

# “Should I Lower Prices To Stay Competitive?”

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The client on the phone sounded desperate. “GNC just announced that they were changing their Gold Card program from 20% off one-day a month to 20% off everyday. Should I lower my prices 20% to stay competitive?” he asked.

“Do you want to become a non-profit organization?” was my reply. The explanation followed.

When I entered this industry 39 years ago it was a relatively small private club, with mom-and-pop retail stores and family-operated suppliers, united with a passion for providing foods and supplements to improve people's health.

The drug stores, doctors and supermarkets were the profit-driven capitalists catering to the unenlightened masses. We had the truth, and the truth had set us free to convert the world to a better way of life through natural foods and supplements.

The retail outlets all contained “health food store” in their titles, and we used only two keys on our cash registers: “taxable” and “non-taxable”. We worked hard, pulling converts off the street one at a time, as they walked by curiously looking for information about a vitamin or supplement that they heard might help them with a condition that they had.

Although we did not understand it then, at our very roots we were a knowledge and solution-based industry—a driving principle that remains with us today.

The fact that eating natural and organic foods improves one's health, and that natural supplements provide relief from symptoms more safely and economically than drugs was the truth that drove the industry's growth. In spite of the declarations from the medical community and food industry that all this health stuff was pure poppycock, mounting scientific evidence was proving otherwise.

In the early years there were few sales, deals or discounts. When it came to a person's health, results are what really counted, not price—another principle that remains with us today. Or has it?

With the raise in popularity, driven by consumer testimonials and good science, both the medical community and food industry could no longer ignore the fact that the sales of natural products had been enjoying continued “healthy” double-digit growth. If these products were not living up to the claims of improving health or relieving symptoms, the threat of mainstream markets losing market share to natural product stores never would have materialized. But it did.

Not wanting to miss the gold rush by staying on the natural product sidelines, drug stores, supermarkets, mass merchandisers, club stores and dozens of other distribution outlets have attempted to join the

playing field, seeking membership in the private club. Some have been successful. Most have not. Those who have been successful understand that the core natural products consumer who frequents natural food stores and natural foods markets is an educated, affluent, value and knowledge-driven customer—not one of the masses who make up the bulk of mainstream's customer base.

Survey after survey reports that consumers want to eat more healthfully, and are interested in using alternative natural remedies. However, the cash registers are telling us that more consumers are thinking about buying organic foods and natural supplements than are actually purchasing them.

Herein lies the dilemma. There are three general groups of consumers. We have a core group of educated and value-driven consumers who purchase products primarily from natural product stores.

There also exists a large peripheral group of consumers who are telling us that they want to eat better, support the concept of organic foods and supplements, but simply are not committed to paying a premium price for these premium products. Most of these consumers frequent conventional outlets. For this group, price is a driving decision factor in moving natural products through mainstream channels.

The last group consists of those consumers who make their food purchases, giving no thought to health or nutrition. This group is highly motivated by price and sees little value is spending extra for healthy foods, let alone natural or organic products.

A business selling natural products needs to understand the difference between the “natural” consumer and the “truly natural” consumer. The core natural product consumer, the “truly natural”, views her purchases through a “total wellness” window. They are committed to consuming primarily organic and natural products and supplements. Quality, benefits and knowledge drive her purchases.

Peripheral natural product consumers view their purchases through a “healthy” window. They see “low fat”, “low salt”, and “reduced calorie” products as healthy, and although they tell surveyors they are more health oriented, they are not committed to a “total wellness” program.

Overlay this discussion with a general population value-price analysis and the road map becomes clearer. This analysis reveals that those consumers in the younger age groups (20-35) are more price-driven and less value-oriented, than those consumers in the older age groups (40 and above). The value and price influence lines move in opposite directions with the 20 year old being the most price-driven and least value-concerned, and the over 55 group being the most value-driven and least price-sensitive.

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So I ask my client, “Who are your customers?” Do more of them fall into the educated, affluent, value-driven, total wellness, over 40 age group-or are more of them in the younger, budgeted, peripheral group?

I remind him that for the average natural products store, the top 30% of customers deliver 75% of sales, while the bottom 30% of customers bring only 3% of sales. That bottom 30% are often the vocal minority-the first ones to tell you about how they can purchase a product cheaper in another store, and overall, purchase the least from your store.

If you make the mistake of lowering prices to attract the bottom shoppers, you give up crucial margin needlessly on 70% of your sales.

Another factor to consider before lowering prices in response to GNC is to know who the GNC customer is. The typical GNC customer falls into the peripheral, younger, price-driven group. Few truly natural consumers shop in GNC's. In fact, the 4,000 GNC's have coexisted quite well with the natural product stores, not by taking market share from them, but by attracting a different customer.

GNC has done a good job of attracting the younger crossover consumer and introducing them to supplements. For many mainstream consumers, their first “natural” supplement purchase has been at a GNC. Since most of GNC's customers are demographically similar to a Wal-Mart shopper, when mass market stores began stocking more natural products, GNC saw this as a serious threat, prompting their announcement last summer that they were lowering prices on 40 of their products.

Wall Street's reaction-knowing that lower prices means lower profits-drove GNC's stock into the tank, pulling along with it many other supplement stocks. If giving up margin on 40 of their best sellers did nothing to the top line and only reduced the bottom line, then giving up 20% margin every day on all products could be disastrous. Not a surprise that Royal Numico put GNC on probation because of failing profits, and sold the company a quite a loss a year later.

“So, I guess what you're telling me is that if I lower my prices by 20% to follow GNC, my sales won't change that much, but my profits will suffer significantly,” my client concludes.

Not only that, but if your marketing efforts focus more on solution selling and less on price promotion, you will attract a greater number of core, total wellness shoppers who are looking for results and value, and less of the periphery group who just want to shop healthy.

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