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What Every Online Seller Ought To Know About Overcoming The Substitution Effect

There is an economic law called the "Substitution effect" which secretly undermines the work of some online sellers, while helping others.

Let me explain it and suggest ways you can "break the law". The Substitution Effect says:

As buyers' incomes decline (or overall prices in a marketplace rise) the buyer will replace expensive items with less expensive items.

In practical terms it means we all look for cheaper options when we're feeling "tight" on funds. It's a basic consumer behavior.

Substitution Effect Winners

When buyers are feeling the pressure to look for less expensive options a few winners emerge in every market - the lower priced sellers.

These sellers offer good products at discounted prices and as shoppers hunt for cheaper options they repeatedly chose these discount sellers.

Substitution Effect Losers

The first assumption is that it is the high priced sellers that are the losers. But guess what? it's not!

The high priced sellers in each market don't frequently feel the most dramatic impact of the substitution effect. These ultra-premium sellers are somewhat immune because they weren't ever selling on "price". They always tend to sell using techniques

more aligned with "status" "quality" and "personal satisfaction".

These sellers also tend to have powerful branding, high quality images, big email lists, and professional copywriting. All of these assets work together to help them combat the negative forces at play.

So who is the victim in the Substitution Effect scenario? The big victim is the mid-priced seller.

The mid-priced seller isn't using "price" as their selling tool, nor are they using powerful "psychological selling tools" and well-honed business assets. They are simply benefiting from the flow of general consumer demand.

Four Ways To Avoid The Damage Caused By The Substitution Effect

So how do you stay clear of the negative impact of the Substitution Effect? Here are four ways,

#1 - Avoid The Deadly Middle:

when it comes to pricing your work either become a low-cost provider, or work to be the ultra-premium provider. Avoid the deadly middle and you'll suffer the smallest impact as buyers shift their behavior.

#2 - Be A Better Bonder:

People buy from people and as they make purchasing decisions they consider who they are helping or hurting if you have a fantastic bond with the customer they are less likely to leave you for a generic alternative. Good bonds are forged by fantastic customer service, iron-clad refund policies,

generosity and most importantly infusing your brand with personality!

#3 - Build Business Assets: If you can build an email list of several thousand (or tens of thousands) enthusiastic buyers - you've got a super weapon to combat the substitution effect. What are other ways you can build business assets? Work hard on your logo, clarify and strengthen the impact of your founder's story, and increase your social media influence. You should also develop the discipline of having a certain amount of your monthly expenses used to advertise - say 5-10%. Learning how to advertise your work is part of a disciplined marketing program.

#4 Serve The Customer Instead of Just Selling A Product: The most important way to avoid the substitution effect is incredibly simple. If you serve the customer, rather than selling a specific product, then you will be open to changing your product offerings as the market changes. In other words you can offer lower priced alternatives as needed. Just make the differences between your higher and lower priced products very clear.

Conclusion: The Substitution Effect is a powerful economic force that YOU have to proactively combat if you want to maintain or grow revenue. You can do it!

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