

[Talking Technology](#) [Discounting your business away](#)

By Steve Burns, Capital News contributor



This week we continue with our series on the Four Ways To Grow Your Business. Last week we looked more closely at the second of the four ways to grow your business, increasing the number of times customers come back by using a Customer Nurturing Strategy.

In summary, there are just four ways to grow any business:

1. Increase the number of customers of the type you want to have.
2. Increase the number of times customers come back.
3. Increase the average transaction value of each sale.
4. Increase the effectiveness of each process in your business.

Understanding that there are just four ways to grow your business is the first step towards growing a profitable business.

The third way to grow your business is to increase the average transaction value of each sale.

To increase the average value of a sale, you must have a handle on your margins and what they really mean to your bottom line.

I am going to make a bold statement. Did you know that over 90 per cent of discounts are given to customers that never asked for one?

From my perspective, way too many businesses in the Okanagan discount their prices, which is crippling their growth, their profitability and their cash flow.

They say that they have to discount in order to compete in the Okanagan. I say absolutely not! The reason that many businesses discount their prices is actually because they haven't taken the time to consider how to make their product and service offering unique to their marketplace.

In a marketplace where what you do is viewed by your customers as a commodity, discounting can be a cruel trap.

How much is discounting really costing your business every year in lost profits?

Consider this example. Say your present gross margin is 35 per cent and you would like to consider reducing your prices by 10 per cent.

How much do your sales need to increase to produce the same profit as you had before you discounted your price? Make sure you are sitting down for this one as the number is absolutely staggering. Did you know that to produce the same profit, that your sales volume must increase by a staggering 40 per cent?

Unbelievable! Remember, this is not you making any more money than you did before but only what sales need to increase by to get you back to where you were before you discounted your price. Ouch!

The stark reality for most Okanagan businesses is that a mere 10 per cent discount just doesn't generate a 40 per cent increase in sales.

The reality is that the vicious discounting cycle continues as you end up having to offer more and more discounts until you are almost out of business.

Now let's look at the opposite scenario. What happens if your present gross margin is 35 per cent and you were to increase your prices by 10 per cent?

How much could your sales decrease by to produce the sale profit as you had before you increased your prices?

Again, the number is staggering. Did you know that to produce the same profit that your sales volume can decrease by a staggering 22 per cent? Unbelievable!

Chances are that increasing your prices would not result in a 22 per cent drop in sales. Statistics show that only 15 per cent of the marketplace actually purchases on the basis of price.

I think that the issue of discounting is a huge one for Okanagan businesses.

This week I want you to do some homework on your business. Here is what I would like you to know prior to next Wednesday:

1. What is the average transaction value of a sale in your business?
2. If you increased your prices by 10 per cent and you were able to simply increase sales by 10 per cent without huge additional expenditures, what is the dollar value of profit that you get to keep?
3. If you were able to increase the average transaction value of a sale in your business by 20 per cent by simply having your existing customers purchase more from you, what is the dollar value of profit that you get to keep?
4. What are the ways that you think that you can increase the average transaction value of a sale in your business?

I would like you to e-mail me your ideas (steve@burns-innovation.com) and I will share them with everyone next week— no business names will be disclosed.

So the next time you think about discounting your prices stop and think about how much your sales need to increase for you to recover from the discount.

If you are interested, e-mail me a request and I will send you my discounting chart that nails down the numbers exactly.