

## Economists Suggest Discounting Likely To Continue, Need For New Messaging

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Talk about a tough hand to play. Trying to read the straight flush or straight bluff of consumers is still proving to be difficult for retailers as they do their best with a decidedly mixed collection of cards. Placing the **right bets on pricing**, ad strategies and overall market positioning hangs in the balance.

"There are some signs that consumer spending may increase and some overall indicators are showing stability," says Lars Pinder, Professor of Economics at the University of Southern California. "But there are some things on the horizon that **could slow a fourth quarter** recovery and perpetuate the current strategy of deep discounting."

Pinder, like most analysts, agrees with the large number of economists who see a modest recovery later in the year. But he believes internet taxes and other miscellaneous sales taxes could hamper the ability of retailers to climb out of the profitless practice of discounting to build some margin back into the business. The great unknown is the **consumer psyche**. Should retailers be aggressive and play to the recovery with cross-channel convenience, service, selection, and value? Or will consumers continue to be attracted solely by pricing? Unfortunately, price pressure looks like it will outlast any fourth quarter spending recovery.

According to MARC Research's March consumer survey, 43% of all customers **base their purchase decisions on price**, up from 40 % in February. And the percentage of consumers who said they were **postponing purchases in anticipation of future discounts** went up from 33% to 37 % over the same period.

"Several months ago, we were in shock; nobody believed (the economic downturn) was happening. So it was a stress-like reaction," according to Michael McCall, Ithaca College consumer psychologist.

"Now people are spending less. People are tightening their belts and it is not clear exactly when they will stop tightening and start spending again."

McCall's view is echoed by Reuters columnist James Saft who wrote on May 5 that consumers will not be able to sustain the surprising 2.2% spending lift of the first quarter. Consumers, Saft believes, will see the cash from government stimulus but will still face ugly personal balance sheets and a brutal job market. The only reason for optimism is the low level of inventory at most retailers, which will have to be filled and then sold aggressively. This sets the stage for a retail traffic and sales stimulus, but not a return to full-value pricing.

One way to address the fragile retail psyche could be through using marketing to rise above it.

"The problem with retail marketing today isn't that we spend too much time messaging about the economy. Our problem is that we are all pushing out the exact same message. Can you tell me the last time that almost all brands across all communication channels synchronized on a single key differentiator," says Melissa Read, Ph.D. and VP of Research and Innovation for [Engauge](#), a consumer psychology consultant. "We see this kind of synchronicity in brand communication on holidays, and it works well in those short durations. But at this point, the **message about our failing economy has been over-communicated**. Customers are overexposed to it. Brands are supposed to help us escape the issues of daily life. Not remind us of them. When a brand tells you that you 'need your own stimulus plan' or that you need to 'invest in yourself' you are just reminded of the harsh realities of life today. You are reminded to spend less. If you want to help your customers get over the economy, you need to get over it too. What happened to making people feel like they have to have our products, whether they have the money or not? The best brands show people how their products are relevant to their lives and are essential no matter how much we have to spend."