



Discounting and Killer Categories

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There is a dilemma affecting retailers worldwide. It's hurting the likes of Retravision, Wal Mart, 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.

It's called 'commodification', and here's how it happens.

When a product is available exclusively from one retailer, customers see it as valuable and are prepared to pay a premium price for it. Once it starts to be sold in multiple retailers, however, customers don't see it as being so special anymore. They start to base their purchasing on the lowest price available: it has 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 all signs of commodification.

THE PROCESS OF DENIAL

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

Experts will



Sliders are an example of a pioneering product that profited those who recognised its potential.

diagnose the problem as a lack of branding presence in the marketplace, enhancing the customers' shopping experience, poor supply chain, high wages, or poor store layouts. That's fair

It's fine to have sales, but stores that keep lowering their prices, keeping their margins very low, will often run into trouble.

enough; it certainly may be part of the problem.

Economists will talk about basic supply and demand, i.e. high demand for the 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.

But experts and theory don't explain one important thing – retailers have an

addiction, an addiction to sales. The drug is volume. As soon as a retailer uses price to increase market share, and is successful in the process, that retailer 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 which are forcing downward pressure on price well before the market demands it.

A CURE TO KICK THE HABIT

Once you find out that your business suffers from commodification, it can be like being told you have two months to live! Some businesses do survive, some don't. But like modern science trying to cure deadly diseases, 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 product, have a look at what's 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 and so on. Remember that new innovations initially can make up to a fifth of your sales, so don't forget your core business.

Lengthen the product lifecycle

Once you get prime mover advantage, and own a market

category, you will inevitably get copycats. A lot of retailers respond to this problem by using their market position and great purchasing power to take market share by reducing price. A better strategy, however, is to promote your leadership position. Have aggressive marketing programs to protect your market share by placing you as the true expert of that product.

Add intangibles

Certain intangible offerings that can be bundled into the product can add a lot of value to it. If these intangibles are unique, and reduce any fears that a customer may have of your product, it's a great way to maintain market share without discounting. Some examples of intangibles are interest-free finance, extended warranty, and payment plans. These innovations have secured the market position of many retailers that have embraced this concept.

GAIN THE ADVANTAGE

The solution to commodification is simple. While you can't forget your core business, do limit your exposure to items that are commodities by finding products and/or services that are so unique and exciting that you are the first to take them to the market. 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 is this: don't get high on volume. That thrill turns into an addiction.



KILLER CATEGORY RETAILING EXPOSED

A phenomenon is sweeping the retail marketplace. 'Killer category' retailers are "offering overwhelming product choice to sweep aside the smaller retailers".

Killer category retailing (also called category killer retailing) is narrowly defined as "stores that offer the most dominate assortment in specific categories of merchandise", as stated in *Winning at Retail* (Ander & Stern, 2004).

However, killer category retailing is narrowly positioned as one form of retail strategy; we argue that is the actual definition of what your retail business should be.

"In 10 Years' Time if Your Retail Business Does Not Define its Uniqueness to the Consumer, it will Become Extinct."

Anyone can build a killer category retail business. Once

When a product is no longer new, and many stores are stocking it, customers often make their buying decision based on price.

It's important not to forget your core business. If you specialise in offering a good range of bait and terminal tackle, you should promote your business as such.

"In 10 Years' Time if Your Retail Business Does Not Define its Uniqueness to the Consumer, it will Become Extinct."





One selling point for a business is to be 'fashion driven', i.e. to become known as always having the very latest products.

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the principles can be applied to your business, you too can take a category and own it. The main principle is to define your 'uniqueness' or your 'unique selling proposition (USP)' through:

1. Selection of a dominant product assortment; and
2. Creating a delivery mechanism.

Selection of product assortment

Retailers continually mess this one up – hence the reason for mass discounting to reduce inventory levels, or confusing the selling message to the market.

Start off by asking yourself this question: what does my brand mean to the market? This one can be rectified by distinguishing between:

- **What the customer buys** – These are the core drivers of your product assortment, where the bulk of your purchasing, time, and energy is focused. This is your dominant assortment of merchandise.
- **What the customer wants** – This should be narrowed down to the innovation part of the business. This is where the growth of your business comes from, once your core business has started to settle in the marketplace, and its growth starts to level out.

So let's say you have a retail business that predominately sells lures, but along with this you also

sell custom lure casting rods and reels, and also dabble with lure accessories (e.g. leaders, trebles, split rings, pliers and so on). Your product assortment would be this:

- **Core Business** - Lures (What the customer buys)
- **Innovation Business** - Custom lure casting rods and reels (What the customer wants)
- **Complimentary Products** - Lure accessories (added value items)

Notice that the accessories (or added value items) are considered as complimentary products. This is so that you don't confuse the marketplace as being a 'lure and added accessories store'. You're a lure store – your uniqueness should be in your exclusive range of lures and what they mean to the consumer. Accessories are an add-on sale, not *the* sale.

Stores like The Essential Fly Fisher in Launceston and The Lure Shop in Cooktown are examples of retailers whose core business is their biggest selling point. Many other retailers, however, build the complimentary and innovation side of the business so big that they confuse everyone, staff included, of what they originally sell.

Delivery mechanism

Once you have determined your product assortment, your delivery is crucial in building your

uniqueness. There are four delivery mechanisms:

1. **Low Price Strategy** - This is where you offer the lowest prices everyday (e.g. Good Guys).
2. **Service Focused** - Your delivery is based on giving high levels of personal service to the customer.
3. **Convenience** - With everyone being time-conscious, this is fast becoming the dominant delivery mechanism. Can your customers find what they want quickly, and with a minimal amount of hassle?
4. **Fashion Driven** - Defined perfectly as 'the latest product just as customers begin to buy them in volume' (Ander & Stern, 2004).

So which delivery mechanism does your business use? The secret here is to master one of them better than anyone else does. The next step is to excel at another delivery mechanism, and be good at or remove the last two options.

Using our lure store, we would rank the delivery mechanisms as:

1. **Fashion Driven** - Latest products for the customer.
2. **Service Orientated** - High levels of service, so that the customer gets a rod and reel to match the chosen lures, and the accessories to get the best result from the complete outfit.

Now use this model to rank *your* delivery mechanism. Is their clarity in the message?

The Killer Category has been born

Now, in understanding the principles we have applied to the lure retailer, we have created a lure store that offers the latest arrivals when people buy in volume, with a service team that helps the customer to match the lures with the best outfit to fish them with.

These strategies have been implemented time and time again by retailers such as Harvey Norman, Rebel Sport, Good Guys, Gloria Jeans and Bunnings. Co-author Tony Gattari was one of the pioneers of Killer Category retailing, when he built the Harvey Norman computer business from \$12 million to \$565 million in nine years. You can also create your own killer category retail business, if you apply these principles.