

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 Increase your price by:		To produce the same 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%	5%	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 above gross margins equate to this mark-up

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

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 Decrease your price by:		To produce the same profit your sales volume must reduce 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%	9%
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%