PRICING TACTICS OF GROCERY RETAILRES AS THE DRIVER OF TACTICAL CONSUMER RESPONSE

UDK: <339.37:338.4>:658.89 / JEL: L81 ; D11 ; D12 / PRELIMINARY COMMUNICATION

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ABSTRACT

Price is the most sensitive element of marketing mix for consumers, but also the fastest and easiest element to change, and consequently, easiest to copy by competitors. Retail pricing is quite challenging since it includes large number of products in retailers' assortment. While strategic pricing relates to setting the regular prices and manage targeted price image, tactical pricing relates to daily price changes in very competitive environment. Price promotions are marketing and promotional tool commonly used by contemporary retailers all over the world. They have a special importance for grocery retailers who use Hi-Lo price strategy with a goal of attracting consumers in the store and increasing store turnover and profit. Without meaningful and clever management of price promotions retailers can face profit issues, e.g. due to the lack of impulsive purchases of products that are not at a price promotion. The latter can be associated to the consumers whose behaviour has been affected by regular price promotions. Therefore, the goal of this paper is to investigate consumers' attitudes and behaviour towards price promotions at grocery retailers. With this intention, the survey questionnaire was conducted among 305 consumers whose answers were analysed using SPSS statistical software. Results suggest that consumers usually shop at multiple retailers, more precisely 3.8 retailers on average and that price promotions can be the main reason of attracting consumers to the store, but mostly for the occasional shopping, not regular. Furtherly, at majority retailers, largest impression regarding prices for the occasional shoppers leave the prices of individual products. At this level of managing prices of individual products and their price promotions, which is mostly a part of pricing tactic, consumer loyalty is not likely to be built. In addition to previous, consumers are more educated about prices and the main motives for their seeking of favourable prices are that they want to behave rational and are accustomed to price promotions.

KEY WORDS: retail price, pricing tactics, price promotion, consumer behaviour, consumer loyalty.

1. INTRODUCTION

With the ease of changing the price in retailing, especially comparing to other marketing and retail elements, comes the opportunity but also the danger of those changes. Usually those price changes are temporarily in some form of reduced price and can be seen as a part of pricing tactic. Retail environment additionally challenges pricing with the large number of individual products offered to the consumers, highly competitiveness (especially among grocery retailers) and various possibilities of price changes. Due to many possibilities of price changing, pricing tactics can have a significant role in retailers' success.

Tactic itself is defined as "a way of doing things so as to be at an advantage" (Business Dictionary, 2017) or "an action or strategy carefully planned to achieve a specific end" (Oxford Dictionaries, 2017). Therefore, pricing tactic in grocery retail should be planned, ensure the advantage over the competitive retailers and satisfy both consumers (loyal and potential ones) and retailer. Furtherly, Grewal & Levy (2008) define the price as "the overall sacrifice a consumer is willing to make to acquire a specific product or service". Thereby arises the question what presents the sacrifice for individual consumer, or more important targeted consumers? Some consumers are more willing to invest their time in research of the offer, comparing prices and catching the time limited special price promotions, while others are more willing to pay the price with minimal other sacrifice or investment such as their time, traveling to the store or fuel consumption. As Hinterhuber and Liouzu (2014) state, most of the companies see pricing as a win lose situation between consumers and them, what should not be an issue if companies are consumer oriented.

The goal of this paper is to investigate consumers' attitudes and behaviour towards price promotions at grocery retailers. The research questions of the paper are:

- Is it become a rule that consumers purchase at multiple retailers? At how many?
- What are the main reasons for usual and occasional purchase at certain retailer?
- What leaves the largest impression on usual and occasional shoppers regarding prices for a certain retailer?
- Are consumers accustomed to price promotions?

For this purpose, the indicative research was conducted among 305 consumers whose answers were analysed using SPSS statistical software.

2. LITERATURE REVIEW

Pricing tactics could be perceived as a retailers' manoeuvre to ensure some kind of win situation for them. They are often called promotion tactics (e.g. Jalili, 2017) since they usually imply some kind of price reduction from the regular price offer. One of the most often used pricing tactic is price promotion which American Marketing Association (2017) defines as "the advertising of a price for a product or service and usually, the price being promoted is a reduction from a previously established price and may take the form of a lower price, a coupon to be redeemed, or a rebate to be received". As the examples of promotion tactics, Jalili (2017) lists coupons, quantity discounts, bundling, rewards program. Rewards program furtherly leads to consumers' loyalty, which is always one of the most desirable outcomes for retailers. Consumers' loyalty and repeated purchase (retail patronage) are one of the key factors that retailers are competing with each other and trying to build a recognizable program within their own company.

Pricing issues should be complementary with all other parts of retailer's strategy, brand and image. Ailawadi and Keller (2004) emphasize three areas that affect the image of a retailer within the price as part of the retailer's brand:

- the price level perception of the store,
- the price format (price strategy) of retailers (EDLP or Hi-Lo) and
- price promotions - their frequency, strength and variety of assortments they encompass.

The price level perception and the price format can be seen more as strategic areas, long-term decisions, while price promotions are area of tactical pricing issues and short-term decisions. Price promotions are usually used by Hi-Lo (high-low) retailers for products that have potential to attract large number of consumers in the store. Although their objective is that most of those consumers will buy other products on regular prices, cherry pickers consumers who are present on the market could spoil their plans. Those consumers research price offers, compare and buy only during special price promotions (Popkowski Leszczyc et al., 2004; Fox &Hoch, 2005). In turn to consumers' cherry picking, retailers seek out ways to compete through pricing tactics and provide the deals that offer the most value to consumers (Grewal et al., 2012). Price promotions are seen as a critical in the management of the fast-moving-consumer goods (Breiter & Huchzermeier, 2015) with special emphasize on their profitability for retailers. However, they can be useful when retailers want to make a seasonal clearance, whereby price promotion at the point of sale such as additional displays is more effective than store flyers (Gázquez-Abad & Martínez-López, 2016).

Encouraged by necessity, availability or rationality, many consumers became more eager to research and educate themselves about various pricing issues. Consumer responses to pricing tactics are affected by the level of accurate/inaccurate knowledge held for such tactics (Hardesty et al., 2007). Kachersky (2011) reports how consumers awareness is growing regarding unit price increase (through price increase or content reduction) because they are becoming more educated due to the technology usage. Pozzi also (2013) emphasizes the role of technology and development of e-commerce which eases price comparison between retailers. Due to increased transparency and less possibilities for differentiation through prices or assortment, Ahmetoglu et al. (2014) emphasize the importance of price "design" as a pricing tactic through which retailers can influence consumers' perception and purchase decision, since many consumers' purchase decisions are often more based on perceived price than the actual ones (Danziger et al., 2014). This could be supported with price image on a strategic level, the price level of overall retailers' assortment (Hamilton & Chernev, 2013) that retailer achieved in consumers' perception.

Nijs et al. (2007) researched the drivers of retailer pricing (for a focal brand) over time, thereby including competitive retailer activity, pricing history, brand demand, wholesale prices and category management. Brand demand (made by consumers) proved to be very important price driver for retailers' pricing tactics, second after pricing history, with certain variations depending on product category and brand. Watson et al. (2015) state that many implications of changing prices are unfamiliar, especially regarding competitor and consumer responses to them, which additionally encourages usage of history pricing. This goes in favour of the theory of Passivity Pricing in grocery retail sector they developed which includes consumer price sensitivity as a context and the unpredictable nature of consumer response as one of the causes of passivity. Consumers' responses to retailers' pricing tactics can be strongly impacted by their goal orientation that can be promotion-focused (eagerly pursuing advancement) or prevention-focused (watchfully avoiding mistakes) (Hardesty et al. 2012). The same authors researched price-matching guarantees as one of the pricing tactic regarding consumers' goal orientation and conclude that retailers can raise consumers' prevention orientations for a short time, in order to increase their preferences for PMGs over regular prices. Furtherly, by framing price-matching guarantees, they can influence that consumers perceive their offer as promotion oriented if their consumers are promotion-focused.

3. RESEARCH METHODOLOGY

The main goal of this paper is to research consumers' attitudes and behaviour towards price promotions at grocery retailers. Therefore, targeted respondents were household members who purchase FMCG products, most often bought at grocery retailers. The primary research was conducted on the convenient sample of 305 respondents of two counties in Eastern Croatia in February 2017. For that purpose, highly structured questionnaire as a test instrument was used in two versions, online through Google Forms template and paper questionnaire. The research included six out of ten largest FMCG retailers in Croatia. These six retailers have around 60%, while top 10 retailers have more than 80% of the market share. All of them are nationally present on the Croatian market. The table 1 shows description of the survey sample.

Table 1: Sample description (Authors)

		n	%
Gender	**Total**	**305**	**100**
	Male	66	21.6
	Female	239	78.4
Age	**Total**	**305**	**100**
	18-29	51	16.7
	29-39	75	24.6
	39-49	67	22.0
	49-59	79	25.9
	60 and more	33	10.8
Education	**Total**	**302**	**100**
	Primary school	9	3.0
	High school	116	38.4
	Faculty and higher	177	58.6
Monthly income of all members in household	**Total**	**302**	**100**
	Less than 650 €	69	22.6
	650– 1,400 €	170	55.7
	1,400 € and more	63	20,6
Employment status	**Total**	**305**	**100**
	Employed	252	82.6
	Unemployed	25	8.2
	Student	9	3.0
	Retired	19	6.2
Members of household	**Total**	**304**	**100**
	1	42	13.8
	2	75	24.6
	3	83	27.2
	4	68	22.3
	5 and more	36	11.8
Housing	**Total**	**305**	**100**
	Apartment	147	48.2
	House	158	51.8

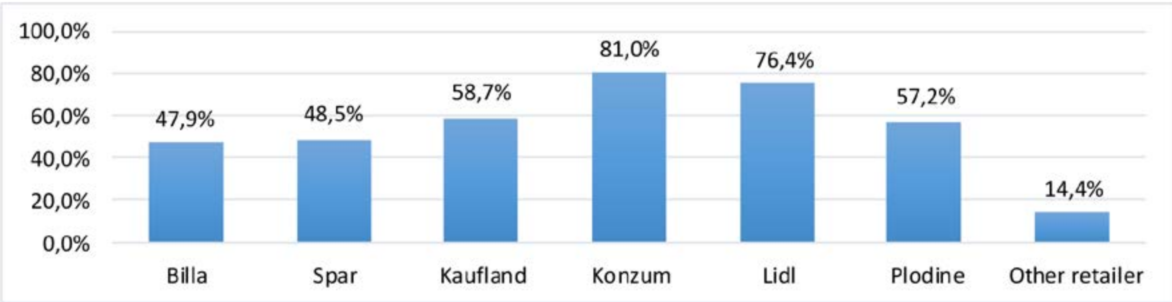
Source: Authors research

The obtained data were analysed using SPSS statistical software and research results are in the following chapter.

4. RESEARCH RESULTS

To find out at which retailers respondents purchase, they were asked to mark all retailers where they purchase at least once in a few months (graph 1). Most of the respondents purchase at Konzum (81%), followed by Lidl (76.4%). The least number of the respondents shop in Billa (47.9%) and Spar (48.5%). “Other retailer” was marked by 14.4% respondents and usually those were small convenient stores in the respondent’s neighbourhood. Summing all marked retailers and dividing it with the number of respondents obtain the average of 3.8 retailers per respondent.

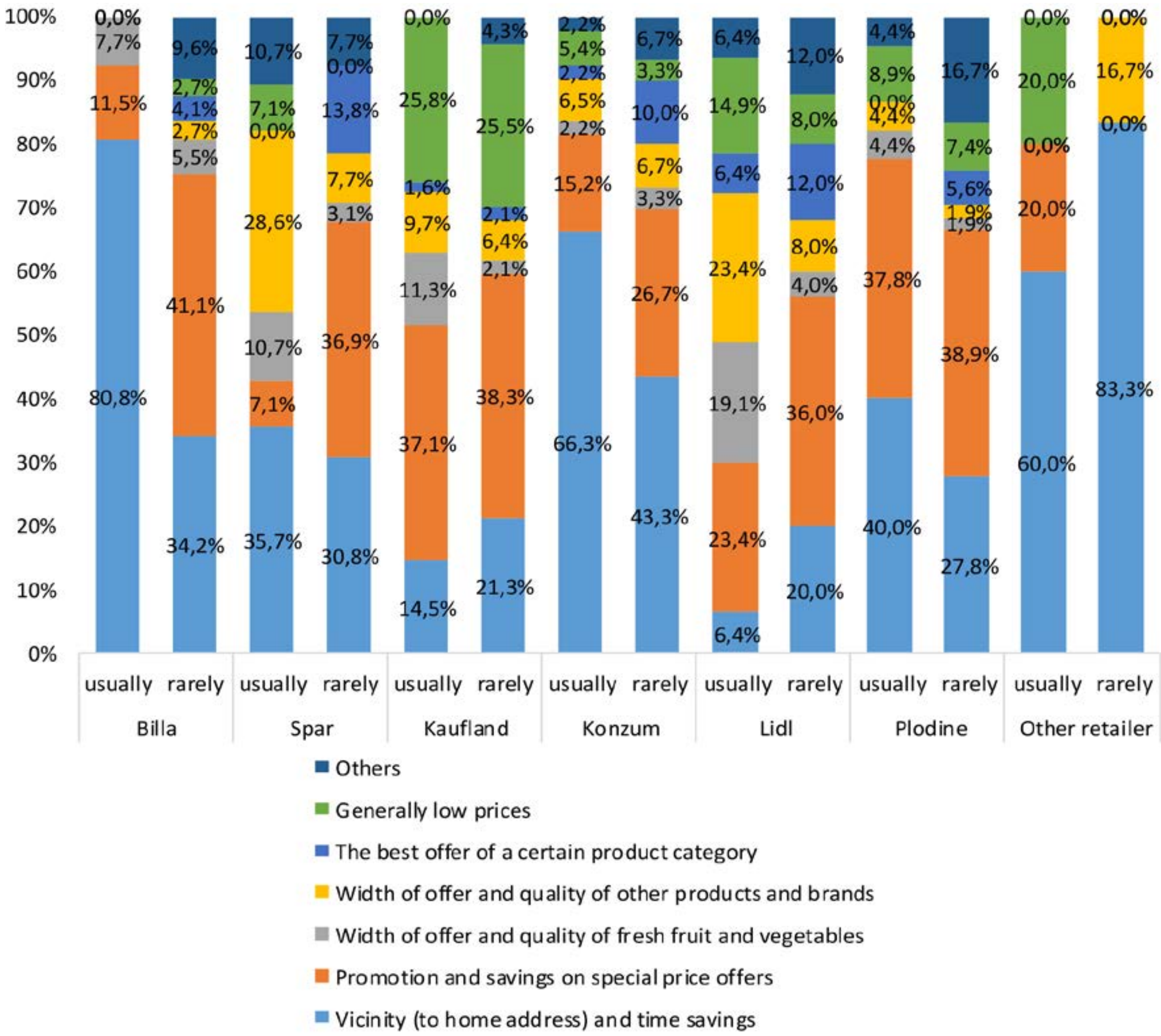
Graph 1. Retailers where respondents purchase



Source: Authors research

Graph 2 shows the main reason for the purchase at a certain retailer (each respondents chose two retailers, one for the most often and one for the rarest or occasional purchase). It provides a comparison of the main reasons with regard on the frequency, for the respondents who usually purchase at a retailer and those ones who do it rarely.

Graph 2. The main reason for purchase at certain retailer – comparison of usual and rare purchase



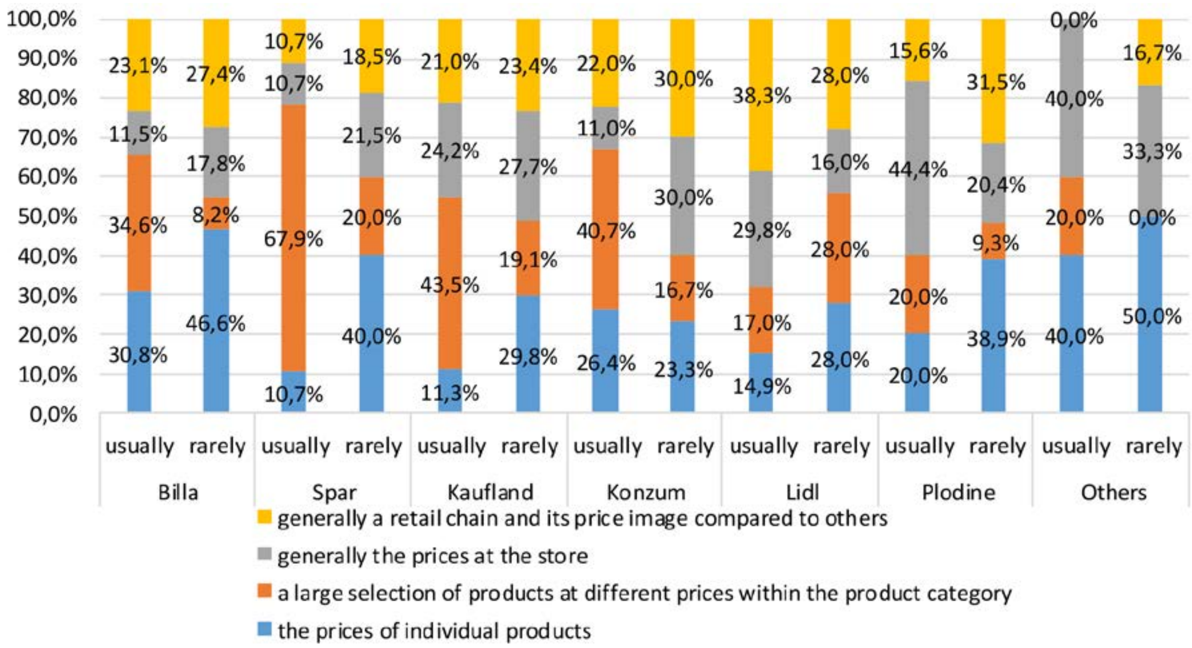
Source: Authors research

When it comes to the main reasons of usual purchase, *vicinity (address of residence and time saving)* is the dominant reason for Billa (80.8%) and Konzum (66.3%). Vicinity is significant reason for Plodine (40%) and Spar (35.7%) too, but *price promotion and savings on special price offers* (37.8%) are highly present for Plodine, while in Spar *the width of offer and quality of the product and brands* (28.6%). The price element is especially highlighted in Kaufland, where for the main reason are prevalent *price promotion and savings on special price offers* (37.1%) and *generally low prices* (25.8%). For Lidl equally represented as the main reasons are *price promotion and savings on special price offers* (23.4%) and *the width of offer and quality of the product and brands* (23.4%).

The dominant reason for the occasional purchase (rarely; even when they purchase there, why do they purchase?) is *price promotion and savings on special price offers* for Billa (41.1%), Plodine (38.9%), Spar (36.9%), Lidl (36%) and Kaufland (28.3%), while for Konzum the dominant main reason is *vicinity* (43.3%), as it is for the usual purchase too. *Vicinity* is also highly represent for Billa (34.2%), Spar (30.8%) and Plodine (27.8%), while for Kaufland *generally low prices* (25.5%) attract occasional shoppers to the stores.

Graph 3 gives a comparison with regard to the frequency of purchases and the biggest impression on prices that some retailer leaves on the respondents. For those respondents who make usual purchases at a particular retailer, the biggest impression on prices generally leaves *a large selection of products at different prices within the product category, for Spar (67.9%), Kaufland (43.5%), Konzum (40.7%) and Billa (34.6%). For the respondents who most frequently buy in Lidl, the biggest impression leaves generally a retail chain and its price image compared to others (38.3%), while for Plodine generally the prices at the store (44.4%).*

Graph 3. The biggest impression regarding prices for a certain retailer

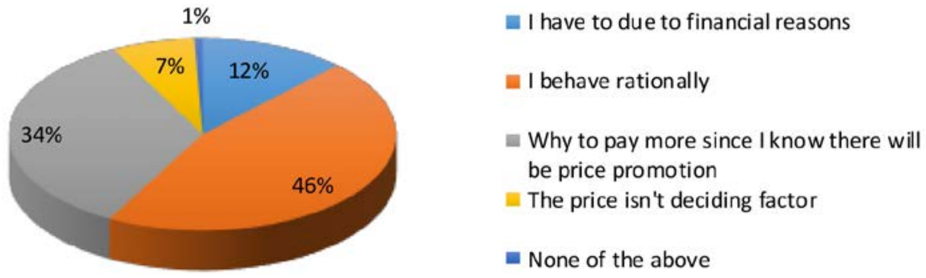


Source: Authors research

Conversely, when taking into consideration respondents who rarely purchase at certain retailers, the biggest impression on prices generally leave *the prices of individual products.* In the case of Billa it is 46.6%, Spar 40%, Plodine 38.9% and Kaufland 29.8%. For Konzum, equal impression leave *generally the prices at the store* (30%) *and generally a retail chain and its price image compared to others* (30%). In the case of Lidl, for the same percentage of respondents (28%) biggest impression leave *the prices of individual products, a large selection of products at different prices within the product category and generally a retail chain and its price image compared to others.*

Graph 4 shows the consumers' reasons for searching of low prices. The prevailing reason is that consumers are trying to behave rationally (46%), while the second most often reason is that they don't want to pay more since they know there will be price promotion (34%). Although one would expect larger percentage of consumers to search low prices due to finance, 12% of respondents chose it as a reason, while for only 7% of respondents price isn't deciding factor.

Graph 4. Reasons for searching for low prices



Source: Authors research

The obtained and described results are discussed in the following chapter.

5. DISCUSSION AND CONCLUSION

Competitive retail environment, economic situation and consumers' life style suggest that it is a common thing that consumers purchase at multiple grocery retailers. However, the obtained result of 3.8 retailers on average is to some extent surprising. By linking that with the cognition that large share of respondents don't want to pay regular prices since they have become accustomed to price promotions, it can be concluded that significant share of respondents is "at least some kind of cherry pickers". To some extent, this is in line with Watkins (2016) who state that consumer "promiscuity", often purchases at various retailers and overall less purchased quantity, is hurting retailers' performance. However, these results could be connected to the limitation of this research which is conducted in the developing country and more precisely, only in its one, economically poorly developed region.

Despite the fact that due to their retail formats most of retailers, such as Plodine, Billa or Konzum have notably wider and deeper product assortment than Lidl, it is the second retailer for whom *the width of the offer and the quality of the products and brands* are the main reason for the usual purchase. Although discounter retail format (low prices, narrow assortment and not one-stop retailer), Lidl managed to build loyalty among consumers not only based on low prices, but also on a unique offer through its private label products. With its specific price "design", whose importance is emphasized as a pricing tactic (Ahmetoglu et al., 2014), Lidl differentiate itself from other retailers by not using usual forms of price promotions which are just lowered regular prices.

Location as a 'traditional' success factor in the retail industry (Marinescu et al. 2010) is once again proven for Konzum and Billa, whose loyal consumers mostly choose these retailers because of locations of its stores, thereby putting assortment and pricing reasons partially in the background. However, stores location and their vicinity is the dominant main reason for occasional purchase in Konzum, too.

In support of the theory of cherry pickers goes the fact that for all retailers, besides Konzum, the dominant main reason for occasional purchase is *price promotion and savings on special price offers.* Even when consumers make a purchase at these retailers where they usually don't purchase, it can be noticed that price promotions are the ones that have attracted them to the store. One could expect that most of those consumers will buy some other products too, which are not on price promotion. But, taking into account that they were attracted primarily by price promotion makes them to some extent cherry pickers. By identifying such consumers who are at least occasionally attracted to their stores due to a certain price offer, retailers could create a more personalized offer for them and try to turn them into more loyal consumers. Pricing tactics in their case have more significant role than in the case of Konzum whose store locations are of greater importance for consumers. Nevertheless, considering that it is about grocery retail and products of everyday consumption, location and gravity area are extremely important factors that must be taken into consideration for all retailers.

A look on what leaves the largest impression on prices (graph 3), clearly shows that consumers like to have a choice between cheaper and more expensive products. *Large selection of products at different prices within the product category, generally the prices at the store generally a retail chain and its price image compared to others* are the three levels that have higher importance on loyal consumers, at least watching only the frequency of purchase at certain retailer, not the share of that purchases in the total consumption. For the consumers who purchase occasionally, the largest impressions leave *the prices of individual products*. Previously suggests that at this level of price managing (mostly a part of pricing tactic) consumer loyalty is not likely to be built and in that case it is also probably about cherry pickers consumers. If possible due to their retail format, retailers should provide consumers enough pricing intervals, at least for key product categories, in order to increase consumers' loyalty.

Limitations of this indicative research are that it focused only on price promotion as a pricing tactic and the frequency of purchase, not the share in total consumption. Further limitations are the representativeness of the research sample in several variables, use of basic statistical methods for interpretation of obtained data and research focus on small geographic area. Future research could give more attention on consumer response to various pricing tactics, such as rewards and loyalty programs or coupons.

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