



Opinion

The war of attrition

March 23, 2011: The **price war** being fought out by Big W and Harvey Norman on their online photo retailing websites intensified last week when Harveys slashed 40 percent off everything in the online store, as well as offering 9 cent prints.

Prior to this, each retailers was making an online offer on a weekly basis either in cut-price prints or a section of its premium range - canvas, photo books and the like. Harvey's has cranked the volume to 11 by discounting every product it offers!

If we take the current controversy over cut-price dairy industry products as an analogy, this would be like a 40 percent discount on flavoured milk, cream, cheese, butter, ice cream and yoghurt at the same time as milk was being offered at 50 cents a litre.

Photo Counter contacted PMA, PICA and some retail competitors to seek their opinion of the ramping up of this value-subtracting, loss-leading (we assume) discount war.

The question we put was:

Do you (or the organisation you represent) believe that across-the-board discounting at this level and to this extent is good for the photo retailing industry?

We emphasised we were not necessarily seeking comment about Harvey Norman, but about retail marketing strategies of this nature.

Here are the responses we received:

Peter Rose, director, Australian operations, PMAI:

Major retailers are expected to use price as a tactic. Always have,always will.

This coupled with a strong advertising budget dictates the need for strong differentiation by others in the market.

Fortunately customer loyalty won through outstanding service ,different' products and services (perceived or real) and consistent, value-for-money service, allows others to survive and prosper.

Having said that, it must be a daily challenge for all retailers to find answers to customers who will be ever more aggressive in finding the best price, aided by an expanding list of online sites, to compare prices on all products. Hardware-dependant stores certainly face a greater challenge than those who have a strong following in 'output' services.

Examples of successfully combating price abound in our local shopping centres, all of whom have a Coles or Woolworths constantly discounting. Butcher shops,greengrocers, fish shops, bread shops, all successfully compete daily with the majors.

Specialty retailing will always have its place.

PMA believes organisations who provide well-trained, friendly staff , who are willing to listen, provide customer solutions and become the local 'picture place' will be well supported by the majority of shoppers.

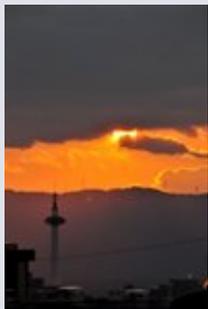
- Peter Rose

Paul Curtis, PICA:

Sorry, can't help on this. Of course I have personnel views, but PICA's guidelines require us not to comment on individual retailer pricing policies.

- Paul Curtis

Photo Counter Best Shots



Stephen Perris (Byron Photo Magic)

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Photo Counter Poll

Customer awareness of photo books, personalised calendars, etc is:

- Still quite low
- Patchy
- Most know they are available

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**Alan Small,
Taree Camera House:**

Heavy price-cutting of goods and services ultimately devalues those items in the minds of the consumers and builds a barrier of distrust when pricing is 'normal' in that consumers then wonder if they are then being overcharged and conned.*

This can fracture the vital relationship between buyer and seller which can then bring an increase in 'exploratory' shopping such as online purchasing. This latter problem is exacerbated by the level of service now offered in so many Australian stores; at best, much of it rates between 3 and 5 out of a possible 10, especially in large chains.

If specialty stores are to survive and grow, it will come down to two things: A good experience at the counter brought about by professional, knowledgeable, friendly service, (it is almost impossible for large stores to deliver this, although there are exceptions) and, equally important, a value rating that justifies the price.

That value rating, when combined with caring after-sales service, will ALWAYS deliver the customer back to the point of delivery, even if they have tried elsewhere at times. When the 'elsewhere' establishments fail to meet the value and service rating, the customers will return, more loyal than ever.

Unwise price cutting can often win an immediate battle, but as sure as the sun rises, somebody will lose the war.

These facts, coupled with a fragile market for at least the next decade, will need careful consideration by Aussie marketers, rather than the testosterone-driven 'blood-on-the-carpets' techniques we see regularly.

**If you were to conduct a survey of customer attitudes in Australia there would be a high degree of scepticism - or worse - regarding advertising and marketing, and a low level of trust towards not only retail institutions, but certainly governments at three levels.*

That doesn't say much about the quality of the interface between consumers and the people delivering the goods and services. The stores that can repair this interface at a macro level, will survive and grow even in a complex market such as ours.

**Paul Shearer,
general manager,
Camera House - Raleru Ltd:**

Online processing in the future will be the major resource where consumers will print.

The ease for a customer to print from any wireless device in a simple format is the ultimate gain. All retailers should learn from Snapfish, who I believe would hold the greatest market share in Australia of online printing; they did this by customer acquisition.

Any retailer not doing this today will be left behind tomorrow and photo specialty stores need to react in a similar way by having a database and a customer that will print online in the future.

By providing a customer with an incentive to put your software on their home computer or mobile device you will be the winner. There is still a very strong reason both today and tomorrow for in-store printing; this may be the same customer but they will not expect the online facility to necessarily be matched by the instantaneous service of in store.

Wake up Australia, build your customer database for online processing.

**Phil Gresham
FotoFast, Brisbane:**

I am not sure that it has made a huge difference to us at this time of year, but this month traffic flow is down even in the usually busy shopping centre that we are in. Other centre retailers are complaining about the lack of trading; it is not just the photo business.

Whilst we cannot and will not run 9 cent prints, we can run 40 percent off gifting and still make an acceptable margin, as we do it all in store.

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Your Comments

Posted By Stuart Holmes - Independent Photo (IPS) 03/25/2011 04:42:52 PM

`Retail Offer Differentiation` is the name of the game Guys! Because, if you are offering the `Supermarket` brand paper in the same old print wallets, out of the same old kiosks & software (or online cloud), out of the same machines - then you better be selling your prints at 9 cents! That's why Independent Photo (IPS) offer Fighting Paper for bulk print offers, Full Digital Paper for Premium Print up sell using the unique Dakis instore Cloud Kiosks & with matching Online customer interface And, guaranteeing that you own your customer database! Differentiated retail offers also mean offering expert in store services that Supermarkets do not offer, like



Premium Stretch Canvas with Archival ECO Coatings. All IPS products promote Your Brand, not theirs Photo Specialty should be just that and not what the Supermarket offers! Hey, even McDonalds offers product differentiation by being NOT SCHMANCY, JUST A LITTLE BIT FANCY

Posted By David 03/25/2011 02:09:38 PM

As part of the new wave of online photo printing, Momento was Australia's first photobook company servicing the consumer market. Lately we've seen a considerable increase in competitor price reductions, none of which thus far has stopped our business from growing. In fact, in amongst the post Christmas and New Year sales from competitors, we recorded our best ever January revenue. We're adding thousands of customers each week and importantly, these are customers that are aligned with our business values and products. We've chosen to not to compete on price, but to make sure our products are of a higher value with a complete marketing strategy to support this position. Our latest TVC for example never mentions price but instead reinforces the value of a printed image providing customers with an emotive connection. Because our margins are higher we're able to provide better service which completes the value proposition of our service. Our success proves that there are opportunities to prosper while the big guys play out their price war.

Posted By Geoff 03/25/2011 10:27:53 AM

`Fortunately customer loyalty won through outstanding service,` different products and services (perceived or real) and consistent, value-for-money service, allows others to survive and prosper. `It would be nice to believe this is true, but I can't see much evidence of it. A reality check is in order. Last time I checked at the supermarket, they weren't giving away bread, meat, fruit and vegetables for less than half price. Farmers have rightly kicked up a fuss about discounted milk and Fosters refused supply when they heard their beer was going to be used as a loss leader, because they recognize it as the threat that it is.

Posted By The photo man 03/24/2011 09:40:40 PM

Some very good points here and Chris Bennett I think sums it up pretty well. The few of us left who don't have huge hardware businesses or incredible locations or amazing niches are sick of being told that all we need to do is be good to customers and expect them to be loyal. We are working our bums off with too few staff and too few days off. And there is no magic solution! Rob S is absolutely right too, personally I am sick and tired of spending half an hour with a customer even in the output area for a couple of dollars return. And Tom, spot on! Where is Eastman now. Doing exactly what we are told to do and in low rent, loyal customer country towns. They should have survived if the `customer service` model works. Times have changed! David, there is something in what you say. I did a quick cruise around the neighborhood, no customers at Officeworks at 10cents, nobody at Dick Smith at 9 cents, not much happening at HN at 9cents. Didn't go to Big W. The first two, why do they have so much space wasted on the photo category? So lets give up on the platitudes. The consumer has changed and life is tough! Now, on the other side of the fence can I congratulate PMA on the changes to the young achiever program! To actually make an effort to train our young staff is a fabulous idea. Pity we don't have many left!

Posted By Tom 03/24/2011 09:06:02 PM

Peter, If that is the case, where is Rabbit and Eastmon?? The latter being renowned for exceptional service and innovation. Your point is void.

Posted By images2 03/24/2011 08:25:51 PM

I agree with the first Half of David's comment.. We are struggling with the lack of customers... but maybe most of us are... ?????? But I don't agree with his comments in the second half.... But our lab is doing fine.... maybe that's just because we are popular in that area??? I remember when a roll of 24 exp film was \$25 to process in an hour!!!!

Posted By Rob Scheffer 03/24/2011 07:45:09 PM

Peter Rose Said, If you provide friendly staff who are willing to listen and provide solutions for your customers, You will be well supported, But what about ALL these many customers who pick your brain and thank you for you exelent service and then buy It from the box movers just to save \$10.00, And then come back in you store to ask how do I operate this Camera, Who pays the wages of our friendly staff. I think those box movers are a digrace to our industry and Peter Rose should not defend them

Posted By David 03/24/2011 04:13:06 PM

Discount wars like this tell me that Harvey Norman and the like are finding times are tough, and are desperate to get people into their stores. It won't be long now before Gerry and Co. will have to reassess their business model to survive the new emerging retail environment, where consumers are more internet savvy and willing to make big purchases on line. Take a walk through one of their stores, huge floor area with few staff and fewer customers with their wallets out. I expect when they start to have to cut corners to protect the bottom line, photo printing will go, its not their core business and looses money. One of their proprietors told me the Labs are very unpopular as they don't see any net benefit in them. I say we should all just hang in their for a bit longer, and the market will sort itself out in our favor.

Posted By John Maple 03/24/2011 12:37:45 PM

Well said Chris like the way you think...This twilight industry employed a lot

of people who understood colour,density and what makes a good print. Now we have experts all over the place... after 35 years time to retire.. Last one out turn off the lights..

Posted By Domenic Papalia 03/24/2011 11:44:58 AM

Fosters can refuse to supply outlets that devalue their product by selling it below cost. We should ask the people that supply the outlets that discount below cost what they are going to do.

Posted By Chris Bennett 03/24/2011 11:14:38 AM

While those at the ACCC are sitting around wondering what they want for lunch and keep spruking the same response to every loss leader scenario `Its good for the consumer` (What insight!) I as a successful photo specialist am exhausted. I`m sick of being patronized about all the opportunities we have to exploit as specialists and that we should just get on with it. Heres the reality, I have got on with and I have succeeded in maintaining a successful business. Having said that I wouldn`t wish my intense workload on my enemies and I have an exit strategy. When my 7000 customers find me gone down the track, then we`ll see what`s really been `good for the customer` Chris Bennett Just Photos

Posted By Stan Kessanis 03/24/2011 10:24:59 AM

This level of discounting reflects a dip in sales activity that is countered by a price drop to win back customers. Anecdotally, consumers will learn to wait for the next inevitable `price drop promo` to do their buying, and more worryingly, will the larger retailer make a decision to drop the category altogether if it doesnt prove profitable over a longer term. If that happens, Specialty might win back these customers and experience a lift in trading. However, specialty turnover doesn`t match the large retailer levels, and the wholesaler will then feel the pinch. Discounting can never be considered good for the Photo Industry, its just a strategy that used to get short term results. We are now seeing the long term results of discounting. Diminished margins, less joy in selling.

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