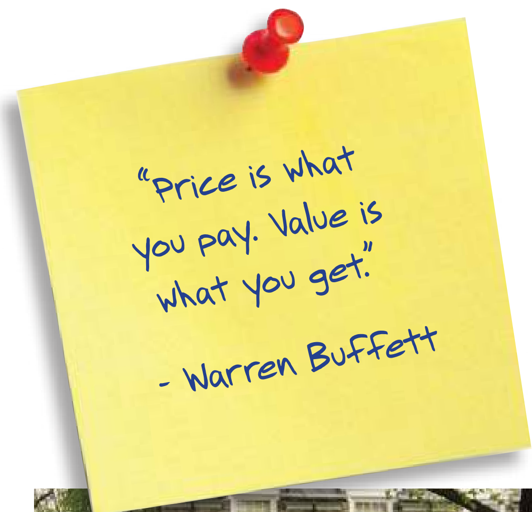
The Discounting Disease

The "discounting disease" that started in 1962, the year when Walmart, Target and Kmart were born, has seeped into every industry segment. Discounts are so prevalent now in both the B2B and B2C world that entire industries live (and die) by discounting.

Discounting can be a destructive force and that's why business owners should have an uneasy relationship with discounts. Although discounting does drive sales, business owners would do well to create a pricing strategy that included discounting to be used for specific scenarios and not as an automatic default for pricing.



Pricing is a significant marker for value. In other words, where you price your products or services helps to identify your market position and gives your prospect an indication of the value you are providing. There are many pricing models available but at the end of the day, the price your customer pays equals the value he or she places on your product.

So, even though business owners hate discounting prices, there are some scenarios where a discount strategy makes sense:

1. Introduction of a new product: introductory pricing of a new product may require some discounting in order to gain market share quickly. In particular, if you are introducing a "me-too" product that is not significantly

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- Glass and Glazing
- Industrial and Automotive Tools

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differentiated but needs to be part of your mix of offerings.

2. Entering a new market: moving into a new territory may require you to give some introductory concessions until you have established your firm in that region. But, once you are established you should abandon discounting as the way to get business.

3. To accelerate sales: if you're experiencing a period of soft sales you may need to use discounted prices as a way to get sales in the door until you are back on track. Again, this should be a temporary fix and not the "new normal."

4. To recreate interest in a product or service: if you've refreshed or retooled your product or service and want the market to take a new look at you, a short-term discount price can help you get attention.

"Pricing is actually pretty simple... Customers will not pay literally a penny more than the true value of the product."
- Ron Johnson,
ex-CEO JCPenney

You can get ahead of the discounting game with these tips:

1. Create an entry-level tier: mitigate the risk of doing business with you by creating a low-risk, low-cost manner in which prospects can engage with your company. This gives both parties a way to test the relationship before moving into the next sale.

2. Add value instead of providing negative discounts: Even though we know people love to get a deal, in the B2B world it's more important that you provide a solid solution where the results are proven. While most people think discounting is about the thrill of getting a deal (more true in consumer psychology), in the B2B world, discounting is more about mitigating the risk of buying. If you're an unproven quantity, you present more of a risk. So, mitigate that risk by finding ways to prove value and show results in order to reduce sales resistance.

3. View pricing as negotiation and collaboration: buyers almost always have a number in their head regarding your offering. Have a conversation about that early on and set expectations for your value/price equation. Your initial price will almost always be the beginning of a negotiation so be prepared with a price range

JEFF BLEACHER

"We'd like to see all of our clients get full value for what they do, but we do realize that the "Discount Disease" is how most buyers look at the process. When you negotiate price, based on a commitment to buy, then you can actually use the process to build collaboration into the relationship. That can be healthy, but it's the leader's job to focus the company on creating value rather than take the discount shortcut."

KEN FALK (on the right)

"Like most business owners, discounting on price leaves a bad taste in my mouth. It's always better for companies to innovate and improve their products and services so they don't become commoditized and sink into the discounting cesspool. Creating value is where companies should focus their efforts and rise above the market chatter that only buys on price. Innovation is a key way companies can add value."

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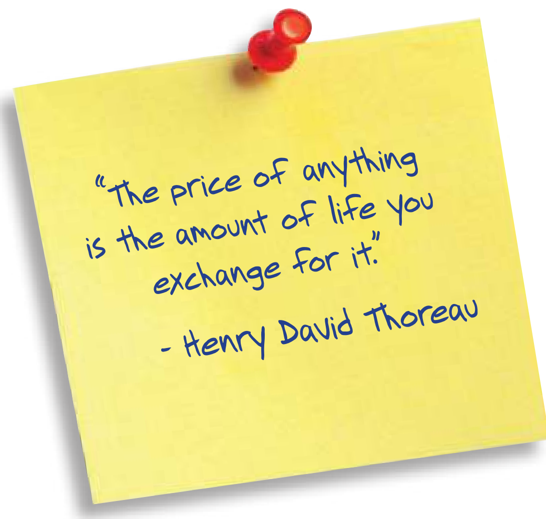
that allows you to accurately price what the client wants – so if you give on price, you get something in return. This could be terms, start date, volume, referrals, reduced deliverables; there are many items that can be negotiated that can help you meet your goals and help your client get the solution he wants and needs.

4. Creating a competitive advantage: build your brand so that your products and services have intrinsic value beyond their material features. When your brand means more than just the "nuts and bolts" of the product, your buyer is less likely to think about asking for discount pricing.

5. Take cost out of your system for strategic pricing: evaluate your cost structure and operations to take as much cost out of the process as possible. Passing these savings onto your customers can create a price advantage for you that doesn't require discounting.

In summary: discounting can be used strategically, but don't become addicted to it. Getting full value for your products and services is the best way to create a sustainable, profitable company that will give you the ability to grow and prosper. And, if you really want to never, ever discount: study Apple and Steve Jobs.



JEFF GROFF

"Companies that focus on dropping prices to get the business will often find that they are setting up a bad precedence in the client relationship. Creating good relationships that engender collaboration and trust goes far to lessen the addiction to discounting. It's true that everyone wants a good deal, but I think what's really true is that people want a fair deal."

PATRICK GENDRUE (on the left)

"It's the law of supply and demand. Sometimes commoditization from oversupply will drive down prices and companies have no choice in lowering prices. This should only be a short-term strategy, though, as only the strong can survive losses for so long until they go under. In the long run, discounting is disruptive and destructive."

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