

# How to price smart in a recession

**Y**ES, THE ECONOMY IS HURTING and most companies are reacting with big price cuts to keep their people and machines busy. The problem is that despite those price cuts, customers don't buy more. In fact, they are buying less because they're going through the same recession you are. Don't feel bad; most managers make classic pricing mistakes in a recession. They find that price discounts are quickly matched by competitors, causing revenue to decline and profits to disappear.

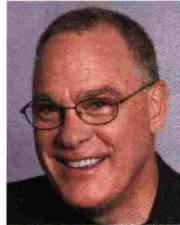
A far better approach when there is a downturn is to follow some of the following rules:

**1) Reduce sales objectives before you discount price.** Sales growth is no longer a reasonable objective—using price discounts to achieve them is just going to destroy profits. Both General Motors Corp. and YRC International cut sales objectives going into the recession and have protected price and profits.

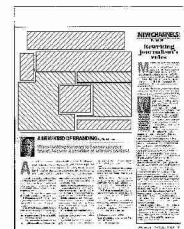
**2) Develop flanking offerings.** If you have to drop price, do it with your low-value offering. Develop them by taking out high-value features and services. The alternative is to drop price on high-value offerings, which undermines your value proposition and makes it harder to profit when the upturn starts. Nokia developed both high- and low-value phones to meet the needs of different geographic segments and has seen profits, revenue and share all go up despite the recession.

**3) Increase prices if your costs are going up.** Yep, even in a recession, it is possible to get price increases if you use cost increases as a justification. Lots of commodities producers are doing this and increasing profits despite decreasing revenue.

**4) But only increase prices if it doesn't result in "dumbbell pricing."** If only some of your customers pay the increase, be cautious of: a) big differences in prices to similar-size customers, or b) small customers paying lower prices than big customers. If that is the case, work on elimi-



By Reed Holden



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nating some of your discounts to those small customers. Many firms could improve profits by 20% to 40% or more just by eliminating unnecessary discounting.

**5) Play better poker with customers.** Customers want high-value products and services for a low price, and play great poker to get them. Learn to bluff by taking valued features away if you reduce price. Even small companies can protect their profits and value propositions with smart negotiating.

Surviving in a recession is hard. Avoiding knee-jerk reactions of price discounts is even harder. By following these simple rules, compa-

nies can not only survive but flourish in a downturn.

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