

The price is wrong.

If price is your main selling point, get ready for a going out of business sale.



Judging by their ads and commercials, retailers believe price is the only factor consumers consider in deciding where to buy. And every B-2-B salesperson who couldn't close a deal knows with near-religious certainty that price was what lost the sale.

Absolutely wrong.

On the consumer side, a great deal of very credible research (the kind that observes, rather than asks, what consumers do) puts price number three or four on the list of deciding factors in choosing a retailer. The only cars whose market share is growing are the ones not offering employee discounts or five years free financing.

Stores can't get enough Manolo Blahnik shoes to meet demand. And \$100+ bottles of California cult wines have years-long waiting lists.

The B2B world runs on Microsoft Office. Priced the enterprise version lately? Aeron chairs? A client lunch at the Palm or Ruth's Chris? How about a Regioman® offset press or a GE Lightspeed® scanner? There's cheaper equipment that does all the same jobs, but not nearly as well. So the top-of-the line stuff sells at a brisk pace.

If you're selling based on price you'd better be Wal-Mart, e-Bay, AutoBytel or Shopzilla. Or maybe a guy on a street corner hawking TVs that fell off a truck. Because if you're not, one of those rock-bottom resources will probably put you out of business soon.

Now that 73% of Americans have internet connections at home and 73% of those

connections are broadband, consumers who buy on price alone can go to Bizrate, PriceRunner, MySimon, Lycos or any of the many other web crawlers to find the absolute lowest price. So a 50% discount won't cut it if a competitor is offering 51%. And the odds of being the single cheapest source on the entire internet are infinitesimally small.

But why would a company want to be the cheapest source, attracting customers who buy based only on price? Those price-driven customers are almost inevitably a business's least profitable segment. In fact, companies often lose a lot of money on them.

Customers who look for the lowest possible price naturally return the lowest gross profit. But that's just part of the problem. It costs marketing dollars to attract each customer. And the price-driven, transactional customer has to be re-attracted for every single purchase, because they comparison shop every time. So companies must go to the expense of marketing to them over and over again. And, of course, offer the market's lowest price each time as well.

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Customers who are attracted by factors other than price – service, convenience, wider selection etc.— are more profitable for the flip side of the two reasons that make price shoppers unprofitable. If customers are attracted by a factor other than price, they are almost invariably willing to pay a little extra to get the quality they value. So each sale is more profitable. And, because these relational customers are attracted by a factor other than price, they will return again and again as long as the company meets their expectations. So it's not necessary to spend money to market to them repeatedly.

Unlike the classic 80/20 rule for sales, there's a 150/20 rule for customer profitability. According to Point magazine, the top 20% of customers generate 150% of most company's profits. How's that possible? Most companies lose money on their price-driven transactional customers when all costs (including overhead and variable costs like customer service) are factored in. The highly profitable relational customers subsidize the losses on the money-losing transactional ones.

Whole categories have caught on. Athletic footwear, consumer durables retailers and soft drinks all saw price hikes of more than 5% at the end of last year, according to a Banc of America Securities study. Cosmetics, restaurants and even cars were also more expensive. When Lacoste took the price of a shirt from \$35 to \$69, sales went up 125%.

P&G just reported record profits on a product line purged of price brands. And a recent study by the market research company Complete showed that advertising to build perceived product value is more than two-and-a-half times more effective than discounting at generating sales. (Put another way, companies can spend just 40% of what they give away in discounts on advertising and get the same sales results.)

Of course there will always be a place for price-focused companies. Wal-Mart just announced a return to every day low price promotion after an

unsuccessful foray into the higher-margin end of retailing. Which is bad news for companies nibbling at the peripheries of their price position.

Pure-play web merchants (with no expensive real estate or catalog printing and mailing costs) grab a bigger share of market every year. Southwest is usually the most profitable airline in the country. Sometimes the only one making a profit.

But most companies – whether they're shampoo manufacturers or auto dealerships – will soon find that they can't compete effectively on price. Some will go belly up. The ones who find other ways to sell will probably end up wishing they'd done it years sooner.

Want to learn more about positioning your business to adapt to changes in the marketplace? Get in touch with BrainPosse by visiting www.brainposse.com or calling (865) 330-0033.

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