



Name Your Own Price: A Differentiation Strategy

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Abstract

Learning Outcome: This case illustrates the Name Your Own Price (NYOP) as the alternate pricing strategy that can be applied in retailing. With concise information about the pricing strategy, this case forces the students to delve into the possible course of action to solve the problem. This will help students to develop critical and logical thinking skills and apply them in entrepreneurial activities.

Case Overview: An MBA-pursuing student Mr. Suraj Singh went on an educational visit to a retail store and after interacting with the store manager, he became obsessed with starting his own retail business. After searching on it he found that the retail business has ample opportunities. However, it has severe competition. In search of a solution to compete in this business, he found NYOP to be an attractive option for differentiation. He evaluated the pros and cons of this strategy and decided to start his own retail business.

Complexity Academic Level: This case is useful for postgraduate students of management and commerce.

Keywords: Entrepreneurial activities, Name Your Own Price, Retail, Retail Business, differentiation.

After an educational visit to a retail shop in Lucknow on February 11, 2022, Mr. Suraj Singh, an MBA student at Ambalika Institute of Management and Technology (AIMT) aimed at starting his own retail business. Despite good placement records of the institute in reputed companies, he found retail businesses to be a match for his career goals. With the shortcomings of flexibility in jobs, he thought he would have more opportunities and flexibility in the retail business where goods are purchased from manufacturers and sold to retail customers. In searching about retail business, he found that the Retail Sector contributes 10 percent to India's GDP and has an 8 percent share in India's employment. It is expected to grow by 10 percent over 2021-32. Organised retail shares 12 percent of the total retail market. India has the fourth-largest retail market in the world. India ranks among the best countries to invest in Retail space. Factors that make India so attractive include the second largest population in the world, a middle-income class of about 158 households, increasing urbanization, rising household incomes, connected rural consumers, and increasing consumer spending. Indian retail market is estimated to reach dollar 2 Trillion by 2032, driven by socio-demographic and economic factors such as urbanization, income growth, and a rise in nuclear families (<https://www.investindia.gov.in/sector/retail-e-commerce>).

Starting a retail business provides several advantages like efficient business planning, direct contact with customers, ease to expand the business without changing location, lower or zero inventory cost, having options of own goods, high-profit margins

and it can be started in a small space with a small investment. However, it has cons too like high marketing expenses, high competition, no economies of buying, and better selling and marketing skills.

With the above information, he was on the edge of his seat. He thought that starting his own business would make him a job creator instead of a job seeker as he heard of many speakers proclaiming in the seminars. He was confident that he would learn selling and marketing skills as many activities were going on in the department. However, he was sceptical about the high competition in this business and the experiences left by the effect of the pandemic Covid 19 on the retail business. In Lucknow itself, there are big retailers like Reliance Retail, Future Group, Shoppers Shop, Rebel Foods, Tesco, Disk's Sporting Goods, and many more. They are large enough to compete directly. Moreover, During the pandemic covid19 maximum retail stores were shut down. Therefore, he might make the wrong choice by starting a retail business. But the lucrativeness of the growth of the sector made him sleepless. He recalled the interaction with the manager on the educational visit to the retail store and how the manager illustrated the profit margin of about 20-30 percent gained despite high competition.

He recklessly started to search for ways to flourish among the big players. He found an excerpt in the marketing book that increased his anxiety -*“Future malls and their tenants are likely to offer a broad combination of amenities and services such as appointment-based shopping, local pickup, and contactless payment options. In addition, stores are testing new formats such as pop-up shops and micro-retailing to create experiential shopping opportunities, while also utilizing virtual shopping, augmented reality, and personalization technologies. The combination of new retailing approaches and technology is creating a new way to improve the customer journey—the smart mall”*. - **Kerin and Hartley (2023)**.

While he was mulling over eschewing the idea of starting a retail business, he found a new strategy of pricing called “Name Your Price (NYOP)”. He felt that it could be a differentiator in the retail business as it increases customer value and willingness to pay (Gupta & Abbas, 2008; Spann et al., 2004). Generally, retail stores adopt competitive pricing and discount pricing strategies in Lucknow. He further searched about it and found that NYOP is a participative pricing mechanism in which consumers are asked to submit a bid against a threshold price set by the company, and generally unknown by consumers (Krämer et al., 2017). Consumers may be allowed to bid more than once (Fay, 2004; Gupta and Abbas, 2008; Spann et al., 2004, Cai, Chao, and Li, 2009). The NYOP model has been widely used by several European companies, such as low-cost airlines and retailers. The model can be used in an offline setting (Spann, Häubl, Skiera, and Bernhardt, 2012). Mr. Suraj Singh jotted down the pros and cons of NYOP in his notebook and then decided to start his retail business. The content of the Notebook is given in Table1, Table2, and Table3.

Table1. Pros and cons of NYOP for companies

| Pros | Cons |
|---|---|
| Facilitates price discrimination and Information Rent | Loss of revenue when only one bid is allowed. |

| | |
|---|---|
| Increases customers' willingness to pay by reducing frictional costs | Reduces profit (especially when companies conceal information about products and simultaneously set the threshold price near marginal cost) |
| Increases marketing participation of consumers | Retailers cannot commit to maintaining high prices in case of unsold capacity |
| Allows Park out the unsold capacity | |
| Increase of threshold prices when NYOP and Posted Price mechanism are simultaneously employed | |
| Reduces Competition | |
| Source: Wagner & Pacheco (2019) | |

| Table2. Pros and cons of NYOP for consumers | |
|--|---|
| Pros | Cons |
| Increased satisfaction | Dissatisfaction and negative feeling in case of a maximum of one bid is permitted |
| Higher Amount of Savings when customers decide to share information and haggle | Irrational decision-making by consumers |
| Lower frictional cost for regular NYOP | Higher frictional cost than Posted price mechanism |
| | Consumers may fall into the winner's curse, and overpay |
| Source: Wagner & Pacheco (2019) | |

Table3. Summary of Mr. Suraj Singh’s Retail Business Startup

| | |
|--------------------------------|-------------------------------------|
| Industry | Food |
| Location | PGI, Lucknow |
| Name of Retail Store | CP-Healthy Food Store |
| Tagline | “Choose Price and Own Healthy Food” |
| Capital | 10 lacs |
| Type of Business Entity | Partnership |
| Source: Authors | |

Questions for discussions

1. Why did Mr. Suraj Singh choose retail business? Was his choice right or wrong? Why or why not?
2. What is NYOP? How can it be used in retail business of Mr. Suraj Singh?
3. Why did Suraj Singh choose Food Retail Business?
4. If you are a partner of Suraj Singh, how will you help him in preparing a business plan? Write details of the business plan.
5. Despite Suraj Singh being sceptical, what was in table1 and table2 that encouraged him to go for retail business?

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