

The Discount Economy ... and its Implications for the Future

Has discount pricing gone too far? In this article, the author discusses the many ways in which the discount economy has not only caused consumers and pricers to lose sight of value but has also impeded economic growth in global markets. Dale Furtwengler is a professional speaker, author, business consultant and CPA. His latest book, Pricing for Profit, is dedicated to helping organizations break the bonds of industry pricing. Learn more at www.pricing-forprofitbook.com.

We've been in a discount economy for several decades. There are a number of factors contributing to this reality:

- Market saturation in developed countries requiring the creation of higher paying jobs in developing countries.
- Six Sigma and Lean Manufacturing practices for removing fat from processes.

Walmart's low-price strategy

The intent of these efforts is laudable. Creating new jobs, and consequently, new markets in developing countries produces long-term benefits for all of us. Removing waste from inefficient processes improves resource utilization and, typically, creates a healthier economy. Walmart's low-prices are designed to increase its customers' buying power. As I said, all laudable goals.

In pursuing these goals, Walmart and companies engaged in Six Sigma and Lean Manufacturing cost-reduction strategies placed a great deal of pressure

on their suppliers to lower their prices. **During this process we, as a society, became obsessed with low prices. So much so that we've lost sight of value.** What are the implications of this loss?

We've hampered economic growth, not just in the U.S., but in all developed countries. In order to offer lower prices companies have to reduce costs. Since the largest cost for most companies is labor, it means that, in the past decade, salaries have actually declined leaving employees with less discretionary income to spend. The lack of discretionary funds limits economic growth by limiting spending to essentials (in terms of Maslow's Hierarchy of Needs seen in Figure 1).

The discount economy is driving ever-increasing numbers of people in developed countries toward the physiological (survival) needs and away from the self-actualization peak we desire.

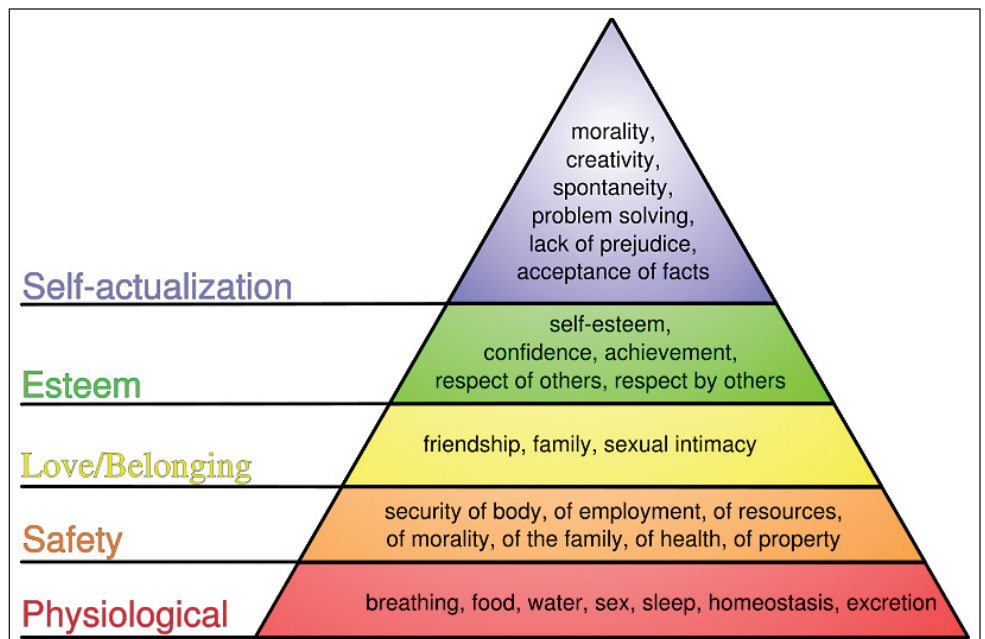
One side effect of this discount econ-

omy is that we're devaluing education. For a dozen years or so I've worked with juniors and seniors in a local high school to help them gain an understanding of how business works. In the past two years I've repeatedly been asked "Is it worthwhile to get an MBA?" That doesn't bode well for the United States' ability to compete in the future. I can't help but wonder whether students in other developed countries are asking the same question.

Combine the question of whether there is sufficient ROI on education with declining salaries, less discretionary income and lower profit margins and we are poised to experience:

- A paucity of talent.
- Lower R&D investments.
- Less innovation.
- Difficulty in competing globally in the future.

Figure 1: Maslow's Hierarchy of Needs



- A diminished lifestyle.

I doubt that this is the future any of us wants for ourselves much less for our children. There is a remedy. Companies need to refocus their and their buyers' attention on value. Specifically they need to:

- Quantify the value they're providing.
- Create sales scripts that educate buyers' on value.
- Hold their prices in the face of buyer pressure to lower them.
- Avoid the market-share trap.
- Develop marketing messages to attract the buyers who value what they offer.
- Invest profits in finding new ways to serve the customers who value what they offer.

One of the reasons that many feel trapped by industry pricing is that they don't know how to quantify value. So the first step in the process is to discover how to do those calculations. The second mistake they make is to look at their competitors when determining what pricing is available to them. A better approach is to look at the price premiums that non-competing businesses are getting for their offerings.

The sales scripts that are used by most salespeople talk about a broad array of benefits, each of which is difficult for both the seller and buyer to quantify. **In reality there are only three things that any organization sells — image, innovation or time-savings.** Once sellers understand what they're selling it's much

easier to quantify and communicate their value to their customers which helps their customers make better buying decisions.

Holding prices in the face of buyer pressure requires a clear understanding of what your most profitable customers value and the ability to say "No" to buyers who don't fit that profile. There are simple scripts that allow



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sellers to exit gracefully from prospects who don't fit the profile while retaining a good relationship and positive impression with that person — an impression that often translates into quality referrals.

Unfortunately many companies get caught in the "market share" trap - they get so caught up in who has the most customers that they lose sight of who their ideal customers are. This trap causes them to lower prices to increase customer head count. In essence, they're

reducing their revenues from their ideal customers to garner lower revenues and profit margins from customers who don't really value what they offer while increasing their infrastructure cost to handle the additional volume. It's a nasty one-two punch that we inflict upon ourselves.

Because companies lose sight of their ideal customers, their marketing messages become less effective, their marketing costs rise and their ROI on marketing declines.

Finally, companies invest in expansions that don't make sense because they can't identify new ways to serve their existing customer base. We need look no farther than Walmart's, and now Target's, entry into the grocery business. Both companies are or have moved into an industry that sports 5% lower gross margins and low to mid single digit operating margins.

Expansion should be designed to enhance profit margins, not cut into them. Companies that have money to invest need to find new and innovative ways to serve their existing ideal customer base. They

shouldn't invest in offerings that don't add at least as much value as they're currently offering. That value is evidenced by profit margins.

We have two choices available to us as we move forward in the current recovery. We can wait for the recovery to progress at its naturally slow pace or we can accelerate the recovery through modest price increase and utilization of the higher profits to invest in new and exciting ways to serve our ideal customers while accelerating job creation.