

What Do We Know about Retailer Pricing Behaviors

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Abstract

The typical model of retail pricing for produce products assumes retailers set price equal to the farm price plus a certain markup. However, observations in retail markets suggest alternative pricing behaviors adopted by different retailers. The scanner dataset that contains two years of weekly retail prices for six produce commodities sold at 15 retail chains in six major US cities shows a large degree of price dispersion in the grocery retailing market. In addition to markup pricing behavior, three alternative leading pricing patterns: fixed (constant) pricing, periodic sale, and high-low pricing are documented. Retail price variations under alternative price regimes in general have little correlation with the farm price.

This study further explores the strategic pricing behaviors across retail chains for produce products. We adopt a Panel-VAR model to identify the driving factors of retail price variation and find that retail price history, competition, product cost are among the key drivers of retail price change. Forecast Error Variance Decomposition (FEVD) is used to quantify the relative impact of driving factors to retail price changes and show how they affect prices differently across retail chains. We also find that higher responsiveness to competition may indicate superior management ability in price setting that associates with better profitability in practice.

Keywords Retail Pricing Strategy, Price Driver, Panel-VAR, Retail Competition

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