

Discount Your Prices, Not Your Brand

Big discount sales can work wonders to attract new customers and clear out stubborn inventory, but they can also erode the equity of higher-end marks and hurt the image of the stores that sell them. New



research from the Miami University shows that discounting goods can lead consumers to expect permanently reduced prices, which in turn can stifle sales when the items do return to full price. The research, led by Devon DeVecchio, says however that there are a few strategies that can help reduce the risk of

creating permanent low-price expectations.

A [New York Times article by Alex Mindlin](#) reports on these pricing techniques: *The studies found that discounts expressed as a percentage — for example, 45 percent off \$20 shirts — worked better [in terms of limiting future low-price expectations] than equivalent discounts that stated the amount taken off — in this example, \$9. The two types were equally effective at inducing people to buy.*

The reason was apparently that percentage discounts were less easily remembered than cash discounts, meaning they did not readily enter consumers' memories as a new price. For similar reasons, hard-to-calculate discounts like 43 percent or 24 percent did not drive down consumers' price expectations as much as simple discounts like 50 percent or 20 percent.

Put a different way, simple whole-number discounts aren't the best approach. Rather, ask your shoppers to do more complicated math in the form of a funny-number discount, and they likely won't do it. And that helps detour them from developing a future low-price expectation. But the mechanism at work here begs the question: is this pricing trick ethical? Hit the Participate button and let us know what you think!