

When competitors cut their prices the temptation is, of course, to cut yours too. But that sort of behaviour can quickly turn into a price war. And while that might be good news for customers in the short run, unless you actually want to throw away your profits, it certainly won't be good news for you.

It has been estimated, for example, that the losses caused by the 1992 US airline price war were greater than the combined profits made by the entire industry since it started!

And it probably won't be good news for customers in the long run either, since price wars often force smaller companies out of business (Sir Freddie Laker's airline for example). So, with less competition than before the price war, the survivors (often the large companies with deep pockets – like British Airways) start putting prices back up again. Sometimes to an even higher level than they were before the price war!

Clearly it is in everyone's best interests to prevent all of this happening. But how?

Firstly an important reminder of something you shouldn't do... You shouldn't agree with your competitors to keep prices high - that is anti-competitive and might also be illegal.

Happily, though, there are still many other things that you can do. And here are a few of them.

### **Focus on quality and service**

In the late 1990's a combination of economic instability and terrible pollution hit the Malaysian luxury hotel trade very badly indeed. Room rates were cut, but occupancy rates kept falling, so room rates were cut further still. And to help balance the books many hotels started to economise by, for example, changing the towels less often, using fewer fresh flowers and cutting back on staff. One hotel chain – The Ritz Carlton – didn't join in the price war. Instead it became creative. For example it:

- Greeted arriving flights with flowers, music, discount coupons and a model showing how lovely a room at the Ritz Carlton really is
- Put the General Manager's personal mobile phone number in advertisements so that people could call him directly to book rooms
- Provided a 24-hour "Technology butler" service to sort out and repair guest's laptops and other electronic equipment
- Created a "bath menu" of food and drink that could be served to customers while they were in the bath – and even provided a butler to run the bath!
- Gave a beautiful hand embroidered pillowcase to guests staying more than five nights

As a result many executive travellers switched to the Ritz Carlton – even if they had already organised a room at a rival hotel. Occupancy rates increased to 60% (from 50% in 1998). And, unlike many other luxury hotels, their brand wasn't devalued by a sudden influx of backpackers unable to believe their luck at getting luxury rooms at economy rates.

What can you do to make your product, or the experience of using it, so much more valuable, enjoyable and memorable?

If you are not sure, ask about the Wow! How? process. It's designed to help you dazzle and delight your customers in these sorts of ways.

## **Alert customers to the risks**

Here's a fact,... people use the price of something to help them judge its quality. So use this fact to your advantage by saying things like:

- “I am sure that they know the value of their widget just as well as we know ours. And that's why our widgets are more expensive than theirs”
- “There's no such thing as a free lunch, is there? So if people are cutting prices they are going to have to balance the books by cutting other things too, aren't they? And that could mean cuts in things like quality, reliability and after sales care, couldn't it? You wouldn't want that, would you?”

In fact, FedEx's entire business is based on this phenomenon. After all, the slogan “When it absolutely, positively must be there on time” is effectively saying... “There may be someone cheaper out there, but you don't want to run the risk of your package arriving late, do you?”

How many different and creative ways can you help your customers understand (and then continually but subtly remind them of) the risks of going for the cheap option?

## **Link a price cut to something else**

Instead of giving price cuts away, make the customer work for them. For example, you could:

- Turn the price cut into a quality discount – eg “The price is £Y, but if you buy three you can have them for £X each”
- Convert the price cut into a settlement discount – e.g. “The price is £Y, but if you pay within 7 days you can have them for £X each”
- Use the price cut to sell a complementary product – e.g. “The price is £Y, but if you take out our insurance you can have them for £X each” – just as travel agents do
- Trade the price cut for a commitment – e.g. “The price is £Y, but if you make us your preferred supplier for the next 12 months you can have them for £X each”
- Trade the price cut for sales leads/referrals – ask us for our script for doing this ([AR13](#))

## **Create a lower priced alternative**

In the early 1990's a raft of cheap floppy disks came onto the market. But instead of cutting the price of its premium branded disks, market leader 3M launched a new low priced brand called “Highland”. So while Highland got on with the job of competing on price, the many customers who were loyal to the main 3M brand continued to pay premium prices. So 3M were, in effect, able to charge two prices for the same product. In other words, they were able to have their cake and eat it!

How can you create lower priced versions of your existing products? Remember, they don't actually have to be different from your existing products – they simply have to look like they are different!

## **Change the price of a few products**

You have probably seen this in supermarkets. They proudly announce price cuts on staples like bread and milk... but leave the vast majority of prices unchanged. As a result they look like they have cut prices by more than they actually have.

The best products for this strategy are those in one or more of the following categories:

- High profile products– since they will attract a lot of attention
- High margin products – since you will still make money after the price cut

- Products where sales are already low – since they can't damage your total sales too much
- Products that are extremely price sensitive – since you could end up selling a lot more

Which of your products fall into these categories, and how can you use them to score the most brownie points?

### **Make it difficult to compare prices**

Here's a piece of flawless logic: if the problem is that customers are comparing prices then you can remove the problem by making it impossible to compare prices. But how? Well, here are a few possibilities:

- Don't publish price lists – Agree prices behind closed doors (NB: In industries where price lists are not the norm, companies who do publish price lists can gain a tremendous advantage – so clearly this is not a universally suitable approach)
- Ask customers not to tell anyone how much they paid – But you will probably have to make this worth their while, and you will also have to check the legal position very carefully since it could be considered anti-competitive
- Create lots of different models – Have you ever tried comparing the prices of washing machines and fridges in different shops? It is frequently impossible because each shop sells slightly different models (although usually the differences between the different models seem to be little more than cosmetic).
- Introduce very complicated pricing structures – This is what the UK mobile phone companies have done to make it almost impossible to compare different airtime tariffs

How can you make it difficult for your customer to compare prices?

### **Bundle in extras**

Instead of cutting prices, maintain or increase them. But also bundle in extras that most customers don't already buy. Extras that have high value to the customer, but low cost to you.

This is what McDonalds did when faced with stiff price competition in the 1980s. By bundling in a drink and fries with its burger it created "Value meals". Price conscious customers could then buy the bundled value meals (often spending more money than they used to – but being happy to do so because they were getting much better value). While customers who weren't so price conscious could continue paying the higher prices for the unbundled items.

Clearly this strategy works – since McDonalds still uses it today! So what could you bundle in to make your existing prices much more attractive to customers?

### **Use low costs to keep prices high**

Finally, make sure your competitors know that your variable costs are very low. Make sure that they know that you have the capacity to supply to their customers as well as your own. And, in a non-confrontational way (for example, by writing an article for the trade press), make sure that they also know that if they cut their prices, you could use these factors to steal their customers by cutting your prices even further. That is what Sara Lee does – and the implicit threat has helped it (and many other businesses) to prevent price wars. After all, when competitors believe that they can't win, they won't even try to win. And so the price war will never happen.

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