



DISCOUNTING IS NOT NEGOTIATING

First the good news: You worked the lead, made the sale, and closed the deal just in time for quarter-end. And, you have verbal assurances of further business from the customer. Now the bad news: You did all that work for zero profit. The customer negotiated a price so low that your only justification for going forward was the hope of a long-term relationship that will pay off later.

Bad news, part 2: This customer now knows that you will cut your prices to the bone to get the business. Any future deals will begin with the expectation of substantial price concessions. And, in today's connected community, other customers will be aware, too. Poor discount practices can continue to impact the sales organization for years after a sale is made. Yet not all discounting results in such dire outcomes. Properly managed discounting ensures that the business receives like value in exchange for the discount.

Discounting: Cause and Effect

There are a number of situations that drive excessive discounting:

- **Market Expectations.** The selling organization has set customer expectations for discounts over a long period of time or competitors are setting expectations by dropping prices/regularly offering discounts. Almost 70% of companies report that the rate of competitive activity in their markets had “noticeably” or “significantly increased.”
- **Product Issues (Perceived or Actual).** The sales team lacks confidence in the solution and thinks the only way to sell it is to discount deeply. Alternatively, a solution's list price may be legitimately higher than the current market value.
- **Misalignment.** The sales team did not fully understand the customer's needs before presenting a proposal, and the proposed solution is more than the customer wants. Their ability to conduct a needs analysis “needs improvement” or “a major redesign.”
- **Lack of ROI.** The business value in terms of return on investment (ROI) has not been quantified or articulated to the customer, resulting in a value gap between the buyer and seller.
- **Skills Gaps.** The sales team lacks strong negotiation skills. (The simplest, least creative way to negotiate is to lower the price.) Or, further upstream in the selling process, they lack the ability to overcome client price objections. While a daunting list, fortunately many of these are within the sales organization's control.

Valid Discount Practices

Not all discounting is excessive, however. When organizations need to break into a new market, discounts can alleviate the risk that new customers feel buying from a new firm. And discounts can help build product momentum when introducing new products into existing markets. Discounts may also make sense as an incentive for customers to buy in volume or purchase more products and services in packaged bundles.



These practices can help achieve revenue growth. Favorable payment terms and longer-term commitments from the customer are both valid business reasons for discounting. The common thread among these discount practices is that the business only provides price concessions when they receive comparable value like market share, product momentum, volume purchases or long-term commitments in exchange.

Managing Discounts

Managing discounts doesn't happen at the end of sales cycles. It starts at the beginning of the customer's relationship and continues throughout all customer interactions. Consider these practices:

- **Require Formal Qualification.** Start by requiring qualification for potential, authority, resources, and timing as a necessary criterion to move an opportunity into the funnel.
- **Deploy Value-Based Sales Methodologies.** Once in the funnel, all discussions must link value to needs. Be sure that sales professionals are enabled with the questioning skills, call planning methodology and needs analysis templates to uncover needs fully before moving to solutions configuration and presentation. Further, sellers must be provided with the skills to overcome price objections as well as content, such as proof sources and case studies, to justify price points.
- **Build ROI Templates.** All solutions presented to the customer must be accompanied by a value justification and/or ROI calculation even if the customer did not ask for one. Sellers should be prepared with alternative solutions at different price points with quantitative benefits for each.
- **Establish Formal Negotiation Policies.** Sellers need sales methodology to negotiate effectively, as well as a policy that defines acceptable discount tiers/marketing programs, walk-away criteria, responsibilities by role and flow of the approval process. Every request for a discount should include a quantification of what is gained in return.
- **Minimize exceptions.** Negotiations policies must be transparent, and everyone – managers included – held accountable for following them. It is undermining a seller's credibility when their managers swoop in at the last minute to offer an out-of-policy deal to a prospect. And everyone knows the rules aren't really rules when they change dramatically at the end of every quarter. Without discipline, there will be no change.

Discounting practices can have a lasting impact on a sales organization. Consider whether your practices are leading to excessive losses in value and what Operations and Enablement can do to manage discounts more consistently and more proactively for your customers and sellers.