BIZCOMMUNITY

Perils of online discounting culture for brands, business

By Mike Abel

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I'm fascinated by the growth and proliferation of the online *couponeers* and discounters such as Groupon, Catch of the Day and the like. "Everyone loves a deal" - this we know, but what does it mean to brands, margin, customer trust and sustaining pricing models?

What are we being trained to do?

I'm reminded of Barbara Woodhouse, the iconic '80s dog-trainer - she of the high-pitched "Walkies" fame. Woodhouse used to say "a trained dog is a happy dog". The same can be said of children - and sometimes, even adults. So, what are we being trained to do by these companies?

Well, firstly to pay less, to wait for the sale, the cut-price, the special. In and amongst it all, creating a perception that normal prices are too high or, put differently, I'm currently being ripped-off.

So, how do I suggest brands take advantage of these discounters...?

They have definite value in the following areas:

- product trial and sampling
- stock-clearance
- building a database

Product trial

If you want customers to buy your new "whatever" and if, by significantly lowering the price (and risk), you can get a bigger initial uptake, then this can be a useful method.

The key here is to flag it as an introductory offer or launch, to clearly state the normal price and to give a cut-off number or limited time period. Add a promotional element to it (more cross-selling opportunities?) that incentivises communication for data-capturing purposes. And then start building a "relationship" directly with these customers.

Are they buying the jeans at half-price but you can sell them the new range of sweaters at full price? What other items do they like and what are the value drivers in your business you can credibly direct them towards? If they are coming to your restaurant or massage parlour off the discount, how are you building that relationship when they come in? How are you capturing their information, likes and dislikes, then communicating directly thereafter?

Stock clearance

Obvious, but a great way of getting rid of last season or over-priced dormant stock. But, as per above, it's not so much the what, but the how...

First, other customers have paid full price, so this can be potentially alienating. As with all traditional sales, it should be honestly flagged as a stock-clearance. People understand sales. But if they suspect the brand is now using a different distribution model to sell at a lower price and they've been stung at retail level, it can be very disconcerting and a turn-off.

Also, clearing stock can be a great way of getting people into your brand. If they buy it, it means they like it - but just at a cheaper price. So how do you talk to them about other products or services you sell? How do you communicate a value-offering and get them to buy at traditional pricing levels? Again, are you getting the data?

Do you understand the need-state driving the purchase? Would these customers be equally happy to buy it off your own website? Another question then is how strong your current e-tail offering is.

Is convenience a key factor in driving this purchase as this has obvious implications for your marketing and distribution strategy? You are obviously paying these couponeers fees or commissions for pushing your already discounted offering, so consider why exactly you may need them now and then become less reliant into the future.

The truth is you're further cutting your cut price through their channels and eroding value - both margin and brand equity.

Building a database

This should be a primary objective. Who is building and owning the data? As a brand, if you are participating in one of these distress-marketing jamborees, then you need the upside.

Brands such as Groupon etc need the goods in order to sell. They need quality items at great prices to sustain themselves, otherwise they'll just become floggers of low-quality, unwanted goods - and will ultimately fizzle out. So (other than highly lucrative data), quality stock is ultimately their only sustainable life-blood for site visits and trading - and this is where their smart clients need to strike a data deal.

If you aren't currently getting this, then right now, they are the only winners in the long term.

Approach with extreme caution

Lastly, there are certainly some products and services that lend themselves easily to this type of retail strategy (and it should be precisely that, a strategy, versus the current ad hoc survival tactic) and others I'd approach with extreme caution - unless it actually becomes their core route to market, which in itself could be interesting for a mass producer.

The key category for caution would be cars. Automotive, especially in America, is likely to head into this territory - if it hasn't already.

What most car manufacturers and their marketers don't know or wake up to, too late, is that you need a strong used-car brand in order to have a strong new car brand. A strong used-car brand is based on residual (resale) value ie how close to the purchase price am I getting when I sell it?

Trust erodes, scepticism sets in

When you purchase a car that has been discounted through a SALE, chances are that all buyers of that car at "full" retail will be hit equally hard by the discounted price... so it becomes an even greater hit for them when they sell. Trust erodes, scepticism sets in.

The bad news for those buyers is that they are often then hostages to that brand as they won't get a decent trade-in anywhere else so they are stuck with them. Not a happy marriage or a sustainable brand model.

In closing, if you go this route, there are definite advantages, but potentially greater disadvantages. Use the rough guide above to determine why and how best you are going to be doing this. Would love to hear of your successes...

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ABOUT MIKE ABEL

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