



## 5-Step Guide:

# How To Escape Vicious Discount Cycles and Boost Your Cash Flow

## Introduction

# Why Discounting is Dangerous

If you run an e-commerce business, discounts can seem like your best friend.

They attract and delight customers, temporarily boost conversion rates and give you a satisfying (if short-lived) uptick in your revenue.

Everyone's a winner, right? Wrong.

Although discounting is the top pricing strategy for retailers across all sectors (it's used by 97 percent of businesses according to [research](#)), it's a short-term solution that can quickly hack into your margins and tarnish your brand.

## Research: The Impact of Discounting

- A 2017 academic [study](#) revealed consumers perceive that the **bigger the discount, the lower the quality**.
- A study conducted by Dynamic Yield found that for every 1% decrease in average selling price due to discounts, the average **gross margin dropped by 0.7%**, showing the impact of discounting on profitability.
- A survey by Retail Systems Research (RSR) revealed that **62% of retailers believe excessive discounting negatively affects their margins** and that while discounts can drive short-term sales, they lead to a long-term erosion of profitability.
- A report by McKinsey & Company states that companies that heavily rely on discounts to drive sales may face a **25-30% decrease in margins**.

## Bad for revenue and reputation

Frequent discounts become predictable. They train customers to never pay full price, and instead simply wait for the next 20% off code (or other discount) to arrive in their inbox.

This means merchants get trapped in a vicious cycle of offering discount after discount to get by. Often, they lose their reputation as a quality brand and instead become known as a discount retailer. Frequent discounting can hurt the perceived value of the product, which can be hard to recover from.

Sadly, competing on price by offering discounts ends up in a race to the bottom between competitors until margins are so squeezed and reputation so damaged that businesses are plunged into a cash flow crisis.

At a time of economic uncertainty, when cash flow is key to survival, discounting can be disastrous.

Fortunately, there are ways to escape the discount trap – and this guide will show you how.

“

The Retailer View:

## Deploy discounts with caution

Danielle Malconian. Founder of successful plus-size fashion brand **Vikki Vi** warns against getting trapped in a discount cycle that trains shoppers to expect a saving every time.

**“The more you discount, the more customers expect discounts. They aren't going to buy at full price if you keep giving them 40% off.”**

# 5 Steps To Escape Dangerous Discounting and Boost Cash Flow

## STEP 1: Make Your Operations More Efficient

By leveraging technology, e-commerce firms can streamline their business processes and reduce costs. This can offset the impact of excessive discounting and help businesses recover.

Automation is one of the best ways to improve efficiency and reduce costs at pace. Merchants should focus on automating everything from order processing and returns, to inventory management, shipping and accounting.

Technology that grants retailers greater visibility into their stock levels, so they can make more informed purchasing decisions, is also key. It helps merchants avoid overspending and overstocking items, while also ensuring that they have enough inventory to meet future demand

## STEP 2: Implement Strategic Pricing

Strategic pricing sets a product's price based on its value to the customer or competitive strategy, rather than production cost. It recognizes that what holds the most value for the customer may not necessarily be the most expensive to manufacture.

By adopting strategic pricing, e-commerce brands can identify the optimal price points that balance customer demand and profitability, maximizing revenue and minimizing costs.

Strategic pricing can include targeted price increases, adapting prices for particular products and different customer segments.



## The Retailer View:

# Automation saves us 480 hours a month

**Bond Touch**, the e-commerce brand behind a unique range of touch bracelets, has successfully used technology – including **Inventory Planner** – to boost operational efficiency.

**“We’ve invested heavily in automation, which has allowed us to reduce our operational costs and save time,”** says COO Jorge Henriques.

**“Using Inventory Planner to automate tasks including order processing has saved us three full time hires – equating to around 120 hours a week, or 480 hours a month.”**

### STEP 3: Add Exclusive And Limited Edition Products

Diversifying a product range to cater to changing customer needs is an important step in escaping the discounting cycle.

By expanding their range of products, businesses have the chance to introduce exclusive or limited edition products which can create urgency and increase the incentive to buy, without the need for discounting.

Businesses can also be better positioned to tap into markets and potentially reach a wider range of customers, or boost existing customer loyalty, which can boost cash flow and the overall profits.

### STEP 4: Properly Plan Inventory

Inventory planning helps businesses properly plan their inventory by using algorithms and statistical models alongside historical sales data to accurately predict future demand.

The result is that merchants know exactly what inventory to buy, how much to buy and when to buy it.

By accurately forecasting future customer demand using intelligent inventory planning software like [Inventory Planner](#), merchants can be better prepared for trends and shifts in demand, which can lessen their reliance on discounting.

Inventory planning cuts the risk of running out of stock (and missing the chance to boost cash flow with revenue) is eliminated and the risk of overstocking is drastically reduced. This means less cash gets tied up in inventory and inventory holding costs are reduced, significantly boosting cash flow.

Intelligent buying recommendations offered by advanced tools like [Inventory Planner](#) reduce the time and human power required for inventory purchasing and management, which can also cut inventory costs and improve cash flow.



#### The Expert View:

## Experiment with strategic pricing

Josh Vervack, Director of Finance and Analytics, Tomorrow, offers advice on testing price sensitivity across different products and categories.

**“Increasing your price by 5% may tank your conversion rate in one product category but have no impact on your conversion rate in another category. Keep the price increases that don’t impact conversion rate heavily, and recapture lost profits on rising unit costs.”**

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## The Retailer View:

# We discount the smart way using Inventory Planner

Women's gym gear brand [AYBL](#) uses Inventory Planner's insights to make business critical decisions on which designs to create next, or which items to include in its flagship promotion events.

**"We're very conscious of not becoming known as a discount brand or training our customers to only shop with us when they've got a discount code. Instead, we charge full price most of the time but we reward customers with a really good sale three times a year. Because our stock is so lean since using Inventory Planner, we actually order stock in for our sale events – and we use Inventory Planner to show us exactly what that order should look like. "The rest of the time, we can exclude our sale data from our regular forecasting using Inventory Planner – so it's not swayed by the huge spike in demand. That's something other tools just can't do"**

-Founder and CEO Reiss Edgerton

## STEP 5: Consider Alternatives To Discounts

Although frequent discounting is dangerous, it doesn't mean you should never run a promotion again. Instead, it's important to consider other ways to incentivise customers, such as:

- **Free Shipping.** Offer free shipping on orders above a certain threshold to incentivize customers to make larger purchases.
- **Loyalty Programs.** Reward customers for repeat purchases and referrals.
- **Bundling.** Bundle related products together to offer better value.
- **Cross-Selling and Upselling.** Recommend similar or upgraded items at checkout to increase average order value.

## The Bottom Line: Escape Discounting Doom With Inventory Planner

As the #1 Inventory Planning Software for e-commerce businesses, [Inventory Planner by Sage](#), is uniquely placed to help you get off the discounting hamster wheel, maximize your revenue and protect your cash flow.

- Dedicated [demand forecasting](#) models for ultimate accuracy. Seasonal, non-seasonal, retail and wholesale products are catered for, while trends, spikes and supply issues are factored in.
- Simple, easy-to-understand [purchasing recommendations](#) which show you exactly which items to buy and when to buy them (alongside handy extra information, like the cost of delaying your order).
- [Advanced reporting](#) based on 200+ metrics so you can make smarter, more informed decisions.

### Book your free demo

See for yourself how Inventory Planner can help you recover from discounting and protect your cash flow with a tailored demo.

[Book Now](#)