

DISCOUNTING: IS IT DEADLY, A DANGEROUS DRUG OR BOTH?

By Neil Osborne

From the earliest days of retailing, merchants have rewarded customers with perks, to build loyalty. Think baker's dozen, bonuses and GWP, each is designed to build brand preference – by adding value – instead of eroding your profit. However much like the insidious effects of drugs, price discounting actually does the opposite... it destroys you, your business and your brand. Let's see why.

I'll be honest, I don't like discounting. Why? It's distracting. It's demeaning. But most of all, it's destructive. And yet it's the tactic of choice in the hair industry, when business gets tough. Even brilliant brands – who should know better – are not immune to its allure.

Yes, it is true, that when things get tough, you've got to take measures and discounting seems to offer the easiest, quickest fix to turn around your short-term cash problem. However, its flip side is a long-term downward spiral. Why? Because in the short-term, more customers may come through the door but they won't stay when the deal disappears. They won't see (or feel) the value.

So you have to repeat it. Again. And again. And it goes on...

Discounting is habit-forming and addictive, but worse still, it eats at the heart and soul of your brand – it destroys the brand equity of your product or service. What's that? Here's a quick definition:

Brand equity is a phrase used to describe the value of having a well-known brand. Common measures of brand equity are: brand awareness, brand loyalty, perceived differentiation, market share and finally, the price premium the brand can command over unbranded products in the same category.

Brand equity is the 'emotional margin' of your brand – it's the valuable, heartfelt bit – or as Warren Buffett once famously said, "Price is what you pay. Value is what you get."

THE DISCOUNT DRUG

Discounts, like drugs, have side effects – a reality distortion if you like. Oddly, people don't really see discounts as discounts. They begin to see the discounted price as the product or service's true market



value – the amount they should expect to pay all the time – thus trapping you in an every-thinning cycle of margin cuts, until it eventually kills your business.

Why is that? Value is in the eye of the beholder. By discounting, you've signalled to the customer that your brand, product or service isn't worth what it used to be.

So how do you break the habit? Put time into building your brand equity and avoid the price-cutting spiral. Validate your value, on an ongoing basis. That will keep your margins manageable and your customers believing (and paying) what you're worth.

DISCOUNT REHAB

Is there ever an occasion when discounting is acceptable for your salon? The answer is, "Yes, but..." There are occasional times and places where a pricing change can achieve a limited, well-defined objective, if managed carefully.

However, if you choose to deal in this drug you'll need to follow some simple guidelines to contain the damage:

1. Keep it brief

For a limited time – to treat a rare condition – discounting can have a place. But like I said, discounting can be addictive for your customers. If they get hooked and you keep supporting their habit, it will drive your value down, past the point of no return.

2. Keep it credible

Make the reason behind the reduction credible (and obvious) so it's not perceived as an act of desperation. For instance,

offering a small price reduction for the refilling of products or reuse/recycling of packaging can be viewed as responsible, sustainable actions.

3. Keep it creative

Price is just one element of your value equation – it should not be the dominant one. Consider ways to add value to your offering, rather than removing or reducing.

The truth is, when price is the only factor on which a customer can base their purchase decision, rampant discounting amongst competitors often occurs. The market then dictates your actions, and that spells trouble for you, your salon and its profitability and for the future of your business.

In your customers' eyes, your product, brand or service is either worth its regular price or not. What makes it add up in their minds, is the value equation you have built.

So make sure it adds up to 'more' than 'less.'

Neil Osborne is an elite sales trainer and brand coach who is unique in the salon marketplace. He has devoted more than 30 years of his working life to the Salon Industry and has been responsible for dramatically growing brands and businesses by helping them launch, develop and change their sales results with his salon-specific, results driven methods. Contact him at The SALES CATALYST, 1300 302 859 or go to www.thesalescatalyst.com.au