

DISCOUNTING DANGERS



Most businesses discount their prices without understanding the impact on their profit. Compare the following tables:

DISCOUNTING YOUR PRICES

1. If your profit margin is:	20%	25%	30%	35%	40%	45%	50%	55%	60%
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		3. Your sales must <u>increase</u> by this amount to keep the same margin:								
2. And you discount your price by:	2%	11%	9%	7%	6%	5%	5%	4%	4%	3%
	4%	25%	19%	15%	13%	11%	10%	9%	8%	7%
	6%	43%	32%	25%	21%	18%	15%	14%	12%	11%
	8%	67%	47%	36%	30%	25%	22%	19%	17%	15%
	10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
	12%	150%	92%	67%	52%	43%	36%	32%	28%	25%
	14%	233%	127%	88%	67%	54%	45%	39%	34%	30%
	16%	400%	178%	144%	84%	67%	55%	47%	41%	36%
	18%	900%	257%	150%	106%	82%	67%	56%	49%	43%
	20%	-	400%	200%	133%	100%	80%	67%	57%	50%
	25%	-	-	500%	250%	167%	125%	100%	83%	71%
	30%	-	-	-	600%	300%	200%	150%	120%	100%

The table above indicates the **increase** in your sales that are required to compensate for a price discounting strategy.

For example, if your margin is **40%** and you reduce your price by **10%**, you would need your sales volume to increase by **33%** to maintain your profit. Rarely has such a strategy worked in the past and it's unlikely it will work in the future!

INCREASING YOUR PRICES

1. If your profit margin is:	20%	25%	30%	35%	40%	45%	50%	55%	60%
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3. Your sales would have to decline by this amount before your profit is reduced:
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2. And you discount your price by:	2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
	4%	17%	14%	12%	10%	9%	8%	7%	7%	6%
	6%	23%	19%	17%	15%	13%	12%	11%	10%	12%
	8%	29%	24%	21%	19%	17%	15%	14%	13%	12%
	10%	33%	29%	25%	22%	20%	18%	17%	15%	14%
	12%	38%	32%	29%	26%	23%	21%	19%	18%	17%
	14%	41%	36%	32%	29%	26%	24%	22%	20%	19%
	16%	44%	39%	35%	31%	29%	26%	24%	23%	21%
	18%	47%	42%	38%	34%	31%	29%	26%	25%	23%
	20%	50%	44%	40%	36%	33%	31%	29%	27%	25%
	25%	56%	50%	45%	42%	38%	36%	33%	31%	29%
	30%	60%	55%	50%	46%	43%	40%	38%	35%	33%

When you increase your prices, your sales would have to **decline** before your current profit margin is affected.

For example, at the same **40%** margin, a **10%** increase in your price could sustain a **20%** reduction in sales volume.

The lesson is that it is critical to understand the impact of changing your prices whatever you do.