

“PACKAGE” PRICE RATHER THAN CUT PRICE DURING SLOWDOWNS

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ABSTRACT

During the time of recession, sales of any company are bound to suffer. These strained economic conditions often determine the survival or end of businesses. To get through such times, companies adopt a variety of measures, one of which is price cuts. This paper discusses the effectiveness of restructuring the pricing strategy along with other measures. Various examples of national and multinational organizations have successfully embattled the slowdown using these measures. This paper demonstrates the suitability of engaging a wide range of measures rather than only price cuts, to beat the slowdown

KEYWORDS: *Price Cuts, Price during Slowdowns*

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INTRODUCTION

Pricing is one of the marketing mixes that entrepreneurs have to take into account. In the globalized era, where customers are aware of their rights, are demanding wide range of choices and looking for value added products. However, during the times of recession, they are cutting down their spends or postponing their purchases. Reducing costs and fixing competitive prices has become the ‘mantra’ for earning profit and use as a weapon for sustenance. Dell Computer, Southwest Airlines, and Wal-Mart use pricing strategy as a weapon to leave weaker rivals by the wayside. Aeropostale Inc, U.S., based teen retailer devised a strategy by offering discounts on T shirts which has helped them to outperform competition in the recent financial crisis of 2007-2009. But this strategy does not work always as only price cuts raise a few numbers of questions such as:

Will deep discount cheapen the brand?

Once prices are reduced, can it be raise again?

How does one deal with narrower margins? Etc.

The 2019 slowdown of Indian economy has been triggered by a mix of both internal as well as external factors such as synchronised global slowdown, demonetisation, poor implementation of GST, plummeting domestic automobile sales, flattening of core sector growth and declining investment in construction and an overall consumption demand facing a serious and constant decline. The main reasons attributed to the fall in the GDP growth rate were contract manufacturing activity, weakened investments, and lessened consumption demand.

During slowdown, which might lead to recession, consumers feel insecure about their jobs and negotiate more on financial matters. Shopping behaviour and habits also changes during this period. They are also more likely to increase savings while deferring non-essential purchases. This causes insufficient demand in products and services, resulting in

fiercer competition in market place. Therefore, some changes in strategies of the companies are essential. Some companies may react to these changes simply by cutting prices to attract more sales. If your competitive advantage derives from a low-cost structure, cost cutting can pump up your market share. But this cannot be the only successful strategy.

The slowdown is, indeed, very sharp. Currently, the growth rate of India has fallen below 6%. The global economy, which accelerated in 2017 and 2018, has been decelerating this year. According to the IMF, Calendar 2019 is likely to end with global output growing at around 3 per cent only. The government has responded to the challenging economic environment in India with appropriate stimulus. The big bang corporate tax cut has come as the icing on the cake with the announcement of several stimulus packages earlier. The monetary stimulus provided by RBI through five rounds of rate cuts totaling 135 bps will start yielding results soon. Since financial crisis of 2007 -2009 till today, many companies have positioned their firms by 'packaging the price' rather than cutting it.

EXAMPLES

L Company, established in the year 2002 in Finland, is one of the largest import wholesale groups dealing in retail food sale operations. It supplied 80% of the Finnish market and accounted for 55% of the retail food sale market valued at US\$ 17 billion during the year 2008. By the end of the year 2008 and during the beginning of the year 2009 the global economic recession started affecting the Finnish market. The board of L Company decided to shift its competitive strategy from 'low cost' to 'focus' strategy which includes low cost and differentiation. The company launched several actions as below:

- **Every day groceries at low priced products** – discounted certain groups of products and maintained optimum prices for other individual products and *Improved its **logistic system** – relocation of logistic centres, increased use of computer services and minimizing inventory level. It also allowed its own warehousing facilities for smaller stores usage. Logistic costs were reduced by 5%.
- **Reduced waste** with usage of better tools and equipments for handling the products.
- Increased the **effectiveness** of stores by offering several **training** programs for stores manager, deputy stores manager and other key personnel.
- **Withdrew unprofitable** products i.e. weak products.
- **Differentiated** its product range – more focus over multipurpose goods rather than specialized products.
- As the store was known for offering different kinds of chocolates and foreign beers, it **continued to strengthen in** that area by updating the variety of products.
- By differentiating promotion program, consumers can gain immediately .i.e. “buy more pay less” policy. Bonus was offered on large purchases and the amount was deducted immediately after the purchases.

Jeremy Shepherd, founder of **Pearl Paradise.com**, an online retailer in Los Angeles, noticed that sales of high end pearl necklaces were slipping down during the end of the year 2008.

- He created the **'luxury for less' campaign** and priced his strands of Tahitian Pearls at US\$300 each, which he usually sold for \$500 - \$700.
- He revamped his website placing lower cost items on home page.

- Revenue for his company, which sells pearls wholesale and retail worldwide, had been growing rapidly at 100% or so annually. But in October and November, the usual pre-holiday spike in sales didn't happen. Customers were purchasing lower-priced pearls. “It was starting to look bleak,” Shepherd says. He quickly slashed prices 50% on his unsold inventory, and the pearls were sold in few days. But his projections of \$25 million in sales for 2007 fell to \$20 million, he says. To keep his company stable, Shepherd is streamlining costs, combining the firm's several different websites and beefing up his online marketing. He is also **delaying** the possible launch of a **showcase store** in Los Angeles.

In India, **Tata Consultancy Services** (TCS) has number of ways to respond to a slowdown in business, even as it prepares for stronger growth, quotes the company's human resources head. Instead of cutting prices, they adopted alternative strategies to emerge stronger. 'Price is not the only reason that customers choose it. ' This was the principle they opted for.

- Tata Consultancy Services, one of the India's biggest IT service providers targeted growth in **previously untapped areas** during the slowdown 2007-2008. They catered not only to markets in Europe and US but also forayed into other markets such as Brazil, Russia, and China etc.
- It started providing multi services, as customers looked **for integrated solutions** such as IT, Infrastructure, BPO as well as Testing services. One third of the deals made during the year 2008 were for two services or more.
- It's acquisition of Citibank's captive BPO unit in India opened up new business. Instead of cutting jobs and closing units, it gained 13000 extra employees.
- Even today, the company has maintained operational discipline to weather a downturn and used some levers to reduce costs immediately, e.g. “If there's a sudden recession, then there will be certain projects that gets terminated or come to a closure; new projects will not start.
- Likewise, there will be movement from onsite to offshore. That doesn't mean that somebody loses his/ her job, but it is just the cost that comes down with it.
- Company would also be able to cut costs in travel and, in case of performance-related issues, exploring of cutting time for an employee to turn around. “Today may be, you are giving an opportunity for someone to improve performance for a much longer period, but that period would come down”.
- The IT sector no longer hires tens of thousands of fresher's from engineering colleges, with hiring patterns having shifted to a few fresher's and just-in-time hiring for experienced workers. The companies also no longer possess a large bench and utilization is over 80% at most of the big companies.TCS mentioned that it had always honoured the commitments it had made to fresher's and would use a downturn to increase training.
- Earlier, training used to get over in three months; which is now going for an extended duration. Instead of training in one or two specific technologies, we trained them for a longer period, more hands-on. So the moment demand picks up, they are ready to deploy.

Infosys –Infosys is re-inventing itself by focusing on five strategic areas, according to S.D. Shibulal, Chief Operating Officer, Infosys

- The company is concentrating on transformational deals, large outsourcing deals, new engagement models, execution and talent management.
- Officials also highlight about the increasing acceptance of customers for Infosys' new engagement model based on variable pricing. The model is based on the number of transactions, events, maintenance tickets or devices.
- The company is partnering with clients through new engagement models and flexible pricing. Infosys' result-oriented model provides clients with "outcome-based", "transaction-based" or "function-based" pricing.
- Infosys is helping clients in capitalizing business opportunities emerging from a shift in consumer preferences. The company is offering solutions on web and mobile-based platforms for social networking.
- Infosys has developed a software 'Finacle' i.e. ERP software which was taken over by tier-two banks in Europe.
- Instead of cutting on labour costs, 30% of the staff was appointed as '**bench workers**.' This made the workforce flexible. When there is no work, they build a platform or build intellectual capital. This helped them to move into new markets and ensured that its business does not suffer through under-investment in the long run.

One of the most important steps taken by FMCG companies like P&G and **Godrej** was to reinforce their mega brands and devoted much of their resources in strengthening their core brands. Taking cognizance of this, the group is constantly looking at developing products targeted at the **rural consumer**, **Mr. Godrej said, citing the example of the low-capacity refrigerator** launched recently.

Maggi celebrated its 25th Anniversary by reaching out to customers without cutting the prices. The maker of Maggi noodles and Nescafe had delivered 10.5% volume growth in the second quarter ended June 30, 2019, bucking the overall consumption slowdown. The **officials quoted**: "Penetration levels of categories we are in are relatively lower. We still have runway for growth and we are also looking at accelerating our **rural footprint**. We are **innovating** at five times the pace than in the past and with increasing urbanization, we are stepping up the power of innovation," Narayanan said. Rural markets contribute to 20-25% of Nestle's sales presently. We are fairly confident we will be able to bring in innovation-led volume growth. With relevant focus on advertising and marketing in difficult times, we believe some of our brands can be strengthened".

On prices, Narayanan said Nestle would have to selectively increase prices if commodity prices continue to rise. "If the unrelenting pressure on commodity prices such as milk and wheat continue, we will have to take up prices selectively," he said. Suresh Narayanan said that despite witnessing the slowdown across various sectors in the economy, he was positive about Nestlé's continued growth.

HUL spent lot of time and resources in re-pricing some of their brands and marketing aggressively (to the tune of 2000cr). The company's revenue growth for the quarter is estimated to be around 8-9%, aided by a volume growth of 5-6%. The slowdown in rural economy is likely to have an impact on its volume growth. Despite this, profitability is likely to be maintained, with the operating profit margin pegged at over 23%.

Cost control, premiumisation of portfolio, rationalized advertisement spending and digital marketing are the levers enabling the company to protect its margin.

Honda Motors restyled its best selling Activa Scooter with a **new look**. It managed to keep its operating margins up, using its tax-free manufacturing facility in Haridwar (Uttarkhand) and the relief in raw material prices to improve its profitability substantially during Sept 2009.

During slowdown, **pricing should be shaped by industry position and long-term strategy**. Thus pricing during an economic slowdown is tricky. Too often, companies simply cut prices to attract more sales but this can prove to be risky. Pricing policy has to be coupled with other measures and has to be rightly framed.

So to Sum-up

- Conduct market survey to interview your customer and find out how he views your products and services.
- Define the value you offer to your customer. Knowledge of the value you deliver to the customer gives you greater control over and confidence in your pricing.
- Create a range of low to high value offerings. This enables to appease both cost conscious and value conscious customers without cutting down prices. Focus on selling more low value products rather than playing poker with the customer.
- Streamline the processes so that inefficiencies and costs are reduced.
- Invest in innovative ideas to offer something unique. Funnel funds into R&D to give new products. This creates negotiating flexibility with customers and sales growth as well.
- Continue not only cost reduction but also add sales improvement. Look at the losses, wastes for opportunities to improve.
- Think strategically. Create a business advantage where competitors have problems and you can act faster.
- Go for bargain hunting. Look for acquisition opportunities.
- Engage your employees in the process of improvement.
- Don't offer only discount on your products. Get into price war without adjusting the value of the product might send you into a downward pricing death spiral.

Thus, instead of just price cuts, re-evaluate the entire pricing structure and streamline with some other moves, so that mixture of strategies can be nicely wrapped in an attractive package for overcoming downtime situation. Profitability is not the only prism through which you should view pricing. Other important perspectives include volume, customer satisfaction, value of product and impact on industry. The basis for customer value can shift when the economic climate changes and organizations have to react in order to survive.

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