

Selling Online? Dump the Discounts!

By Harminder Sahni

ONLINE RETAILING IS THE IN-THING THESE DAYS IN INDIA, WITH MOST BRANDS DEBATING THEIR E-COMMERCE STRATEGY. BUT HOW MANY OF THEM ARE WILLING TO SHED INANE RULES OF THE GAME AND BEAT THEIR OWN PATH TO SUCCESS? FOR EXAMPLE, WHY SHOULD RETAILERS INSIST ON GIVING HEFTY DISCOUNTS TO ONLINE SHOPPERS, WHEN THEY CAN ACTUALLY BOOST THEIR MARGINS BY CHARGING A SERVICE FEE FOR ALL THE CONVENIENCE E-TAILING OFFERS BUYERS?

businesses will make money while some will not, but online shopping is certainly here to stay.

MULTI-CHANNEL RETAIL STRATEGIES

Faced with e-commerce, brands have to confront and address various operational and tactical questions. Let me here focus on the challenge faced by brands which are already huge and reach millions of consumers across India through a multi-channel strategy. I will use the example of fashion brands that have both EBOs and MBOs. They have a major issue of channel conflict when they offer their brand online, as this clashes with the interests of their franchisees, distributors and retailers who have been loyally stocking the brand for years and contributed to its success.

My take on this is that just as retailers and other channel partners have learned to live with the inevitability of the presence of powerful brands in more stores in closer proximity and realized that this benefits all stakeholders in the

long run, they will also come to accept the fact that powerful brands will have to continue to forge ahead with new market developments and incorporate new channels into their overall strategy. Each channel will have to prove its own worth through performance and not earn its right to survive and be given protection because of legacy.

The brands will have to give their consumers the option of shopping through all available channels – the ones which don't will be left behind. The latter will lose market share and, eventually, their positioning, which will inevitably hurt all channel partners. It will be up to various channels to lure customers with their unique offers of services and product range, and it will ultimately be the consumers' call where to shop.

I believe most of the consumers in India will soon be shopping online. They will fall somewhere between the two poles of those who always shop online and those who never do. I expect the numbers at the far extremes of this continuum to be negligible by the next decade.

→ These days, many retail and consumer product companies are thinking about their e-commerce strategy. The earlier fundamental question of whether to sell online or not has been settled and everyone seems to have accepted that online shopping is here to stay, just like the malls. Till recently, many skeptics were doubting the success of malls, calling them a developed world phenomenon where everyone has a car to go to one and load up for the next week or even the whole month.

In the case of online retailing too, the issues of connectivity, consumers' hesitation to use credit cards online, and huge challenges related to the last-mile delivery were most commonly cited for the phenomenon to be just a fad or at best a niche in India. However, we all know how online shopping has grown over the years, as has mall hopping. The scenario in the online world will be exactly like the malls where some



buy online 

WHY ONLINE DISCOUNTS?

Let us investigate from where the issue of channel conflict arises. Many distributors and store owners have told me their major concern: brands offer discounts to online customers, which gives a major incentive to shoppers to cease buying from physical stores. I agree this is a valid concern and needs to be addressed.

When I spoke to brands, I found them to be struggling with an interesting question: “How much discount should we offer to consumers who shop with us online?” It may sound odd but my immediate reaction to this was, why should there be any discount at all for online shopping?

I asked the brands why would they like to sell online. The answer was that they needed to offer consumers the option of this fast-growing channel as more and more people are shopping online. So, brands are going online because they want to offer consumers a service. Then why should they offer special discounts to online shoppers? Customers will shop online or in a mall according to their wishes. The brands should treat online and offline shoppers equally in terms of discounts and promotions. Obviously, the offers can be packaged differently to suit the nature of a particular channel.

THE CONVERSIONS FACTOR

This argument, though absolutely logical, is generally not accepted readily by the brands, as the over-ruling norm of online selling is to offer attractive discounts to consumers. I would agree with this model if a brand’s objective is to wean off its consumers from the traditional off-line sales channels and bring all of them online for whatever reason. In this case, it does make sense for online consumers to be offered discounts to convert them faster to e-commerce. However, once offered, those online discounts have to continue forever, else the same consumers may go back to the malls or even other online retailers.

For established brands with multi-channel strategies, I really do not see any reason whatsoever for offering special discounts on their products to online shoppers, either on their website or through multi-brand online retailers. That said, the last-season stocks are a fair game, and some multi-brand retailers are excellent channels for getting rid of these.

ADDING TO THE CONVENIENCE OF CONSUMERS

Stretching my argument further, I would recommend that some of the really powerful brands may actually

charge a service fee or convenience fee from consumers who wish to shop online from the comforts of their homes versus driving to a mall through traffic, paying for parking, rummaging through shelves along with other consumers, and stand in queue to first try and then pay for the product, that too only if they manage to find something of their choice.

Businesses such as multiplexes are already charging a hefty convenience fee on every ticket they sell online. Their justification is simple: online bookings offer customers the convenience of shopping from home, with guaranteed reservations and the choice of seats. So why should they not be paying a bit extra for this service? Most online customers tend to agree and pay up without much hesitation or complaint!

I reckon it should be possible for a well-established brand to offer innovative services to online customers and charge them extra, rather than debating how much discount to offer. For example, if a men’s-shirt brand can offer services to online customers such as monogramming on each shirt, assured availability of sizes and designs, custom-tailored pieces and special sizes, I guarantee most of them will appreciate it and be willing to pay a reasonable service charge or premium for the extra convenience.

Online shopping is a still an evolving phenomenon in India and most of the rules of the game are becoming norms without having any well-established track record or serious justification. Smarter brands should stay away from following these blindly and instead find their own unique path, keeping in mind their own best interests while striving to offer consumers the best of products and services from all possible channels, offline and online. ❏

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