

# Discount Price Wars

by Dr Greg Chapman, MBA

When competition is stiff or times are tough, and businesses experience a slump in sales, the natural response of business owners is to reduce their prices. In response to this, they find their competition starts to do the same, and before you know it, you are in a price war.

Price wars are like trench warfare. You may gain a few metres in territory here, whilst the other side gains a few metres from you around your flank. And both sides incur large losses. In this type of battle, it is a war of attrition, and the last person standing wins while bleeding red ink. They also inherit a decimated market landscape with their buyers educated to expect discounts.

A number of negative impacts occur to your business when you discount. The most obvious one is the loss in margin, which you hope to make up with increased sales. In most cases, this does not happen.

The next problem that may occur is that you get a reputation as a discounter, with potential customers waiting for your sales times, particularly if they are seasonal. (I like to buy a new car when dealers are trying to get rid of their last year models from their stock. Major savings are to be had at such times and they are much more willing to negotiate.)

Discounting may also confuse your message to your best clients, especially if you are attempting to appeal to an up-market clientele who are price insensitive. An example of this is the upmarket department store David Jones who, when they want to shift old stock, they somewhat snootily declare "As you know David Jones do not have sales, but next month is our annual clearance." Clearly they do not want to be known to their up-market clientele as discounters, but they still want to move their old stock.

Dr Greg Chapman is the author of the internationally recognised book "The Five Pillars of Guaranteed Business Success". Download a free copy of his Mission Statement Tool from his website at [www.FivePillarsBusinessSuccess.com](http://www.FivePillarsBusinessSuccess.com)

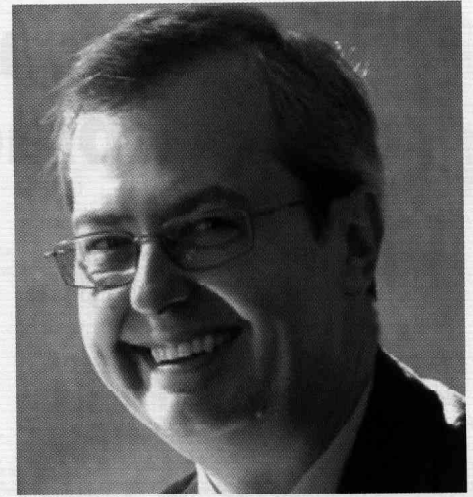
Finally, after you finish discounting, how do you lift your prices again? If someone comes in after your sale has finished, and asks you to give him the same 25% discount offer this week as you had last week, it is hard to justify a negative response, unless you have a clear reason for the sale in the first place. In the case of car dealers, it is to make way for the new model, even if the only difference is a cosmetic facelift. For retailers, it is selling off the last of their summer range before winter.

So if you are discounting, you must have a reason other than you are not making as much money as you used to. The reason must be transparent and short term so as not to damage your relationship with your best clients. Your discounting may indeed attract more clients, but many may be price shoppers who will not stay loyal to you when your prices do eventually return to normal. These people will be off finding bargains elsewhere, and in the meantime you may have damaged your brand in the eyes of your best clients.

Most people lose money when they discount.

Further information about *How to Discount Your Way to Higher Profits* is available at Dr Greg Chapman's website at [australiansmallbusiness.net.au](http://australiansmallbusiness.net.au)

*May Your Business Be – As You Plan It!*



Dr Greg Chapman

## EDITOR'S NOTE:

The BDAV regularly cautions members not to, under any circumstances, decrease your fees. At worst, maintain them, and better still, increase them.

In the November 2008 edition of *BDAV News*, BDAV Executive Officer, Brian Morison, said "We all know the arguments that are thrown up against such a proposal, but if you have confidence in your ability to sell what you deliver in value as a design service, and highlight the 'value-adds' that form part of your armoury of services (and that distinguish you from those fools who charge extremely low fees and provide, in return, poor documentation and service to clients), you may well be far more successful than you ever previously thought. It is imperative that you prepare a strategy and practice how to sell yourself and your services."

## BDAV Members Offer a Diverse Range of Design Skills

BDAV Members perform a diverse range of design skills, from 100+ multi-unit developments, to sky-rise office towers, to single dwellings, to factories, churches, retirement villages, and everything in between. Some members specialise in simple yet effective small structures, as diverse as letterboxes, cubby houses, pool facilities, woodsheds, dog kennels, pergolas, decks, garages, carports, fences and the like.

If this is you, why not showcase your skills this year, by entering the *Best Small Works Project* category in the BDAV 2009 Building Design Awards? This category aims to recognise small structures which, when viewed as stand-alone elements, exhibit originality, inventiveness, and architectural skill.

Entries close on 24 April 2009, so you have plenty of time to put together your entry submission.