

Battle Royale:

Has Low Price Finally Met Its Match?



High performance. Delivered.



A line in the sand. A point of no return. Call it what you will, the competitive pricing strategies that have underpinned programs to attract customers and generate economic growth for years have now entered the danger zone. Customers' focus on the "best" deals has become a full-blown obsession. It has opened the floodgates to a stream of nimble providers all too ready to offer the low prices customers crave. Sales teams of traditional companies have responded with price cuts of their own. Customers' expectations are fueled. And on and on it goes.

In an environment in which price trumps all else, established companies are now struggling to maintain their viability. To lure customers and keep disruptive, upstart competitors at bay, many have responded by slashing their prices, too. By joining the race to the pricing bottom these companies are in danger of losing their identities. They are diminishing whatever brand value they once enjoyed by offering fewer, cheaper products and services.

Worse, many are now at an inflection point where they may start to sacrifice product safety and quality to make the all-important sale. Risks to consumers, workers and the environment have suddenly become very real.

The good news is that customers are nearing an inflection point of their own. They are starting to realize that low-cost purchasing decisions come with high-cost trade-offs. And as more consumers understand the true cost of the lowest price, established companies may have the opportunity to end the pricing game that no one wins.

How did pricing become a blood sport?

The focus on price has intensified over the last couple decades. Its exaggerated importance has all but crippled the notion of "healthy" competition that underpins economic growth. Accenture research shows that large percentages of consumers now consider price to be the determining factor in their purchasing decisions across a range of goods and services—from groceries (51 percent) and clothing (50 percent) to appliances (47 percent) and professional services (46 percent). No industry can escape the downward pricing pressure; even when it comes to medical procedures: 35 percent of consumers base their decisions on cost.¹

Digital technologies and disruptive providers have certainly stoked the low-price fire. Consumers now have more information about—and access to—lower-priced goods than ever before. Online deal sites are just the latest example of how digital is perpetuating the pricing game. Nearly two-thirds (63 percent) of consumers use deal sites, and 55 percent of those consumers will take advantage of low-cost offers, even if they are pleased with their existing provider.²

More than ever, traditional companies perceive they are being held hostage by customers' pricing demands. They have no choice but to continue to "play the pricing game." On the surface, it looks attractive. Discounts of 1 to 10 percent can draw approximately 20 percent of customers from other providers. And discounts of more than 10 percent can prompt three-quarters of customers to switch.³

But companies have already slashed relative prices to the bone, reducing their margins to unsustainable levels. The only way they can cut more is by eliminating some of a product's functionality or by taking costs out of the supply chain. And that has the potential to affect everything from product quality to labor and environmental practices to product and service safety. What started as a simple pricing management approach might quickly take a dangerous turn.

This is not the game anyone wanted to play

Low-price strategies make it exceedingly difficult for companies to make money on the core products they sell. They are more likely to achieve profitability through the sale of memberships, warranties or ancillary services. Airlines' legroom and early boarding options are prime examples.

The effect price-cutting has had on established companies is not only visible on their profit-and-loss (P&L) statements. It's also evident in brand erosion. In their "race to be the cheapest," many companies have eliminated any differentiation or competitive advantage they may have once had. Only 28 percent of consumers say their providers offer anything unique in terms of offerings and services. Adding insult to injury, many customers don't even appreciate companies' reduced pricing strategies: just 25 percent of consumers believe their traditional providers actually offer competitive pricing, despite overwhelming evidence to the contrary. Companies are at a loss—literally and figuratively. They want to play a different game—one in which price is just one of many factors that contribute to competitive advantage.

Customers may be ready to call it quits, too. More than half (52 percent) now admit they are as much to blame as companies for today's unrelenting focus on price over quality. Two-thirds believe you get what you pay for. And 37 percent have regretted buying low-priced items that ultimately "backfired" on them.

Yet, many buyers apparently aren't ready to fully accept the implications of their decisions. Nearly three-quarters assume all products and services are safe, regardless of price. And 70 percent believe big-ticket items—cheap or expensive—are made to the same quality standards. There is reason to believe consumers make such claims to justify their price-based decisions.

When asked directly about the risks they are willing to assume in exchange for lower prices, a truer picture emerges. Consumers are willing to sacrifice the "cool" factor by paying less for items that may be a bit outdated. That's it. The majority of consumers would not choose low-price deals if they knew the product or service would be less safe, less durable, or come with poor levels of customer service. This suggests that when customers really think about the implications of their decisions, price no longer wields the power it once did.

It's time for a new playing field

The race to the pricing bottom has just about run its course. Companies have nothing left to give. And customers are realizing they actually have much to lose. The time is right for a new playing field—one in which customers recognize value for price and where providers can once again distinguish themselves by the quality of the products or services they sell.

Established companies need to do three things to shape this new reality:

Customer insights. When a company attracts customers purely by offering the best deal, it's easy to forget that customers are more than price-conscious buyers. When they take the price goggles off, companies will see their customers for what they are: individual consumers with unique preferences, interests and behaviors.

The trick to becoming customer-centric in the post-price-centric era is to zero in on what customers value beyond cost—and what they might expect in exchange for higher prices.

That's where analytics comes in. With big data now at their disposal, traditional companies know more about their customers and their buying habits than ever before. By applying digital tools and analytics to customer data, companies can generate insights to segment customers into meaningful categories, customize offers to meet each segment's needs, and price each product or service according to the value delivered. Ironically, the digital advances that contributed so significantly to pricing's rise in importance will also play a key role in changing the price management game.

Contextual value over price. Our research shows that 61 percent of customers will pay a higher price if they can be assured that the product or service is of higher quality.⁶ There is a great opportunity for companies to offer products, services and ancillary benefits customers notice, value and, critically, are willing to pay for.

To seize that opportunity, companies will need to be willing to change the mix of products and services they offer to better meet the needs of profitable customer segments. This includes reduced focus on the mass-market segment and not giving in to the demands of the 14 percent of consumers who simply refuse or are unable to pay more for higher quality.⁷ Forward-looking executives will build contextual pricing capabilities that focus on the specific customer and the specific buying situation at the point of sale. And, companies can work to shift customers' attention back to value by educating consumers about the implications of low-price offers and, conversely, the benefits of paying more. Social media and online forums are particularly powerful channels for companies to engage with existing and prospective customers about the unique characteristics and value of their products and services.

Differentiate experiences. When pricing is no longer the sole driver of purchasing decisions, companies can attract and engage customers in a variety of ways. The value proposition of products and services can take center stage. Customer experiences will also take on new meaning. Every marketing, sales and service interaction becomes a touch-point for companies to engage with and satisfy customers, differentiate themselves from their competitors, and strengthen the consumer relationship.

New technologies such as social media, online self-service or mobile commerce can deliver new experiences by which companies can establish new relationships with customers—or re-establish old relationships on new terms. But digital technologies have their limits. Physical channels continue to be important and can offer personalized assistance and information in ways that online channels can't. Customers today don't live in an all-digital or all-physical world. They navigate both simultaneously and expect seamless transitions from one to the other. Companies should focus on optimizing customer experiences across multiple channels, identifying where customers are on their journey and helping them move through and across the channels of their choosing.

The pending truce

The lowest-cost pricing strategy has taken its toll on buyers and sellers, alike. When customers and companies once again recognize the true cost of the lowest price, they will see the need and the opportunity to redefine their relationship. And that time is coming sooner than you think.

Contact the authors

Tom Jacobson

Managing director,
Accenture Strategy, Pricing & Profit Optimization global lead
thomas.g.jacobson@accenture.com

Tiffany Gilbert

Senior principal,
Accenture Strategy, Pricing & Profit Optimization
tiffany.gilbert@accenture.com

Tiago Salvador

Senior principal,
Accenture Strategy, Pricing & Profit Optimization
tiago.l.salvador@accenture.com

Join the conversation



@AccentureStrat

References

¹ Accenture Global Consumer Pulse Research, 2014

² Ibid

³ Ibid

⁴ Ibid

⁵ Ibid

⁶ Ibid

⁷ Ibid

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 336,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

About Accenture Strategy

Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership help drive both efficiencies and growth. For more information, follow @AccentureStrat or visit www.accenture.com/strategy

This document is produced by consultants at Accenture as general guidance. It is not intended to provide specific advice on your circumstances. If you require advice or further details on any matters referred to, please contact your Accenture representative.

Copyright © 2015 Accenture
All rights reserved.

Accenture, its logo, and
High Performance Delivered
are trademarks of Accenture.