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Report: Discounting Damages Brands

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[-By Kenneth Hein](#)



The *Dollars & Consumer Sense 2009* study, released today, finds that consumers often have a negative reaction when they see the price slashed for their favorite product or service.

In fact, 70 percent of respondents to the Yankelovich poll said such cuts probably mean the brand was overpriced in the first place. And, 62 percent said they assumed that the product was old and they were just trying to get rid of it.

"People are suspicious if you significantly discount your brand," said J. Walker Smith, president of Yankelovich Monitor and executive vice chairman of The Futures Company. "If you make significant changes in your value proposition it can confuse them. You have to give them reasons to buy stuff as opposed to just lowering prices as a knee jerk reaction to the economy."

Earlier this year [Saks Fifth Avenue announced it was retreating from a discounting strategy](#) after it lost nearly \$100 million in Q4. CEO Stephen Sadove said the chain would add a mix of lower priced items instead. The assumption became "they are just overpriced all year long," said Smith.

Brands that do not discount achieve a positive halo among many consumers, per the study, which polled 1,0002 consumers in January. Sixty-four percent of those polled said they assume the product is either extremely popular or a good value if they maintain their price.

Earlier this month, [Brand Keys announced similar findings](#) among the 26,000 consumers it polled for its Customer Loyalty Engagement Index. Consumer expectations regarding brand value went up 20 percent. In other words, many aren't looking for lower-priced brands rather they are looking buy products that they consider a good value.

A potentially more damning result of lower pricing is deflationary expectations, per Yankelovich. This means consumers are postponing purchases in anticipation of prices falling further. Up to 60 percent of those polled believed companies that cut prices would continue to do so. "People are sitting around waiting for more discounts. That's a really bad thing," says Smith. "The deflationary cycle is very difficult to remedy once it takes hold."

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-By Kenneth Hein

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