

Beware the ultimate effects of discounting

PROFIT-A-BULL: We have all heard the old story about \$5 haircuts. If you haven't, it goes like this.

There was a hairdresser in a small US country town charging \$20 for haircuts and doing good business to a regular clientele because there was no competition.

Inevitably, a competitor opened a salon directly across the road with a bold sign in its window saying "\$5 haircuts".



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The first hairdresser was understandably concerned, because if he kept his price at \$20, he could lose a lot of custom to his cheaper competitor.

He was faced with a dilemma. If he dropped his price to \$5 he may eventually drive his competitor out of town but he'd go broke himself, because he couldn't afford to discount his margin by 75%.

What the hairdresser did to solve the problem is a lesson to any business considering matching prices to win the sale.

He put a big sign in his window that read "We fix \$5 haircuts!"

I don't need to tell you which operator stayed in business, because the easiest sale you ever make is to a dissatisfied customer complaining about poor service from a competitor.

The moral to this story is about profitability: an important lesson in understanding what it costs to stay in business and to make a satisfactory return on investment.

Matching prices to make a sale is not the answer.

Providing service that is uniquely different to your competition with an attitude that you never close a sale but you open a long term relationship with your customer, is the best option.

And remember that if you operate in the goods and services industry and your business has an average gross margin of 35%, and you discount your price by 20%, then you need to increase your turnover by a whopping 133% just to maintain the

same profit position.

This is why discounting is dangerous and is the most overdone marketing strategy to attract customers and increase turnover.

So before you attempt to match competitor's prices, you need to understand the effect this will have on the bottom line.

If discounting however, is a strategy to improve cash flow, then be careful.

Discounting creates a leveraging impact on profits and can result in

"...discounting is dangerous and the most overdone marketing strategy to attract customers and increase turnover."

the business trading below the break-even threshold.

There are many ways to fix \$5 haircuts.

You just need to give your customers good reason to do business with you.

Remember, success in business is doing something better than everyone else, charging what you're worth, then letting everyone know.

This is just one of the topics I will be presenting at my forthcoming business seminar at The Outrigger Mooloolaba, November 29.

For details and registration go to www.barrybull.com



GREEN SUCCESS: Member for Glasshouse Carolyn Male congratulates Mukti Botanicals CEO Mukti and managing director Evan Williams on their recent Excellence in Business and Export award.

Hive of activity in hinterland

THERE'S an eco-business revolution going on in the picturesque town of Maleny, which is firmly stamping itself as a hotspot for innovative business activity.

A quick glance at the list of finalists in the recent Excellence in Business and Export Awards and businesses based in the hinterland town jump off every page.

Organic skin care company Mukti Botanicals and eco-friendly sewage treatment innovator Biolytix won the small manufacturing exporter and the clean and green awards respectively.

Mukti Botanicals managing director Evan Williams said the award, confirming it as the best micro exporter under \$5 million, had blown away the company's seven staff and CEO Mukti.

"It's unbelievable what can

happen now," he said. "For a Maleny business to be the winner in this category, for the size of the Sunshine Coast, is just amazing."

Mukti products are already exported to the UK, New Zealand and south east Asia but marketing onslaughts are also being made into countries like Japan, Hong Kong and China as well as Europe next year.

"Mukti has been making these products for almost seven years," Mr Williams said. "This has been a long time coming and it's taken persistence. The hardest thing was finding the preservation system to make organic skin care products without preservatives or chemicals."

"Maleny is a beautiful place that's attracted educated people. They've brought knowledge and energy from other parts of the

world and they've stayed here."

The accolades are also stacking up for Biolytix, its managing director Dean Cameron having previously won a national science innovation award.

The sewage treatment system uses biomimicry science by imitating nature's ecosystems, and aims to produce a low-cost ecosystem in a tank to help developing countries combat clean water access and sanitation issues.

The company is also running a competition to discover the most innovative way a Coast resident saved water - in the garden, at work or school - during last week's Water Week. Email your innovation to Tracey Heers at traceyh@biolytix.com by tomorrow for a chance to win the coffee table book, Smart Permaculture Design.



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