

## **MFB News – April 2009**

### **When Times get Tough, Don't Slash Your Prices**

The deepening recession with its credit crunch is forcing firms to tighten their belts. As sales begin to dip, the temptation for many bosses is to slash prices to keep up with an aggressive competition. But slashing prices might easily backfire. Instead of attracting clients you risk depreciating your brand and may cause irreparable damages in the long run.

#### **Incentivize rather than discount**

Do not enter discounting battles. They create no-win situations. When the pressure is on, short-term choices amounting to false economy often take precedence over strategic long-term positioning. Slashing your prices in the fierce battle to compete for every last customer and win on short-term profits could lose you the long-term endgame of re-establishing your brand and its values. Moreover, companies that slash aggressively prices in order to attract more customers are sending out a message to consumers that they have been paying too much in the past. This strategy could well back-fire.

Across-the-board price reductions are not the answer to future profitability. Think about it: To catch up with sharply reduced margins you have to increase sales by high multiples; that is quite a challenge. Some industrial branches like chemistry and steel try to counter cyclical downturns with temporary shutdowns of production sites. However, the best way to stand above your competitors is to add value in areas which are not price-sensitive. Offering customers additional reasons to buy, rather than simply making low price the only reason to purchase, can boost your sales without diminishing quality. These areas can include surpassing customer expectations through excellent service or through elements such as packaging and point of sale material – all of which can make the difference between good or great services and products.

#### **Differentiation is crucial: Quality deserves higher prices**

Even in tough times, customers will pay more for a quality product. The argument is merely about how much premium can be commanded. However, if your brand is associated with poor-quality, consumers with money to spend will shun your products for better-positioned competitors. It is, therefore, possible for firms to protect their brands, while ensuring sales do not fall catastrophically in the short term. Maintaining quality is the key to balance current commercial pressures with the long term stability and brand value.

**Nurture your customers**

Stay in close contact with your customers. Send newsletters and emails to build customer loyalty. Remind them of the quality and value of your products and services and stay top-of-mind. Investing in strategic, focused marketing, even in turbulent times, makes it possible to stay one step ahead of your competitors and leverage yourself to an even stronger position when market conditions improve.

**Your benefit**

In tough times, it takes courage and sometimes changes in your business strategy to become a winner. Now is the time to find clients who will shop for the quality you provide. Hence, instead of slashing prices concentrate on improving the quality of your products and services in order to further improve customer satisfaction.

A team of experienced consultants can support your management improving your company's operational excellence, fostering consumer satisfaction and building lasting customer loyalty.

**MFB Resultants - We Create Results.****Contact:**

MFB Resultants GmbH  
Luisenplatz 1  
65185 Wiesbaden

Phone 0611 / 34 11 70

Fax 06 11/ 34 117 22

[kontakt@mfresultants.com](mailto:kontakt@mfresultants.com)

[www.mfresultants.com](http://www.mfresultants.com)