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DISCOUNTING IS GOOD BUSINESS!

Now that the headline has your attention, let's be clear: it couldn't be further from the truth!

When things get tough, and they are currently are, there is the temptation to discount to keep stock moving as making a little is better than having stock sitting there. However a lesson I learnt when still at high school taught me that this policy is fraught with problems.

When I was in high school I worked Thursday nights and Saturday mornings to get petrol money in a retail outlet; Fletcher Jones, an Australian made clothing company manufacturing at Warrnambool in Victoria. It was there, through the store manager Robert Scarr, I learnt that discounting is not the way to go and there are many things that you can do to appeal to the buyer so they know they are getting great value. Fletcher Jones really played up the fact they were high quality, Australian-made and had extensive experience of manufacturing.

The problem now is that retailers are having sales every other day of the week; so when are things really a discount or bargain?

In the store where I worked, the cost of suits was quite high compared to other stores that were selling Asian-made suits and were starting to build momentum. We NEVER discounted to compete with them.

We focussed on the service aspect. Consumers knew they would get excellent quality suits that fitted well; in fact we used to have regular clients who would come in and some would bring us gifts at Christmas, such was the loyalty.

What we did do, if a client was a 'regular' and spent reasonable dollars with us, was value-add which had a greater impact than discounting. If they bought a few suits or suit with shirt, belt and tie we would include the tie at no charge. The consumer's perception was that they were getting a \$70 tie for free which looked like a real saving. What I learnt was that the tie had a retail value of \$70, but only cost around \$30, so the "add" was costing very little compared to the client's total spend; but the perception to them was that it was around 12.5% 'discount'.

Because the customer received a 'free' tie, it also had a greater connection with them and was appreciated so much more.

The problem with discounting is how do you stop? Moving forward, how do you eliminate discounting? Not only does it devalue your product, it also impacts on your industry. Look at the two big supermarkets now. Their campaigns used to be based on variety and freshness; now they are both in a price-war and this is their major focus. The flow-on is huge; milk and the bakery industries have been totally 'screwed' in the process.

In most industries and, for example, the magazine advertising industry, you can often name the price you are prepared to pay and this is really affecting them. Some who are on the ball are value-adding by investing in the development of social media components that have low running cost but can be a great value-add to clients.

So some questions to think about if you do go down the discounting path:

- How do you stop discounting your product if clients come to expect it or are used to it?
- How does it affect your image and brand values?
- If some of your customers have paid full price recently, then find you are discounting, how do they feel? (I know I hate it when I buy something one week and the next week it's reduced. I strike that company off my buying list immediately.)
- By discounting, you cut the profit. How do you service the market, re-invest in your business, service overheads, staff, promotion and marketing?
- If you de-value your product, how can you raise the price when things are good and expect clients to accept the higher rate?

Evaluate If you are going to have a discount system, set it around volume levels; in other words base it on what customers spend in one transaction or over time; at least that is open to all and can vary over the years as the market changes.

I believe you need to focus on why your product is worth the investment. Create a level playing field and everyone pays the same rate! Focus on how you may be able to value-add and build a stronger relationship. For a trade show it may be offering the visitor display material, support co-op advertising in their area etc. For consumer show they may spend to a level where they then get a free gift or an extra item.

IN A NUT SHELL:

In tough times don't think discount; think how can we support and service our customers better and provide value-adds to them. They will appreciate it far more.

See you on the floor.