Are discounts negatively impacting your profit margins?

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When used strategically, discounts can be a powerful lever in attracting new business. They can help stimulate demand when you are not busy, providing work for you and your team when you would otherwise be doing nothing.

However, discounting is addictive and it becomes all too easy for discounting to become your default pricing strategy, rather than a strategic choice that meets a particular requirement. Once discounting becomes your default pricing strategy, you'll notice that they can quickly eat away at your profit margins, undermine your brand value and set damaging expectations with clients.

If this sounds familiar, then here are **7 steps your firm can take** to mitigate the downside of discounting, while maintaining the use of discounting in your pricing armoury.

1. Diagnose the discount reflex

As with any bad habit you are trying to break, the first step you need to take is awareness. Know that you are increasingly offering clients discounts as your default pricing mechanism and determine why it is you are offering discounts.

Is it:

- to close new business under pressure?
- to keep team members busy?
- because you need to price match your competitors, without understanding why they are discounting?

Many professionals suffer from “discount reflex”: a knee-jerk reaction to pricing conversations where value is conceded too quickly. This often stems from fear of losing the deal, fear of being undercut, or fear that your price isn’t justified.

By identifying the reasons why you are discounting, you’ll be better equipped to address the problem based on research, data and structure, rather than emotion and guesswork.

2. Quantify the hidden cost of discounts

A 10% discount seems harmless. Everyone does it!

But when you consider that the profit margin at most professional services firms is circa 30%, then a 10% discount is the equivalent of slashing your profits by one-third.

In real terms, that means you'll need to **increase your sales volume by 50% just to break even**.

Think about that for a second.

This is where many professionals get it wrong. They’re too focussed on budgets and top-line revenue growth to worry about the bottom-line damage discounting is doing.

Tracking the negative monetary impact discounting is having on your business helps reframe the conversation from “closing deals” to “preserving profitability”!

3. Stop selling on price; start selling on value

Discounting fills a gap created by a weak value proposition.

If your pitch focuses on features rather than benefits, inputs rather than outcomes, or industry norms rather than client-specific results, you create space for price pressure.

Likewise, if you are pricing your competitors and not your clients, you’re creating space for a price war.

To avoid this occurring, you need to shift the conversation away from costs and inputs to outcomes and value delivered. Because when a client truly believes your solution is tailored to their problem, price is no longer a point of contention.

4. Introduce structure to your pricing

Pricing discipline is essential to the overall profitability of your firm. Without it, you leave too much to chance and too much in the hands of individual discretion.

Develop a structured pricing framework that includes:

- offering tiered pricing options;
- setting discounting limits and approval processes if discounts are to be offered;
- building “value trades” into the conversation (e.g., offer a discount only in exchange for a longer commitment or upfront payment).

This empowers your partners to negotiate with confidence and clarity, and ensures you’re protecting your margins while still maintaining flexibility.

5. Offer loyalty incentives

Loyalty doesn’t have to mean lower prices. In fact, constantly discounting for long-term clients can breed entitlement rather than appreciation.

Instead, reward loyalty through:

- added services or bonuses;
- exclusive access or priority support;
- invitations to VIP programs or client events.

Also consider introducing subscription-based or fixed-fee models that provide predictability and simplify the relationship. These can be win-win: clients get peace of mind, and you maintain steady cash flow and profitability.

6. Train your partners to hold the line on pricing

Your partners know the services they offer clients better than anyone, but can they confidently have a conversation with the client to explain why it’s worth the price?

In our experience, the answer to that question is a resounding: “No”!

Often, discounting is a sign of discomfort. If a partner doesn’t feel equipped to defend the price, they’ll default to the path of least resistance: giving a discount.

Worse, if they want to win the work at all costs, because they are more focussed on the work to be done than the profit to be earnt, then they'll include step discounts to win the work.

Invest in training should help your partners to:

- handle client objections assertively but gracefully;
- understand procurement psychology and negotiation tactics;
- tell a compelling value story;
- role-play challenging pricing conversations.

Confidence at the pricing table leads to stronger client relationships and healthier profit margins.

7. Consider alternative pricing models

If you're trapped in a cycle of discounting, it might be time to reevaluate your entire pricing model.

Some options to consider:

- **Tiered pricing**: Provide options for different budget levels while preserving value.
- **Outcome-based pricing**: Align your fees with results delivered, not just hours worked.
- **Productised services**: Turn custom offerings into scalable, repeatable packages with clear pricing.

These models not only reduce the need for discounting, but also better reflect the value you bring.

Final thoughts: from price cutter to value leader

Discounts can feel like a quick win; but, over time, they chip away at your firm's profitability, your firm's brand positioning and your team's confidence.

By taking a more deliberate approach to pricing, equipping your team to defend it, and making discounts the exception rather than the rule, you can protect your margins and strengthen your client relationships at the same time.