

Advice

Psychology

of Selling

Using percentage discounts is a dead end

James Dion explains why a \$25 coupon is more motivating to consumers than a 25 per cent discount



YOU NEVER SEE 20 per cent off Diet Coke or 15 per cent off Colgate. Have you ever wondered why? Well, there's a very good reason why the packaged goods industry doesn't use percentage-off incentives to promote products, while the rest of the retail world has gone percentage crazy.

Have you also noticed that 10 or 15 per cent discounts don't work as well as they used to? You now need a 20 or a 25 per cent discount to achieve the same results. Why

is that? Once you understand the psychology of percentages, it all becomes clear.

Percentages have two drawbacks: one is simply irritating to the consumer and the other is dangerous for the retailer.

The first drawback is that they ask the consumer to do a mathematical calculation and at the best of times the average consumer is somewhat math challenged. Sure, 50 per cent off is simple to compute, but not 35 per cent off an item priced at \$149.99.

The second drawback is that consumers develop immunity or an addiction to percentages and it takes a higher percentage to get them to act. It's like your body building a tolerance for alcohol over time; the longer you drink, the more it takes to get you intoxicated. That's why 10 per cent off rarely works today; it's deemed worthless by most consumers unless it's applied to a product that's rarely discounted like alcohol. For most products and stores, 10 per cent off is simply ignored.

So, what should you do? When you need to promote a product, use dollars and cents savings – not percentages. Consumers are more likely to respond to a known amount. A \$25 coupon has more motivation than a 25 per cent off coupon because it's easier to grasp, and easy is what consumers are looking for today. 'Make it simple for me' is the new hook, especially if you sell higher or even moderately priced – \$20 to \$70 – items.

In a recent study, an online retailer was testing the effectiveness of various email offers. They chose \$50 off a purchase as a reasonably good incentive that would still maintain sufficient margin. Using the same parameters, they picked a 15 per cent off offer because it worked out to be the mathematical equivalent. The \$50 off coupon had a 72 per cent higher conversion rate, and generated 170 per cent more revenue than the 15 per cent off coupon. This may not work for every retailer in every situation, but once you start down the percentage road the end is always 100 per cent off.

James Dion has a bachelors and masters degree in psychology from the Chicago State University and a Ph.D. in industrial psychology from the Illinois Institute of Technology. Coupled with 30 years of hands-on retail experience, he's one of the most sought-after retail consultants internationally. He's also the author of three books including *Retail Selling Ain't Brain Surgery*, *It's Twice As Hard*.