

## The Cost of Discounting

The following table indicates the increase in sales that are required to compensate for a price discounting policy. For example, if your margin is 40% and you reduce price by 10%, you need sales volume to increase by 33% to maintain your profit. Rarely has such a strategy worked in the past, and it's unlikely that it will work in the future:

If your present margin is

20%   25%   30%   35%   40%   45%   50%   55%   60%

And you **reduce**  
your price by:

To produce the same profit your sales volume must **increase** by:

<b>2%</b>	11%	9%	7%	6%	5%	5%	4%	4%	3%
<b>4%</b>	25%	19%	15%	13%	11%	10%	9%	8%	7%
<b>6%</b>	43%	32%	25%	21%	18%	15%	14%	12%	11%
<b>8%</b>	67%	47%	36%	30%	25%	22%	19%	17%	15%
<b>10%</b>	100%	67%	50%	40%	33%	29%	25%	22%	20%
<b>12%</b>	150%	92%	67%	52%	43%	36%	32%	28%	25%
<b>14%</b>	233%	127%	88%	67%	54%	45%	39%	34%	30%
<b>16%</b>	400%	178%	114%	84%	67%	55%	47%	41%	36%
<b>18%</b>	900%	257%	150%	106%	82%	67%	56%	49%	43%
<b>20%</b>	-	400%	200%	133%	100%	80%	67%	57%	50%
<b>25%</b>	-	-	500%	250%	167%	125%	100%	83%	71%
<b>30%</b>	-	-	-	600%	300%	200%	150%	120%	100%

The above gross margins equate to this mark-up

25%   33%   43%   54%   67%   82%   100%   122%   150%



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On the other hand, if you adopt a premium pricing strategy, the following table shows the amount by which your sales would have to **decline** following a price increase before your gross profit is reduced below its present level. For example, at the same 40% margin, a 10% increase in price could sustain a 20% reduction in sales volume.

If your present margin is

20%   25%   30%   35%   40%   45%   50%   55%   60%

And you **reduce**  
your price by:

Your sales could decline by the amount below before  
your gross profit is **reduced**:

<b>2%</b>	9%	7%	6%	5%	5%	4%	4%	4%	3%
<b>4%</b>	17%	14%	12%	10%	9%	8%	7%	7%	6%
<b>6%</b>	23%	19%	17%	15%	13%	12%	11%	10%	9%
<b>8%</b>	29%	24%	21%	19%	17%	15%	14%	13%	12%
<b>10%</b>	33%	29%	25%	22%	20%	18%	17%	15%	14%
<b>12%</b>	38%	32%	29%	26%	23%	21%	19%	18%	17%
<b>14%</b>	41%	36%	32%	29%	26%	24%	22%	20%	19%
<b>16%</b>	44%	39%	35%	31%	29%	26%	24%	23%	21%
<b>18%</b>	47%	42%	38%	34%	31%	29%	26%	25%	23%
<b>20%</b>	50%	44%	40%	36%	33%	31%	29%	27%	25%
<b>25%</b>	56%	50%	45%	42%	38%	36%	33%	31%	29%
<b>30%</b>	60%	55%	50%	46%	43%	40%	38%	35%	33%