**Discounting to Create Cash Flow? Be Careful.**

**By Mark Hunter “The Sales Hunter”**

Recently I spoke at a large conference on the subject of how to maintain your price and avoid discounting.  After the presentation, a businessperson approached me and asked what my strategy would be if his company needed to discount price to create cash flow.  This is not an easy question to answer.

Sure, I could easily throw out a response that implies that the reason a company has to discount is because it hasn’t done a good enough job of building its pipeline or hasn’t invested enough in the right type of marketing.   I know, though, that this isn’t the answer a person needs when faced with the issue of cash flow.

Cash flow is a huge issue to a lot of companies, large and small.  I would be lying if I didn't admit that even in my own company we've experienced periods of tight cash flow.

The question we're answering is if cutting a price to get a deal is a smart way to create cash flow.

**Here is my answer:**

Before making any decision about cutting a price to create cash flow, think about how you can maintain the price point and offer the customer more value.  Cash is king. I first heard Donald Trump speak that phrase and I've never forgotten those three words.

Offer your customer more of something. Anytime you can close the sale at the original price, you’re going to be better off.  Just be careful in what your additional offering is.

The last thing you want to do is offer the customer something more that ultimately winds up costing you more in cash long-term.  Notice I said *cash*. I'll give up some percent margin before I'll give up cash.

Before you look at offering the customer more, you have to ask yourself if you’ve truly done a thorough job of actually selling. Many times I've found salespeople will cut their price only out of a false belief that *that* is what is needed to close the sale. You might say the salesperson or business owner is panicking over what *they* believe, not what the customer believes.

Before you consider discounting your price, make sure that the customer fully understands the value proposition you offer and that you fully understand the customer’s needs and wants. Too many times salespeople will flinch and offer a reduced price too early in the selling process.

A thorough selling process means you need to ask enough questions and follow-up questions – and listen – until you are certain you understand what the customer wants. The more you focus on the fact that what you have to offer is of value to your customer, the less appealing discounting becomes as the only way to close a sale.

Is Discounting Ever Needed?

If what you're selling is bought solely in an auction type of environment and cutting your price is the only way you know you can get the deal, then yes, it does become an option you can use.

Regardless of the circumstances that are compelling you to discount, you still must be very wise in your approach. You have to remember that if you cut your price for one customer, you will potentially send signals to other customers and prospects.

If all of your current and potential customers are going to find out, then all you’ve done is move yourself into a permanent state of always having an issue with cash flow.   The reason is simple -- you'll now be selling everything at a lower price.

What Will Your Discount do to Your Competitors?

Just as you need to be conscientious of what messages you are sending to customers and future customers, you also must be aware of what your discount says to your competitors. How will they respond? If they respond by cutting their prices to match yours, then congratulations – you've now entered what I call "pricing death spiral."

Pricing death spiral is when one company cuts their price and everyone follows.  I have one response – stupid!  “Pricing death spiral” is often broken only when one company ultimately goes out of business or leaves the marketplace to focus on something else.

If you do need to cut your price to gain a sale to create cash flow, then it's imperative you do it in a way that will not send signals to other customers or competitors. Make sure the customer is isolated enough and the customer is not going to become a long-term customer.

One last point I would make about discounting is that you may have to clarify to your customer that the discount is a “one time” discount. The last thing you want to do is discount a price for a customer on one sale to create cash flow, only to have them expect the same reduced price for years to come.

To further protect yourself from being in the position of having to discount, be sure to build a marketing strategy that allows you to sell to different markets or industries. This way, even if you have to discount, you can do so with one set of customers as opposed to all your customers across the board.

Only you can decide if discounting your price is a good way or bad way to create cash flow. No matter what, make sure you think it through.

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