Marketing Munchies Podcast Transcript

Episode #19: Sale Signs

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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 back to the Marketing Munchies Podcast series. I'm your host, Dr. Bridget Behe. This week I want to continue our discussion about pricing. I especially want to talk about sale signs and the impact of sales and the impact of numbers that we use in pricing.

Last week, I talked about increasing prices, and this week I want to talk about what happens, especially psychologically, and at the cash register when we decrease prices. When we decrease prices, often times we're trying to eliminate some inventory or sell out of some inventory that's not going to be popular for very much longer. You know, red poinsettias or poinsettias of any color, aren't very valuable after Christmas, so we really want to think about strategically how and how much we put on sale.

Obviously, sales have an economic cost and that's one of the first things that we have to consider. If we have examined our cost and we understand our break-even point, we know that once we hit that break-even point, where the total input costs are covered. The timing of a sale is going to be very very critical. We want to think about putting things on sale after we've hit that break-even point and after we've hit our profit goal.

A couple of weeks ago, I mentioned an article called *Price Cues* by Anderson and Simester that was in the *Harvard Business Review* in 2003. They had an interesting discussion about the number of products that are on sale and the impact that has on overall total revenue. What Anderson and Simester found was that when we put everything on sale, that it can actually decrease overall demand. The "sweet spot" in terms of the number of sale items is about a third of the products being on sale at any one time.

I'm sure many of my listeners can think of stores where you go in and everything is on sale. So, your perception of value really is lowered, because you believe they're over inflating that suggested retail price or the actual retail price in order to put that particular product on sale. Psychologically, having all of those sale signs, really works against the overall sales goal for that particular retailer. In their research, Anderson and Simester found that that "sweet spot" for generating additional revenue, and at the same time moving the inventory, was when only about 33% of the products were on sale.

Now, what do we know about pricing and numbers? I want you to think about price tags that are in your retail operation. When a price ends in "9," psychologically, that is considered to be a real deal. And, mathematically, that is the point where we can generate the most revenue without going to the next integer. For example, something with a price of $0.99 or $4.99, psychologically, is perceived as a value and, mathematically, it keeps us under that $1.00 or $5.00 threshold. If we use prices that end in “7” or “5” or “3,” they’re not perceived to be the good deal that prices that end in “9” are. Also, mathematically, we’re leaving several cents on the table. Customers really don’t perceive a difference between $4.95 and $4.99 or $4.69 and $4.99. It’s very tough for them to differentiate between those price points, and it adds a significant chunk to our bottom line.

I want you to give some thought in how the prices at your retail operation end, and what I would recommend is that they all end in “9.” That’s going to add a few more cents to your bottom line for every sale.

Lastly, when we’re talking about moving inventory, we want to use the “buy 2, get 1 free” as opposed to the 33% off. When we price something that is “buy 2, get 1 free,” we encourage consumers to buy more inventory. Thirty-three percent off seems like a really good deal; it’s the same deal as “buy 2, get 1 free.” When our goal is to move the inventory at a sale price, we want to use that multiple unit pricing in order to move that inventory.

Think about your sale signs. Think about what you’re putting on sale, and don’t put more than 33% of your products on sale at any one time. Make sure that you’re using multiple unit pricing, because that’s probably really why you’re putting those items on sale.

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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.