Marketing Munchies Podcast Transcript

Episode #18

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Announcer: Welcome to the Marketing Munchies Podcast series hosted by Dr. Bridget Behe. Each week Bridget and her guests will share information, insights, research-based findings, and her 30 years of experience to help your horticultural business connect better with current and future customers. Now, let's join our host, Dr. Bridget Behe.

Dr. Bridget Behe: Hi, and welcome to the Marketing Munchies Podcast. I'm your host, Dr. Bridget Behe. This week I want to continue our discussion about pricing. In the last two episodes, I talked about elements of perceived value and signpost items. This week, what I want to do is talk about the practical reality of raising that price.

Several years ago, Carol Miller was editor of *Today's Garden Center Magazine*. She initiated a series of studies called the "Ten Percent Project." What this project did was to design studies that could help retailers improve their profitability by 10%. We happen to be at *Cultivate* at the same time, and Carol approached me about how I would approach a study to understand how retailers might raise prices. Turn to my colleagues, Dr. Charlie Hall and Dr. Marco Palma, and we developed an experiment to show that retailers actually could raise prices without having a negative impact on their bottom line.

How did we approach this particular project? We identified some reputable independent garden centers that were geographically dispersed across the United States. We asked them to work with us on this particular study during a very busy time of the year. What we had them do, was to really go against convention, and rather than decrease prices over this selling period, we asked them to increase prices over the selling period. This was over a period of four weeks especially during their busy season.

I can hear the gasps happening all over the country. How can a retailer raise prices especially during their busy season? Everybody knows that prices go down over the period of sales. Well, we did exactly that. The first step was to identify products that were similar, in terms of the plant material, but had an element of differentiation. For this, we used both national brands and in-house brands and compared them to unbranded products. If you think about the branded plants as the test plants and the unbranded or generic as the control plants, what we did was to vary the price of the branded plants over time while the price of the control or the generic plants was stable across the four weeks of the study.

What we assumed was that the branded plants were in fact different from the unbranded plants. The first week the control plants were at a certain level, but the branded or the test plants were actually priced 10% lower than the control or the generic plants. Then in week two, what we did was to increase the price of the test or the branded plants to make them at the same level as the test plants or the generic plants. Then in the third week, what we did was to increase the price of the test or the branded plants to 10% over the price of the control or the generic plants. The branded plants were, in week one, 10% lower; in week two, the same price as, and then in week 3, 10% higher than the unbranded or the control plants.

We conducted this study on a wide range of plants. They included some roses, annuals, perennials, some shrubs, and vegetable and herb transplants. We had a great deal of data to examine the impact of this price increase, particularly when we knew that the prices of other products, or at least the perception of the prices of other products, was going to be going down over the study period.

What were the results? The really good news was that when we raised prices by 10% per week, in spite of selling 8.27% fewer units, total revenue was actually up 2.3%. In other words, even though we sold fewer units, the increase in price enabled the retailers to sell about 2.3% more in terms of overall revenue. We didn't decrease revenue, even though we decreased the number of units. Would you like to work a little bit less hard for a little bit more profit? That's really the take-home message of this particular study.

Let's go back to some of the "why did this happen?" The first thing was product differentiation. We believe that the branded products, especially in this case, were perceived differently from the generic products. This may not be true for all brands, but I think it is true for most brands. That people associate a little bit higher quality, a little bit better plant, perhaps greater perceived value, when they have a branded product. Now, I'm not advocating branding all products, but I want you to understand that here we see, in action, those elements of perceived value helping to bring the retailer greater overall revenue.

Why can we generate a greater total revenue? Because, we understand the elements of perceived value. We attach a slightly higher price tag to the products that can be differentiated. We don't try to fight in a price war over those signpost items which may not be profitable in the long run. We're also taking reasonable steps: a 10% price increase per week certainly was not what most folks would consider reasonable, but if you think about increasing prices in a step-wise manner, notice that we took a higher revenue in than we had a decrease in the number of units that were sold.

I wanted to give you some thought about price increases, particularly for next year's season. Think about, tactically, where and how some of those increases might come.

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Announcer: Thank you for joining us on this week's Marketing Munchies Podcast. For more information or to download the transcript of this podcast, please visit, connect-2-consumer.org. That's C-O-N-N-E-C-T, dash, the number two, dash, C-O-N-S-U-M-E-R, dot, C-O-M.