

## discounting

### Template

Use this template to see the impact of discounting on your profit. It may make you think twice about discounting when you see how much you're giving up.

Cost price	<input type="text"/>	Proposed discount	<input type="text"/> %
Mark-up	<input type="text"/> %		
<b>Result before discount</b>		<b>Result after discount</b>	
Selling price		Selling price	
Profit		Profit	
Profit margin		Profit margin	

#### Example

A product costing you \$100 with a 50% mark-up (\$50) gives a \$150 selling price. If you want to discount this selling price by 20% (which would be 20% of \$150 = \$30), the new discounted price will be \$120 (\$150 - the \$30 price reduction).

Your PROFIT is now only £20 (the new price of \$120 - the same \$100 cost).

So a 20% discount has moved your profit from \$50 to \$20 (a whopping 60% drop!).

Discounting by x% will always have a much larger impact on your net profit.

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# first®

Discounting can be a useful tool to attract new customers or retain existing ones, but it also comes with the danger of reduced profit margins which can impact the overall profitability of the business, particularly if the discounts are offered frequently.

At times the need for cashflow can force a discount decision, such as:

- › The loss of a key client and you're not sure why.
- › A competitor has priced lower and it's impacting your sales.
- › Customer feedback says the price is too high and they switch to lower cost businesses.
- › Demand is drying up and you think it could be price.
- › Customers have switched how they buy, such as online rather than retail, which has opened lower priced competitors.

A hidden danger of discounting can be a sudden increase in demand you weren't expecting, which can create supply chain issues or operational challenges if the business is unable to deliver (including unhappy customers).

### When discounting makes sense

There are number of valid reasons to discount. The three most common are to clear unwanted, obsolete, or slow-moving stock to generate much needed cash, perishable products like food must be sold before a due date expires, or spare capacity like motel beds that are lost at the end of the day.

There are several other reasons to discount such as to stimulate demand, create a sense of urgency, reward loyal customers and compete with competitors to match their offers. Discounting can also work when the product discounted needs full margin support products, for example, printers that rely on re-ordering ink cartridges.

Discounts can also reduce the perceived value of the product or service, making customers less willing to pay full price in the future, or attract price-sensitive customers seeking out discounts, who are more likely to switch to the next deal. This can make it more difficult to retain these customers long term.

### Alternatives to discounts

Instead of offering a dollar discount (which comes off your bottom line), possibly you can offer services or other items that don't eat into your profit.

For example, can you:

- › Provide guarantees or longer warranties which may not cost extra margin.
- › Add customers to an exclusive advance warning of new products or industry information only available to 'gold' customers, to provide exclusivity.
- › Offer free or discounted services such as extra after-sales service or support that takes your time and not cash.
- › Bundle in free products or services which cost you very little but are valued by the customer.
- › Offer to personalize orders which other customers must pay for.

Review your discounting options before you decide which suits your business best. When you're deciding on your strategy, it's a good idea to consult with your accountant or financial adviser to check your calculations.