have helped Tesco to grow its sales figure in the past few years.

The most sought after products in Tesco are its own label products which have helped Tesco to improve its profit margin and increase its sales volume. The online store introduced by Tesco was the first of its kind and it helped Tesco not only to grow its market share but also helped the retail chain to sell its non food items and financial products online which are quite sought after. However according to the senior managers the food items sold by Tesco mainly the own label products and the grocery products are the most sought after in Tesco which adds to the profit

margins of the retail giant. More over according to the senior managers there has been a growing trend among customers to buy organic food thus organic food is in high demand in Tesco.

Question 2: Which products/services are in greater demand even at higher prices?

Answer: According to the managers in Tesco the company has always tried to provide products and services to its customers at the lowest rates and has been successful in doing so. It has been facing pricing competition with other retail giants like Asda, Sainsbury etc but it has always focused on implementing the best pricing strategies so as to capture its market share and have a competitive advantage over others. However some of the managers believe that it is always not possible to implement the lowest possible prices on all products and services to compete with others but in that case also Tesco has seen a good sales volume for some of its high priced products and services. Managers in Tesco believe that even despite of the tough economic climate in the country there has been high demand for low- carbon products in the market. Consumers have become aware of their impact on the environment and thus more and more customers prefer low carbon products and organic products even if they are highly priced. Managers said that in the past few years there has been a growth in the demand of these products despite being highly priced. According to a survey conducted in UK around 45% of the buyers in UK are inclined towards low carbon products and would also stop buying from their favorite brand if they did not take part in minimising carbon emission.

On the other hand recently there was a slash in chicken prices offered by Asda. The company came up with a new pricing policy to compete with other retail giants and thus slashed chicken prices by almost a quarter. To compete with Asda, Tesco took the most drastic step and instead of slashing prices further they increased their chicken prices by 4% with a guarantee of high quality chicken to its customers. This step proved to be a very important step which helped Tesco in increasing its sales volume as people preferred to buy high quality food even though they came for a few extra pounds.

Question 3: Are certain products/services in greater demand at one time of the year than another? If so, which? And what is the duration of the demand?

Answer: Tesco being a leading name in the retail industry with around 2100 super markets in major parts of the world has a range of products and services to offer to its wide range of

customers. Throughout the year there is high demand for products and services offered in Tesco and mainly there is high demand for grocery and food items. Non food items, clothes, accessories, books, nutrition products, home décor, furniture, flowers etc are always in high demand in Tesco. But the services and products which are most sought after in Tesco are the food items and mostly the gift items during the festive season. During Christmas and New Year Tesco offers huge discounts on lifestyle products and clothes and accessories as during this time of the year these products are in huge demand for gifting purpose and people also spend a good amount of money on decorating their home and pampering themselves during the festive season. Tesco online offers helpful tips for home décor and for getting ready for a Christmas or New Year party. These additional services are most sought after during the festive season and they not only help attract customers but also help increase their sales volume during this time of the year. Food items and wines are in high demand during the festive season. Tesco offers discounts on a range of its products and services during the festive season.

Question 4: Do your customers expect a certain price range?

Answer: According to the management of Tesco ever since the company started operations it has always focused on providing the best possible services and high quality products to its customer and has always been committed to reducing prices of goods and services for its customers. Thus when people visit Tesco stores they always do so with an idea to get the best possible deal on each and every item. However it is always not possible to offer the lowest pricing as Tesco besides being committed to offer low prices, is also committed to offer high quality products and services. Unlike Asda which has the lowest price guarantee Tesco does not have such a guarantee but at the same time it does not compromise on the quality of its products and services in order to guarantee lowest prices. Thus the managers interviewed in Tesco believe that customers expect a certain price range in Tesco and also expect a certain guarantee of high quality of goods and services.

Question 5: What is the balance between price and quality in your market?

Answer: In the literature review section it has been studied that according to earlier researches there is no direct relationship between pricing and quality of products and services. At times low and premium pricing strategies are adopted by companies to either penetrate a market or to

eliminate competition. Like wise to eliminate competition in the market Tesco comes up with pricing policies to offer its customers goods and services at a lower price compared to others in the industry. But at the same time Tesco has never compromised with the quality of goods and services to lower their prices. For example when Asda slashed chicken prices by a quarter to offer the lowest price in the industry, Tesco did not slash prices to compete with Asda but instead increased its prices with a guarantee of high quality which appealed to the customers and thus helped it to improve its sales volume. Thus there has always been a fair balance between price and quality in Tesco.

Competition

Question 6: What are the pricing strategies implemented by your company?

Answer: According to the senior managers of Tesco the company has implemented different types of pricing policies in the past and is focused on adopting the best possible pricing strategies in future to provide their customers with the best possible deal with a guarantee of high quality products and services. According to the senior managers in Tesco the company had recently announced its biggest ever discount offer in an attempt to eliminate competition and regain lost ground in UK. Richard Brasher, UK boss of Tesco announced recently that the company will put £500m into price cuts of up to 30% on a range of food items like milk, pasta, fresh fruits, vegetables etc. He further announced that there would be biggest reductions on products owned by Tesco. According to the management this announcement was not only a price war but it aimed at repositioning the pricing strategy at Tesco. The managers further said that the change in the pricing strategy was a response to the ever increasing cost of living to enable consumers to save money while they shop for their daily requirements.

Question 7: What are the pricing strategies implemented by your competitors and how do they respond to your pricing policies?

Answer: The retail giants in UK are always in competition with each other and in an attempt to eliminate the competition and have a competitive edge each and every organization comes up with one or the other competitive pricing strategies every now and then. To compete with Asda

with a guarantee of selling goods and services at a 10% cheaper price and Sainsbury with lower profit margins Tesco has launched an offensive pricing strategy. In an attempt to compete with the low prices offered by Asda and Sainsbury Tesco announced that the chain will switch to a new permanent price guarantee instead of specific price promotions. According to a survey conducted by the company consumers were not much happy with the specific price promotions or the multi buys especially in fresh food items which offered one or two items free with another item. According to the survey people preferred a permanent price cut instead of these multi buys as most of the times these resulted in wastage. Thus Tesco announced that it would put around £500m to facilitate price cuts of up to 30% across a wide range of products and services offered at Tesco.

According to the managers their competitors like Asda, Sainsbury, and Morrison etc have geared up their pricing strategies to compete with Tesco and among themselves. Asda adopted a recent pricing strategy which guarantees a 10% cheaper price compared to its rivals or give the difference to the customers. In an attempt to guarantee a low price Asda has also used the digital technology to allow consumers to enter their receipt number and compare their price with others in the industry. This has been an important step for Asda to grab a good share of the market and improve their sales volume significantly. On the other hand Sainsbury in the recent times have come up with huge discounts on gift items especially children toys for the festive season and at the same time they are offering special money off token to customers to compete with the low prices offered at Asda with a guarantee of Sainsbury quality.

Question 8: Is your policy to sell consistently at a higher price, lower price, or the same price as your competitors? Why?

Answer: The managers in Tesco were of the view that some of the products in Tesco are premium products and thus priced accordingly. However it has always been Tesco's focus to come up with the best possible pricing strategy for their customers and thus offer heavy discounts and promotional pricing during different festive season and throughout the year. In an attempt to offer products and services at a lower price and to compete with premium brands Tesco has come up with a range of own labeled products and venture brands, this has always been helpful for the company to increase its profit margins. For example Tesco has recently launched a brand named Halo a range of feminine hygiene products with a pricing much below

the competition in the market but with the guarantee of same quality. The CEO of Tesco believes that the creation of these venture brands are important pillars of Tesco's pricing strategy.

Some of the products like the low carbon products sold at Tesco are priced highly but are in high demand. The managers further illustrated how Tesco has been planning to implement a permanent lower price guarantee on all its products and services to compete with Asda and Sainsbury. Thus the policy of the company is neither to sell products and services at a higher price or lower price but to implement different pricing strategies as per the need and demand of the situation.

Pricing and Market Share

Question 9: What is your present market share? And what are your future plans to increase or maintain your market share?

Answer: In the recent months Tesco lost much of its market share as a result of Asda's price promise to be 10% cheaper than any of its competitors in the industry or a guarantee of returning the extra pounds. To compete with the price promise of Asda Tesco adopted a permanent price promise to customers instead of discounts and promotional pricing policies and thus Tesco invested £500m for implementing such price cutting strategies up to 30% on a range of food products like pasta, milk, fresh vegetables etc. The managers in Tesco believe this policy would help Tesco to compete with other retail giants and regain its market share which it had lost recently due to the high promises and price strategies made by Asda and other retailers. According to recent researches there has been a huge leap in the pricing of staple food and other food items like beef mince, cornflakes coffee which has resulted in a decrease of sale of these products. But the pricing policies of Tesco would be helpful in lowering the prices of such products even though the cost cutting on such products would pose a big challenge for Tesco.

Question 10: What effect will price changes have on your market share?

Answer: The senior managers in Tesco believed that the pricing strategies recently adopted by Tesco would be effective enough to regain its market share in the future along with improving its profit margin. More over the launch of several venture brands by Tesco has been helpful for competing with premium priced products. This particular move of Tesco to promote their

venture brands and their bargaining power among Europe's grocery retailers have been helpful for Tesco and the further implementation of pricing strategies to come up with permanent price guarantee would ensure a better market share for Tesco.

Strategy

Question 11: Have you determined how pricing affects your sales/volume goals?

Answer: Pricing does affect the sales volume in the retail industry and Tesco being a player in this industry is no exception. When Asda came up with a price promise of being 10% cheaper and when Sainsbury came up with huge discounts and money back coupons to compete with each other and others in the industry, Tesco lost its market share as people preferred to buy from Asda and other retailers providing huge discounts and money back coupons. Thus to compete with their rivals Tesco decided to come up with price guarantees of up to 30% lesser prices from others on a range of products and services offered at Tesco.

Question 12: How can pricing help you gain new business?

Answer: The managers in Tesco believe that the pricing strategies adopted at Tesco to guarantee lower prices with a price cut of around 30% on a range of products would help Tesco to gain new business in future and would also help Tesco to regain its lost market share. In a recent survey it had been stated that due to the leap in pricing of staple food and other food items there had been a decrease in the sales of such products but with the new pricing strategy Tesco would be able to offer people the same food items at a lower cost which would help it to gain new business. The price drop policy introduced by Tesco would be its first ever initiative to attract customers with low price guarantee other than promotional pricing and its club card loyalty scheme. Moreover the managers in Tesco believe that Tesco would focus on internal cost cut to absorb the pressure of price cut so that its profitability is not hampered.

4.2 Quantitative Analysis

This section will provide the analysis for the quantitative data that was collected by the researcher during the course of the research. Consumers were provided with questionnaires to assess the suitability of the pricing strategies and to assess the perceived product quality. The analysis provided in this section will illustrate the consumer's willingness to pay. This factor contributes towards the success of the pricing strategy.

Consumer Demographics

The following table illustrates the consumer demographics that were surveyed. The data presented points out that the consumer segment surveyed presented a good mix and hence provides for the Generalisability of the study

Sex	Male	Female		
	58%	42%		
Age	<25	25-35	35-45	>45
	23%	28%	27%	22%
Income	<£15000	15000-25000	25000-35000	>35000
	22%	28%	26%	24%

Table 1: Consumer Demographics

The data presented in the above table illustrates that the research participants were fairly distributed and consisted of a good proportion of male: female ratio and also were equally split across the age range and the economic category. Thus the results provided in the following sections are quite valid and generalizable

Q1. Please rate the product quality of the following retail stores (on a scale of 1-5)

- *Sainsbury's*
- *ASDA*
- *TESCO*

- *Morrison's*

A: The answer obtained for this question illustrates the perceived quality standards that each of these stores has. The consumer perception regarding the quality of the products is a major factor influencing the pricing strategy. Higher the perceived quality standards higher can be the pricing. Therefore the perceived quality is an important factor. The following table illustrates the perceived product quality of each.

Sainsbury's	1	2	3	4	5
	7%	12%	25%	28%	28%
ASDA	1	2	3	4	5
	9%	15%	28%	26%	22%
Tesco	1	2	3	4	5
	12%	18%	31%	24%	15%
Morrison's	1	2	3	4	5
	8%	15%	25%	27%	25%

Table 2: The Answers for Question 1

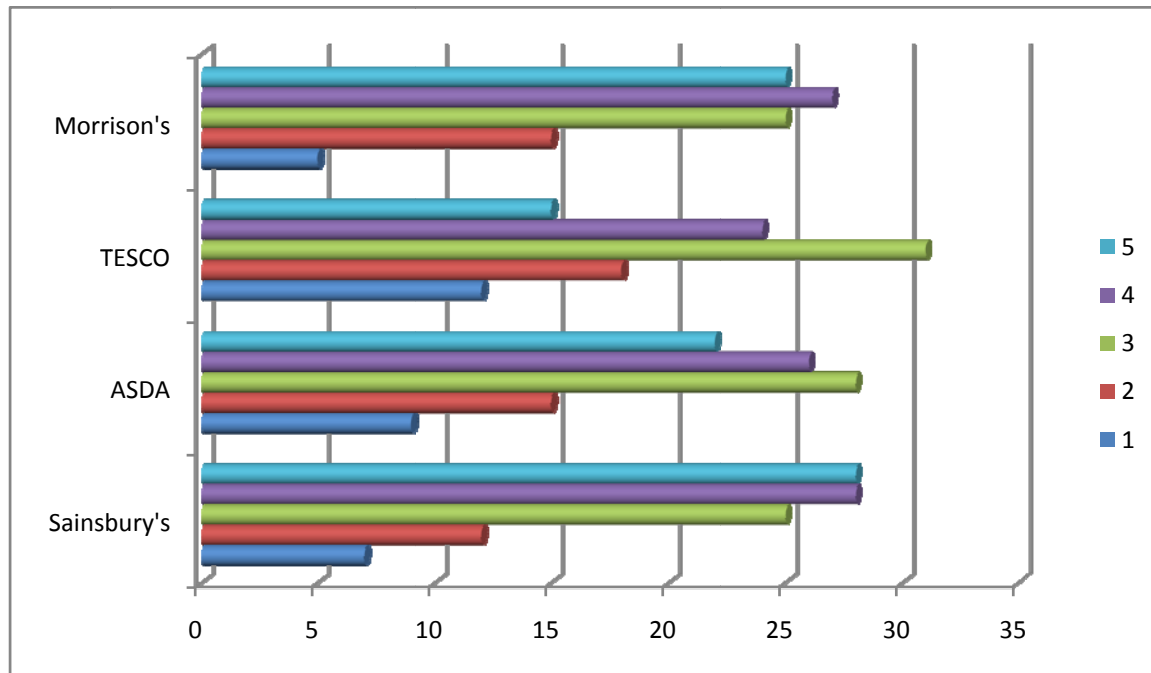


Figure 5: Perceived Quality of each of the Retail Chains

The data presented in the above table and graph illustrates that the research participants feel that Sainsbury's and Morrison's are the leaders when product quality is concerned. The results also illustrate that the perceived quality of TESCO is in the 'average to good' segment but however these are not rated 'best'. TESCO has been a cost leader and thus the associated quality standards can be quite understood. However in the post recession periods TESCO has been revising its pricing strategies and have focused on Niche pricing strategies and premium product ranges. This is reflected in the opinion of 15% of the research participants who believe that TESCO products can be treated as premium products. The changing pricing strategies and business strategies of TESCO would go on to ensure that the company is capable of sustaining the 30% market share that it enjoys at present.

Q2. On a scale of 1-5 (1 is low and 5 is High) rate the prices of the following retail chains

- TESCO
- ASDA
- Sainsbury's
- Morison's

A: The answers to this question would illustrate the pricing strategies that are adopted by each of the stores in the United Kingdom. It has been illustrated earlier that ASDA is currently the cost

leader and TESCO has also been operating on a cost leadership model but in the post recession period the company has changed strategies and has been focusing on premium pricing. However the answers here will illustrate the consumer perception regarding the pricing strategies

Sainsbury's	1	2	3	4	5
	7%	10%	15%	28%	40%
ASDA	1	2	3	4	5
	35%	28%	27%	6%	4%
Tesco	1	2	3	4	5
	32%	28%	20%	15%	5%
Morrison's	1	2	3	4	5
	8%	12%	25%	35%	20%

Table 3: The Answers for Question 2

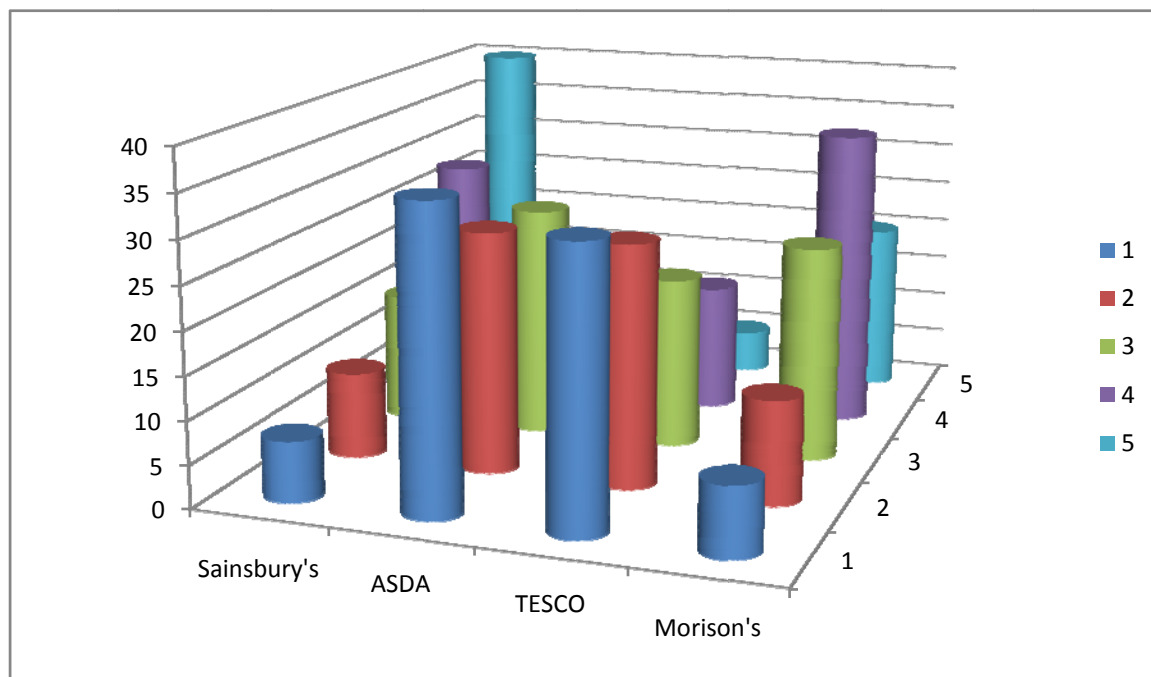


Figure 6: Graphical representation for the Data of Q2 above

The above data clearly illustrates that TESCO and ASDA are the cost leaders as per the research participants. This is also in accordance with the statements obtained from the management. 32% of the research participants believe that TESCO provides cheapest prices. The TESCO value range of products is mainly responsible for this opinion; however it can also be noted that 20% believe that the prices are on the higher side. This can be associated with the new pricing strategies that have been adopted by TESCO. The premium product range that has been launched by TESCO is mainly responsible for such opinion. In contrast ASDA has been capable of sticking to its 'lowest price guarantee'. Being a part of the Wal-Mart family the company has been quite capable of sustaining the cost leadership. Sainsbury's on the other hand can be seen to have kept the premium pricing strategies. The results for this question are again consistent with the perceived quality standards of each of the organisation. Thus it can be seen that pricing and perceived quality have a positive relation.

Q3. How would you rate the price: to quality for the following retail chains in the United Kingdom (on a scale of 1-5; 1 being poor and 5 being excellent)

- Sainsbury's
- ASDA
- TESCO
- Morison's

A: The answers provided for this question will again illustrate the price: quality relation. It has been noted in the literature review that product quality forms a major determinant of the pricing strategy and the answers obtained in this section will go on re-establish the fact

Sainsbury's	1	2	3	4	5
	5%	10%	38%	27%	20%
ASDA	1	2	3	4	5
	6%	14%	22%	34%	24%
Tesco	1	2	3	4	5
	4%	12%	25%	35%	24%

Morrison's	1	2	3	4	5
	10%	18%	32%	25%	15%

Table 4: The Data obtained for Question 3 above

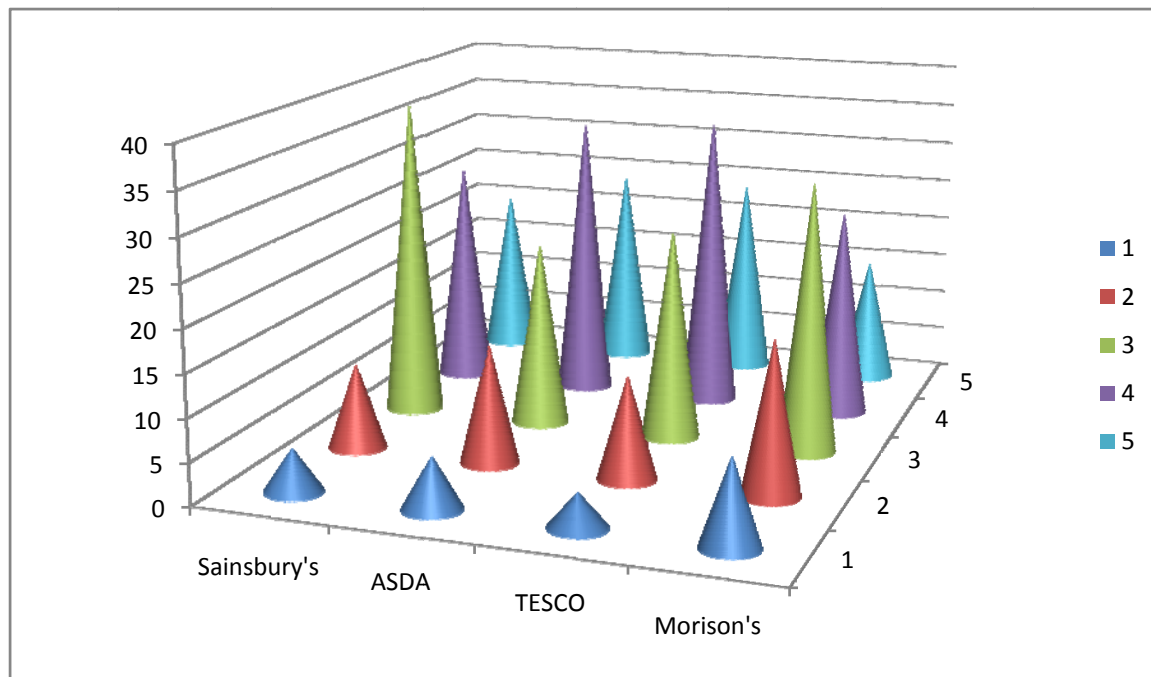


Figure 7: Graphical Representation of the Table above

It can be noted that the product quality: product price ratio has been discussed to be mainly average for Sainsbury's and Morrison's; however this has been illustrated to be good for ASDA and TESCO. It needs to be noted here that these are all big chains and prime competitors in the UK retail industry and hence there cannot be major deviations in the product quality or the organisation would not be able to sustain the competition. Thus the product quality is bound to be similar across the organisations with little differences. The pricing and the pricing strategy are the main areas where these organisations differ. The answers provided for this question clearly illustrate that 59% of the participants believe that the pricing: product quality for TESCO lies between Good and Excellent while that of ASDA is 58% for the same category. Thus it is again established that product quality has a positive relation with the pricing strategy and both of these combine towards the ultimate purchase decision.

Q4. Can you please discuss your monthly average spend at the following four retail chains in the United Kingdom?

- Sainsbury's
- ASDA
- TESCO
- Morison's

The answers for this question were spread and the data presented below represents the Mean or the arithmetic average for the data set obtained. The researcher will also discuss the standard deviation for each of the data set so as to establish that the data does not vary too much

Company	Sainsbury's	ASDA	TESCO	Morison's
Mean Spend	£450.54	£650.38	£728.28	£423.45
Standard Deviation	32.28	44.25	45.28	28.25

Table 5: The Data Obtained for Survey Question 4

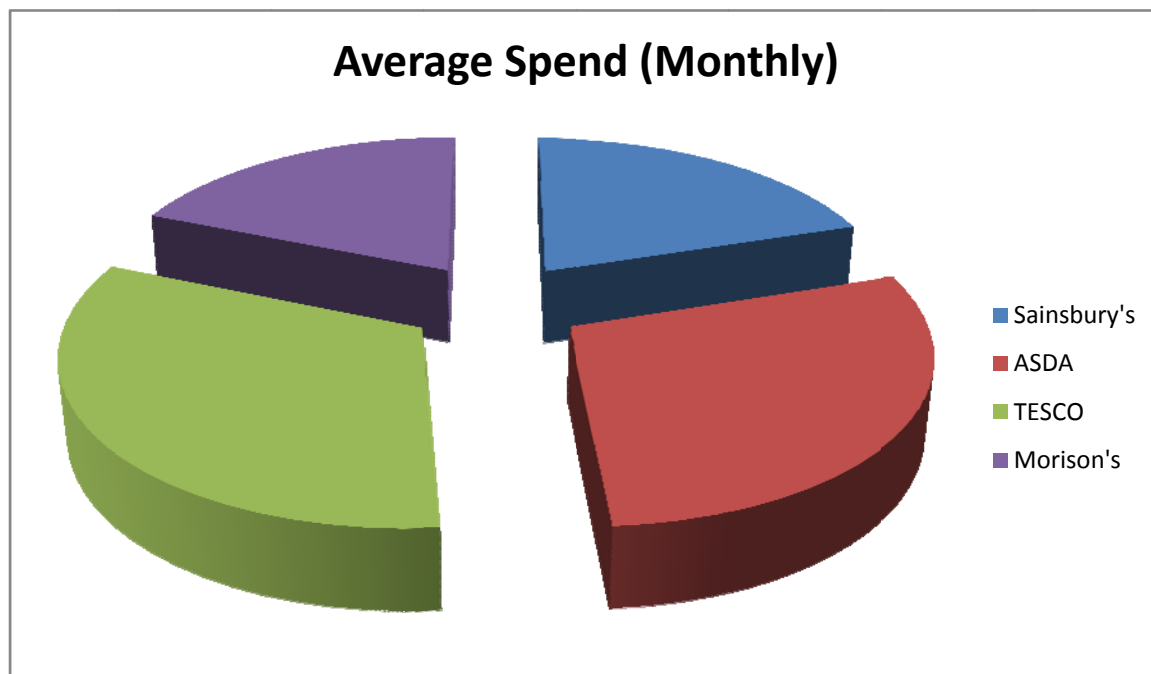


Figure 8: Graphical Representation for the Data of Question 4

The data obtained reveals that TESCO and ASDA have almost an equal share as to the purchase decision of the consumer segment is concerned. The pricing strategies and the product qualities of these organisations have earlier hinted that TESCO and ASDA are preferred to Sainsbury's and Morison's. The data obtained here clearly indicates that the pricing strategy and product quality have a direct influence on the buying decisions and hence the profitability. Further the loyalty also needs to be measured which would lower the pricing sensitivity.

Q5. On a scale of 1-5 discuss your willingness to pay in case there is an increase in price in the range of 5-10% for each of the organisations

- *Sainsbury's*
- *ASDA*
- *TESCO*
- *Morison's*

A: The answer to this question reveals the willingness to pay in case of price hike. The higher the willingness to pay the higher is the brand loyalty. Brand loyalty is a major factor in ensuring profitability. Price hike also signifies improved quality and hence the answer to this question will illustrate the growth potential and success of pricing strategy for TESCO

Sainsbury's	1	2	3	4	5
	18%	22%	32%	18%	10%
ASDA	1	2	3	4	5
	12%	28%	25%	23%	12%
Tesco	1	2	3	4	5
	14%	18%	28%	25%	15%
Morrison's	1	2	3	4	5
	20%	28%	25%	22%	5%

Table 6: Data obtained for Survey Question 5

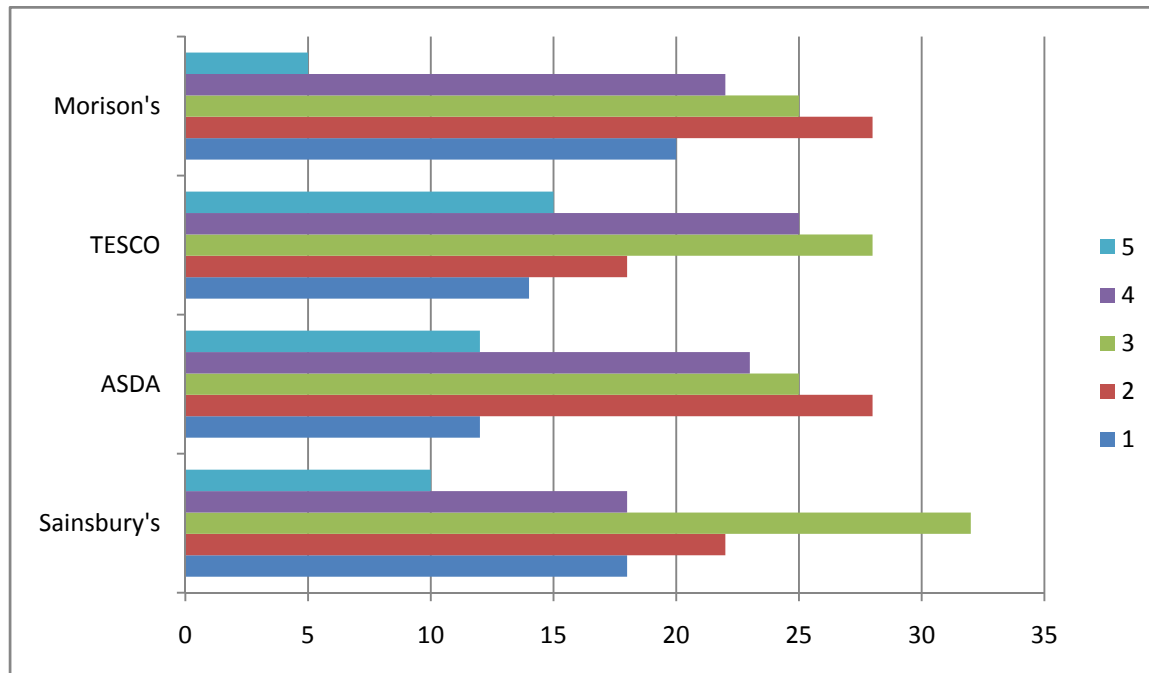


Figure 9: Graphical Representation of Table above

The willingness to pay in case of price hike can be seen to be 40% for TESCO and 35% for ASDA. For Sainsbury's this is 28% and for Morison's this is 27%. Thus it can be stated that the customer loyalty is inclined towards TESCO and ASDA. This is a major reason behind the success of these organisations and the market share of these. TESCO has been modifying its pricing strategies in the recent years and the customer loyalty and lesser sensitivity towards price fluctuations can be stated to be the major factor behind such strategies.

4.3 Summary

This chapter presented the primary data for this research. The chapter had been divided into two sections providing the qualitative data and the quantitative data. The qualitative data has been generated from the interviews that were conducted with the management team at TESCO. The quantitative data has been generated from the survey questionnaires that were dispatched through e-mail to the research participants. The qualitative data illustrates the management point of view regarding the product quality and the pricing strategies and the quantitative data presents the consumer's perception regarding pricing and quality. The data analysis illustrates that TESCO has been changing its pricing strategies to ensure profitability and growth in the post recession period. The price: quality ratio provided by TESCO along with the brand loyalty has ensured the

success of the organisation. Pricing Strategies forms a major determinant or one of the Critical Success Factors for an organisation and this chapter has illustrated all such factors.

Chapter 5: Conclusion

5.0 Introduction

This is the final chapter of the dissertation paper and would thus summarize the entire research. In this chapter the researcher will discuss the findings of the research in brief and would also link the objectives of the study with the findings of the research to measure the success of the research. The literature review along with the chapter of data analysis has been fundamental in providing the researcher and the readers a good understanding of the importance of pricing strategies and the pricing strategies adopted by Tesco and other retail chains in UK to compete with each other (Reiman, 2002).

Pricing strategies are very important for any organization to compete with rivals and to establish their market image. The success of any company depends upon the pricing strategies adopted by them and altered from time to time depending upon the need and situation in the market. It is the responsibility of the managers to identify the success or failure of pricing strategies and thus alter them from time to time so as to eliminate their competitors from the market or match steps with them. There are different types of pricing strategies used by companies at different times to compete with others in the market and to save products and services from reaching the declining stage (Bitran and Caldentey, 2003).

Each and every product introduced in the market has a life cycle and thus at every stage of the product the pricing strategies should be altered by the organization to save the product from reaching the declining stage. When products and services are introduced in a market often companies adopt a promotional pricing strategy or give away their high quality products at low prices to penetrate a new market and capture their share of the market. The literature review chapter of this research paper has been fundamental in illustrating the importance of pricing strategies and different types of pricing adopted by companies from time to time. The main aim of the dissertation paper was to show the relationship between pricing and quality of products and services (Elmaghraby and Keskinocak, 2003). The literature review portion was fundamental in illustrating that there is no direct relationship between pricing strategies and quality but at times when companies come up with excessive cost cutting strategies it is always not possible for them to maintain the highest standard in their quality of products and services (Feng and

Xiao, 2000). For example in the data analysis chapter it has been illustrated through the qualitative questions that when Asda once came up with very low chicken prices, the farmers could not give guarantee of a very high quality at such low prices. Thus it is always not correct to say that pricing and quality are not at all related but many a times it has been noted that companies adopt skimming price strategy or promotional pricing strategy to sell their products and services. Skimming pricing strategies are adopted by companies when there is no competition in the market and thus low quality goods and services are sold at higher prices (Feng and Xiao, 2004). But this strategy is not sustainable enough as selling low quality goods at high prices would soon attract competitors in the market. On the other hand companies adopt promotional pricing strategies or penetrative marketing strategies when they need to enter a new market and capture their share in the market. Thus the literature review chapter in this research paper shows the importance of pricing strategies adopted by different companies during different stage to eliminate competition in the market or to save their products and services from reaching the decline stage (Vulcano, *etal*, 2002).

5.1 Discussions

The research paper revolves around the pricing strategies adopted by Tesco and the impact of their pricing strategies on the quality of their products and services. It has been established in the literature review section that companies adopt different pricing strategies according to the nature and demand of their products and services and their demand in the market and that every time a low pricing does not mean that the products and services offered by the company is of low quality and at the same time a high priced product always does not mean that the product belongs to a bracket of high quality products (Lin, *et al*, 2003). It is often due to the nature of the products and services where companies have to adopt high pricing strategy or prestigious pricing strategy to sell their products to their target segment and in such cases if the high prices are slashed people would perceive that the products and services have lost the guarantee of quality and thus would not buy those products any more. Hence although at times pricing and quality have a relation but it is always not correct to measure the quality of a product from it's pricing. This dissertation paper thus tried to show the relationship between pricing and quality and in an attempt to do so the researcher conducted a research on the pricing strategies used by the

management of Tesco to eliminate competition in the market and reestablish their strong position in the market (Maglaras, 2012).

Tesco being one of the leading retailers in UK and having a presence in different parts of the world was facing a tough completion from other retail giants like Asda and Sainsbury in UK. For a long period of time Tesco was unable to cope up with the pricing strategies of ASDA and Sainsbury and as a result lost a good amount of their share in the market. Tesco offered promotional prices and offered discounts on certain things but this strategy could not cope up with the exclusive pricing strategy adopted by ASDA which came up with a promise of the lowest price in the industry with a guarantee of being 10% cheaper than their competitors or returning the difference amount if others could provide the same products for further lower prices (Ansoff, 2012). This pricing strategy adopted by ASDA was a great success for the company and as a result many other competitors in the market lost their market share in UK. The harsh economic climate in UK and other parts of the world has resulted in a big leap in prices for staple food and other food products. The economic crises in UK has made it difficult for people belonging to the middle bracket spend huge amounts on food products and other necessary items thus more and more retail chains are coming up with pricing policies so as to suit their pocket. According to a survey most of the people in UK belonging to the middle bracket shops only if there is discounts and lower price promise on products and services Thus the economic climate of the country has made it important for the retail chains to come up with competitive pricing policies and provide permanent price guarantees on a range of products and services. Thus Tesco having lost its market share to the competitive pricing policies of ASDA and Sainsbury in the recent past have adopted new pricing policies to provide people with the best possible deal on all items especially on items meant for day to day use

5.2 Linking with the Objectives

This part of the research will help the researcher to link the findings of the research with the objectives set for the research. Linking the objectives of the research with the research findings would help the researcher to measure the success of the research and would also help the researcher to negate or confirm the hypothesis of the research. The main objectives of the research were to identify the importance of pricing strategies, to identify the use of pricing strategies to eliminate competition, to evaluate the relationship between pricing strategies and

quality, to identify the importance of pricing strategies and product qualities in the retail sector and to identify Tesco's pricing strategy. Hence this part of the research would illustrate that how far the objectives of the research were identified during the research

5.2.1 The importance of pricing strategies

The importance of pricing strategies was identified throughout the research. Right from the introduction chapter and the literature review and the data analysis chapter the researcher has been able to establish the importance of pricing strategies and has defined about the different types of pricing strategies adopted by companies from time to time to compete with their rivals and to expand their reach and establish a mass market (Barr and Huff, 1992). The literature review chapter illustrates the importance of different types of pricing strategies adopted by companies where as the data analysis chapter helped the researcher and the readers to understand the practical implication of these pricing policies when practiced by the leading retail chains in UK to eliminate competition and increase their market share. The different pricing strategies adopted by Tesco, Asda and Sainsbury were illustrated in the data analysis chapter which shows that effective pricing strategies are important for the success of any organization (Bell, 2009).

5.2.2 Different pricing strategies are used to eliminate competition in the market

The importance of the pricing strategies was illustrated throughout the research. Moreover the data analysis chapter also illustrates well how pricing strategies are adopted to eliminate competition in the market and expand ones reach by capturing a good market share (Maglaras, 2000). The data analysis chapter has been fundamental in illustrating how Tesco has come up with different types of pricing strategies in the recent past to reestablish its strong market position which it had lost to the competitive strategies adopted by retail giants like Asda and Sainsbury. The pricing policies adopted by Asda helped it to offer products and services at a guaranteed lower price in comparison to others in the industry and this has helped Asda not only to capture a good share in the UK food retail business but has also helped it build a brand image with a guarantee of high quality products and services at a lower price (Andrew, 2009). Thus to eliminate competition and to regain its strong hold in the UK retail business Tesco has recently adopted pricing policies to come up with a permanent lower price guarantee on a range of its products and services. The company has also announced a large sum to facilitate the cost cutting

throughout the organization on a range of services and products. The management has also established that the cost cutting would not hamper the quality of products and services but the organization would cut internal costs to facilitate the cost cutting (Zhao, and Zheng, 2011).

5.2.3 Relationship between pricing and quality of products

The research paper shows that a low price always does not mean a low quality on the other hand a high pricing always does not mean higher quality (Bitran and Caldentey, 2003). But consumer behavior shows that there is a relationship between pricing and quality of products as consumers perceive that highly priced products are of a high quality whereas a low cost product is of a low quality. But the research also shows that companies apply different pricing strategies to compete and sell their products in the market thus quality and pricing of products and services are always not related (Kossowski, 2011).

5.2.4 The importance of pricing and product qualities in the retail sector

The entire dissertation paper shows that pricing and product qualities are important in the retail sector and people always search for the best deal with a guarantee of high quality products and services. The data analysis chapter shows how Asda, Tesco and other retail chains in UK advertise about their pricing strategies and claim about their maintenance of the highest quality (Bell, 2009). Quality standards are always important in every industry along with pricing strategies but the dissertation paper shows that a high quality always does not require a high pricing when companies can cut product costs by reducing their internal costs and other strategies to reduce the pricing of products and services without hampering the quality of products and services (Kotler & Keller, 2009).

5.2.5 Impacts of pricing and product quality in the overall performance of Tesco.

Tesco has always maintained a good pricing strategy and high quality of products and have at times raised product prices to provide people with the best possible quality standards where ever necessary and on the other hand had slashed prices and maintained the same product quality whenever they could (Lorat, 2009). The company has come up with many venture brands to compete with premium products and services at lower costs. The cost leadership pricing strategy of Tesco has always helped it to grab its share of the market. In the recent times there was loss of

market share due to Asda competitive pricing policies but to compete with Asda and other retail chains Tesco had introduced pricing strategies lately to regain its lost share in the market. Tesco has always maintained the highest quality and has never compromised with quality standards and thus it can be said that quality and pricing has played an important role in the overall performance of Tesco (Kossowski, 2011).

5.3 Limitations

This research being an academic research has several limitations. There were time and budget constraints which did not allow the researcher to interview more managers and conduct a survey on more customers of Tesco to gather data from them. However the research conducted by the researcher has been successful enough in gathering sufficient data to prove that pricing strategies and quality standards play an important role in the retail sector and also has been able to illustrate that although there is no direct relationship between pricing and product quality always but as per consumer behavior pricing to some extent decides the quality of products and services.

5.4 Conclusion

The research on pricing and quality standards conducted on the organization of Tesco shows that pricing and quality standards play a very important role in the retail sector (Bell, 2009). The big retailers in UK like Tesco, Asda, and Sainsbury etc has been able to capture their share of the market because of their pricing strategies and the quality standards maintained by them. The in house brands introduced by Tesco have been a success for the organization and has also helped Tesco to compete with premium brands (Kossowski, 2011). These in house brands introduced by Tesco has helped them to offer high quality products to consumers at lower prices which has helped Tesco to increase their share in the retail industry. The cost cutting and price guarantee schemes have been adopted by most of the retail chains in UK to gain a strong foothold in the market in the face of economic recession but at the same time the retail giants have also maintained their guarantee of a high quality products and services (Kotler & Keller, 2009). Tesco has always been a cost leader but the recent policy adopted by Asda to provide low price guarantee had resulted in Tesco losing its market share. But soon enough the higher management of Tesco came up with pricing strategies that helped it to regain its lost position in the market (Reiman, 2002). The management in Tesco has also been assertive that the company would cut

costs without compromising on the quality of goods and services. Thus the dissertation paper has been successful enough to study and illustrate the relationship between pricing strategies and quality of products and services and the importance of pricing and maintenance of quality in the retail sector (Bell, 2009).

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Appendix-I

Interview Questions

Name: _____

Designation: _____

Email: _____

Contact: _____

Years with Tesco: _____

Question 1: Which products/services do customers shop around for?

Question 2: Which products/services are in greater demand even at higher prices?

Question 3: Are certain products/services in greater demand at one time of the year than another? If so, which? And what is the duration of the demand?

Question 4: Do your customers expect a certain price range?

Question 5: What is the balance between price and quality in your market?

Question 6: What are the pricing strategies implemented by your company?

Question 7: What are the pricing strategies implemented by your competitors and how do they respond to your pricing policies?

Question 8: Is your policy to sell consistently at a higher price, lower price, or the same price as your competitors? Why?

Question 9: What is your present market share? And what are your future plans to increase or maintain your market share?

Question 10: What effect will price changes have on your market share?

Question 11: Have you determined how pricing affects your sales/volume goals?

Question 12: How can pricing help you gain new business?

Name: _____

Age: _____

Sex: _____

Income:

- ☐ <15000
- ☐ 15000-25000
- ☐ 25000-35000
- ☐ >35000

Q1. Please rate the product quality of the following retail stores (on a scale of 1-5)

- *Sainsbury's*
- *ASDA*
- *TESCO*
- *Morrison's*

Q2. On a scale of 1-5 (1 is low and 5 is High) rate the prices of the following retail chains

- *TESCO*
- *ASDA*
- *Sainsbury's*
- *Morison's*

Q3. How would you rate the price: to quality for the following retail chains in the United Kingdom (on a scale of 1-5; 1 being poor and 5 being excellent)

- *Sainsbury's*
- *ASDA*
- *TESCO*
- *Morison's*

Q4. Can you please discuss your monthly average spend at the following four retail chains in the United Kingdom?

- Sainsbury's
- ASDA
- TESCO
- Morison's

Q5. On a scale of 1-5 discuss your willingness to pay in case there is an increase in price in the range of 5-10% for each of the organisations

- *Sainsbury's*
- *ASDA*
- *TESCO*
- *Morison's*