

Sales Leader's Guide *to* Avoid Discounting

Expert Tips to Help Your Team Avoid Discounting



INTRODUCTION:

Discounting and The Sales Leader's Role

As a sales leader, your job is to assemble and oversee a productive, efficient sales team that can achieve its revenue and profitability goals. When working with clients, we see one common mistake that consistently gets in the way of this goal: a culture of discounting as a way of “winning” business.

When discounting habits take root among your salespeople, the results are pervasive and damaging. In this white paper, we'll explore:

- Why discounting occurs and why you want to avoid it.
- How sales leaders can discourage and ward off discounting habits.
- Negotiating skills salespeople can cultivate to close deals without offering discounts.

PART I:

The Psychology of Discounting

What's the Harm in Discounting Your Price?

First, let's be clear about why it's important for sales leaders to establish a sales culture that discourages discounting and empowers salespeople to stick to established prices during deal negotiations.

While it's true that a last-minute price drop might help close a deal with a challenging prospect, the sad truth is that you're winning the battle but losing the war.

Three Problems with Discounting

Here are three major problems created by discounting.

Problem #1: Discounting hurts profitability. Even if the deals are rolling in, consistent discounting means you're losing ground. That's because each discounted dollar may take three or four additional dollars of revenue to replace the lost profit margin.

Problem #2: Your salespeople create more work for themselves. If your salespeople are selling your offering at a lower cost, they (depending on your incentives and compensation plan) must sell more of your offering or find bigger deals to make up the difference. That means more prospecting, more proposals, more meetings, and more negotiations. They're creating a larger burden for themselves eventually.

Problem #3: Discounting sends the wrong signals to buyers. Price discounts tell your customer that your prices are negotiable.

Eventually, this undermines your value in the market. Discounting may also reveal to the buyer that your team lacks confidence, and it sets a dangerous precedent for future negotiations. (The buyer may wonder: "If I can get a five percent discount

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off the bat, what else can I get?") Once you've lowered your prices, it's hard to get them back up. It's likely that customers will naturally expect similar discounts on future deals.

Why Do Salespeople Offer Discounts?

Reason #1: It doesn't occur to salespeople to not offer discounts. Often, salespeople give discounts as a matter of course. Perhaps previous sales leaders have taught them to discount; perhaps it was just a bad habit they developed on their own. Some salespeople may not realize the damage it does -- either to them or the company.

Reason #2: Salespeople see discounting as a final effort to win business. When salespeople feel a sale slipping away they'll often try hard to keep the prospect from walking. It can be painful to lose a deal (especially if the deal is large, particularly coveted, or at the finish line), and discounts are frequently seen as the easiest way to safeguard a winning outcome. This final concession may or may not be effective in winning the business, but can never make up for the salesperson's inability to articulate the value of his or her solution.

Reason #3: Salespeople see discounting as easier than negotiating. If salespeople lack confidence in their negotiating skills, they might look to discounting as a crutch. It's less contentious and far easier just to give the customer what he or she wants than to prove why their solution is worth a premium.

Reason #4: Your compensation plan fails to discourage discounting. If margin dollars aren't part of the salesperson's incentive and compensation plan, then it's easy for the salesperson to offer a discount to get the deal done, with little personal impact on his or her overall compensation.

Reason #5: Salespeople believe price discounts are a way to create goodwill and maintain happy customers. Some salespeople offer discounts to prove to the customer that they're likable, amenable, or flexible. This is particularly the case when salespeople believe that customers want or care deeply about price discounts more than anything else. Unfortunately, the goodwill from this concession may only last until the competition offers a lower price.

Coaching Point: Coach your salespeople that discounting isn't necessary and has a significant negative impact on profit margins and their credibility with customers.

PART II:

Focus on Value during the Sales Process

Selling versus Negotiating

Selling and negotiating are different skills. Selling involves identifying a buyer's needs and then aligning your solution to that need.

On the other hand, once you have some form of commitment from the buyer, negotiating is the process of bargaining to reach a final agreement that is mutually acceptable to both parties.

Everything salespeople do during the sales process has an impact on negotiation. For example, salespeople who can create strong and multiple links between the value of your solution and the customer's needs will have more negotiating leverage.

Don't Negotiate Too Early

One common mistake sales professionals make is negotiating too early. Why is this problematic? If salespeople negotiate before they have adequately identified buyer needs and presented the value of their solution, they'll be at a disadvantage. Salespeople will only be able to defend price effectively if they first establish value in the buyer's mind. Also, negotiating too early signals that your team may be open to even more concessions later.

Sell Value Instead of Price

The good news is that discounts are typically not necessary to close deals. We often hear the complaint in our sales training workshops that the customer has all the power and only cares about price. If that's what your salespeople truly believe, then your only option is to lower your prices -- and you'd better be the cheapest option, or you'll lose.

The truth is that buyers care less about discounts than your salespeople might think. In numerous surveys and research conducted on buyer behavior, price

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consistently comes up relatively low on the buyer's priority list.

The Importance of Leading with Value

Sidestepping discounts starts at the very beginning of the sales process, and it's up to the salesperson to set the proper tone. During our sales negotiation workshops, we find that many salespeople jump straight to product presentations, sales proposals, or deal negotiations. These are all important aspects of selling. However, the first and most important part of setting a proper foundation for a deal is understanding and articulating the value of your offering.

The better the sales professional understands the customer's priorities and articulates the value of his solution (at the very start of the sales process), the easier it is to negotiate a mutually beneficial agreement without resorting to tactics like discounting. This means that you should coach your salespeople to sell on value before they begin any other aspect (solution presentations, proposals, etc.) of selling to the customer.

Selling on value will also help you clearly identify and articulate the priorities and requirements of your customer, which will become invaluable as you negotiate trades and concessions later in the sales process.

Differentiate Your Unique Value from the Competition

Selling can be defined as the transfer of confidence – when all is said and done, your salespeople need to be convinced that your company has the best solution. Then, they must transfer that confidence to your customer – enthusiastically and clearly.

Frequently, buyers attempt to use your competition as leverage. In these cases, it's easy for salespeople to let the buyer's attempt to use leverage distract them from the issue of value. For example, let's imagine the buyer tells you the following:

“XYZ Corp has offered us the same thing, only for 20% less.”

In this case, your salesperson should not dwell on the buyer's implicit demand for a discount to match the competitor. Rather, the salesperson should focus on how to differentiate your offering from the competition. Price becomes important to customers primarily when they believe all available purchase options are about equal. This means winning the deal will not just depend on understanding and articulating the unique value of your offering, it will also depend on how well your salespeople can differentiate your offering and justify the higher price point.

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Coaching Point: At the end of the day, avoiding discounting starts with your sales culture. Armed with a winning value proposition and a sense of confidence in their ability to articulate value regarding dollars and cents, salespeople will naturally avoid offering price discounts to close deals. Sales leaders can establish the right tone by

- making sure incentives and compensation programs don't encourage discounting.
- providing salespeople with proper training and coaching to make sure they eliminate bad habits related to discounting.
- cultivating a selling environment that focuses on value rather than price.

PART III:

Consider Sources of Power

In the pressure to get the deal done, and especially if salespeople don't believe their solution is superior, they may give the customer more power than the situation warrants. The customer obviously has the power of the final decision, and he or she often holds that over the salesperson's head. "Do what we want (lower your price, provide additional services, accept our terms, etc.), or we'll go somewhere else."

Yes, customers may need to negotiate on the main items, but the goal should be to reframe the conversation so that salespeople and customers are on equal ground. One tactic for doing this is for salespeople to brainstorm all the reasons they have more power than they realize, and reasons why the customer has limited power.

When preparing to negotiate, it's helpful to ask the salesperson a few pointed questions:

- “Why do you have more power than you may think?”
- “How is the customer’s power limited?”
- “Why would they need to go with you and our solution?”

The customer isn't going to disclose these issues to salespeople. The salesperson's job is to conduct research, leverage customer coaches, ask great questions, and figure out the two or three sources of power that can help build confidence and support the negotiating position.

When considering these power sources, it's helpful to ask the following question: “Compared to what?” In other words, what are the customer's alternatives (i.e., buy from competition, do it themselves, or do nothing and not make a purchase) and how does the salesperson's offering compare with these alternatives? Some examples of unique capabilities that create more power for the salesperson include the following.

1. Best solution or unique features the customer needs
2. Ability to meet deadlines
3. Superior delivery capabilities
4. Issues with competition
5. Ability to tailor or customize the solution
6. Customer relationship
7. Industry knowledge or expertise
8. Cost and difficulty switching to another vendor (time and effort of vetting other vendors)

By considering the unique components of their offering compared to the customer's alternatives, salespeople can bolster their position and develop more confidence in their solution. If salespeople can convince themselves that no other solution is more valuable to the customer

than what they are offering, they will be in a better position to convince the customer. At this point, both the salesperson and the customer start to see price in a different light.

Coaching Point: Ask salespeople the questions above and help them understand that they likely have much more power than they think when entering the negotiation.

PART IV: Leverage Collaborative Negotiation Tactics

Even if salespeople do a good job selling value, thereby making price less important, they may still go through a lengthy negotiation process to get the deal done. Items such as agreement terms, delivery dates, additional training, customer support, and warranties may routinely come up as negotiable issues when closing the deal.

With a well thought out negotiation plan, salespeople can avoid discounting and maximize the value of the deal using appropriate negotiation principles and tactics. Thoughtful planning for the negotiation creates additional power. Knowing the customer's

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interests plus the tradable options can create a more collaborative negotiation. Below are several tactics that can help you avoid discounting and improve the value of your deals.

1. **Rely on your shared interests:** Don't forget that the customer is at the negotiating table because he or she has something to gain from buying from you. Use this shared interest as common ground to go back to when things get contentious or go off track.
2. **Check the customer's interests behind the position:** Never assume you know what the customer wants. Probe for interests behind positions and re-check them throughout

the negotiation. Interests can often be satisfied in multiple ways that don't involve discounting, where a position may sound like a take-it-or-leave-it proposition.

3. **Provide the customer with multiple options:** Spend time developing creative options to satisfy the customer's interests. The more options to consider, the better chances of coming to a mutually beneficial outcome.
4. **Be prepared to make trades:** Ensure you get something of equal or greater value if you give something up. Know what the cost and value are of the negotiable items on the table. Unless you know the cost of the trades you're making, you can give away more than you realize.
5. **Articulate your anti-discounting stance:** The easiest way to avoid the slippery slope of discounting is just not to do it. Understand your trading ranges and be prepared to get creative with options that satisfy the customer's needs without lowering your price.

Coaching Point: By understanding negotiation principles and planning thoughtfully, salespeople can come into a negotiation with more confidence, better options, and the ability to trade on value instead of discounting. These principles provide the backbone of a successful negotiation. Coach salespeople to prepare for strategic negotiations and role play these scenarios before meetings with customers. Better negotiation planning and skills equate to more successful, collaborative negotiations and fewer instances of discounting.



About the Authors



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Ray Makela has over 25 years of management, consulting, and sales experience; and he currently oversees all client engagements. Previously, Ray served as Chief Customer Officer (CCO) at Codesic Consulting, where he was responsible for business development, managing customer relationships, and the development and implementation of Codesic's sales-training initiatives. Ray has also held management positions at Accenture and Claremont Technology Group where he was a management consultant in the Change Management practice. Prior to his consulting career, Ray served as a Division Officer and NROTC Instructor in the US Navy. Ray earned his B.A in Speech Communications from the University of Washington and an M.P.A. in Public Administration and Information Systems Management from the University of Southern California.



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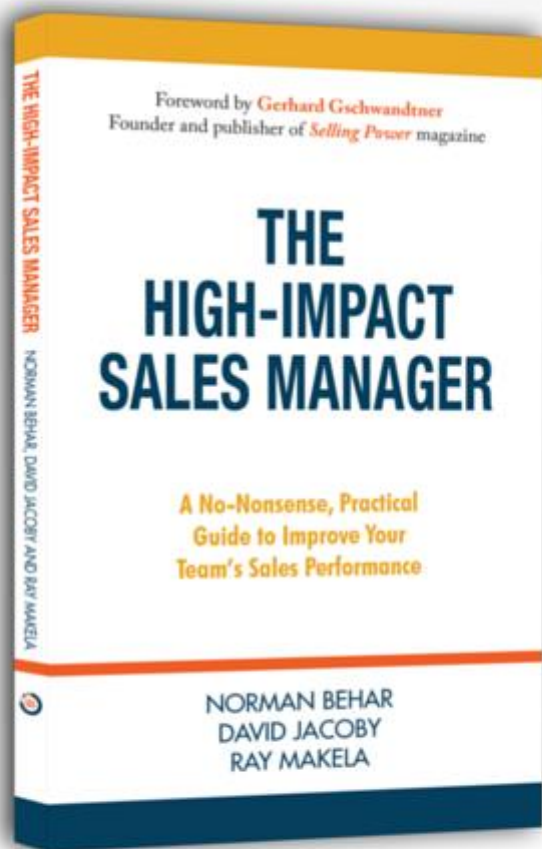
David Jacoby has extensive experience developing and implementing innovative sales training and sales leadership development solutions for clients. David is a thought leader in instructional design and the use of innovative technologies to deliver industry leading online sales training programs. Previously, David has served as Vice President of Business Affairs of Xylo, Inc., where he was responsible for the Company's sales operations, legal affairs and financing activities. Before joining Xylo, David was a corporate attorney with Skadden, Arps, Slate, Meagher & Flom LLP, where he practiced in the firm's mergers & acquisitions group. David received his J.D. from the Columbia University School of Law, where he was a Harlan Fiske Stone Scholar, and received his B.A. from the University of Washington, where he graduated Summa Cum Laude.

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