Effect of Deep Discounting by Major Chains on Small Retailers

The week before Thanksgiving, major retailers were doing massive advertising for the beginning of the holiday shopping season. This year was of special note because the deep discounts were coming at the beginning of the shopping season and not at the end as was the normal practice. Given the gloomy economic outlook, retailers were fearful that consumers had less money to spend and they were becoming more selective of where they were spending it.

To encourage consumers to spend money at their stores, major retailers slashed their prices by 40-60%. This would ensure that whatever available monies the consumers had would be spent at their stores and not at their competitors. As a result of this tactic, there were media reports that people were lining up at the department stores hours before they opened so that they could get the best deals. When the people finally got into the store, they were in a buying frenzy and bought up everything in sight. The deep discounting had the effect of increasing sales in the stores and the consumers were happy with the bargains that they got.

There was another effect from the deep discounting by major retailers that was equally important but it was not reported in the news. How did the deep discounting by major retailers at the beginning of the shopping season effect small retailers?

Many large and small retailers depend on sales from the Christmas holiday shopping season to carry them for the year. Some report that sales from this shopping period represents 40-70% of their yearly sales so any drop in sales can have a devastating effect.

When major retailers drop their prices drastically, many smaller retailers cannot compete. They do not have the leverage or buying power of major retailers to get the best price so they often pay more for their products. In order to remain competitive with larger chains, many small retailers operate on very slim margins. Better customer service can only carries you so far when pricing is an issue, like in a slumping economy. So when a major retailer slashes its prices by 40-60%, it will have a rippling effect throughout the community.

There is a finite amount of disposable income in the community. When major chains offer major discounts to grab a larger share of the disposable income, there is less money available to buy from the rest of the retail community. The larger retailers survive to compete another day, but the smaller retailers that are part of the fragile economic infrastructure of the community will go out of business. It is just one of the unintended consequences when major chains give deep discounts at the beginning of the sales season.

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