

## Are you killing your profits with post sale discounts?

Category: Execution

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A Post-Sale Discount is one you voluntarily offer after the customer has already agreed to buy. Before you shake your head and say “I never do that”, think for a moment and analyze the way discounts operate in your sales process. It’s a more frequent problem than you might think, and it may be a feature of the way you run your business.

A discount is an incredibly expensive give away. However much it is, it comes straight out of your bottom line. Every penny is additional profit you could be making, and to give away anything you don’t need simply amounts to charity.

I saw this in all its destructive glory with a client of mine who owned an upscale optical store. He was always complaining about the pressure on his margins and never made the kind of profits he should. We analyzed his problem up and down, but it wasn’t until I bought a pair of glasses from him that I saw the root cause of the problem.

I picked out what I wanted from his inventory and knew the price for both the frames and the lenses before I was measured up. I was happy with the price, but when the time came to pay, he suddenly took 10% off . This took place without any prompting on my part, and I probed into his sales process in a way that I hadn’t thought about before.

He wasn’t just offering the discount because of our relationship, and it turned out that he behaved this way on virtually every sale. He couldn’t really explain why he did it. The roots may lie in a general lack of business confidence, but whatever the reason, it had simply become a habit that had been integrated into his sales process. His other salespeople followed his lead and the practice was costing him substantial lost profits.

In my case, the sale was \$1,000. His gross margin of about 50%, which after overhead probably would have generated a net profit of about 10%. After the discount, his gross margin fell to 40% but his net profit on the transaction after fixed overhead actually disappeared, making the transaction a break-even.

The key was to identify the problem behavior and once he was aware of the issue he was able to correct it. With regular tracking (and reporting to me) of discounts given and gross margin achieved, he was able to reduce discounts given by more than two thirds and improved his profitability dramatically.

Giving Post Sale discounts is a powerful mistake I have seen in many, many businesses. It may not be as obvious as in the example above, but may be embedded in your sales process. I suggest that you examine your process and identify two things:

- What are your discounts costing you to the **bottom line**?
- Are you getting benefit from discounts in making the sale?

If the answer to the second question is ‘no’ then your discounts may simply have become a very expensive habit.....and one that should be eradicated.