

## 12.5: Competition-Oriented Pricing

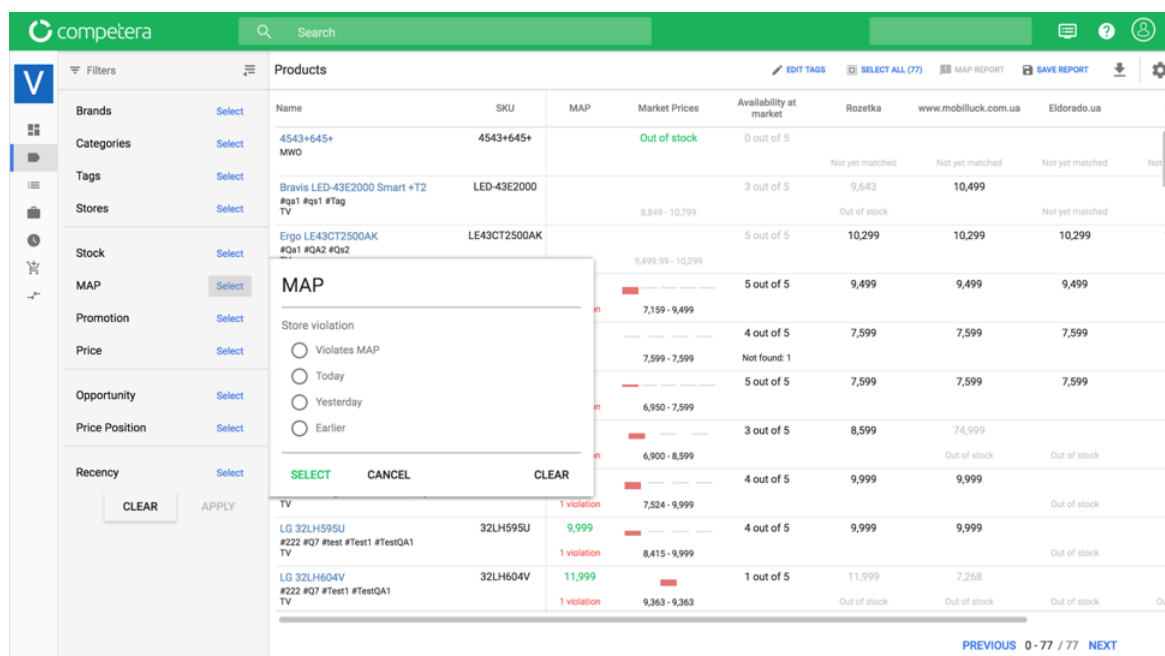
### Learning Objectives

- Explain how a retailer can use competition-oriented pricing to determine the price of a product.

Let us examine another method to develop retail pricing strategy based not on cost but instead based on competition. Competitor-based pricing, or market pricing, uses competitor's pricing, promotions and inventory position to set a retailer's pricing strategy. Depending on the retailer's overall pricing strategy and business objectives, pricing may be higher, lower, or matching that of competitors.

Today prices are very transparent to most consumers. Anyone with a smart phone can be online or in a store and instantly compare prices on a similar product. That is why competitor-based pricing is so prevalent where products are easily identifiable, such as with electronics, appliances, and media. Price transparency also creates a counter-strategy where retailers avoid direct comparison through "privatizing" their branded assortments. Have you ever found the same model of mattress from Sealy or Serta at different mattress retailers so that you could compare the price?

Competition-based pricing sounds like a simple strategy to implement once a retailer has decided how pricing fits in to an overall business strategy. But with all of the channels and geographies today, there could be thousands of data points to track who is selling what for how much, especially for larger retailers. Software products have even been developed to assist retailers with this issue. Companies like Competera, Wiser, Minderest, Omnia and others offer software products to track competitive pricing and in some cases, automatically perform price adjustments at store level.



The screenshot shows the Competera software interface. On the left is a sidebar with filters for Brands, Categories, Tags, Stores, Stock, MAP, Promotion, Price, Opportunity, Price Position, and Recency. The main area displays a table of products with columns for Name, SKU, MAP, Market Prices, Availability at market, and various retailer prices (Rozetka, www.mobiluck.com.ua, Eldorado.ua). A modal window titled 'MAP' is open, showing 'Store violation' options: 'Violates MAP', 'Today', 'Yesterday', and 'Earlier'. The modal also has 'SELECT', 'CANCEL', and 'CLEAR' buttons. The table below the modal shows several products with '1 violation' and '9,999' listed in the MAP column.

| Name   | SKU          | MAP         | Market Prices  | Availability at market | Rozetka | www.mobiluck.com.ua | Eldorado.ua  |
|--|--------------|-------------|----------------|------------------------|---------|---------------------|--------------|
| 4543+645+ MWO                                  | 4543+645+    |             | Out of stock   | 0 out of 5             |         |                     |              |
| Bravis LED-43E2000 Smart +T2 #Qs1 #Qs1 #Tag TV | LED-43E2000  |             | 8,849 - 10,799 | 3 out of 5             | 9,643   | 10,499              |              |
| Ergo LE43CT2500AK #Qs1 #QA2 #Qs2               | LE43CT2500AK |             | 9,499 - 10,299 | 5 out of 5             | 10,299  | 10,299              |              |
|  |              |             | 7,159 - 9,499  | 5 out of 5             | 9,499   | 9,499               | 9,499        |
|  |              |             | 7,599 - 7,599  | 4 out of 5             | 7,599   | 7,599               | 7,599        |
|  |              |             | 6,950 - 7,599  | 5 out of 5             | 7,599   | 7,599               | 7,599        |
|  |              |             | 6,900 - 8,599  | 3 out of 5             | 8,599   | 74,999              |              |
|  |              |             | 7,524 - 9,999  | 4 out of 5             | 9,999   | 9,999               | Out of stock |
| LG 32LH595U #222 #Q7 #Test1 #TestQA1 TV        | 32LH595U     | 1 violation | 9,999          | 4 out of 5             | 9,999   | 9,999               | Out of stock |
| LG 32LH604V #222 #Q7 #Test1 #TestQA1 TV        | 32LH604V     | 1 violation | 8,415 - 9,999  | 1 out of 5             | 11,999  | 7,268               | Out of stock |

The final point on competition-based pricing relates to inventory position. Retailers take their direct competition very seriously and do not like to find out that they are being undersold by a legitimate competitor. But as we saw in the earlier case study about denim jean pricing, a lower price from a competitor is only a threat when consumers can actually buy the product at the lower price. In fact, when a retailer "low-balls" pricing on a recognizable commodity, they had better have the inventory position to support the rate of sale, otherwise they will incur the wrath of the consumer and the low-pricing attempt will actually backfire.

### Practice Questions

<https://assessments.lumenlearning.co...sessments/9278>

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