

Discounting Doesn't Grow Your Business

The Big 3 – GM, Ford, and Chrysler – have been offering buyer incentives and zero-percent financing for the past few years, and they're still losing market share. They thought that they could grow their business by offering discounts. It's not working. Why? Because discounting and incentives don't work over the long term. Yes, you generate sales and cash flow today, but it comes at a H-U-G-E cost tomorrow.

The Chicago Tribune wrote a recent story about this problem that I found to be very thought provoking because discounts can dramatically reduce the value of your business. "When you put cash on the hood, it makes your brand weak. Incentives demoralize the brand" said Elena Ford, Ford Motor Co.'s director of product marketing. (If Ford's director of product marketing knows that incentives 'demoralize the brand' why do they continue to offer incentives...Just asking.)

Sales at both GM and Ford fell in 2004 and the Big 3's share of the U.S. market dropped to an all-time low of 58.7 percent. "Gm's decline came despite spending more on incentives than any other automaker in the U.S." the Tribune reported.

Success in selling depends upon how you position yourself in the marketplace – and in the MINDS of your customers. "Japanese automakers market their cars and trucks on their reputation for superior design and manufacturing. "European automakers, whose cars are not cheap, focus their marketing on performance and the ephemeral concept of heritage." General Motors, Ford, and

to a lesser degree Chrysler, mostly emphasize cash-back offers or no-interest loans to lure people into showrooms, even though the quality of their vehicles has improved in recent years.

"The U.S. tends to advertise the deal," said Steve Szakaly, an economist with the Center for Automotive Research, "The Japanese sell based on quality. The European automakers emphasize either performance or prestige." The Tribune said. Even Hyundai, the Korean automaker, has gotten into the selling quality' act. In 1998 U.S. sales plunged to below 90,000 vehicles. Hyundai responded by striving to improve the quality of their cars. They began promoting quality instead of pushing discounts in their sales and put their money where their mouths are. It offered a 10-year/100,000-mile warranty, a guarantee unmatched by any other automaker at the time. "We did the warranty just to get people into the door." Said Bob Cosmol, Hyundai's Chief Executive Officer. "We knew quality was on the way up, but we had to get that message out." Last year Hyundai sold nearly 419,000 vehicles in the U.S.

Once you've trained your customers to look for sales and discounts, it's very difficult – if not impossible – to get them to purchase at full price.

Learning from Experience

I learned this lesson twenty years ago when I owned a men's clothing store in Chicago. When business was slow we put our sweaters, shirts, pants, and suits on sale. Yes, our cash flow was increased, but only temporarily. Before

we knew it, our regular customers stopped coming by. They were waiting for the ‘good stuff’ to go on sale. Once we started discounting, the discounts were never big enough. First it was 10 percent, then 20 percent, then 30 to 40 percent. Before we knew it, we were holding the final sale – a Going out of Business Sale. Though we offered great clothing, the only thing that separated us from our competition – in the minds of our customers – was price, and someone always had a lower price. For me, it was a very expensive lesson learned.

Sale Value and Quality

What can we learn from the Big 3 – and my short-lived retail experience? That you’ve got to give your customers a reason for buying your product or service that’s not based on a lower price. If you want to build customer loyalty, you’ve got to offer Value, Service, Quality, Dependability...and more. So give your customers a great reason to do business with you. The best way to do so is to solve their problems. Find out what it is that they want...and give it to them.

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