The discount folly

Most big retailers are offering heavy discounts on a regular basis that ends up diluting a brand. Manufacturers and retailers must instead rely on a longer term strategy of offering personalised discounts and building customer loyalty.

The flavour of the season, nay the flavour of the year in India is heavy discounting. If you look at online retail, there are deep discounts being offered on goods and services. The discounts are no longer restricted to FMCG (fast moving consumer goods) ones alone, but span across healthcare products, consumer durables, consumer electronics and even fashion accessories. If you look at modern retail stores – they indulge in full page advertising in newspapers with details of item-wise discounts to entice consumers to descend in hordes, often stretching their fragile systems and processes to points of near breakdown. There is a mob mentality, which has clouded the thinking of even the most rational and astute of retail strategists in the country: If there is no sale, there is no sell – that seems to be the morale of the story.

Cherry picking

Studies have shown that heavy discounts not only lead to cultivation of cherry picking behaviour among consumers, but also lead to brand dilution. When consumers are trained to cherry pick, they lose the loyalty that they otherwise have towards the brands. It is, therefore, very important for brand managers to have a long term strategy towards discounting rather than resorting to short term gimmicks, which result in a one-time spike in sales and also in heavy switching behaviour among consumers.

I will quote an example to prove my point. My wife and I visit a certain modern retail store in our vicinity, where there is usually a promotion running on Basmati rice, on a daily basis. Now, given that there are around 8 – 10 popular mainstream brands of Basmati rice, which have almost the same quality (I can vouch for that as I have consumed most of them by now) that are always on discount, it is a natural instinct on our part to buy the one which affords the best value for money. Now, among these brands, there is a brand which we used to like and bought it regularly, before this circus of discounting started. But ever since then, we have not bought this particular brand even once out of brand loyalty (and if I look at our basket over a six-month period, it has found its way into our basket only once, and that too when it was on promotion). This proves a very pertinent point; that a haphazard, short term promotional policy is hurting the brand. We are no longer inclined to pick up this brand as it doesn't afford us a competitive discount. We have been trained to pick Basmati rice on discount only.

This concept works best for products that have a shorter purchase cycle, but it has also worked wonders for companies which have been able to build a brand loyalty towards them. The best example is that of Apple – once an Apple customer, you are always an Apple customer.

Long term solution

Now, what we have stated above is a problem. Is there a solution at hand? Well, the resounding answer to that is a big YES. What brands need to do is to embark on a long term strategy for promotion, where they help consumers save money by giving them regular offers over a sustained period of time and at a personalised level, so that a loyal consumer knows that he has an exclusive offer for himself, which is the reward that the brand is bestowing upon him for staying loyal to the brand.

The best example of this strategy is the success of a retailer like Tesco, versus a big, everyday discounter like Walmart. Tesco concentrated on growing its base of loyal customers, giving them personalised discounts, based on their buying behaviour, so that customers kept coming back to their store to buy one more product one more time. This helped them to become the top retailer in U.K. accounting for close to a third of the market share in the country. Personalised offers are in the nature of discounts, which are provided to customers, but are unique to the customer and make them feel special as the retailer takes the effort to understand what they buy. Such is the success of the Tesco personalised offer program, that customers have been known to have called up Tesco if they did not get their quarterly mailer (with discounts and offers) in time.

Loyalty pays

But how does a brand identify a loyal customer? This is where partnership with retailers is very important as retailers would have information regarding customers and what they buy. Having information on customers and what they buy is of no use, if it is not acted upon. However, customers have to be incentivised to sign up to a loyalty program and then use the card number repeatedly in their transactions so that they keep adding points to get more relevant offers. Many retailers in the west have special discounts on customers' first couple of purchases, if they sign up for a card and this gets them to sign up for the card and start using the same. In today's age, one is no longer required to carry the card physically, but storing the card number in your mobile phone and quoting the same at the cash counter at the time of check-out ensures that your points are added and your buying behaviour is recorded which helps the retailers to better customise the offers.

The manufacturer has to partner with the retailers to provide the discounts and offers as the information on consumers will be available with the retailers. It is a symbiotic relationship as the retailer gains increased customer footfalls and more instances of customers coming back to the store, while the manufacturer benefits from repeat purchases of their brand. The manufacturer is also clearly able to quantify the ROI (return on investment) on these campaigns by recording the percentage of people who use the discounts and offers, as compared to the total number of people who were sent the offers. Targeted offers through regular mailings have seen very high double digit response rates, whereas traditional one-time campaigns only see single digit responses.

Embedding analytics

The vacuum that exists in the Indian market today is not the absence of fancied loyalty programs, but the absence of well designed analytics-based loyalty strategies that can be used effectively. The other important missing medium is a communication channel. Not many retailers in India seem to have heard or read about Tesco Club Cards and how a now legendary personality called Sir Terry Leahy, made an important decision to invite a little known company called Dunnhumby, to embed analytics and the ethos of a customer first philosophy, which turned Tesco from a unfashionable home grown super market chain to a global retail powerhouse. The irony is that some people would have read and heard about Tesco Club Cards, which is why we have these slew of loyalty programs run by retailers in the country, but not gone deep and understood the science behind how club cards was used to understand customers and build customer loyalty towards Tesco.

The Indian retail Industry, or more specifically modern retail, needs to take that leap of faith and embark on a journey to build customer loyalty towards themselves and also towards the brands that they sell, on behalf of the manufacturers. The Indian manufacturers and brand owners in turn, need to demand this of the retailers and on their part, also help the retailers on this journey by investing generously in building customer loyalty, by espousing the cause of targeted and personalised promotions on a sustained and long term basis. This will help stem the present rot of large scale and mindless discounting, which is hurting the brands and also the customers. Successful partnerships between retailers and manufacturers abound in the west, the most notable ones being between Tesco and its suppliers in the U.K., between Kroger and its suppliers in the U.S.

Market structure

There is an interesting concept in marketing sciences called market structures (and I have had the good fortune of working closely with the only surviving founder of Hendry Market Structures), which uses data on switching behaviour of customers to come up with (amongst many other important solutions) a hierarchy/tree containing the attributes of a product which help a consumer determine which product they would buy when they visit a store/make a purchasing decision. For example, when a consumer buys an ice-cream, what is the first thing that plays on in the mind of a consumer – is it the flavour, the brand or the manufacturer that is his first decision-making point in the tree? For most products, it has been seen that either the brand or the manufacturer, or the category is at the top of the market structure, with other product attributes following at a later stage in the decision making process. My fear is that if we were to do a market structure study across products and categories in the Indian market – neither the brand nor the manufacturer will feature on the top of the decision-making tree in the minds of consumers for a majority of them. This should ring alarm bells for brand managers and manufacturers, as after all, crores of rupees are spent on advertising and promotions to strengthen those very brands, which are now being diluted through discounting. Market structure is a very powerful tool in the hands of brand owners and manufacturers and allows them to understand how products best compete with each other and where opportunities for new products exist; my apologies to all the learned students and teachers of this science for oversimplifying the concept for my example above.

I forgot to mention that I would still love to buy that brand of Basmati rice – the brand should take note before it is too late.

Authored By:

Snehamoy Mukherjee - Associate Vice President, Retail Analytics