



Discounting Costs More Than You Might Think

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Offering a discount to increase sales may seem like a good idea at the time but thoughtless discounting is an easy way to lose money fast.

Before you succumb to the temptation to win new business by offering a discount take a moment to consider the real impact on your business.

The following table shows the revenue increase needed to maintain the profit in real dollars when giving discounts:

		Current Gross Profit Margin (%)							
		30%	40%	50%	60%	70%	80%	90%	100%
D i s c o u n t	5%	20%	14%	11%	9%	8%	7%	6%	5%
	10%	50%	33%	25%	20%	17%	14%	13%	11%
	15%	100%	60%	43%	33%	27%	23%	20%	18%
	20%	200%	100%	67%	50%	40%	33%	29%	25%
	25%	500%	167%	100%	71%	56%	45%	38%	33%
	30%		300%	150%	100%	75%	60%	50%	43%
G i v e n	35%		700%	233%	140%	100%	78%	64%	54%
	40%			400%	200%	133%	100%	80%	67%
	45%			900%	300%	180%	129%	100%	82%
	50%				500%	250%	167%	125%	100%

In other words:

- If you have a 40% Gross Profit Margin and give a 15% discount, you will need a 60% increase in sales revenue to maintain the same \$ value of Gross Profit (than without the discount).
- If you have an 80% Gross Profit Margin and give a 40% discount, you will need a 100% increase in sales revenue to maintain the same \$ Value of Gross Profit (than without the discount).

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