



White Paper Series

How to Profit From Lowering -- or Raising -- Price in a Challenging Economy



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by Tom Spitale

Why You Need To Consider The “High-Low” Strategy

Strategic marketers and pricers are facing a paralyzing dilemma in this tough economy. Many would like to raise price in order to recoup lost profits from rising costs, but find it impossible to do so. In fact, they may be facing pressure from their customers to reduce prices.

What to do? In our experience, by understanding your current pricing situation from the customer’s perspective-- and considering some reasonably simple-to-execute strategies, you can profit from lowering or perhaps raising your prices in a down economy. And if you are really adventurous, you may be able to optimize price by doing both – employing what we call a “High-Low” strategy.

Are You Committing These Common Pricing Sins?

Before delving into pricing options in a tough economy, you have to address common pricing “sins”. Make sure you clear your company of pricing sin #1 before addressing #2.

Pricing Sin #1 – Trying More Sophisticated Pricing Strategies When You Are Already Way Over-Priced - Being perceived as REALLY over-priced compared to competitors and attempting any type of sophisticated pricing strategy is a recipe for disaster. If this is you, you might want to stop reading and view this webinar about how to get your situation under control: go to www.impactplan.com and click on the home page link to Customer Centric Pricing in a Down Economy.

Pricing Sin #2 – Changing Your Price Without Changing Your Offer – Most companies are currently either slightly over or under-priced. If this is you and you are trying to figure out how to respond to economic pressures with new pricing strategies, make sure you don’t undermine your future pricing moves by committing this sin: moving pricing up or down without adding perceived value or taking something “off the table” from your current value proposition.

One Way To Address Sin #2: If You Have To Ask For More Price, You Might As Well Be Creative About It

Companies who ask for more price just “because our costs have gone up” lose perceptual points to more clever competitors. These competitors always find a way to add something valuable to their offer which costs less to deliver than the additional price they are asking for. (See Mini-Case Study on “the High Road” below for an example). This removes the focus from price only to “added value for added price.”

Another Way To Address Sin #2: If You Have To Lower Your Price, Maintain Your Current Value Perception For Future Pricing Actions

If you are not already way over-priced according to customer perception, lowering your price without taking away some element of value is also a pricing sin. Customer's perceptions might change from something like "reasonably good value" to "they must have been overpriced before" or "this company will lower price under negotiating pressure".

So, how do you add or subtract value to your offer to create win-win pricing scenarios for you and your customers?

Mini-Case Study On The High Road: Increasing Price By Adding Value:

An office supply distributor wanted to increase price in their commodity industry. They interviewed customers about their broad-based needs (not just office supply needs) to find creative, *profitable* ways to add value that could support a higher price than competitors.

Focusing on the needs of an important segment called "Rapidly Growing Firms", they uncovered an Ability to Compete (a customer scorecard that measures customer perceptions - for more information on how to use this tool, see the webinar referenced above at www.impactplan.com) situation that looked like the following:

Ability to Compete Segment: Rapidly Growing Firms

Benefit Sought	Benefit Weight	Critical Capability	CC Weight	Us		Competitor	
				Rating (1-10)	Score	Rating (1-10)	Score
Improve Cash Flow	35	Terms	15	6	90	7	105
		Warehousing	10	3	30	4	40
		Int. Rate	10	6	60	7	70
Find Talented Employees	20	Recruiting	10	1	10	1	10
		HR Consulting	10	1	10	1	10
Improve Efficiencies	20	Tech. Integration	5	7	35	6	30
		Flex. Delivery	15	5	75	5	75
Retain Current Employees	15	Rewards	10	7	70	8	80
		Recognition	5	5	25	6	30
Grow More Strategically	10	Best Practices	5	3	15	3	15
		Consulting	5	1	5	1	5
			100	TOTAL	425	TOTAL	470

The distributor strategy team brainstormed creative ways to address these needs and improve their perceptual score. Many were ultimately judged unprofitable or impractical. For example, “Improve Cash Flow” could be served by offering better terms and flexible payment options (or even lower prices!) but the distributor was concerned that this was too risky, given the smaller size and limited financial history of many companies in the segment. Getting into the Recruiting and HR Consulting business was clearly impractical.

However, the distributor attempted to capitalize on the under-served benefit of “Improve Efficiencies” by creating a desktop delivery program. Drivers would place office supply items at easily-accessible places throughout the company’s office, rather than just dumping them at the dock.

By testing the concept, the company found that many firms in the segment were willing to pay more for the service (in fact, they found their perceptual score on Flex Delivery improved from a 5 to a 9, and some other related perceptual scores increased) than what it cost to provide it – thereby improving price and margins while increasing their value perception amongst their customers.

Mini-Case Study On The Low Road: Decreasing Price By Subtracting Value:

A global crop protection company sold herbicides to potato farmers. A large buying group pressured the company to lower their price significantly, in exchange for high volume purchases. The buying group’s reason for existing was to gain the lowest possible price for its members, and try as it might, the crop protection could find no other benefits that seemed to matter to this organization.

But rather than lose this business to volume-seeking competitors, the crop protection company decided on a strategy that allowed them to meet the buying unit’s price point profitably. They packaged the product in large drums instead of the easy-to-use packages. Shipping terms, normally direct to farms, were changed to “pick up the drums from the dock.” Payment was due immediately, instead of the normal net 15 or 30 days.

The company wanted to differentiate this offer from its higher-value line, so they changed the name of the product. The net result was that they were able to meet the buying unit’s price point by subtracting value from their normal offer.

The High-Low Strategy: How A Lack of Branding Flexibility Can Price You Right Out Of Certain Segments

Some of our clients find that their products and services are over-engineered for markets with large amounts of price-sensitivity. For example, hospitals in rural China would love to have a world-class, latest generation digital imaging machine, but it’s just not in their budget right now.

In many cases, the solution for price sensitive markets is to, as we mentioned in the case above, “de-engineer” your products and services. And, if the new offering is not worthy of your hard-won brand image, create a new brand name while keeping your existing brand name, offer, and position in the marketplace too.

Why not? This allows a company to squeeze competition on both ends of the marketplace – thus the “High-Low Strategy.” For some more flexible brands, this strategy is an option even without having to re-name the low-end (or high-end) offering.

Is Getting The Price Increase You Deserve Worth Asking Customers Just A Few Questions?

If you follow the approach we’ve described, the hardest part of changing price shifts from actually asking customers for more money to finding ideas for increasing or decreasing value that make sense to customers. Finding these ideas is best driven by solid research, whether it’s formal or informal.

Even if you have no budget, interview some customers and ask what is important to them in choosing suppliers, other than price. You can ask customers what keeps them up at night, other than trying to extract the lowest price from suppliers. You can ask them what their company goals are, other than squeezing vendors, and listen for clues.

After just a few interviews, you’ll begin to get great ideas for changing your value proposition in a way that will allow you to achieve your pricing goals in a tough economy. And you may just end up with a way to capture a different “end” of the marketplace than you are currently, using a High-Low strategy.

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Impact Planning Group LLC specializes in increasing businesses capabilities in marketing and strategy by designing and delivering customized in house programs that link robust academic concepts with simple but effective tools. The company delivers the Executive Marketing program for Columbia University and the Pricing program at Caltech as well as numerous specific programs for many of the world’s largest and most successful companies.*