Price Calculator

Price setting is a pervasive problem for business. Are you tempted to discount your prices just to make a sale? Do you need to raise prices but are afraid of losing business?

We've worked with all kinds of companies and find these to be common themes. There is always someone in the business that thinks discounting and promotions are the answers to all of their pricing problems. When it is actually one of the worst things you can do for your business. Not only do you de-value your product or service, but you are literally throwing money away and teaching your clients to expect more of the same.

Fear is the driving force that keeps business owners from raising prices, fear of losing customers. The truth is most of your customers won't notice and the few that do are your most problematic customers anyway, the ones you can afford to lose.

Use the following price calculator to see the real cost of discounting. Then look at the impact of raising your prices on the second table. Which one is the better strategy?

Discount Your Prices

	If your present margin is:	20%	25%	30%	35%	40%	45%	50%	55%	60%
And you discount your price by:	**Your sales must INCREASE by the amount shown below to keep the same margin**									
2%		11%	9%	7%	6%	5%	5%	4%	4%	3%
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%

The table above indicates the increase in your sales 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!

Increase Your Prices

If your present margin is:	20%	25%	30%	35%	40%	45%	50%	55%	60%
And you increase your price by:	**Your sales would have to DECLINE by the amount shown before your Profit is reduced**								
2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
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%

This table shows the amount by which your sales would have to decline following a price increase before your gross profit is reduced below its current level. For example, at the same 40% margin, a 10% increase in your price could sustain a 20% reduction in sales volume.

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