

## Don't Count on Discounts

03/10/08

My company is shifting from wholesale to retail sales. In the process we are thinking about offering our new retail customers a 15% discount if they make certain purchases. We still make a significant profit, even after taking the hit for the discount. We think the discount will help us to match offers already made by some of our competitors in the retail sector. What do you think?

Building offers based on discounts can cause problems. Buyers learn to look for / wait for future discount offers. Discounts can turn into price wars with other competitors, where the major differentiating point is the size of the discount. Buying based on price is the weakest link between consumer and retailer. Once a discount becomes the focus of the offer, the seller may encourage poorer than normal quality buyers and accidentally overlook buyers who place a premium on, and pay a premium for, quality services. Beware of discounts.

Offers are a primary way to get a potential buyer's attention. The difference between offers that work, and offers that backfire, however is huge. Focus on offers that differentiate your company from your competitors. Offer things that your consumers truly value. Get your offers to deliver long term value to your customers.

Offers in the form of a discount can be dangerous. Experience shows that once a seller starts to make discount offers, buyer behavior starts to change. Instead of buying what they need when they need it, buyers wait for discounts before making their next purchase. Additionally, once a seller pulls market share based on discounts, competitors tend to take notice and often match or exceed the discount offers, resulting in escalation of discounts over time.

Competitive discounts can spiral, leading to a price war and less profitable sales. Price wars only stop when competitors declare "uncle", stop reducing prices, and leave the bottom of the market to the last competitor to get out. The last competitor standing typically is the lowest cost provider, the one most able to withstand the shrinking margins. Surviving as a low cost provider can only be accomplished by being the most efficient, highest volume vendor in the marketplace. And it is rare that a small business can play that game effectively and survive.

Consider the breadth of offers you can make to a potential buyer. The variety is infinite. Figure out what your target market values then make an offer around that.

Much research has been done on what people value. The following is what I consider most notable result of the research related to

making offers. To get people to put real value on something, figure out how to touch their hearts. People most value gifts that are tangible and specifically linked to things that have personal meaning, things that touch their heart.

Intangible items such as money have a negative value, because the recipient has to figure out how to use them, and that takes additional effort. Discounts have a similar problem, in that they are intangible, and do not inspire an emotional link. The trick in making an offer is to enhance the value of whatever you're attempting to sell, by linking it though an offer to something else of value to the consumer.

When we talked with our reader who posed this week's question, we found out that she sold to libraries. We also found out that she had an overstock of a book that had cost her little to acquire. She didn't plan to focus much effort on selling the books she had in stock. So, we decided to change from a 15% discount, to offering a book with each order. Libraries value books, this is a book they are not likely to have in stock, and one that they would be pleased to offer to their readers if they did have it on hand.

A few minutes of creative thought, and we came up with a way to shift from value discount to value add. We protected her company by enhancing its offer.



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We avoided telling the marketplace that she was desperate enough to get rid of her product that she was willing to cut her price.

The very best customers are the ones who value what you do. They express their support by being loyal and willingly paying a premium for your product or service. They look out for your company by providing great references. They willingly contribute ideas to help you improve or expand what you offer. My suggestion is that you identify those customers you service who meet this criteria, and focus your effort on figuring out what it is they want from you.

Looking for a good book? Try *The Irresistible Offer: How to Sell Your Product or Service in 3 Seconds or Less* by Mark Joyner.

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*If you are a business owner and you have a question or would like to discuss some aspect of your business, call **1.877.238.3535** or send an email to [AskAndi@StrategyLeaders.com](mailto:AskAndi@StrategyLeaders.com).*

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