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RETAILING TONY GATTARI

A disease called discounting

THE OFFICE FURNITURE industry is extremely competitive. Some businesses treat the purchase as non-essential to the business, and always try to get the lowest price possible. A lot of people see office furniture as no more than a commodity – chairs, desks, filing cabinets, etc – so the value proposition is greatly reduced in the mind of the buyer.

There is a legend told in the industry, how one office furniture supplier went broke trying to win a major contract at all cost. The contract that was up for tender was one of the largest office developments in Australia, and all the companies that were involved in the pitch knew that it would give their company great leverage using it as a reference for future pitches.

Ego prevailed over sensibility for one of the office suppliers. After each company had submitted their tender, the purchaser was open to who had the best bid, and at what price that bid was placed at. Most of the field dropped out knowing that they could not afford to lose money on the deal. One of the office suppliers took the bait, and sharpened the offer. The fame was too great for the supplier, and they reasoned that the contract could be funded by future bids that they could win.

This office supplier who gave the lowest bid won the contract. The rest of the bidders wondered how on earth this supplier was going to afford such a deal. They did not have to wait long for the answer. The company installed the furniture, and a sea of red started to appear on their books. The company completed the installation, but then had to reduce their workforce by half, and shut down a couple of sites to reduce costs. Eventually they went broke.

Why discount?

Discounting is even more prevalent when times are tough, such as when interest rate or petrol price spikes, thereby reducing the

	Year 1	Year 2	Year 3	Year 4
Revenue	\$500	\$500	\$500	\$500
Costs	\$400	\$412	\$424	\$437
Profit	\$100	\$88	\$76	\$63

Table 1: Impact of stagnant price on profit

amount of spending in the marketplace. Why is it that when times are tough, we lose faith in what our business is, and take on the poverty mindset and start discounting?

The reason is very simple: business owners panic when sales are down, and feel that to compete in the marketplace, their prices must be below their competitors. Where do they get this information? “Our customers are always asking for a discount!” is the common response that I hear.

Activation 1

If you normally make 40 per cent margin on a unit sale and you discount your price by 30 per cent, how much do you have to increase your sales by to maintain the same margin?

- A.** 125 per cent **B.** 150 per cent **C.** 200 per cent **D.** 300 per cent

The answer is **D** – 300 per cent. So, the reality is that if you are struggling with the amount of time that you are working in the business at the moment, this price discounting strategy will just accelerate your problems. Working more hours for less profit!

“How long has it been since you last increased your prices?” I asked one of my clients. “Ten years ago,” she replies. “TEN YEARS!” I respond in a passionate animated way. “You mean to say that you have not increased the prices in your business for ten years! No wonder you are losing money. Guess what you should do next.”

“Increase my prices” the client answers.

Problem No 1: Continuously discounting

Problem No 2: Not reviewing your prices on a regular basis

There is a disease that is killing many businesses. This is not an unknown disease, as there are many reports in the daily newspapers and the nightly news programs. This disease is inflation, and if you do not review your prices on a regular basis, the increase in the cost of the goods that you sell and the expenses used to run the business will gradually increase and without you knowing it you will start to lose money on each transaction that you make.

Table 1 shows an example of selling a \$500 item without reviewing the price on a regular basis and how it can hurt your profits. This calculation is based on inflation increasing by an average of 3 per cent per year, which is a general reflection of inflation rate increases in the Australian economy over the past decade or so. The costs in this table include cost of goods sold and operating expenses.

In four years the profit on this item sold dropped by 37 per cent. When businesses cry about sliding profits, it is generally because they have not sat down and reviewed their prices. ●

This article is taken from our highly acclaimed book Marketing Success which is available through all leading bookstores and online www.achieversgroup.com.au.

■ As General Manager of Computers and Communications, Tony Gattari oversaw the growth of Harvey Norman's computer business from \$12 million to \$565 million in nine years and has worked with over 110 businesses in the world though his business development company Achievers Group. He is the author of a number of business books including Marketing Success

Website: www.achieversgroup.com.au

Email: tony@achieversgroup.com.au

Phone: 02 9440 7373