

Customer Value, Inc. Competitive Marketing Strategy

Positioning and Pricing Product Lines in Recessionary Times

Bradley T. Gale and Donald J. Swire
(March 2009)

Customers are usually willing to pay a price premium for better performing products. During boom times the incremental amount they are willing to pay increases. During recessionary times, however, many customers will seek out products with stripped-down features and performance in order to save money. Regardless of whether you're a manufacturer of B2B products, a retailer, or a service provider, if your product line spans a range of performance and price, in recessionary times it is important to give your customers attractive options at the economy end of the spectrum.

Wal-Mart, for one, has taken action:

“Wal-Mart Stores Inc. is expanding its private-label line of food and household cleaners to take advantage of recession-pinched consumers’ increasing desire to buy cheaper store brands rather than more expensive brand-name products.”

Ann Zimmerman, “Wal-Mart Gives Makeover To Its Private-Label Line.”
Wall Street Journal; page B3, 17 March 2009.

Hard times should give you the impetus to revisit your product line positioning. However, you should not allow immediate pressures force you into rash action. For example, you should not dilute the value of your brand by allowing your trademarks to be used on inferior products. Strategies for realigning your offer should be analyzed carefully, with an eye on both the short-term and longer-range implications of your actions.

Plotting your positioning strategy in a down economy

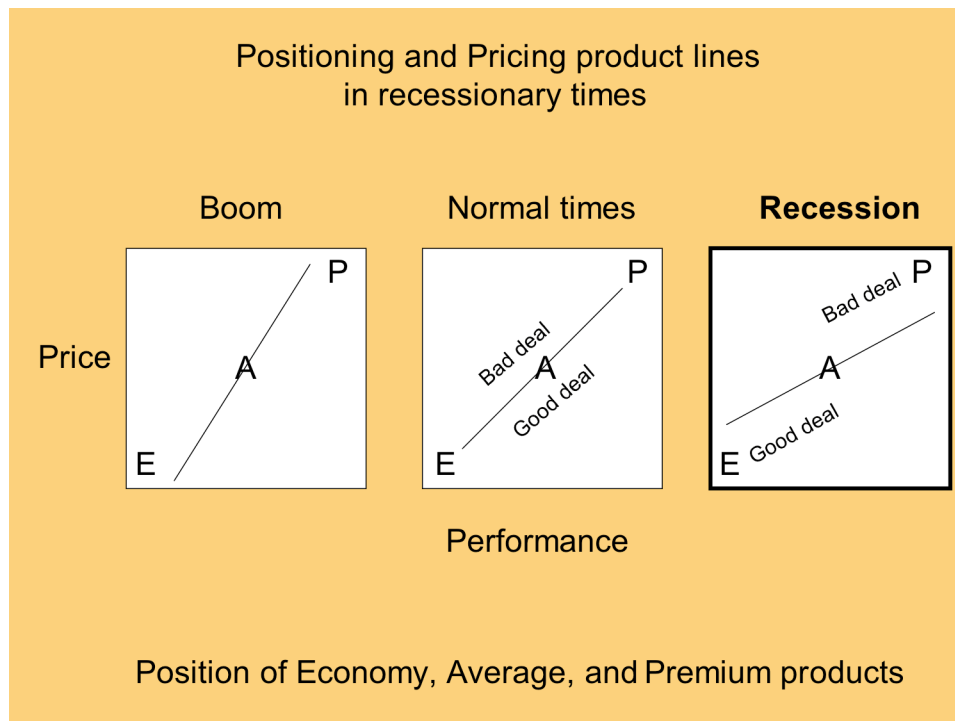
The *value map* is a standard tool for analyzing a product’s positioning. It can help us understand our options for pricing in a recessionary period.

On a value-map display, products that compete against each other within a category are plotted according to the performance they deliver to the customer (the horizontal axis) and their selling prices (the vertical axis). In normal times, economy, average, and premium products in a product category tend to line up along a sloping, fair-value line. Those products located near the upper, right end of this line are more expensive, but their price is justified by superior performance. Products located near the lower, left end of the line, on the other hand, offer low prices, but at the sacrifice of some performance. Any product positioned on or near this line, at the left, right, or middle, tends to offer its purchaser a fair deal.

On the value map, products positioned near the fair-value line tend to hold their share of the market. Products positioned to the right and below the line, on the other hand, are offering their customers a good deal and tend to gain market share. Products positioned to the left and above the line offer a bad deal and tend to lose market share. (See exhibit below.)

Recession Shifts the Worth to the Customer of Premium Performance

The added amount that customers are willing to spend for better performance is greater in boom times and lesser in recessionary times. These changes in customer purchasing behavior are illustrated by the differences in the slopes of the fair-value lines on the value maps below. A customer value map plots the price and performance of each of the competing brands in a product category. In normal times, economy, average, and premium products line up along the fair-value line with stable market shares.



In recessionary times, customers pay more attention to price and less attention to performance. This customer buying behavior flattens out the fair-value line, which favors economy products and puts premium products at a disadvantage.

Where Are Your Product Lines Positioned?

If your products are positioned mostly in the premium position, your product line will tend to lose sales -- both because the market is down and because more customers will perceive your premium products as being a bad deal, causing you to lose market share. On the other hand, having an attractive offer in the economy position can help you offset some of the downward momentum from the market – by gaining market share. If your product line covers the full spectrum from economy to premium products, you may see a shift in sales away from your premium brand products toward your economy products.

Value-Based Pricing – During a Recession

Many companies set their prices based on cost. Many companies also adjust their prices annually to reflect cost increases. If this approach happens to work in normal times, you are lucky. For most companies pricing based on cost means that they overprice some products and under-price others, even during normal times. Setting prices based on cost is especially problematic in recessionary times. Given the current recessionary environment, it is a good time for you to look into shifting from cost-plus pricing toward value-based pricing.

Value-based pricing doesn't necessarily mean charging low prices. Rather, it means pricing the various products in your line based on what they are worth to customers -- relative to competing products. What they are worth shifts as the sloping fair-value line flattens in most product categories during a recession and gets steeper during boom times. This means that during a recession the price premium asked for the better products may be out of reach for an increasing fraction of customers. On the other hand, in some markets there could be a minor windfall at the economy end of the spectrum as customers seek out ways of saving money.

Producers of premium products may face particularly hard times during a recession. However, they should think twice before cutting their prices. If you reduce your price premium during a recession, you may hurt your brand image and have difficulty restoring it when the economy turns around. You want to think past market-share battles during a recession toward the recovery period when you will want to maximize your margins based on your superior performance.

Companies like Procter & Gamble, Clorox, Kimberly-Clark, and Nestle tend to pass on price increases -- and keep their price premiums -- even during a recession. "Our products don't deliver value [just] because the prices on the shelf are lower," A.G. Lafley, chief executive of P&G told analysts and investors at a conference in Boca Raton, Florida in February 2009.

During normal times, and especially during the recession, for your premium products you may want to follow the example of successful household-products makers:

“Continually adding product features – and then advertising heavily to advise shoppers why they should pay more for them – is a critical way manufacturers of branded products drive higher profits and fend off increasing competition from private-label goods.”

“P&G, Others Are Confident Higher Prices Will Stick,”
Wall Street Journal, 20 February 2009, B1.

Value-based pricing is particularly important for products living off of a brand-image advantage inherited from previous generations of products. If your products had a one-time real performance advantage over competitors that has eroded away, you will find your sales especially vulnerable during the current recession. During a recession, some of your customers may sample the lower-priced competition. If this experience is a positive one for them, they may never return. If some of your organization’s product lines fit this description, your product teams need to recalibrate their performance and price positions versus competing products. They need to make decisions based on the facts about the performance and worth of their products versus competing products. Shouting opinions around a conference table won’t lead to the adjustments your product line team needs to make.

To learn more...

A 4-page article on competitive value appraisal, reprinted from the Journal of Professional Pricing, complete with a case example, is available at <http://cval.com/pdfs/PPSR reprint.pdf>

To download a brochure describing the tools for competitive value appraisal in the Gale-Swire Marketing War Room software, go to <http://cval.com/pdfs/MarketingWarRoomR7.pdf>

For further information, including the white paper "How Much is your Product Really Worth?" go to <http://cval.com/contact.htm>

Finally, see "Value-for-Money Strategies in Recessionary Times" by Peter J. Williamson and Ming Zeng, featured in the March 2009 Harvard Business Review. The authors suggest that we can find role models for success in a recession by studying strategies that have been successful in emerging economies. One such strategy is to produce economy products, which have less than average performance and often much lower than average prices for customers. These companies represent a greater threat to the product lines of Western companies during recessionary times when cash is tight. The authors offer a rich variety of case examples. The article on value positioning in a recession can be found/ordered at <http://hbr.harvardbusiness.org/2009/03/value-for-money-strategies-for-recessionary-times/ar/1>

###