Norrish and Associates

Business Management Consultants

KILLING YOUR BUSINESS WITH DISCOUNTS

Are you one of the many retailers offering specials and slashing prices in an attempt to attract more customers and increase turnover – or are you at least thinking about doing it because it appears everyone else is?

Most business owners offer sales and discount prices in the false hope that this will bring more customers through the door and increase sales which will in turn more than offset the amount lost by discounting the price. This is simply not the case.

If you have a 50% profit margin on the goods you sell and you offer just a simple 20% discount, then you actually need to increase sales of that product by 67% just to make the same profit. Do you really think you will get an extra 67% in sales by offering that sort of discount?

As the fear of long-term recession grows stronger, many stores are offering far greater than 20% discount, with 30% to 60% being common. A 30% discount with the aforementioned 50% profit margin means that you need to increase sales by 150% to make the same profit.

If you have less than 50% margin then the situation becomes a lot worse. At just 40% margin, the same 30% discount on goods would require a 300% increase in sales volume to generate the exact same profit. So, in most case discounting simply doesn't work.

That doesn't mean that you should never discount – there are several situations when I actively encourage it.

If you (or your bookkeeper) were to go through your records and look at the total value of sales made and divide that by the total number of transactions, you would end up with an average value of how much each customer spent in your business. It would be prudent to also determine how many items the average customer purchased per visit. If you know that the average customer purchases say 5 items per visit and spends on average $150 on those items, then you may consider heavily discounting (even taking a small loss) on a particular item in order to get the customers through the door who will then purchase other items which are not discounted.

If you have a database of customers who have bought from you before, then contact them with a special offer. Again, value adding to an existing product is better than discounting, but a small discount to entice a repeat customer is acceptable as marketing to them is less expensive, has a higher response rate and the discount you give them is less than the cost of having to obtain a new customer.

With thanks and acknowledgement to Andrew Carter, author of The Rhino Retailers.

Getting Rid of Old Stock

I see many stores where some of the stock is outdated. It has been left sitting on the shelf far too long. In some cases even the box looks faded. You have to get rid of this old stock. You need the money from the sale of these products to buy new products that turnover quicker. Also the shelf space the old stock takes up is valuable real estate that can be used by newer products that are in demand.

I would try finding other ways of selling that stock before I considered discounting. For example, can you value add other products or services to that old stock in an attempt to make it look more appealing to your customers? If not, see if there are similar items on eBay or other auction sites or houses and move the product through there. If neither of those strategies work, then you have to lower the price. Get whatever you can for it. Just get rid of it and put whatever money you receive into better selling products.

Now more than at any other time in your business life it is important to get your stock control in order. Too many businesses I deal with have maintained a higher level of purchases for their decreasing sales.

Conduct a stock take. Determine which stock you have had the longest or is the slowest moving. If you have several brands of the same product, consider reducing to just one brand. You can then advertise a sale on those other items. Once your stock levels are under control, the easiest way to not just survive but grow during this time is to actually put your prices up!

Before you decide that this will never work, know that with just a 10% increase in your prices, at a 40% profit margin, you can afford to lose 20% of your customers and still make the same profit – and it is incredibly unlikely that you will lose anywhere near that number of customers.

Think about it this way – for every dollar you now make, does it allow you to purchase as much as it did a year ago? The answer would of course be “no”.

Putting Up Your Prices

Everyone around you is putting their prices up. The groceries you buy now cost you more than they did a year ago. The goods and services you continue to use cost you more than they did a year ago. By not putting your prices up you are actually giving yourself less buying power than you had previously. Discounting prices on your products only exacerbates the situation.

Here’s the problem though. If you now know that businesses around you have put their prices up and you then put your prices up, all you’ve done is kept up with where you were before. So now, you’re not going backwards, but you’re not getting any further ahead either.

The biggest resistance I get is, “well, if we’re 10% higher than all of our competitors on price, we’ll lose all of our customers to them.” You simply won’t. If you have marketed yourself correctly, ensuring you and your business stand out and you attract the right type of customer, then they will come to you and pay the price listed.

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If not, then you need to look at your current methods of marketing (if any) as they are not working. Far too many businesses look at marketing as an expense and cut back on it when times are tight. Marketing is an asset to your business and you should actually be doing more of it now, not less.

Despite the economic doom and gloom, you need to actively start setting your business up for what you want it to be in the future and start properly marketing it that way, instead of reacting to the current marketplace and discounting prices just because everyone else seems to be.

When deciding which direction to take your business, remember that people do pay more for: -

- Convenience
- For a ready-made solution, and
- To give themselves more time (or at least avoid doing tasks they hate)

Think about yourself. How many times have you been at a petrol station and purchased chocolates, soft drinks etc? Now you know there's a supermarket no further than ten minutes away, you know you can get those items for literally half the cost of what you just paid for them at the petrol station, but it's convenient for you to buy goods whilst you're there. People will pay up to 100% more on some products for convenience. You know that yourself. You've done it. People will pay for a ready-made solution. Does the product or service you offer alleviate somebody's problem? People are prepared to pay more money for that.

The other thing to keep in mind is that people are prepared to pay more money for anything that gives them more time. How many mowing services exist now that weren't around ten years ago? Rather than spending the time yourself to do the lawn mowing, you're prepared to pay someone to do it and you're prepared to pay more than it would probably cost of your own time. People are prepared to pay more money for the service, if it gives them the time to do what they want to do.

You've got to push the price envelope. Raise your prices now. You may lose some customers, a very small percentage off the bottom, but the ones you keep are worth far more to you. The reality of just raising your prices is that most people aren't even going to question it, especially in tougher economic climates like we're having at the moment. Everyone else is raising their prices. Your customers just expect you to do the same. I doubt you'll even be questioned about it.

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