

NURSERY PAPERS

AUGUST 2007 Issue no.8

Avoiding the discount addiction

To understand the full impact of continual discounting, it is useful to think of discounting as having addictive properties for both businesses and consumers.

This Nursery Paper explores the causes, consequences and cure for the widespread 'addiction' to discounting suffered by many Australian retailers. Based on the work of Michael Cleghorn, renowned international trends forecaster and Director of Minc Consulting, the paper examines the consequences of feeding the discount addiction and the changing retail climate that has encouraged its spread. It concludes by outlining a number of practical strategies for avoiding the discount addiction and succeeding in an increasingly competitive marketplace.



Avoiding the discount addiction

The discount addiction – an unhealthy business habit

Discounting has the potential to become a destructive habit. Similar to addiction, continual discounting can induce 'tolerance' among your customers, that is, the requirement that over time, greater discounts be given to produce an identical purchasing effect. So not only do your customers begin to need a constant dose of discounting to feel healthy, they also begin to need greater and greater discounts in order to maintain that 'healthy' relationship with your business.

Another way of understanding the effect of discount on retail trends is in terms of behavioural conditioning. Think of discounting as a stimulus that conditions consumers to behave in a certain way.

In the short term, discounting can yield impressive results, prompting customers to make higher volume purchases more quickly because they see themselves as getting a good deal, taking advantage of a special

offer or scoring a great bargain. In the long term however, discounting can have serious consequences, with many retailers quickly realising that discounting is hurting their bottom line but unable to break the habit.

This is because the retailer, through constant discounting, has conditioned his or her customers to always expect a 'good deal' or 'bargain price' and to only make purchases during 'sale' periods. Furthermore, the retailer has also become conditioned to offer discounts because this is the only way (or so it seems) to maintain the profit margin.

Retailers who feed the discount addiction are only thinking short-term. They need to ask themselves what will happen to their bottom line when eventually people only want to buy products that are on sale.



Customers eventually begin to need greater and greater discounts in order to maintain that 'healthy' relationship with your business.

The consequences of the discount addiction

Discounting has become endemic in the Australian retail market. Rising from an average reduction of 15 percent to 30 percent in the last 10 years, the level of discounting has also increased by a monumental 700 percent.

Among the most serious consequences of the discount addiction are:

Unstable sales patterns

If your business becomes known for its discounting habit, customers will soon realise that the only times worth visiting are during sale periods, leaving you twiddling your thumbs (and questioning your business sense) during the rest of the year.

Unstable customer relationships

When discounting becomes the only, or even the primary, means of creating value and buying urgency, customers lose trust in the business and the product; they become confused, cranky and negatively conditioned.

High risk selling

Inability to sufficiently stimulate the market through discounting can leave you caught with significant overstock ('stock constipation'), which creates increased pressure to offer further discounts, thereby fuelling the discount addiction.

Price establishment issues

The base rate of sale of the core product suffers as discounted products take sales from core products. The resulting difficulty in establishing prices and consistent sales among these core products further feeds the need to replace one discount with another.



Establish yourself as an expert. Solve customers' problems by selling solutions, not products.

The changing retail landscape

The recent surge in discounting amongst retailers can be linked to a number of changing trends in the Australian market. These include:

Less urgency

Extended shopping hours, greater choice, more brands and intensified competition all combine to create a more relaxed customer. The increased difficulty of creating urgency among customers is leading more retailers to resort to discounting as a means of recreating the urgency to buy.

Branding pressure

With the market share of major brands on the rise, the power of branding has soared, with 'brand' now overshadowing product in many areas of production. This development has created considerable pressure among smaller retailers to compete by following the trend of regular discounting, which has unfortunately become firmly established among several market leaders.

Changing corporate structures

With more public companies in the arena than ever before, market analysts have noted the emergence of a new pattern of corporate 'ladder climbing' among ambitious CEOs. This evolving trend no longer sees CEOs staying with one company to oversee the development and prosperity of both the company and their personal profile, but instead seeking relatively short term gains before moving on.

Increased competition

More shopfronts, both brick and virtual, and the influx of cheap Asian imports has contributed to the widening of the retail 'sea of sameness'. Customers are spoilt for choice as retailers struggle to find a point of differentiation for their product.



Intensified competition and a changing retail landscape are leading more and more retailers to offer substantial discounts.

How to avoid the discount addiction

Don't compete, be unique! Below are a number of important strategies that will help you to avoid the discount addiction:

Polarise

- In a product-flooded marketplace, consumer choices have begun to polarise; people either seek out the lowest price or they wait for the quality product, that 'something different'. Therefore, businesses succeed in pulling themselves out of the 'sea of sameness' by polarising too, that is, they either sink to the bottom (by lowering their prices and compromising quality) or rising to the top (by following the advice below!). Few businesses that continue to float in the middle find they are able to compete in the long term.

Differentiate your business and your product

- Standing out from the crowd is essential but don't rely on discounts to create urgency or that point of difference. Find new ways to create a sense of urgency, for example, by introducing a short or limited product life.
- Passion is central to differentiation, particularly in light of the rise of 'big brands'. Passion is one area in which department stores will never will for the simple reason that they are just too big and spread themselves too thin. Everything about your business – your product, presentation, ambience and approach – should be a reflection of your passion. Also, make sure your sales staff share your passion for your product as it will show in their customer relationships.

Create a proposition of authority

- Establish yourself as an expert. Solve customers' problems by selling solutions, not products.
- Never stock a brand that allows your competitors to determine the price – if you do, customers will lose their trust in you and your product and you will lose control of the buyer-seller relationship

Establish an emotional connection

- Genuinely engage with your customers and allow them to engage with you. Trust is central to all relationships, no less the relationship between buyer and seller.
- Always keep yourself and your customers informed, not just about your products and services, but also about trends and developments in the greater marketplace. More informed customers are more inclined to firstly think more deeply about their purchases and secondly (and most importantly!), ask for your advice and guidance.

Become a destination

- Have a premise for your business; a raison d'être. Attract customers by making yourself the authoritative expert or offering them an experience, not just a product.

Respect your business

- Respect your business and the product you have created. Avoid the discount addiction and don't stray from your premise.
- Always offer value.
- Respect key price points.

Keep the romance alive

- Romance your customers. Remember, it costs more to get a new customer than it does to keep an existing one.
- Romance your staff. Give them a stake in your business by offer more than just monetary rewards. Invest in their skills, develop a relationship and train and encourage them.
- Romance your suppliers. Establish genuine partnerships which keeps them informed and gives them a sense of responsibility for your business. Ensure they have a stake in your success; make them want a piece of your business.



Make sure your sales staff share your passion for your product as it will show in their customer relationships.

A strategy for success

Giving in to the discount addiction can only reap short-term benefits, if any. Discounting leads to dependence and tolerance for both you and your customers – you are compelled to continue offering discounts against your business interests while your customers are conditioned to spend only when products are ‘on sale’. It is a destructive cycle that is becoming increasingly difficult to avoid in the current retail climate.

Avoiding the discount addiction requires passion, respect and authority to discover what makes your business and your product different. Garden centres and retail nurseries have a tremendous potential to strike up rich and long lasting emotional ties and become retail destinations among consumers. Ask yourself, ‘what do I offer that no other retailer offers?’ It may be the expert advice of your staff and yourself, the unique experience of visiting your business, the innovative way you package your product or the way you offer solutions, not products. And remember, don’t compete... be unique.



Romance your customers and win their confidence. Trust is central to all relationships, no less the relationship between buyer and seller.

The MINC Product Value Paradigm

- When you offer product alone, you only have price to create value. Add style and attitude, and the paradigm shifts.
- Excitement and an emotional connection create higher perceived value.
- The customer journey is the key to creating desire. Give the customer what they *want* then show them what they *could have*.

Acknowledgements

Michael Cleghorn, Director of Minc Consulting, is a renowned international trends forecaster. Regarded by some as Australia’s homeware and furniture product development expert, Michael advises many leading homeware importers, retailers and manufacturers on how to maximise international trends commercially for the Australian market. He has worked in senior product development, trend forecasting and management roles with iconic Australian retailers including Freedom, David Jones, and Strandbags group.