



OPENING || GATES

PURPOSE. PASSION. PARTICIPATION.

KNOW YOUR NUMBERS

**BEWARE THE DISCOUNTED PRICE
STRATEGY**

THE DISCOUNTED PRICING MATRIX

A discounted price strategy, as a means of generating more sales or topping up depleted cash reserves, comes with some serious pitfalls if you don't do your due diligence up front.

Before adopting a discounted price strategy you must do your numbers to fully understand the implications. You must know how many additional units need to be sold for you to be in the same gross profit position in dollar terms. There is a danger that you will increase sales and cash but compromise profit.

This matrix shows the potential impact of offering a discount.

THE INCREASED PRICING MATRIX

% Price Reduction	Current Gross Profit %								
	10	15	20	25	30	35	40	50	
	Percentage that sales must increase to maintain total gross profit								
2.0	25	15	11	9	7	6	5	4	
3.0	43	25	18	14	11	9	8	6	
4.0	67	36	25	19	15	13	11	9	
5.0	100	50	33	25	20	17	14	11	
10.0		200	100	67	50	40	33	25	
15.0			300	150	100	75	60	43	

CONSIDER THIS SCENARIO

If your current Gross Profit percentage is 35% and you intend to offer a 10% discount, the number of units sold will need to increase by 40% just to maintain the same level of gross profit in dollar terms.

See the notated matrix on the next page.

From the point of view of the customer, a 10% price discount may not seem particularly substantial, yet the negative effect on the seller's profitability can be significant.

Ask yourself this question. Am I confident that a 10% discount will lead to at least a 40% increase in units sold? Is my marketing strategy vigorous enough?

Anything less than a 40% increase in units sold will result in an erosion of gross profit.

EXAMPLE 35% GP : 10% Discount

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THE NEW WAY FORWARD IN BUSINESS AND LIFE

An energetic FIT BUSINESS is better positioned to grow, innovate and take advantage of new opportunities.

HARNESS THE POWER OF THE
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