SELLING SMART

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The Discounting Dilemma

Customers Want Discounts, But It Can Ruin Profitability

If you research consumer economics, you will find plenty of content on "price sensitive" versus "price insensitive" types of customers. As the label implies, price sensitive customers are more sensitive to price than price insensitive ones, meaning they prefer lower prices and are more likely to switch to a cheaper provider when the price of the product or service they are seeking goes up.

Having spent the past nearly 10 years specializing in the tire and auto service industry, my training team and I having analyzed well over 60,000 sales calls. In that time, I can say without question that tire business customers are predominantly price sensitive.

All you need to do to confirm this at your business is monitor your incoming sales calls for a day, and I'm certain you will come to the same conclusion. Most tire shoppers' primary objective is to find out what the price is. This is true whether the caller has a specific tire in mind or not. If they have a specific tire in mind, then they're typically comparison shopping, comparing your prices to your competition. If they don't have a specific tire in mind, they still usually use price as the predominant factor in the purchasing decision.

Why is this?

Every tire business owner I've spoken to agrees that discounting hurts their profitability, yet their sales associates routinely do it.

The main reason is that consumers perceive tires as a commodity. Merriam-Webster's definition of a commodity is "a good or service whose wide availability typically leads to smaller profit margins and diminishes the importance of factors (such as brand name) other than price."

Commodity products are undifferentiated by consumers so they buy them based on price. Embodying this purpose, in the stock exchange we have a "commodity market" where investors trade agricultural products such as wheat, coffee, cocoa, fruit and sugar.

In this sense, Merriam-Webster's "wide availability" classification could not be truer of the retail tire market. The first thing a prospective customer realizes when they go shopping for replacement tires is that it is overwhelming. There are dozens of different tire brands and seemingly hundreds of different tires to choose from. Since the typical shopper doesn't really understand tires and how they differ from one another, they default to price as their primary purchasing factor.

Paying the Price for Discounting

Back in March 2014, I wrote an article entitled "Sell Value or Pay the Price." In that article, I stated that the reality of many tire and auto service organizations is that their customers have a better system (defense) than they do of selling them on their value (offense). Working exclusively with tire and auto service businesses another four years since that article was published has only strengthened that conviction.

The price that tire dealers are paying for failing to effectively sell value is discounting. As the title of that old article suggests, discounting is most often the case of not effectively selling value, meaning communicating value during sales interactions. Accordingly, a major part of my training is ensuring that my clients not only understand what drives a customer's perception of value, but how their sales associates need to communicate that value to sell more effectively while increasing profitability.

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Three Primary Reasons Sales Associates Discount

1. They don't know what else to do.

While some salespeople discount to try and salvage a sale they fear they're losing, I have found that most do it because they really don't know a better way to handle the situation. They simply haven't been trained the proper way to effectively manage all those shoppers who believe tires are a commodity and base their decision to purchase primarily

on price. Lacking this skillset, they take the path of least resistance and offer a discount – often without the prospect even asking for one!

During sales interactions, when confronted with a shopper that doesn't like the price quoted, my training team and I will routinely hear salespeople say "Do you have a budget in mind?" This is the common default response when an associate has not been properly trained as they literally don't know what else to say.

To set the record straight, nobody has a true budget for tires, but 100% of the folks asked want to pay less than you just quoted them! With that, they're more than happy to round your numbers down to a price they're more comfortable with. Sales associate quotes $745 for a set of tires. Prospective customers resists saying that's too much money. Associate says, "Do you have a budget (or price) in mind?" Prospect says, "I was thinking $600." It's a very predictable response driven by their commodity mentality.

2. They don't understand sales vs. profitability.

When I train on how to sell value, I always include a PowerPoint slide that reads "Sales Gets Nobody Paid!" This is my personal version of an expression you've likely heard before, "It's not what you make, it's what you keep." How true that is of this business! In my previous life in management consulting, I would work with businesses in excess of $10 million in sales that were making no money! They'd be in debt, stretching their suppliers and struggling to meet payroll in many cases. Employees that worked for one of these businesses would often complain about not receiving their pay raise or bonus – benefits profitable businesses can afford and usually provide.

It's critical that your sales associates understand the business implications of discounting. Too many salespeople focus on the short-term gain of making the sale with little to no regard of the long-term consequences discounting can have on the business's profitability.

3. They confuse a low-price guarantee with discounting.

Let me start this one by saying if your business has a low-price guarantee, you should keep it and, if you don't, you really should.

From an advertising/marketing standpoint, a low-price guarantee makes sense because it often attracts new customers to the business, increasing sales opportunities. The downside is those new opportunities are from prospects now conditioned to expect the lowest price with a "let's make a deal" mentality. A weak salesperson forfeits to this expectation and carelessly discounts, eating away the profit margin on the sale.

As you would expect, top-tier brand tires typically come with top-tier prices. Low-price guarantees work against this by attracting shoppers to your lowest priced products and away from those top-tier brands that you're very likely looking to sell the most of.

Now, if you own hundreds of retail stores, then you can actually use discounting as a strategy. That's the Walmart model: low price, high sales volume. However, if you're like the vast majority of independent tire dealers with less than a hundred locations, then profit-per-sale should be the priority over discounting.

Stay tuned. In my next "Selling Smart" column, I'll detail the profit drivers of your business and what your sales team needs to do to create the value that drives profitable sales. TR

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