



Driving Real Value from Customer Discounts

By David Boothman & Tom Hamilton

The conflict over whether business-to-business discounts unlock or undermine revenues has divided many boardrooms. But the real question should be how to use them effectively. In our experience, a properly informed, targeted and governed approach to discounting can dramatically boost turnover. So how can you turn discounts from an unfocused source of value leakage into a real revenue driver?



Discounting has always been one of the most controversial aspects of business-to-business pricing. Advocates believe it can open up unrealised sales opportunities. Detractors counter that discounts needlessly eat into margins or that customers simply pocket the money without delivering any benefits in return.

There is some truth in both points of view. In a tense negotiation, discounts can convince some wavering customers to seal the deal. But far fewer are swayed by discounts than many salespeople assume. You need clear insights into what they value – quality, speed or convenience may be bigger factors in their choice than price, for example. Even if price is the clincher, it's important to take account of what your competitors are charging and how your pricing levels – including discounts – are influencing theirs

Value leakage

In many businesses, discounting has become an overused, unstructured, hit and miss affair. Sales teams often base prices on gut feeling or habit rather than any clear intelligence on what business customers value or measurement of the influence of discounts on their behaviour – impact on loyalty or volumes, for example.



Without clear thresholds, guidance and supporting data, discounts can also be inconsistent and poorly targeted. For example, a small customer might be receiving much bigger price reductions than larger counterparts buying a lot more products or services.

This haphazard approach can be compounded by a reluctance to raise prices once they've been discounted for a long time. This can set off a downward spiral in which discounts become ever more ingrained and harder to relinquish. With margins squeezed, companies also have to fend off more competition to secure the volumes needed to deliver revenue targets.

From a strategic perspective, poorly managed discounts can be equally counterproductive. The price cutting can detract from marketing campaigns or product and service improvements. Unfocused and uncontrolled discounting can also undermine revenue generation initiatives.



The way forward

It can be a big leap from knowing that there's a problem to trying to resolve it. Sales teams will invariably say that they're getting the best possible price or that customers will switch to a competitor if the discounts are withdrawn.

But with the right approach, you can break the discounting habit. And with demand in many markets subdued, there has never been a more important time to address your discounting challenges

The less you discount, the greater your margin– and the less volume you need to meet revenue targets.

So how can you plug the leaks and maximise the benefits from discounting. In our experience, five priorities stand out:

Win hearts and minds

There is bound to be some resistance among sales teams who've become wedded to discounting. So it's important to win them over.

Some leadership teams try to stamp out discounting from the outset. But a better approach is to highlight the benefits of not relying on it. A clear case in point is stressing how reduced discounting allows sales teams to hit their sales and associated bonus targets without having to sign up as many new customers



Competitive pressure can also be a powerful motivator. A salesperson might say that this isn't going to work. But if they see that another member of the sales team is reducing the differential between headline and charged price, then they'll want to follow suit.

Set and enforce clear thresholds across customer segments

Be clear about when and why discounts can be offered. Set thresholds for how much to discount and how often to which customer segments. To enforce this, salespeople should justify why the discount was offered and what it delivered in return.

Make the case to customers

It's equally important to assure customers. The starting point is an honest and consistent conversation about what they value – it may not be just the lowest price as we said before – as well as the value you deliver for them and how this could be improved without necessarily dropping your prices.

To support your sales team in their negotiations, it's important to make sure that they understand your value proposition and advantages over competitors, and are fully trained in how to communicate and demonstrate this to customers.



Give to get

You still want your salespeople to negotiate and trade. There's still a place for targeted discounts as part of that – winning new business or as a reward for loyalty or guaranteed volume, for example. But use of discounts should be sparing and guided by what's offered in return.

Create a toolbox of information and support

Make sure that sales teams have up-to-date intelligence on customer value preferences and what competitors are charging.

It's also important to set up information sharing networks within the sales team. This includes encouraging them to swap notes on what works and what doesn't when seeking to close deals without relying on discounts.



Making the leap

As daunting as breaking the discount habit can seem, we've seen what can be achieved. Progress is possible even in businesses where routine price cutting is deeply ingrained. Clearly, you won't be able to cut off the discount tap altogether in one go – the move away is likely to be gradual at first as you seek to win hearts and minds. But the results are potentially game-changing. You'll not only benefit from stronger margins and increased revenues, but also improved customer satisfaction as you seek to develop a relationship built around value rather than just price.

Get In Touch

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