

The Integrity Of Discounting

In the name of increasing sales and selling product, is it ethical or moral to have one client pay \$3,000 more, for the same product or service, than another client?

This discussion is likely to ruffle some feathers, as the sanctity of sales and discounts are what drive many customers' buying decisions. After all, if you can save \$100 on a TV during a Black Friday sale, or get two packs of socks for the price of one, why not right?

And in a retail setting where these sales are well advertised and the dates for the promotional period are established, meaning everyone knows the game, the argument of ethics becomes less of a concern. But what about the situation that routinely takes place in different service industries, for example, real estate.

I have witnessed it too many times to count. The real estate agent, and, maybe he's a good guy. But he meets with Client A on Monday, he sits down in their home, explains his services, then quotes to the homeowner a fee to sell their home. Maybe it's 6%. Then, just hours later, he sits down with Client B, presents the same spiel, the same set of services, but this time quotes to the homeowner a fee of 5%.

I ask you, what's wrong with this picture? What changed in the few hours between when he met with Client A vs. when he met with Client B?

If both homes are, assuming, in the \$300K range, does it seem right that Client A is asked to pay \$3,000 more for the same set of services than Client B?

If I were Client B, I would be pissed. Especially given the fact that Client A, just hours before me was given a \$3,000 discount that I did not receive, nor was I offered. Did I miss the advertised sale somewhere? Did I overlook the dates for the promotional period to save three thousand bucks?

As a parent, it is universally known that if you favor one child over the other, you will be setting yourself up for disaster, and yet, in the business world, in industries like mine, real estate, I see it everyday. Agents giving preferential treatment, or discounts on service-fees to one client and not another, because by discounting his services, he believes he's more likely to *win* that client's business.

Sorry, but I simply can't get onboard with that.

I read an article the other day on the business *Tuft & Needle*—a mattress company out of Arizona. The title of that article, "The hidden costs of discounting." Long story short, this was the position of the company's founders.

"Last week, our marketing team gathered for its weekly meeting. Among the topics of discussion were designs for new billboards, potential partnerships with radio hosts and plans outlining new initiatives beginning in 2016. What the team didn't discuss; was what discounts or special prices we might offer on Cyber Monday.

At *Tuft & Needle*, we've decided against having a promotion on Cyber Monday. In fact, we don't discount any day of the year. In the mattress industry there are sales almost every day of the week, especially around the holidays. "Lowest Prices of the Season Sale" or "Black Friday Door-busters," you've seen them all... Most mattress retailers report an outsized amount of sales occurring during these promotional periods.

Before I explain why we've decided against it, let's dive deep into what promotions and discounts really are.

How discounts work:

The idea behind a discount on the surface is rather simple. Something that previously cost \$500 is now on sale for \$400. The consumer has saved \$100 over what they would have paid. Promotions exist to create a *perception* that customers are saving money.

Why do companies charge different prices to different customers? It's based on the idea that the customer that paid \$400 wouldn't have purchased if they had to pay \$500. This is all based on the theory that a customer who thinks they are getting a deal is more likely to buy."

The founders continue, "Fairness: *Tuft & Needle* was started when our co-founders shared a similar, but awful experience. They were pressured into overpaying for a mattress they weren't excited about. A lot of that pressure was due to the "overwhelming discounts" that were available.

From this experience, a decision was made to offer fair and transparent pricing. We decided that the best pricing strategy was actually rather simple: Every customer should pay the same price for the same products.

When customers pay different prices for the same product, one group of people is subsidizing the discounts for another.

At *T&N*, if we were to offer discounts, it would be for the sole purpose of increasing sales. For the record, we'd love to increase sales. But adhering to the core values of our brand takes the highest priority."

From reading those paragraphs, there were three convictions that resonated with me. *Fairness. Transparency.* And this statement, "The core values of our brand takes the highest priority." If one doesn't share these *beliefs*, how could they possibly have integrity? ■

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