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## RETAILING

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# The addiction to discounting

**THERE IS A DILEMMA** that is affecting retailing worldwide. It's hurting the likes of Wal Mart, Reتراvision and Coles (and even Myer). It is a disease that sucks in the small retailers, which explains why a lot of them get belted week in, week out.

The disease has a name: commodification.

As soon as your products are also sold in multiple retail outlets, when customers can understand that there is no mystery in why that product is important to them, or purchasing is based on the lowest price available, they become a commodity.

Then the retailer stacks their stores with all of these commodity items, promotes them because everyone else does, and touches up the price because the big guy down the street is slashing the prices; these are signs of commodification.

Once a retailer suffers from commodification, they go through the process of denial, blame, and go in search of experts who try to explain the reasons why their business is going south.

Experts will diagnose the problem as a lack of branding presence in the market place, enhancing the customers shopping experience, poor supply chain, high wages or poor store layouts. Yeah, this may be part of the problem.

Economists will talk about basic supply and demand. That high demand for a product will naturally bring down the price of an item, because it is now cheaper to produce. They will also add that pure competition forces retailers to drop their price because the market will force them into that position.

Experts and theory don't explain this – retailers have an addiction, an addiction to sales. The drug is volume, and once one retailer uses price to increase market share, and is successful in the process, they will link the spectacular growth in the business to discounting. If only there was a 'discounters anonymous'.

Retailers are always complaining about poor margins, but it is the exact same retailers who are forcing downward pressures on price well before the market demands it.

### A cure to kick the habit

Once you find out your business suffers from commodification, it is like being told you have two months to live. Some survive, some live longer but eventually die, and others have a quick death. The strategies listed below are the preventative measures and cures for commodification:

**Prime mover advantage** – Is there something that you have that is so new, so unique, so desirable, and so exciting, that you can create a real buzz or hype in the market? If you don't have such a product, have a look at what is happening outside of your initial market, what opportunities are there that you can take to market (though using the great perception tool of marketing) before anyone else does?

**Treat the new product category as a separate business** – One of the great ways to take the new product category to a leadership position is to treat the category as a separate business. Allocate separate budgets, resources, marketing efforts etc. Remember that new innovations initially can make up to a fifth of your sales, so don't forget your core business.

**Lengthen the product life cycle** – Once you get prime mover advantage, and own a market category, you will inevitably get copycats. What a lot of retailers do is to use the market position and great purchasing power to take market share by reducing price. You should promote your leadership position; have aggressive marketing programs to protect your market share, by placing you as the expert of that product.

**Add Intangibles** – Intangible offerings that can be bundled into the product that are unique and reduce any fears that a customer may have of your product are a great way to maintain market share without discounting. Some great examples of intangibles are interest free finance, extended warranty, and payment plans, which are great innovations that have secured the market position of retailers who have embraced this concept.

The solution is simple. Limit your exposure to items that are commodities in the market place, by finding products/services that are so unique and exciting, that you are the first to take them to the market, and once you have a leadership position use that as a marketing tool to maintain that position, and avoid discounting as a defensive/offensive strategy.

The golden rule for retailers – don't get high on volume. That thrill turns into an addiction. ●

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