



Money Challenge

Price/Discount Matrix

Find your current GP before you check out the following 2 tables (pages 5 and 6). Also think about any standard discounting that occurs from your pricing system.

Before You Look at the 2 Tables:

Based on the Margin Squeeze in your business, you'll have an idea of how far you can push your prices. MOST resistance we experience from clients regarding moving their prices comes from business owners not wanting to rip their customers off or lose them. This is understandable but quickly changes when we calculate for our clients EXACTLY what's left over in the business once all the financial outgoings have been taken away. When we include asset and debt repayment and tax as outgoings, often what's left is VERY LITTLE! That means many businesses are structurally incapable of making any money for their owners... not fair! Have a look at the Price Discount Matrix (scroll down on this page to see it BELOW) and you'll see just how much work you'd need to lose before it affects your income, Before you check it out, you'll need to know your current margin. Have a look at both tables... you'll also see how much more work you need to generate to justify discounts that are given away.

After You've Looked at the 2 Tables:

What did you learn?

Increasing Your Prices

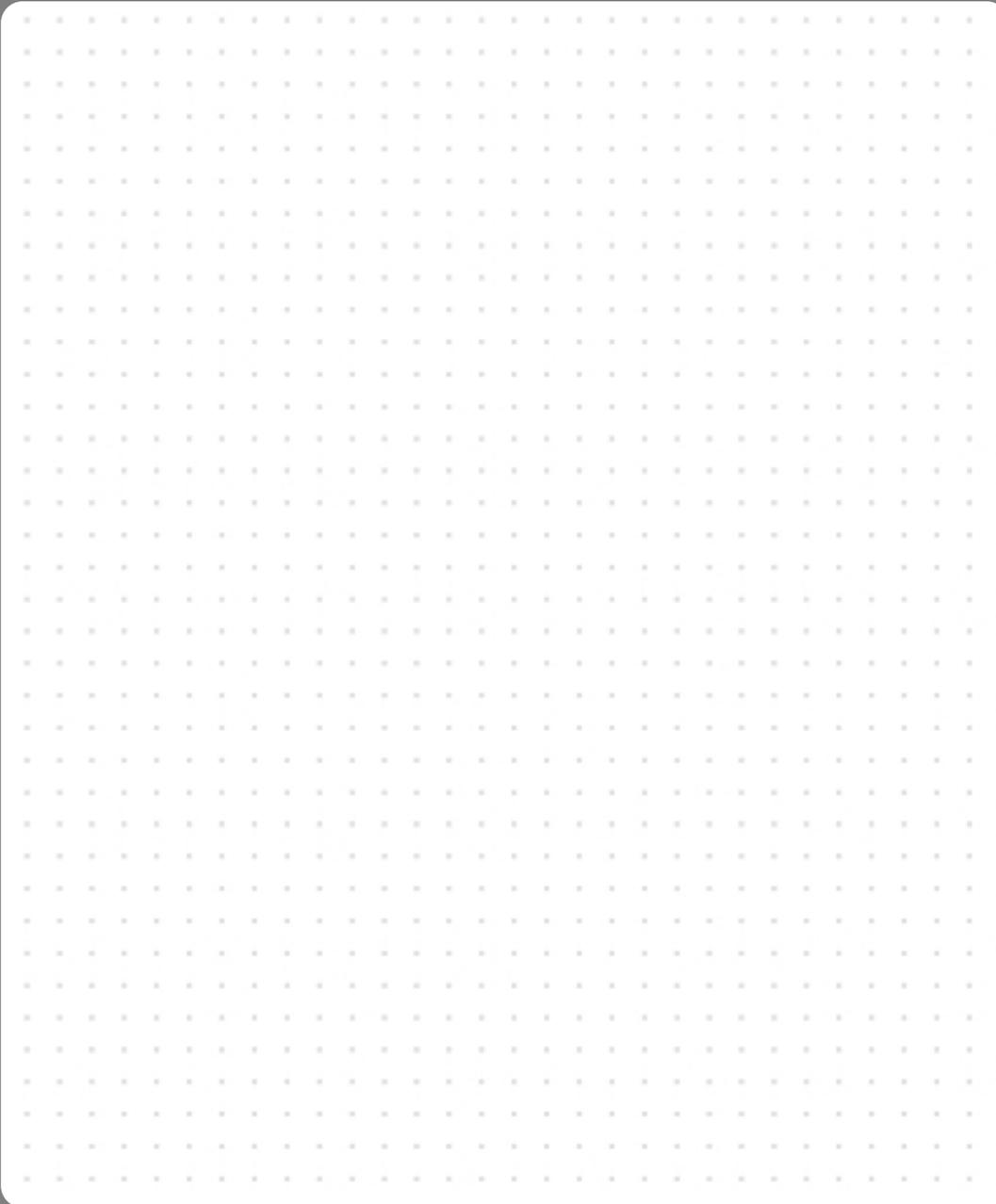
When you increase your prices you can sustain a drop in your sales before your profitability is affected! When you adopt a premium pricing strategy (or simply a price increase), this table shows the amount by which your sales would have to decline following a price increase before your gross profit is reduced to below its current level. For example, at the same 40% margin, a 10% increase in your prices could sustain a 20% reduction to your sales volumes. Find your current margin on the top line of the table...

Margin ►	20%	25%	30%	35%	40%	45%	50%	55%	60%
Increase ▼	Your sales would have to DECLINE by the amount showing before your profit is reduced								
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%

Discounting Your Prices

When you discount your prices you have to significantly increase your sales to maintain your margins! The table below indicates the increase in your sales volumes that are required to compensate for a price discounting strategy. For example, if your margin is 40% and you reduce your price by 10%, you would need your sales volume to increase by 33% to maintain your profit. Rarely has such a strategy worked in the past and it's unlikely it will work in the future. Find your current margin on the top line of the table...

Margin ►	20%	25%	30%	35%	40%	45%	50%	55%	60%
Discount ▼	Your sales would have to INCREASE by the amount showing to keep the same amount of profit								
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%	56%	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%



Take Outs:

Key Point: