

The pros and cons of discounting for small businesses

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As a small business owner, you've probably offered discounts to your customers or have considered doing so. It's a bit of a catch 22 - you are already trying to run a tight ship and need to keep your profit margins as high as possible, but discounts could help you secure a loyal customer base who will return time and time again.



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Discounting can be a useful tactic in your wider pricing strategy, if you carefully evaluate your business goals and understand the financial implications.

Consider these pros and cons:

Get rid of older stock

Pro: Goods in your inventory are losing their value faster than you can sell them - For example, if you stock perishable goods, it might be better to mark them down as they reach their sell-by date than to throw it away. If you sell technology, marking down your current inventory a month before the new model is released might make sense. It's important, however, that customers don't get too used to waiting for your clearance sales before they spend such as after Christmas and end of season sales.

Con: Customers will expect the discounted pricing to become the normal pricing - One of the major dangers of discounting is that customers might always expect to pay the lower price. Be especially aware of this risk, your competitors will respond to your discounts by matching your special pricing.

Wider audience

Pro: You want to get your foot in the door with a key client - If you operate in a business-to-business environment or sell big-ticket goods to high-end consumers, it might be worth giving them a discount on their first purchase. This could be a worthwhile investment in a profitable customer relationship for the future. For example, if you are a new florist, why not discount the bridal couple for the service you will provide and say this is a once-off arrangement? This way, word of mouth will spread and you will gain more customers.

Con: You could devalue your brand - If you're in a premium market, for example selling handmade furniture or artisanal food, a discount may harm your brand. Customers may think that your beds or bread are not bespoke, quality products if they do not retain their premium pricing.

Opening specials

Pro: You want to entice new customers to your store - If you're a new business or if you're entering a new market, opening specials can be a great way to introduce yourself to your target audience. For example, if you are a plumber, consider placing a note on your advertisement that within the first month, customers will receive a discount on their first enquiry.

Con: Bargain hunters may not be loyal to your company - One of the most common reasons to offer discounts is to get customers to try out your goods and services, in the hope that they'll become repeat customers. Another common tactic is to offer a discount on a popular item to entice customers into your shop, with the expectation they'll buy other products at their normal prices.

Yet many bargain hunters are only interested in chasing the lowest prices; they might not come back to fill their baskets with the goods you're selling at full price. The result? Selling your goods or services at a loss for no benefit.

Get paid faster

Pro: You want to keep cash flow going - If you operate in an industry where clients are accustomed to paying on 30-day or 60-day terms, a small discount can incentivise them to pay faster. For example, if your agreement with a customer is for them to pay after a longer term such as 60 days, why not offer them a discount if they pay within 30 days?

Con: You might be tempted to cut corners - To sustain discounted pricing for a longer period, you might need to compromise on the quality of your ingredients, components or customer service. That could damage customer satisfaction and sales in the longer term more than selling a quality offering at a reasonable, market-related rate.

Set a price

Pro: You want to experiment with pricing points - Discounting can be a valuable way of testing different price levels to gauge the optimal blend of sales and profitability. Do sales leap 30% when you discount by 10% and what is the impact on profitability? What happens to volumes when the prices return to normal? You may not know unless you experiment with different price levels. Make sure to have a system in place that can track this type of analysis and activity.

Try doing this: experiment during a less-busy period: Adjust your pricing and see how customers react. Customer feedback is also important and will provide you with information on what you are doing right and what should possibly change.

Con: You could start a price war - How will your competitors respond to a price cut from your business? Will they offer

discounts of their own? Can you respond in turn by discounting your product even further? Competitors may see unusual discounting as a signal that your business is struggling, which may tempt them to zone in on your customer base.

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