



The price is right after all.

An earlier article said price is seldom the main factor in purchase decisions. Oops.

Despite the apparently unshakable belief among less-sophisticated retailers that price is the first factor in consumer purchase decisions, it isn't. Or, rather, it wasn't. For years, observational analyses of purchasing behavior have found that price is the third or fourth determinant. But this recession has changed that. Price is now at the top of the decision tree for many categories of products and services.

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In some cases it's the determinant in brand selection. In others it's the basis of a decision to make or forego a purchase in the category.

Our previous article, "The Price Is Wrong," was right at the time but it's wrong now. Our white paper "Good Marketing for Bad Times" ([click here to download](#)) had a section on the detrimental effect of price reductions in economic downturns. That's not true during this recession. (You still might want to download the white paper, because if you omit the two paragraphs under the subhead "Cut prices?" what's left is six pages of effective tips to help you get through this crash with your brand intact, and come out of it stronger than ever.)

This recession is different in several important ways:

- **It's global.** China's stock market has lost two-thirds of its capital value. *Business Week* reports that layoffs or salary cuts are spreading throughout the Russian economy. The British are propping up failed banks – including the venerable Royal Bank of Scotland. And Argentina is raiding private retirement accounts to help offset government deficits.
- **It's really deep.** So deep that the word "recession," once avoided in polite economic conversation, is now a very popular alternative to the nasty word that begins with "D." All three Detroit car companies will run out of cash in early 2009 without a government bailout. (If they get the proposed \$25 billion bailout they probably won't go bust until the end of 2009 at their current burn rate.) The trillions thrown at the failed financial sector haven't slowed the slide a bit. At 6.5%, November's U.S. unemployment is the highest it's been for more than a decade. The Dow Jones Industrial index has fallen to just about half its October, 2007 high. And NPD Group, a leading retail consultancy, predicts a 3% decline in holiday sales this year, the first decline in memory.
- **Even the rich are hurting.** In most economic meltdowns, the middle class suffers most of the pain. The government safety nets for the poor remain in place, and the rich don't seem to be impacted. The nets are still up for the poor, and the middle class is feeling most of the impact this time, too. But now, even the rich are suffering. *The Wall Street Journal* reports that Bentley's November sales fell 62%. Porsche is off by 50%, Mercedes is down 40% and Beemer sales have declined 20%. And it's not just cars. Tiffany's same-store sales are off 6%. What will wealthy folks' holidays be like without those little powder-blue boxes under the tree?

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Price matters, but it's not everything. Price *isn't* everything? Sure, it matters more now than it has in decades. But other factors matter, too.

- **Price doesn't matter unless buyers actually WANT the product.** An offer of 50% off a VHS recorder probably isn't going to get a lot of response now that the technology is obsolete. A vegan is unlikely to be persuaded by a coupon from a steak house. Discount tickets probably wouldn't convince many people to vacation in Des Moines. Opera tickets at a deep discount probably won't sell to good ol' boys, bikers or Wrestle Mania fans. And 40% off a crew cab dually won't move the iron off the lot after the recent gasoline panic.
- **Price doesn't matter if customers think sellers won't be around to honor warranties.** Circuit City's pre-holiday bankruptcy may prove to be really bad timing if potential buyers think it will be impossible return a defective big screen. The few car buyers who are in the market apparently have serious reservations about plunking down \$30K or more for the Motown Three's cars and trucks, in part because they're not sure the companies will be there to make good on warranty repairs. Deloitte's holiday spending forecast predicts that gift card sales will decline in both the number and average value of cards sold. Not surprising, since customers aren't sure the merchants will be in business long enough to honor the cards.
- **Price doesn't matter if it's a must-have item.** The "must-have" category is a lot smaller this year than it's been in the past, but if consumers truly perceive a product or service as essential, they'll buy it. "Must-have" may mean food, electricity and a rent or mortgage payment. Or it may be a minor luxury that eases the feeling of deprivation folks may feel when they have to eliminate other non-essentials from their budgets. Some of the choices are illuminating. For example, when faced with a choice, younger age cohorts discontinue cable and keep text messaging. (That has some serious portents for TV after the recession is over.) Of course, manufacturers do better in the "must-have" category than retailers. A consumer may decide that Cocoa Puffs are an absolute necessity, but may shop around for the store with best price.

Price can be a two-edged sword. Aggressive price competition may help sales and wreck profits. And as some brands discovered after the last recession, the impact of an off-price position can be felt long years into the recovery.

During the 1990 recession Taco Bell introduced a 59¢/79¢/99¢ value menu to steal share from McDonald's. According to *Advertising Age*, the tactic worked. Taco Bell did nibble away at McDonald's share. But Ed Rensi, who headed McDonald's at the time, says the tactic indelibly etched the image of Taco Bell as a source of cheap food in consumers minds. According to Rensi, "Discounting as a tactic that's event-driven is one thing. Discounting as a strategy is something else. It's a very bad idea, because it cheapens your product and your brand." Rensi attributes the fact that McDonald's sales per unit are now 66% higher than Taco Bell's to the divergent strategies each followed in the 1990 recession.

Of course, revenues and profitability after the recession are only significant to companies that actually make it through the recession. And price may be an indispensable tool in marketers' survival kits.

Marketing price effectively is key. "Cheaper this week only!!!" works for some bottom-feeding retailers, but it's not a real good idea for product marketers or retailers with a more effective value position. That doesn't mean abdicating price to the bottom-feeders. Only that price must be used carefully so it's compatible with the brand's position. Some ways to do that are:

- **Launch a lower-priced flanker brand.** Price-off promotion can destroy the equity of a brand based on excellence. Imagine L'Oréal's "I'm worth it" campaign with a price markdown. "I'm worth 50% off?" Not too persuasive. Holding the mainstay brand at (or near) its price point while introducing a lower-priced flanker gives the company a presence in the low end of the category while maintaining their premium-priced brand's position at the top of the market. There are obviously expenses involved in a new product launch, but they're nowhere near the cost of equity lost by cheapening the flagship brand.
- **Add less-expensive lines.** This is the retail equivalent of the lower-priced flanker strategy. Instead of massively discounting upper-tier products, bring in lower-priced merchandise that is a reasonable fit with the store's image and position. Vermeil jewelry in a chain which previously had gold only, for example. Or an off-the-rack line for a haberdasher which previously offered only custom-

tailored suits.

- **Add value rather than cutting cost.** Instead of a price break, offer a gift with purchase. Throw in a GPS with the SUV. Give the ever-popular fashionable tote with a cosmetics sale. Add a free shirt and, perhaps, a tie with a suit purchase. (That way the guy would look well-dressed, at least when he wears the coordinated outfit.) Give a gift that can be re-gifted, so one purchase covers two holiday gifts. A gift-with-purchase offer maintains the flagship product's price point and image while effectively lowering its cost to the consumer.
- **Offer a second item at reduced price.** As every retailer knows, buy one, get one free is a lot more profitable than 50% off. This offer doubles the revenue of a 50% off deal, and the additional merchandise cost is – at most – half the regular retail price. Even better, a buy-one-get one-at half-price offer is essentially free to the merchant, since the half-off item is sold at the cost of goods (assuming a keystone markup), and the merchant takes a full markup – and profit – on the first item.
- **Emphasize lifetime value.** There are a lot of components to ownership cost. Consumers have figured out that the sales price is just one of them. Just ask the people who have stopped buying SUVs. Charmin is now advertising that folks can use fewer sheets of their more-absorbent toilet tissue. (Definitely too much information for us.) Any day now, some unappetizing food will launch a campaign promising that it will last longer because people eat less of it. We've got their headline: "Tripe...a lifetime supply in one inexpensive package."

Develop price point collections. *Retail TouchPoints* reports that brand marketers and retailers are grouping merchandise into price categories rather than their former functional categories. So instead of seeing all the MP-3 players in one ad, consumers see all the \$50 gifts in one ad. This trend lets consumers focus on the price points they've preselected for holiday gifts, while keeping them within the merchant or manufacturer's insert or on the web site.

- **Use credit if you've got it.** One of the biggest impediments to sales is the fact that consumers don't have headroom on their plastic. Spending limits have been reduced, and a lot of traditional sources of financing have been cut off. Folks who are unfamiliar with the pay-as-you-go concept are stymied. Available credit is probably the strongest marketing tool available to any brand or merchant. So if you've got it, flaunt it.
- **Tie your product or service into the new value system.** New York Life is now running a campaign which positions life insurance as a thoughtful, loving gift. The new Ford F-150 is being launched as a truck with bedrock benefits: cargo capacity, fuel economy, towing capacity and interior comfort. The price message is not front and center, but it's there: 21 MPG in a hefty pickup truck. And, of course, Wal-Mart is beating the price message like a bass drum. Making your brand part of the solution for consumers who are worried about money can be an effective solution to capturing additional sales and share.
- **Emphasize value.** According to *The Los Angeles Times*, "Consumers are looking for long-lasting products that are good for the environment and are worth every penny, even if they cost a little more than competing items. They also want to cut back on waste and spend smartly." A survey by Deutsch's Los Angeles office found that people are trending from living in the moment to saving for the future, from ostentation to conservation, from quantity to quality. According to their report, "People don't want to buy things they'll have to throw out in a year or two. They want things that will last, both to save money and to save the environment."

Only time will tell if it's a fad or a paradigm shift. The new consumer emphasis on value may signal a permanent realignment in the purchase-decision determinants, or it may be a temporary shift that won't outlast the downturn. In either case, marketers must respond to it now, and be prepared to adjust their strategies if the new price consciousness is a permanent shift in consumer behavior.

To find out more about aligning your brand to the new market realities, get in touch with BrainPosse by [clicking here](#) or calling 865.330.0033.

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