

# Running Price Promotions

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When used correctly, price promotions can encourage brand loyalty and increase sales among customers. The important thing when developing pricing programs is to carefully match your program to specific marketing goals.

## What You Need to Know

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### **Which is more important: Pricing or brand building?**

Promotional pricing programs can help establish a new product or gain market share from competitors. They also are useful for countering potentially negative actions from your competitors in the short-term. In the long run, though, focusing on pricing alone is not a good strategy. Brand building is more important for long-term growth.

### **Do I need to respond to my competitor's price promotion?**

You may decide that you need to respond if the competitor's promotion will hurt your market share. Be sure to weigh the long-term impact of cutting prices on profitability, though. You don't want to find yourself in a damaging price war.

### **How should I respond when retailers demand price cuts? I'd rather spend the money on advertising.**

You need to persuade retailers that advertising, direct marketing, or other brand-building activities will benefit them. This can be difficult, though. Retailers often prefer promotions that show immediate results. Try to balance your budget to meet both short- and long-term demands.

# What to Do

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## Match the Promotion to the Purpose

There are many reasons for which you might decide to use promotional pricing. Some examples include:

- Launching new products
- Winning business from competitors
- Protecting market share
- Entering new market sectors
- Developing niche markets
- Maintaining volume sales and profit in mature markets

## Select an Appropriate Pricing Program

The main types of promotional pricing are:

- Money off current purchase
- Money off next purchase
- Cashback offers
- More product / same price offers
- Multiple purchase discounts
- Credit deals and financing plans

There are advantages and disadvantages to each of these tactics, described below.

### Money Off Current Purchase

Money off current purchase promotions are very commonly used. They are easy to implement, offer immediate results, and customers understand and respond to them. Other advantages include that you can measure results easily, modify pricing for different market sectors, or adjust the promotion to meet demand. Retailers like money off current purchase promotions, because they are easy to promote and get results.

Despite these advantages, there are drawbacks to money off promotions. One is that competitors can easily imitate them. If you find yourself in a price war with a competitor, they can impact both your company's profitability and that of retailers. In addition, money off promotions do nothing to

strengthen branding, increase customer loyalty, or differentiate your product from competitors on any basis other than price.

## **Money Off Next Purchase**

Money off next purchase offers have many of the same advantages as other types of money off promotions. They are commonly understood, readily accepted by retailers, and easily measured. Unlike money off current purchase promotions, though, these types of offers encourage long-term customer loyalty, since they require customers to make repeat purchases to get a discount.

The disadvantages of money off next purchase offers are similar to other money off promotions as well. Competitors can easily imitate them, and they do little to strengthen branding or differentiate your product.

## **Cashback**

In cashback offers, customers pay the full purchase price for a product, but then they receive a rebate in the form of cash or check. Sometimes customers need to mail in a form to receive the rebate. Rebates also can be offered in a form other than cash or check—for instance, a free music player when you buy your next car. Or, the offer might provide a choice, such as \$200 cash or a free music player.

Generally, cashback offers increase the perceived value of a product for both consumers and retailers, encouraging brand switching in the short-term. Customers easily understand and respond to cashback offers, and they especially like those that offer flexibility in how they use a rebate. Other advantages: You can modify offers for different markets or according to demand. On the down side, cashback offers will not strengthen your brand or encourage repeat purchasing. Like the other types of offers discussed so far, competitors can easily imitate them.

## **More Product / Same Price**

These types of promotions offer customers added value for their money, encouraging brand switching. Generally customers understand and respond to them. One distinct advantage to these offers is that competitors usually can't imitate them quickly.

There are some disadvantages to more product / same price offers. Modifying packaging can be expensive, impacting both manufacturer and retailer profitability. It can also be difficult for customers to see added value when they are comparing different package sizes. Like other types of offers, these promotions do not strengthen branding or differentiate your product in the long-term.

## **Multiple Product / Same Price**

These promotions offer the same advantages as more product / same price offers, with the added benefit that packaging does not require modification. Allowing customers to purchase two (or more) for the price of one provides immediate gain, and customers and retailers readily respond. Some retailers offer "Buy One, Get One Free" offers on a consistent basis to position themselves as offering superior everyday value.

The main drawback to this type of offer is its potential negative impact on retailer and manufacturer profitability.

## **Credit Offers and Financing Plans**

Credit offers and financing plans boost sales by increasing the amount customers can buy. They are especially important for companies that offer large or expensive products (e.g. furniture, cars). In the business-to-business sector, companies often consider financing plans an integral factor when deciding upon a supplier.

There are a number of types of credit and financing plans:

- In-store credit cards
- Loans
- Installment plans
- Business financing or leasing schemes

Finance companies often play a role in offering loans, installment plans, or financing schemes on behalf of a store or business.

Credit offers and financing plans encourage customers to make repeat purchases within a particular store or business, and they reduce the impact of price competition. As an added bonus, they provide high levels of customer information as a basis for direct marketing. Disadvantages include that they can be complex to administer and, like other types of promotions, do not strengthen product branding.

## **What to Avoid**

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### **You Ignore the Importance of Brand Building**

Though they can be valuable as short-term sales tactics, price promotions do not strengthen product branding or increase customer loyalty in the long-term. Most promotions are easily imitated by competitors. To avoid a price-driven marketplace where customers regularly switch brands to take advantage of the latest offer, it is important to focus on brand building as well as price as the core of your marketing program.

### **Your Offers Are Overcomplicated**

It is very easy for customers to understand an offer such as “Buy One, Get One Free.” On the other hand, “15% off when you buy three or more in two weeks” is confusing to both customers and

retailers, and the process to get the discount sounds too troublesome and complex. To get results, ensure the value of your offers is easily understandable.

It is important that retailers find your promotions easy to promote and administer. They may be reluctant to run them otherwise. If possible, do not require retailers to return coupons, make adjustments to their pricing systems, or perform other complex administrative tasks. Consumers, too, prefer simple, easy-to-understand offers. If your promotion involves redeeming coupons or mailing in a rebate form, for example, they may see less, immediate benefit.

## **You Fall Into a Price War**

If competitors keep reducing costs to keep up with each other's offers, it will likely hurt profitability for all. Remember, it is difficult to retain customer loyalty through price promotions in the long term. Rather than getting caught in a price war, focus instead on strengthening your brand.

## **Where to Learn More**

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### **Books:**

Dolan, Robert J., and Hermann Simon. *Power Pricing: How Managing Price Transforms the Bottom Line*. New York: Free Press, 1997.

Nagle, Thomas, and Hogan, John. *The Strategy and Tactics of Pricing: A Guide Growing More Profitably*. 4th ed. New York: Prentice Hall, 2005.

### **Web Site:**

Professional Pricing Society: [www.pricingsociety.com](http://www.pricingsociety.com)