



By Richard D. Czerniawski

WHY CHEAPER IS BETTER - THE MARKETING ORGANIZATION

The other day I explored “when” cheaper pricing is better—positioning that a competitor claims to be the same as the leader but cheaper. Today's musing is “why” cheaper pricing is better. Now, I'm not advocating that we compete by being the low-cost choice. In fact, virtually all my clients choose to market their brands with premium pricing. However, cheaper, or to be less inflammatory, lower pricing can be the better strategy.

In exploring why cheaper is better, the question arises for who? Cheaper pricing can make sense both for the business enterprise and for the customer. This reflection will tackle the business enterprise. For it, employing cheaper pricing:

- Enables access into a market that it otherwise might not be able to penetrate. For example, the Japanese auto industry was able to penetrate the US market in the 1970s by offering significantly lower-priced cars.
- Provides them with a tool they can use to compete with premium-priced competitors. Detroit's BIG 3 auto-makers had massive resources—ad dollars, sales personnel, etc.—including distributorships that spanned sea to shining sea. However, making and selling significantly cheaper cars enabled Japanese auto-makers, who lacked muscle, to compete effectively.
- Calls attention to a lack of meaningful differentiation or shifts it to new areas that are relevant to target customers. The Japanese manufactured autos were significantly more affordable to a select segment of the population and promised better economy. This last point is particularly apropos in our “age abundance and sameness” where GAQ (generally acceptable quality) reigns.
- Helps to raise the utilization of production capacity, particularly in capital intensive industries, driving down unit costs and, as a result, may boost profits.
- Can stimulate a capital investment that drives the sales of highly profitable consumables for years to come. This is the old XEROX model. You purchase or lease the equipment under favorable pricing and generous terms and then the company makes its big money on the sale of its consumables. This same pricing model has been employed for decades in the shaving category. The razor is sold at a deeply discounted price or offered “free” to the consumer. This deal is concocted to secure the customer so that the brand might capture the lifetime value of blade purchases.
- Helps maintain customers. Shop around for the attractive plans and pricing being offered by internet providers to new customers. It will probably make you want to jump ship from your

current provider to one of them. It costs more to earn a new customer than it does to maintain a customer. So, new cheaper pricing may keep customers from defecting for better deals or, if you're the raider, get them to switch to your offering.

Now if cheaper pricing is going to work for your organization or brand, it needs to produce a better outcome—such as increasing market share, growing sales and/or profits, among others. Some years ago, MARS Food (briefly known as MasterFoods) took a price cut to retailers on their confectionary brands. However, in this case, the retailers chose not to pass along the savings to consumers but, instead, used them to bolster their margins. The price reduction from the company achieved nothing but to diminish its profits. The president of the company who approved the price reduction lost his position.

However, don't dismiss cheaper (or discount) pricing. It can make sense for your organization and brand. At the least, it will help the organization to be more competitive in every aspect of the business and operations.

Also, don't dismiss those brands that employ cheaper pricing, which is a common practice of premium-priced competitors. They may undermine your brand's and organization's growth and profit potential. Moreover, when they reach a tipping point ... I can only imagine what those senior Detroit automotive executives might have felt as they gazed into the company's employee parking lot and saw growing numbers of Japanese cars.

I'll give thought to why cheaper pricing is better for the customer and come back with my point of view in a couple of days. In the interim, perhaps, you'll put yourself in your customers' shoes and identify what's in it for them.

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