Discounters' Dilemma

How to Build a Brand without Promotional Discounts
For retailers, the allure of discounting is strong, and for good reason. It’s an effective way to grab your customers’ attention to quickly generate sales and can also be a powerful promotional tactic to attract and introduce new customers to your brand.

But discounting has a dark side that comes at a steep cost to the retailer. According to a recent study from Pew Research, people are increasingly shopping online not just because of its inherent convenience, but because it’s easier to find better prices.¹ And if that’s the case, discounting could aid in customer acquisition but won’t go far in creating long-lasting customer relationships. Instead it creates an infinite loop of perpetual discounts to always beat out the competitors that ultimately hurt your brand integrity.

Let’s walk through the top reasons retailers should avoid overusing discounting as a promotional tactic and what you can do instead to leverage pricing-based customer acquisition.
“...discounting could aid in customer acquisition but won’t go far in creating long-lasting customer relationships.”
When retailers over-leverage discounting, it impacts their brand identity on two levels.

For one, consumers could perceive the retailer itself as a discount retailer, leading them to believe that your items aren’t actually worth paying a premium on without the discount.

Consumers could also begin to associate the brands the retailer offers as discount brands, which can negatively reinforce brand image.

Take, for example, Michael Kors and Coach. Both brands expanded rapidly as their success grew, incorporating outlet stores into their sales and distribution strategy. The availability of substantial discounts at the brands’ outlet stores undercut the brands’ prestige, which was crucial to their success as perceived “luxury” brands, resulting in the brands reporting disappointing earnings.²

Further, discounting invites bargain hunters who are shopping purely on price.³ These shoppers aren’t going to be loyal to your brand and will jump ship for their next purchase if a competitor undercuts your price.
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Discounting Creates A Downward Spiral of Lower Pricing

By offering discounts, retailers create an expectation that another discount could be right around the corner.

“Consumers want deals, and they’re willing to wait for them,” commented C. Britt Beemer, the chairman of America’s Research Group, a consumer research firm. “When you train customers to shop at big discounts, that customer is not going to change.”

This expectation of the next sale or promotion produces a wait-and-see effect where consumers will hold out for the next big sale, creating a series of sales peaks (during discount promotions) and valleys (when customers are waiting for the next sale) in the sales trends.
Remember when JCPenney tried to stop offering coupons? Outraged consumers spoke with their wallets, and the retailer was forced to roll back the mandate and reintroduce coupons to their marketing strategy.⁴

JCPenney is an example of how the discount peaks-and-valleys pattern reinforces itself over time because retailers feel the pressure to launch yet another discount promotion to spur new sales during the stagnation period.

This downward spiral is toxic to the long-term viability of the retailer’s position in the market.⁵

Reflect on this insight from McKinsey which correlates the real cost of discounting:

“Consider the average income statement of an S&P 1500 company: a price rise of 1 percent, if volumes remained stable, would generate an 8 percent increase in operating profits.”⁶
So, how can retailers remain competitive on pricing without sacrificing long term viability? The antidote to the toxic downward spiral of discounting lies in buyer psychology.

First, let’s consider what is it that motivates a consumer to purchase during a sale. Discounting introduces the incentive of affordability to the purchasing decision, where affordability wasn’t available to the consumer pre-promotion. It’s that affordability that’s critical toward facilitating the purchase.

How can retailers instill affordability without diluting their brand or creating a continued expectation of discounts?

The answer is to promote flexible, honest financing.

When retailers offer shoppers an alternative avenue to affordability by providing financing, they can reap massive benefits. In particular, merchants who offer Affirm see increased conversion rates, increased AOV and a higher likelihood of repeat purchase – all without risking brand dilution or discount expectations.
"WE ACHIEVED RECORD SALES"

Graham Stanton  Co-founder, Peloton
Peloton, an internet-connected indoor bike manufacturer, saw these exact benefits after they began offering Affirm as a financing option. Without any promotion, they immediately saw a 15% increase in sales conversions and a 16% increase in revenue per visitor.

These results carried through to the pinnacle of holiday shopping season—Black Friday and Cyber Monday—when heavy discounting is normally a given.

“We achieved record sales during a time when shoppers are typically in pursuit of big sales and slashed prices, however we sold our $2,000+ bikes for full price,” said Graham Stanton, co-founder of Peloton.
“The key for our shoppers is the option to pay over time while knowing exactly what they will spend. With Affirm, we’re able to integrate programs such as 0% APR financing which enable our shoppers to buy with confidence.”

Additionally, financing presents a compelling marketing strategy that enables retailers to anchor their pricing with language such as, “pricing as low as” or “per month.” Employing this type of verbiage on-site and off-site helps mitigate ‘sticker shock’ and frames the purchase with affordability in mind, without the need to forfeit margin.
Affirm offers services that empower consumers to advance their financial well-being. Our goal is to revolutionize the banking industry to be more accountable and accessible to consumers. Today, Affirm shoppers get the flexibility to buy now and make simple monthly payments for their purchases. Unlike payment options that have compounding interest and unexpected costs, Affirm shows customers upfront exactly what they’ll owe — with no hidden fees and no surprises. Affirm also reaches a broader population of consumers through advanced technology and analytics that look beyond traditional FICO scores. These features increase customer satisfaction over other options.
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