Case Briefing

Price—Fundamentals

VB COLLEGE

The Situation

The SafeMart supermarket chain has expanded and added a store in River City, Iowa. This chain gives store general managers the flexibility to change prices to meet market needs and maximize profits of the store.

Your Role

You have just been named General Manager of the store and must set prices.

Learning Phase

Step-by-step instructions will guide you through how to find the cost of an item and set prices for your goods based on margin percentages. You will then experiment by setting high and low prices and analyzing the effect on volume (units) and dollar margins. After finding a good storewide margin, you will then refine your pricing by changing the margin percentage on a single inelastic item (an item whose sales don't change greatly with price changes) and analyze the results.

Challenge Phase

As General Manager of Louis Foods, you are now responsible for setting all your prices. Your Regional Manager has given you a weekly goal for total profit. Your challenge is to reach it. You have also been given a report showing data on the price elasticities of different products. You can use this information to fine-tune your pricing. You may operate the store for as many weeks as you'd like.

At the option of your Professor, you may be able to retry the Challenge Phase multiple times. Only your best grade will count.

Knowledge Matters

Price in the Simulation

In this retail simulation model, you have full control of pricing on all your products. Hundreds of simulated customers visit your store. They have varying incomes and varying sensitivities to price. In general older, more affluent urban consumers will pay more and the younger, less affluent suburban consumers will pay less. However, all your customers appreciate a bargain and may buy multiple items if the price is attractive enough. If the price is too high, they will not buy. As in the real world, within the simulation consumers price-sensitivity on some items is much less than on others. Conversely, consumers may be very price sensitive on other items.

Discussion Questions

Describe the effect on volume and margins of setting overall margins very high?

Describe the effect on volume and margins of setting overall margins very low?

Describe your process for finding an optimal (or near optimal) general margin for your store?

What does it mean for products to have different price elasticities? What characteristics of an item might suggest low elasticity? What characteristics of an item might suggest low elasticity?

How should you price a low elasticity product? How should you price a high elasticity product?