

THOUGHTS OF THE SALMON™

Prices? Low!

Before the Big Crisis, most people believed that the most important thing was to understand how to raise prices while remaining successful. I am very good because I sell a lot, at higher and higher prices, with a high margin.

On the contrary, it is much more important to sell a lot, at lower prices and with a good margin. The issue is that being successful at lower prices is much more difficult (and it is necessary to be much sharper).

Objection 1. But there are so many rich people, increasingly more, particularly in emerging countries, who don't care about prices....

A. Even in an advanced market there are very successful business models selling good quality products, with a decent style, at relatively low prices (e.g., cars, furniture, clothing) becoming more and more attractive to wealthy people: it is a sign of increased attention given to substance rather than appearance (though we are always impressed and we always remember those examples of the flashy parvenu spending an amazing amount of money on trashy things....).

B. In the so-called emerging markets (not exactly emerging--just take a look at the rankings of economies...) it is true that the top of the pyramid can be very rich, but the middle class is growing and, please, let's keep in mind a few numbers: for example, in India the difference between two available estimates of the total population is around 50 million people. I am saying "the difference between two estimates," like a rounding up... well that rounding up is as large as a major European country!

Objection 2. We are all good at lowering prices...

To say that tomorrow Product A will move from 100 to 90, is actually easy. However, if:

- I have to sell more (more than proportionally)
- I have to maintain good margins (even as a percentage)
- I am not selling to the final consumer, but to an intermediary (stores, distributors,...) I have to make sure that the price decrease gets to the final consumer, and doesn't remain in the intermediary's pocket

If I have to do all this, well, it is not that easy....and we all remain stuck glorifying the beauty of those super niche businesses, where people are lining up just to get the product, or where the more expensive the better, and so on.

Objection 3. Why do I have to decrease prices if I then lose margins?

In theory, we all studied that volumes and prices are linked, that we have elasticity of demand, and so on. In reality it seems that the increase in volumes thanks to a decrease in prices is almost a taboo. We forget about it (or we pretend to) simply because we do not want to take the risk.

Then, the issue on margins is, unfortunately, partially true: an excessive attention to percentages rather than absolute values of margins distorts perceptions and behaviors, leading companies to give priority to smaller and smaller activities, perhaps amazingly profitable, but feeble (and, sooner or later, the newcomer actually arrives, often the "foreigner," who buys, invests and develops...)

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