

Price Discounting

The table below calculates the impact on Gross Profit if you reduce your selling price. For example, if your current Gross Margin is 40% and you reduce your price by 10%, your sales will need to increase by 33% to produce the same level of Gross Profit. You will need to ascertain if this is possible given the market dynamics in which you operate.

Price Discounting Table									
If your present Gross Margin is:									
	20%	25%	30%	35%	40%	45%	50%	55%	60%
If you reduce your price by:	To produce the same Gross Profit, your sales volume must increase 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%	114%	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%

Discounting the selling price of a product or service is a strategy for increasing the sales volume.

If you need to discount you must strive to:

- Increase the number of customers who purchase by increasing the conversion rate and / or driving more customers to the business.
- Increase the average transaction value per customer – sell add on products and / or higher quality products.
- Increase the number of times the customers come back to purchase from the business.
- Never discount items you are certain to sell within the desired inventory turnover time.
- Make the discount look attractive. For example ‘buy two and get the second item at half price’.
- Increase the prices on some less competitive products or services in the range.

If you are forced to discount, do it only for a limited time and for a specific reason such as reducing inventory levels. If you are discounting because you are involved in a price war for an extended period of time, then you will need to strip out / reduce both variable and fixed costs from the business.