

## Let's drop the price and sell a bit more!

### Why should I read this Article?

One of the worst decisions a business owner can make is falling for the temptation to drop the price in order to sell a bit more. This document reveals exactly what happens, the consequences, of trying to sell more by dropping the price.

Investment – 5 Minutes

Consider the following scenario.

You are just leaving for an important meeting with a major potential client when the phone rings and a very excited territory manager asks you for a quick decision. She is on her way to a very important meeting and has just been informed that she must make a final proposal in 30 minutes.

The conversation goes like this:

*"There is no way that I can get any more sales of Wonder Widget if you insist on selling it for \$10.00 per unit. Now do you want to sell more or not? Of course you do. Well I am convinced that I can get the state contract if we offer it at \$9.00. This will increase my state sales by 50%. How about it?"*

You trust her judgement and are pretty sure that she will really get that 50% increase in sales. Of course it will almost certainly mean that the new state contract price will flow on to the existing customers. The increase in volume would really help your national sales, not to mention relations with those in high places.

Your gross margin is 20% and your business group profit is running at \$98,000 per year. It would be a major achievement to get this up by \$100,000 pa. A slight problem is that you are under strict instructions not to let your total profit fall below \$98,000. You suspect that they really mean it this time!

### Question: Is this a good deal?

How many more units (%) would you have to sell at the reduced price to ensure total profit does not fall?

### Here is an example

**Today: You sell 100 units at \$10.00 each = Revenue of \$1,000**

Your gross margin is 20%

Therefore Total Profit is ( $\$1000 \times 20\%$ ) = \$200

Profit per unit is ( $\$200$  profit divided by 100 units sold) = \$2.00

Cost per unit is ( $\$10.00$  minus profit of \$2.00) = \$8.00

### Now you drop the price by 10% to \$9

Costs are not going to change and from the above example – each unit still costs \$8.00

This means that you now make \$1.00 per unit profit when you sell at \$9.00

Your previous profit level was \$200

You now have to sell 200 units to make the same \$200 profit

Since you were selling 100 previously this means an increase of 100%

**Tomorrow: You must sell 100% more units after reducing the price by 10% in order to make exactly the same profit as you had before you reduced price. Sell only 90% more units and you will reduce your profit.**

**Step 2: Use this table to find out how much more you have to sell, to make exactly the same level of profit as previously**

**LET'S DROP THE PRICE A BIT AND SELL MORE!**

| Drop<br>Your<br>Price | When your current gross profit % is           |              |              |              |              |              |              |              |
|-----------------------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                       | 5%  | 10%          | 15%          | 20%          | 25%          | 30%          | 35%          | 40%          |
| By                    | You have to sell this much more to break even |              |              |              |              |              |              |              |
|                       | %   | %            | %            | %            | %            | %            | %            | %            |
| 1%                    | 25.0  | 11.1         | 7.1          | 5.3          | 4.2          | 3.4          | 2.9          | 2.6          |
| 2%                    | 66.6  | 25.0         | 15.4         | 11.1         | 8.7          | 7.1          | 6.1          | 5.3          |
| 3%                    | 150.0   | 42.0         | 21.0         | 17.6         | 13.6         | 11.1         | 9.4          | 8.1          |
| 4%                    | 400.0   | 66.0         | 36.4         | 25.0         | 19.0         | 15.4         | 12.9         | 11.1         |
| <b>5%</b>             |   | <b>100.0</b> | <b>50.0</b>  | <b>33.3</b>  | <b>25.0</b>  | <b>20.0</b>  | <b>16.7</b>  | <b>14.3</b>  |
| 6%                    |   | 150.0        | 66.7         | 42.9         | 31.6         | 25.0         | 20.7         | 17.6         |
| 7%                    |   | 233.3        | 84.5         | 53.8         | 38.9         | 30.4         | 25.0         | 21.2         |
| 8%                    |   | 400.0        | 114.3        | 66.7         | 47.1         | 36.4         | 29.6         | 25.0         |
| 9%                    |   | 1000.0       | 150.0        | 81.8         | 56.3         | 42.9         | 34.6         | 29.0         |
| <b>10%</b>            |   |              | <b>200.0</b> | <b>100.0</b> | <b>66.7</b>  | <b>50.0</b>  | <b>40.0</b>  | <b>33.3</b>  |
| 11%                   |   |              | 275.0        | 122.2        | 78.6         | 57.9         | 45.8         | 37.9         |
| 12%                   |   |              | 400.0        | 150.0        | 92.3         | 66.7         | 52.2         | 42.9         |
| 13%                   |   |              | 650.0        | 185.7        | 108.3        | 76.5         | 59.1         | 48.1         |
| 14%                   |   |              | 1400.0       | 233.3        | 127.3        | 87.7         | 66.7         | 53.8         |
| <b>15%</b>            |   |              |              | <b>300.0</b> | <b>150.0</b> | <b>100.0</b> | <b>76.8</b>  | <b>60.0</b>  |
| 16%                   |   |              |              | 400.0        | 177.8        | 114.2        | 84.2         | 66.7         |
| 17%                   |   |              |              | 566.7        | 212.5        | 131.4        | 94.4         | 73.9         |
| 18%                   |   |              |              | 900.0        | 257.1        | 150.5        | 105.9        | 81.8         |
| 19%                   |   |              |              | 1900.0       | 316.7        | 172.8        | 118.8        | 90.5         |
| <b>20%</b>            |   |              |              |              | <b>400.0</b> | <b>200.0</b> | <b>133.3</b> | <b>100.0</b> |

**Example: Your gross margin is 25% and you decide to cut selling price by 10%.**

Locate 10% in the left hand column and follow across to the figure in the column headed 25%

You need to sell 66.7% *more* units to produce the *same* level of profit as before the price reduction.

**Action**

- Work through the process described above
- Ensure that every member of your sales team who may have an opinion about what price you should sell your product or service at, is familiar with this table
- More importantly, that they all know how to do the calculation themselves
- Work with your coach to develop a presentation to your sales team on the pitfalls of discounting
- Prepare specific examples using your own products
- Involve your team in calculating the impact of price reductions